
**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 October 1, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 1, 2017, there were 165,967,528 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. 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 is not including the information provided on the website as part of, or incorporating such information by reference into, this Quarterly Report on Form 10-Q.

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

	<u>Page</u>	
<u>PART I. FINANCIAL INFORMATION</u>		
ITEM 1.	Condensed Consolidated Financial Statements (Unaudited)	3
	Condensed Consolidated Statements of Income for the three and nine months ended October 1, 2017 and October 2, 2016	3
	Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended October 1, 2017 and October 2, 2016	4
	Condensed Consolidated Balance Sheets at October 1, 2017 and December 31, 2016	5
	Condensed Consolidated Statements of Cash Flows for the nine months ended October 1, 2017 and October 2, 2016	6
	Condensed Consolidated Statements of Changes in Equity for the nine months ended October 1, 2017 and October 2, 2016	7
	Notes to Condensed Consolidated Financial Statements	8
ITEM 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	24
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	50
ITEM 4.	Controls and Procedures	50
<u>PART II. OTHER INFORMATION</u>		
ITEM 1.	Legal Proceedings	51
ITEM 1A.	Risk Factors	51
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	51
ITEM 3.	Defaults Upon Senior Securities	52
ITEM 4.	Mine Safety Disclosures	52
ITEM 5.	Other Information	52
ITEM 6.	Exhibits	52
	Signatures	53

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	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
NET SALES ^(a)	\$ 5,285	\$ 4,187	\$ 14,952	\$ 13,006
Cost of sales	3,946	3,108	11,236	9,674
GROSS MARGIN	1,339	1,079	3,716	3,332
OPERATING EXPENSES AND INCOME				
Selling, general and administrative expenses	624	513	1,757	1,527
Research, development and engineering expenses	213	157	545	478
Equity, royalty and interest income from investees (Note 4)	95	74	301	234
Loss contingency (Note 9)	—	99	—	138
Other operating income (expense), net	32	—	55	(2)
OPERATING INCOME	629	384	1,770	1,421
Interest income	4	6	11	18
Interest expense (Note 7)	18	16	57	51
Other income (expense), net	7	8	45	34
INCOME BEFORE INCOME TAXES	622	382	1,769	1,422
Income tax expense	165	82	466	362
CONSOLIDATED NET INCOME	457	300	1,303	1,060
Less: Net income attributable to noncontrolling interests	4	11	30	44
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 453	\$ 289	\$ 1,273	\$ 1,016
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.				
Basic	\$ 2.72	\$ 1.72	\$ 7.62	\$ 5.99
Diluted	\$ 2.71	\$ 1.72	\$ 7.60	\$ 5.99
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	166.3	167.8	167.0	169.5
Dilutive effect of stock compensation awards	0.7	0.4	0.6	0.2
Diluted	167.0	168.2	167.6	169.7
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ 1.08	\$ 1.025	\$ 3.13	\$ 2.975

^(a) Includes sales to nonconsolidated equity investees of \$285 million and \$835 million and \$275 million and \$793 million for the three and nine months ended October 1, 2017 and October 2, 2016, 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	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
CONSOLIDATED NET INCOME	\$ 457	\$ 300	\$ 1,303	\$ 1,060
Other comprehensive income (loss), net of tax (Note 10)				
Change in pension and other postretirement defined benefit plans	16	13	52	31
Foreign currency translation adjustments	94	(29)	276	(299)
Unrealized gain (loss) on marketable securities	—	—	1	1
Unrealized gain (loss) on derivatives	(1)	7	—	(20)
Total other comprehensive income (loss), net of tax	109	(9)	329	(287)
COMPREHENSIVE INCOME	566	291	1,632	773
Less: Comprehensive income attributable to noncontrolling interests	2	14	42	41
COMPREHENSIVE INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 564	\$ 277	\$ 1,590	\$ 732

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	October 1, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,290	\$ 1,120
Marketable securities (Note 5)	154	260
Total cash, cash equivalents and marketable securities	<u>1,444</u>	<u>1,380</u>
Accounts and notes receivable, net		
Trade and other	3,532	2,803
Nonconsolidated equity investees	278	222
Inventories (Note 6)	3,146	2,675
Prepaid expenses and other current assets	656	627
Total current assets	<u>9,056</u>	<u>7,707</u>
Long-term assets		
Property, plant and equipment	7,901	7,635
Accumulated depreciation	(4,085)	(3,835)
Property, plant and equipment, net	<u>3,816</u>	<u>3,800</u>
Investments and advances related to equity method investees	1,213	946
Goodwill	1,036	480
Other intangible assets, net	964	332
Pension assets	912	731
Other assets	995	1,015
Total assets	<u>\$ 17,992</u>	<u>\$ 15,011</u>
LIABILITIES		
Current liabilities		
Accounts payable (principally trade)	\$ 2,486	\$ 1,854
Loans payable (Note 7)	64	41
Commercial paper (Note 7)	514	212
Accrued compensation, benefits and retirement costs	674	412
Current portion of accrued product warranty (Note 8)	462	333
Current portion of deferred revenue	528	468
Other accrued expenses	968	970
Current maturities of long-term debt (Note 7)	62	35
Total current liabilities	<u>5,758</u>	<u>4,325</u>
Long-term liabilities		
Long-term debt (Note 7)	1,615	1,568
Postretirement benefits other than pensions	319	329
Pensions	328	326
Other liabilities and deferred revenue	1,411	1,289
Total liabilities	<u>\$ 9,431</u>	<u>\$ 7,837</u>
Commitments and contingencies (Note 9)		
EQUITY		
Cummins Inc. shareholders' equity		
Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued	\$ 2,198	\$ 2,153
Retained earnings	11,791	11,040
Treasury stock, at cost, 56.4 and 54.2 shares	(4,849)	(4,489)
Common stock held by employee benefits trust, at cost, 0.6 and 0.7 shares	(7)	(8)
Accumulated other comprehensive loss (Note 10)	(1,504)	(1,821)
Total Cummins Inc. shareholders' equity	<u>7,629</u>	<u>6,875</u>
Noncontrolling interests	932	299
Total equity	<u>\$ 8,561</u>	<u>\$ 7,174</u>
Total liabilities and equity	<u>\$ 17,992</u>	<u>\$ 15,011</u>

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	
	October 1, 2017	October 2, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 1,303	\$ 1,060
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	433	391
Deferred income taxes	26	60
Equity in income of investees, net of dividends	(166)	(94)
Pension contributions in excess of expense (Note 3)	(63)	(92)
Other post retirement benefits payments in excess of expense (Note 3)	(4)	(16)
Stock-based compensation expense	34	28
Restructuring payments	—	(53)
Loss contingency (Note 9)	—	138
Translation and hedging activities	61	(39)
Changes in current assets and liabilities, net of acquisitions		
Accounts and notes receivable	(722)	(112)
Inventories	(401)	(150)
Other current assets	(28)	138
Accounts payable	567	101
Accrued expenses	369	(279)
Changes in other liabilities and deferred revenue	177	188
Other, net	(115)	45
Net cash provided by operating activities	1,471	1,314
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(282)	(312)
Investments in internal use software	(59)	(42)
Proceeds from disposals of property, plant and equipment	104	11
Investments in and advances to equity investees	(71)	(29)
Acquisitions of businesses, net of cash acquired (Note 11)	(600)	(1)
Investments in marketable securities—acquisitions (Note 5)	(106)	(447)
Investments in marketable securities—liquidations (Note 5)	218	291
Cash flows from derivatives not designated as hedges	9	(64)
Other, net	1	3
Net cash used in investing activities	(786)	(590)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	4	111
Net borrowings of commercial paper	302	273
Payments on borrowings and capital lease obligations	(38)	(156)
Net borrowings under short-term credit agreements	19	25
Distributions to noncontrolling interests	(29)	(42)
Dividend payments on common stock	(522)	(505)
Repurchases of common stock	(391)	(745)
Other, net	55	(6)
Net cash used in financing activities	(600)	(1,045)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	85	(139)
Net increase (decrease) in cash and cash equivalents	170	(460)
Cash and cash equivalents at beginning of year	1,120	1,711
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,290	\$ 1,251

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	Treasury Stock	Common Stock Held in Trust	Accumulated Other Comprehensive Loss	Total Cummins Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
BALANCE AT DECEMBER 31, 2015	\$ 556	\$ 1,622	\$ 10,322	\$ (3,735)	\$ (11)	\$ (1,348)	\$ 7,406	\$ 344	\$ 7,750
Net income			1,016				1,016	44	1,060
Other comprehensive income (loss), net of tax (Note 10)						(284)	(284)	(3)	(287)
Issuance of common stock		5					5	—	5
Employee benefits trust activity		19			3		22	—	22
Repurchases of common stock				(745)			(745)	—	(745)
Cash dividends on common stock			(505)				(505)	—	(505)
Distributions to noncontrolling interests							—	(49)	(49)
Stock based awards		(7)		12			5	—	5
Other shareholder transactions		14					14	(6)	8
BALANCE AT OCTOBER 2, 2016	<u>\$ 556</u>	<u>\$ 1,653</u>	<u>\$ 10,833</u>	<u>\$ (4,468)</u>	<u>\$ (8)</u>	<u>\$ (1,632)</u>	<u>\$ 6,934</u>	<u>\$ 330</u>	<u>\$ 7,264</u>
BALANCE AT DECEMBER 31, 2016	\$ 556	\$ 1,597	\$ 11,040	\$ (4,489)	\$ (8)	\$ (1,821)	\$ 6,875	\$ 299	\$ 7,174
Net income			1,273				1,273	30	1,303
Other comprehensive income (loss), net of tax (Note 10)						317	317	12	329
Issuance of common stock		5					5	—	5
Employee benefits trust activity		14			1		15	—	15
Repurchases of common stock				(391)			(391)	—	(391)
Cash dividends on common stock			(522)				(522)	—	(522)
Distributions to noncontrolling interests							—	(29)	(29)
Stock based awards		2		31			33	—	33
Acquisition of business							—	600	600
Other shareholder transactions		24					24	20	44
BALANCE AT OCTOBER 1, 2017	<u>\$ 556</u>	<u>\$ 1,642</u>	<u>\$ 11,791</u>	<u>\$ (4,849)</u>	<u>\$ (7)</u>	<u>\$ (1,504)</u>	<u>\$ 7,629</u>	<u>\$ 932</u>	<u>\$ 8,561</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 Cummins Engine Company, a corporation in Columbus, Indiana, as one of the first diesel engine manufacturers. We changed our name to Cummins Inc. in 2001. 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, transmissions 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 wholly-owned and independent distributor locations and over 7,400 dealer locations in more than 190 countries and territories.

NOTE 2. BASIS OF PRESENTATION

Interim Condensed Financial Statements

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 in accordance with accounting principles in the United States of America (GAAP) pursuant to the rules and regulations of the Securities and Exchange Commission 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.

These interim condensed financial statements should be read in conjunction with the *Consolidated Financial Statements* included in our Annual Report on Form 10-K for the year ended December 31, 2016. Our interim period financial results for the three and nine month 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.

Reclassifications

Certain amounts for prior year periods have been reclassified to conform to the presentation of the current year.

Use of Estimates in Preparation of Financial Statements

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts presented and disclosed in our *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 rate and other assumptions for pension and other postretirement benefit costs, income taxes and deferred tax valuation allowances, lease classification and contingencies. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

Reporting Period

Our reporting period usually ends on the Sunday closest to the last day of the quarterly calendar period. The third quarters of 2017 and 2016 ended on October 1 and October 2, respectively. Our fiscal year ends on December 31, regardless of the day of the week on which December 31 falls.

Weighted-average Diluted Shares Outstanding

The weighted-average diluted common shares outstanding excludes 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 were as follows:

	Three months ended		Nine months ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Options excluded	3,728	936,857	42,139	1,295,664

NOTE 3. 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	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Defined benefit pension plans				
Voluntary contribution	\$ 41	\$ 16	\$ 125	\$ 101
Mandatory contribution	—	5	—	23
Defined benefit pension contributions	\$ 41	\$ 21	\$ 125	\$ 124
Other postretirement plans				
	\$ 1	\$ 4	\$ 19	\$ 32
Defined contribution pension plans				
	\$ 19	\$ 17	\$ 67	\$ 53

We anticipate making additional defined benefit pension contributions during the remainder of 2017 of \$10 million for our U.S. and U.K. pension plans. Approximately \$134 million of the estimated \$135 million of pension contributions for the full year are voluntary. These contributions may be made from trusts or company funds either to increase pension assets or to make direct benefit payments to plan participants. We expect our 2017 net periodic pension cost to approximate \$83 million.

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					
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Service cost	\$ 27	\$ 22	\$ 7	\$ 5	\$ —	\$ —
Interest cost	26	26	10	13	3	4
Expected return on plan assets	(50)	(50)	(18)	(17)	—	—
Recognized net actuarial loss	10	9	10	3	2	1
Net periodic benefit cost	\$ 13	\$ 7	\$ 9	\$ 4	\$ 5	\$ 5

In millions	Pension					
	U.S. Plans		U.K. Plans		Other Postretirement Benefits	
	Nine months ended					
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Service cost	\$ 80	\$ 68	\$ 20	\$ 16	\$ —	\$ —
Interest cost	79	82	30	39	10	12
Expected return on plan assets	(153)	(152)	(52)	(55)	—	—
Recognized net actuarial loss	28	23	30	11	5	4
Net periodic benefit cost	\$ 34	\$ 21	\$ 28	\$ 11	\$ 15	\$ 16

NOTE 4. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEES

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

In millions	Three months ended		Nine months ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Distribution entities				
Komatsu Cummins Chile, Ltda.	\$ 8	\$ 8	\$ 23	\$ 26
North American distributors	—	7	—	18
All other distributors	(1)	1	(1)	2
Manufacturing entities				
Beijing Foton Cummins Engine Co., Ltd.	24	19	79	59
Dongfeng Cummins Engine Company, Ltd.	15	10	56	32
Chongqing Cummins Engine Company, Ltd.	11	11	30	28
All other manufacturers	27	8	78	40
Cummins share of net income	84	64	265	205
Royalty and interest income	11	10	36	29
Equity, royalty and interest income from investees	\$ 95	\$ 74	\$ 301	\$ 234

NOTE 5. MARKETABLE SECURITIES

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

In millions	October 1, 2017			December 31, 2016		
	Cost	Gross unrealized gains/(losses)	Estimated fair value	Cost	Gross unrealized gains/(losses)	Estimated fair value
Available-for-sale ⁽¹⁾						
Debt mutual funds	\$ 139	\$ —	\$ 139	\$ 132	\$ —	\$ 132
Bank debentures	—	—	—	114	—	114
Equity mutual funds	12	2	14	12	—	12
Government debt securities	1	—	1	2	—	2
Total marketable securities	\$ 152	\$ 2	\$ 154	\$ 260	\$ —	\$ 260

⁽¹⁾ All marketable securities are classified as Level 2 securities. The fair value of Level 2 securities is estimated using actively quoted prices for similar instruments from brokers and observable inputs where available, including market transactions and third-party pricing services, or net asset values provided to investors. We do not currently have any Level 3 securities and there were no transfers between Level 2 or 3 during the first nine months of 2017 and for the year ended 2016.

A description of the valuation techniques and inputs used for our Level 2 fair value measures was as follows:

- *Debt mutual funds*— The fair value measure for the vast majority of 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*— These investments provide us with a contractual rate of return and generally range in maturity from three months to five years. The counterparties 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.
- *Equity mutual funds*— The fair value measure for these investments is the net asset value published by the issuing brokerage. Daily quoted prices are available from reputable third party pricing services and are used on a test basis to corroborate this Level 2 input measure.
- *Government debt securities*— The fair value measure for these securities is 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.

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	Nine months ended	
	October 1, 2017	October 2, 2016
Proceeds from sales and maturities of marketable securities ⁽¹⁾	\$ 218	\$ 291

⁽¹⁾ Gross realized gains and losses from the sale of available-for-sale securities were immaterial.

The fair value of available-for-sale investments in debt securities that utilize a Level 2 fair value measure is shown by contractual maturity below:

Contractual Maturity (In millions)	October 1, 2017	
1 year or less	\$	139
1 - 5 years		1
Total	\$	140

NOTE 6. INVENTORIES

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

In millions	October 1, 2017	December 31, 2016
Finished products	\$ 2,027	\$ 1,779
Work-in-process and raw materials	1,243	1,005
Inventories at FIFO cost	3,270	2,784
Excess of FIFO over LIFO	(124)	(109)
Total inventories	\$ 3,146	\$ 2,675

NOTE 7. DEBT

Loans Payable and Commercial Paper

Loans payable, commercial paper and the related weighted-average interest rates were as follows:

In millions	October 1, 2017	December 31, 2016
Loans payable ⁽¹⁾	\$ 64	\$ 41
Commercial paper ⁽²⁾	514	212

⁽¹⁾ Loans payable consist primarily of notes payable to various domestic and international financial institutions. It is not practical to aggregate these notes and calculate a quarterly weighted-average interest rate.

⁽²⁾ The weighted average interest rate, inclusive of all brokerage fees, was 1.22 percent and 0.79 percent at October 1, 2017 and December 31, 2016, respectively.

Revolving Credit Facility

On September 5, 2017, we entered into a 364-day credit facility that allows us to borrow up to \$1 billion of additional unsecured funds at any time through September 2018.

We have access to credit facilities that total \$2.75 billion, including the new 364-day facility and the \$1.75 billion facility that expires on November 13, 2020. We intend to maintain credit facilities of a similar aggregate amount by renewing or replacing these facilities before expiration. Revolving credit facilities are maintained primarily to provide backup liquidity for our commercial paper borrowings, letters of credit and general corporate purposes.

Long-term Debt

A summary of long-term debt was as follows:

In millions	October 1, 2017	December 31, 2016
Long-term debt		
Senior notes, 3.65%, due 2023	\$ 500	\$ 500
Debentures, 6.75%, due 2027	58	58
Debentures, 7.125%, due 2028	250	250
Senior notes, 4.875%, due 2043	500	500
Debentures, 5.65%, due 2098 (effective interest rate 7.48%)	165	165
Other debt	91	51
Unamortized discount	(54)	(56)
Fair value adjustments due to hedge on indebtedness	42	47
Capital leases	125	88
Total long-term debt	<u>1,677</u>	<u>1,603</u>
Less: Current maturities of long-term debt	62	35
Long-term debt	<u>\$ 1,615</u>	<u>\$ 1,568</u>

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

In millions	2017	2018	2019	2020	2021
Principal payments	\$ 23	\$ 59	\$ 51	\$ 12	\$ 6

Fair Value of Debt

Based on borrowing rates currently available to us for bank loans with similar terms and average maturities, considering our risk premium, the fair values and carrying values of total debt, including current maturities, were as follows:

In millions	October 1, 2017	December 31, 2016
Fair value of total debt ⁽¹⁾	\$ 2,528	\$ 2,077
Carrying value of total debt	2,255	1,856

⁽¹⁾ The fair value of debt is derived from Level 2 inputs.

NOTE 8. PRODUCT WARRANTY LIABILITY

A tabular reconciliation of the product warranty liability, including the deferred revenue related to our extended warranty coverage and accrued recall programs was as follows:

In millions	October 1, 2017	October 2, 2016
Balance, beginning of year	\$ 1,414	\$ 1,404
Provision for warranties issued	446	256
Deferred revenue on extended warranty contracts sold	164	179
Payments	(296)	(291)
Amortization of deferred revenue on extended warranty contracts	(161)	(148)
Changes in estimates for pre-existing warranties	71	22
Foreign currency translation	5	(6)
Balance, end of period	<u>\$ 1,643</u>	<u>\$ 1,416</u>

Warranty related deferred revenues and the long-term portion of the warranty liabilities on our October 1, 2017, balance sheet were as follows:

In millions	October 1, 2017	Balance Sheet Location
Deferred revenue related to extended coverage programs		
Current portion	\$ 229	Current portion of deferred revenue
Long-term portion	519	Other liabilities and deferred revenue
Total	<u>\$ 748</u>	
Long-term portion of warranty liability	<u>\$ 433</u>	Other liabilities and deferred revenue

NOTE 9. 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; product recalls; 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 pursuant to GAAP 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.

Loss Contingencies

Third Party Aftertreatment

Engine systems sold in the U.S. must be certified to comply with the Environmental Protection Agency (EPA) and California Air Resources Board (CARB) emission standards. EPA and CARB regulations require that in-use testing be performed on vehicles by the emission certificate holder and reported to the EPA and CARB in order to ensure ongoing compliance with these emission standards. We are the holder of this emission certificate for our engines, including engines installed in certain vehicles with one customer for which we did not also manufacture or sell the emission aftertreatment system. During 2015, a quality issue in certain of these third party aftertreatment systems caused some of our inter-related engines to fail in-use emission testing. In the fourth quarter of 2015, the vehicle manufacturer made a request that we assist in the design and bear the financial cost of a field campaign (Campaign) to address the technical issue purportedly causing some vehicles to fail the in-use testing.

While we are not responsible for the warranty issues related to a component that we did not manufacture or sell, as the emission compliance certificate holder, we are responsible for proposing a remedy to the EPA and CARB. As a result, we have proposed actions to the agencies that we believe will address the emission failures. As the certificate holder, we expect to participate in the cost of the proposed voluntary Campaign and recorded a charge of \$60 million in 2015. The Campaign design was finalized with our OEM customer, reviewed with the EPA and submitted for final approval in 2016. We concluded based upon additional in-use emission testing performed in 2016 that the Campaign should be expanded to include a larger population of vehicles manufactured by this one OEM. We recorded additional charges of \$39 million and \$99 million in the second and third quarter, respectively, in 2016 to reflect the estimated cost of our overall participation in the Campaign. This charge is reflected in a separate line item on our *Condensed Consolidated Statements of Income*. We continue to work with our OEM customer to resolve the allocation of costs for the Campaign, including pending litigation between the parties. The Campaign is not expected to be completed for some time and our final cost could differ from the amount we have recorded.

We do not currently expect any fines or penalties from the EPA or CARB related to this matter.

We are currently reimbursing our customer for 50 percent of the campaign expenses pending final resolution in the litigation or pre-suit settlement. This began in the fourth quarter of 2016 with a combination of cash and credit memos. The remaining accrual of \$148 million is included in "Other accrued expenses" in our *Condensed Consolidated Balance Sheets*.

Engine System

During 2017, the CARB and U.S. EPA began selecting certain of our pre-2013 model year engine systems for additional emissions testing. We have been notified that a portion of the CARB and EPA selected engine systems have failed emissions testing due to the unexpected degradation of an aftertreatment component. Although we have no official notice from the CARB or EPA on these engine systems to date, we are working with the agencies on a resolution of these matters. We are developing and testing solutions to address the technical issues, which could include a combination of calibration changes, service practices and hardware changes. We recorded a charge of \$29 million to "cost of sales" in our *Condensed Consolidated Statements of Income* in the third quarter of 2017 for the expected cost of field campaigns to repair some of these engine systems.

In addition, we are currently evaluating other engine systems for model years 2010 through 2015 that could potentially be subject to similar degradation issues. At this point in time, we have not yet determined the impact to other model years and engine systems or the percentage of the engine system populations affected.

Because this remains under review with a number of yet unresolved variables, we are not yet able to estimate the outcome for these matters. It is possible, however, that they could have a material effect on our results of operations in the periods in which the uncertainties are resolved.

We do not currently expect any fines or penalties from the EPA or CARB related to this matter.

Guarantees and Commitments

Periodically, we enter into guarantee arrangements, including guarantees of non-U.S. distributor financings, residual value guarantees on equipment under operating leases and other miscellaneous guarantees of joint ventures or third-party obligations. At October 1, 2017, the maximum potential loss related to these guarantees was \$50 million.

We have arrangements with certain suppliers that require us to purchase minimum volumes or be subject to monetary penalties. At October 1, 2017, if we were to stop purchasing from each of these suppliers, the aggregate amount of the penalty would be approximately \$101 million, of which \$29 million relates to a contract with a components supplier that extends to 2018 and \$28 million relates to a contract with a power systems supplier that extends to 2019. Most of these arrangements enable us to secure critical components. We do not currently anticipate paying any penalties under these contracts.

We enter into physical forward contracts with suppliers of platinum, palladium and copper to purchase minimum volumes of the commodities at contractually stated prices for various periods, not to exceed 2 years. At October 1, 2017, the total commitments under these contracts were \$23 million. These arrangements enable us to fix the prices of these commodities, which otherwise are subject to market volatility.

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 \$104 million at October 1, 2017.

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 counterparty 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.

NOTE 10. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

In millions	Three 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 other comprehensive income (loss)
Balance at July 3, 2016	\$ (636)	\$ (960)	\$ (1)	\$ (23)	\$ (1,620)		
Other comprehensive income before reclassifications							
Before tax amount	5	(51)	—	(4)	(50)	\$ 3	\$ (47)
Tax benefit (expense)	(1)	19	—	1	19	—	19
After tax amount	4	(32)	—	(3)	(31)	3	(28)
Amounts reclassified from accumulated other comprehensive loss ⁽¹⁾⁽²⁾	9	—	—	10	19	—	19
Net current period other comprehensive income (loss)	13	(32)	—	7	(12)	\$ 3	\$ (9)
Balance at October 2, 2016	\$ (623)	\$ (992)	\$ (1)	\$ (16)	\$ (1,632)		
Balance at July 2, 2017	\$ (649)	\$ (959)	\$ —	\$ (7)	\$ (1,615)		
Other comprehensive income before reclassifications							
Before tax amount	—	106	—	(6)	100	\$ (2)	\$ 98
Tax benefit (expense)	—	(10)	1	2	(7)	—	(7)
After tax amount	—	96	1	(4)	93	(2)	91
Amounts reclassified from accumulated other comprehensive loss ⁽¹⁾⁽²⁾	16	—	(1)	3	18	—	18
Net current period other comprehensive income (loss)	16	96	—	(1)	111	\$ (2)	\$ 109
Balance at October 1, 2017	\$ (633)	\$ (863)	\$ —	\$ (8)	\$ (1,504)		

⁽¹⁾ Amounts are net of tax.

⁽²⁾ Reclassifications out of accumulated other comprehensive income (loss) and the related tax effects are immaterial for separate disclosure.

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

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 other comprehensive income (loss)
Balance at December 31, 2015	\$ (654)	\$ (696)	\$ (2)	\$ 4	\$ (1,348)		
Other comprehensive income before reclassifications							
Before tax amount	5	(316)	1	(40)	(350)	\$ (3)	\$ (353)
Tax benefit (expense)	(1)	20	—	7	26	—	26
After tax amount	4	(296)	1	(33)	(324)	(3)	(327)
Amounts reclassified from accumulated other comprehensive loss ⁽¹⁾⁽²⁾	27	—	—	13	40	—	40
Net current period other comprehensive income (loss)	31	(296)	1	(20)	(284)	\$ (3)	\$ (287)
Balance at October 2, 2016	\$ (623)	\$ (992)	\$ (1)	\$ (16)	\$ (1,632)		
Balance at December 31, 2016	\$ (685)	\$ (1,127)	\$ (1)	\$ (8)	\$ (1,821)		
Other comprehensive income before reclassifications							
Before tax amount	8	286	2	(14)	282	\$ 12	\$ 294
Tax benefit (expense)	(3)	(22)	—	5	(20)	—	(20)
After tax amount	5	264	2	(9)	262	12	274
Amounts reclassified from accumulated other comprehensive loss ⁽¹⁾⁽²⁾	47	—	(1)	9	55	—	55
Net current period other comprehensive income (loss)	52	264	1	—	317	\$ 12	\$ 329
Balance at October 1, 2017	\$ (633)	\$ (863)	\$ —	\$ (8)	\$ (1,504)		

⁽¹⁾ Amounts are net of tax.

⁽²⁾ Reclassifications out of accumulated other comprehensive income (loss) and the related tax effects are immaterial for separate disclosure.

NOTE 11. ACQUISITION

In April 2017, we entered into an agreement to form a joint venture with Eaton Corporation PLC (Eaton), which closed on July 31, 2017 (the acquisition date). We purchased a 50 percent interest in the new venture named Eaton Cummins Automated Transmission Technologies for \$600 million in cash. In addition, each partner contributed \$20 million for working capital. The joint venture will design, assemble, sell and support medium-duty and heavy-duty automated transmissions for the commercial vehicle market, including new product launches. The new generation products (Procision and Endurant) were launched in 2016 and 2017, respectively, and are owned by the joint venture. Eaton will continue to manufacture and sell the old generation products to the joint venture which will be marked up and sold to end customers. Eaton will also sell certain transmission components to the joint venture at prices approximating market rates. In addition, Eaton will provide certain manufacturing and administrative services to the joint venture, including but not limited to manufacturing labor in Mexico, information technology services, accounting services and purchasing services, at prices approximating market rates. Pro forma financial information was not provided as historical activity related to the products contributed to the joint venture was not material.

We consolidated the results of the joint venture in our Components segment as we have a majority voting interest in the venture by virtue of a tie-breaking vote on the joint venture's board of directors. The joint venture had an enterprise value at inception of \$1.2 billion. Due to the structure of the joint venture and equal sharing of economic benefits, we did not apply a discount for lack of control to the noncontrolling interests. The preliminary purchase price allocation was as follows:

In millions	
Inventory	3
Fixed assets	57
Intangible assets	
Customer relationships	424
Technology	172
Goodwill	545
Liabilities	(1)
Total business valuation	1,200
Less: Noncontrolling interest	600
Total purchase consideration	<u>\$ 600</u>

Customer relationship assets represent the value of the long-term strategic relationship the business has with its significant customers, which we are amortizing over 25 years. The assets were valued using an income approach, specifically the "multi-period excess earnings" method, which identifies an estimated stream of revenues and expenses for a particular group of assets from which deductions of portions of the projected economic benefits, attributable to assets other than the subject asset (contributory assets), are deducted in order to isolate the prospective earnings of the subject asset. This value is considered a level 3 measurement under the GAAP fair value hierarchy. Key assumptions used in the valuation of customer relationships include: (1) a rate of return of 10 percent and (2) an attrition rate of 3 percent. *Technology* assets primarily represent the associated patents and know how related to the Endurant and Procision next generation automated transmissions, which we are amortizing over 15 years. These assets were valued using the "relief-from-royalty" method, which is a combination of both the income approach and market approach that values a subject asset based on an estimate of the "relief" from the royalty expense that would be incurred if the subject asset were licensed from a third party. Key assumptions impacting this value include: (1) a market royalty rate of 5 percent, (2) a rate of return of 10 percent and (3) an economic depreciation rate of 7.5 percent. This value is considered a level 3 measurement under GAAP fair value hierarchy. Annual amortization of the intangible assets for the next 5 years is expected to approximate \$28 million.

Goodwill was determined based on the residual difference between the fair value of consideration transferred and the value assigned to tangible and intangible assets and liabilities. Approximately \$31 million of the goodwill is deductible for tax purposes. Among the factors contributing to a purchase price resulting in the recognition of goodwill is the ability to integrate and optimize the engine and transmission development to deliver the world's best power train, to realize synergies in service and aftermarket growth and to utilize our strength in international markets where automated transmission adoption rates are very low. Included in our third quarter results were revenues of \$69 million and a net loss of \$5 million related to this joint venture.

NOTE 12. 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 (CODM), or decision-making group, in deciding how to allocate resources and in assessing performance. Our CODM is the President and Chief Operating Officer.

Our reportable operating segments consist of Engine, Distribution, Components and Power Systems. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines (15 liters and less in size) and associated parts for sale to customers in on-highway and various off-highway markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, agriculture, power generation systems and other off-highway applications. 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. The Components segment sells filtration products, aftertreatment systems, turbochargers, fuel systems and transmissions. The Power Systems segment is an integrated power provider, which designs, manufactures and sells engines (16 liters and larger) for industrial applications (including mining, oil and gas, marine and rail), standby and prime power generator sets, alternators and other power components.

We use EBIT (defined as earnings before interest expense, income 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 allocate 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, finance and supply chain management. We 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 or income taxes to individual segments. EBIT may not be consistent with measures used by other companies.

Summarized financial information regarding our reportable operating segments is shown in the table below:

In millions	Engine	Distribution	Components ⁽¹⁾	Power Systems	Total Segment	Intersegment Eliminations ⁽²⁾	Total
Three months ended October 1, 2017							
External sales	\$ 1,783	\$ 1,748	\$ 1,139	\$ 615	\$ 5,285	\$ —	\$ 5,285
Intersegment sales	553	5	394	441	1,393	(1,393)	—
Total sales	2,336	1,753	1,533	1,056	6,678	(1,393)	5,285
Depreciation and amortization ⁽³⁾	47	29	42	30	148	—	148
Research, development and engineering expenses	83	6	63	61	213	—	213
Equity, royalty and interest income from investees	58	11	12	14	95	—	95
Interest income	1	2	—	1	4	—	4
EBIT	229	91	217	81	618	22	640
Three months ended October 2, 2016							
External sales	\$ 1,357	\$ 1,497	\$ 824	\$ 509	\$ 4,187	\$ —	\$ 4,187
Intersegment sales	502	7	319	347	1,175	(1,175)	—
Total sales	1,859	1,504	1,143	856	5,362	(1,175)	4,187
Depreciation and amortization ⁽³⁾	42	28	32	29	131	—	131
Research, development and engineering expenses	56	3	54	44	157	—	157
Equity, royalty and interest income from investees	38	19	9	8	74	—	74
Loss contingency ⁽⁴⁾	99	—	—	—	99	—	99
Interest income	3	1	1	1	6	—	6
EBIT	89	96	148	59	392	6	398
Nine months ended October 1, 2017							
External sales	\$ 4,951	\$ 5,101	\$ 3,183	\$ 1,717	\$ 14,952	\$ —	\$ 14,952
Intersegment sales	1,715	19	1,148	1,238	4,120	(4,120)	—
Total sales	6,666	5,120	4,331	2,955	19,072	(4,120)	14,952
Depreciation and amortization ⁽³⁾	137	90	117	87	431	—	431
Research, development and engineering expenses	200	14	170	161	545	—	545
Equity, royalty and interest income from investees	186	35	40	40	301	—	301
Interest income	4	4	1	2	11	—	11
EBIT	735	287	586	199	1,807	19	1,826
Nine months ended October 2, 2016							
External sales	\$ 4,350	\$ 4,493	\$ 2,654	\$ 1,509	\$ 13,006	\$ —	\$ 13,006
Intersegment sales	1,487	18	1,005	1,076	3,586	(3,586)	—
Total sales	5,837	4,511	3,659	2,585	16,592	(3,586)	13,006
Depreciation and amortization ⁽³⁾	122	85	95	87	389	—	389
Research, development and engineering expenses	166	10	161	141	478	—	478
Equity, royalty and interest income from investees	120	56	29	29	234	—	234
Loss contingency ⁽⁴⁾	138	—	—	—	138	—	138
Interest income	8	3	3	4	18	—	18
EBIT	492	270	501	195	1,458	15	1,473

⁽¹⁾ The 2017 disclosures include Eaton Cummins Automated Transmission Technologies joint venture results consolidated during the third quarter of 2017. See Note 11, "ACQUISITION," for additional information.

⁽²⁾ Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the three and nine months ended October 1, 2017 and October 2, 2016.

⁽³⁾ Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the *Condensed Consolidated Statements of Income* as "Interest expense." The amortization of debt discount and deferred costs were \$2 million and \$2 million for the nine months ended October 1, 2017 and October 2, 2016, respectively.

⁽⁴⁾ See Note 9, "COMMITMENTS AND CONTINGENCIES," for additional information.

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	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Total EBIT	\$ 640	\$ 398	\$ 1,826	\$ 1,473
Less: Interest expense	18	16	57	51
Income before income taxes	\$ 622	\$ 382	\$ 1,769	\$ 1,422

NOTE 13. RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Recently Adopted

In March 2016, the Financial Accounting Standards Board (FASB) amended its standards related to accounting for stock compensation, which became effective for us beginning January 1, 2017. The amendment replaced the requirement to record excess tax benefits and certain tax deficiencies in additional paid-in capital by recording all excess tax benefits and tax deficiencies as income tax expense / benefit in the *Condensed Consolidated Statements of Income* and was adopted prospectively. Excess tax benefits and deficiencies are required to be recorded as discrete items in the period in which they occur and were not material for the three and nine months ended October 1, 2017. In addition, the standard impacted our *Condensed Consolidated Statements of Cash Flows* retrospectively, as excess tax benefits are now required to be presented as an operating activity and the cash paid to tax authorities is required to be presented as a financing activity. This resulted in a net reclassification of \$4 million from operating to financing activities for the nine months ended October 2, 2016. Finally, in accordance with the standard, we elected to continue our historical approach of estimating forfeitures during the award's vesting period and adjusting our estimate when it is no longer probable that the employee will fulfill the service condition. The adoption of the standard was not material to our diluted earnings per common share.

Accounting Pronouncements Issued But Not Yet Effective

In August 2017, the FASB amended its standards related to accounting for derivatives and hedging. These amendments allow the initial hedge effectiveness assessment to be performed by the end of the first quarter in which the hedge is designated rather than concurrently with entering into the hedge transaction. The changes also expand the use of a periodic qualitative hedge effectiveness assessment in lieu of an ongoing quantitative assessment performed throughout the life of the hedge. The revision removes the requirement to record ineffectiveness on cash flow hedges through the income statement when a hedge is considered highly effective, instead deferring all related hedge gains and losses in "Other comprehensive income" until the hedged item impacts earnings. The modifications permit hedging the contractually-specified price of a component of a commodity purchase and revises certain disclosure requirements. The amendments are effective January 1, 2019 and early adoption is permitted in any interim period or fiscal year prior to the effective date. The revised standard is required to be adopted on a modified retrospective basis for any cash flow or net investment hedge relationships that exist on the date of adoption and prospectively for disclosures. We do not expect the amendments to have a material effect on our *Consolidated Financial Statements* and are still evaluating early adoption.

In March 2017, the FASB amended its standards related to the presentation of pension and other postretirement benefit costs in the financial statements. Under the new standard, we will be required to separate service costs from all other elements of pension costs and reflect the other elements of pension costs outside of operating income in our *Consolidated Statements of Income*. In addition, the standard will limit the amount eligible for capitalization (into inventory or self-constructed assets) to the amount of service cost. This portion of the standard will be applied on a prospective basis. The remainder of the new standard is effective for us on a retrospective basis beginning January 1, 2018. While we are still evaluating the impact of this standard, the change in presentation will likely result in a decrease in operating income primarily due to the requirement to present the expected return on plan assets outside of operating income.

In August 2016, the FASB amended its standards related to the classification of certain cash receipts and cash payments. The new standard will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the

amendments prospectively as of the earliest date practicable. We do not expect adoption of this standard to have a material impact on our *Consolidated Statements of Cash Flows*.

In June 2016, the FASB amended its standards related to accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and held-to-maturity debt securities. The new rules are effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We do not expect adoption of this standard to have a material impact on our *Consolidated Financial Statements*.

In February 2016, the FASB amended its standards related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use-asset and a liability. The standard will continue to have two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under today's standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under today's standards. The determination of a lease classification as operating or finance will occur in a manner similar to today's standard. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and non-lease components of an arrangement. The new standard is effective on January 1, 2019, with early adoption permitted. We are still evaluating the impact the standard could have on our *Consolidated Financial Statements*, including our internal controls over financial reporting. While we have not yet quantified the amount, we do expect the standard will have a material impact on our *Consolidated Balance Sheets* due to the recognition of additional assets and liabilities for operating leases.

In January 2016, the FASB amended its standards related to the accounting for certain financial instruments. This amendment addresses certain aspects of recognition, measurement, presentation and disclosure. The new rules will become effective for annual and interim periods beginning after December 15, 2017. Early adoption is not permitted. We are in the process of evaluating the impact the amendment will have on our *Consolidated Financial Statements*.

In May 2014, the FASB amended its standards related to revenue recognition which replaces all existing revenue recognition guidance and provides a single, comprehensive model for all contracts with customers. The revised standard contains principles to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that we will recognize revenue to depict the transfer of goods or services to customers at an amount that we expect to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimation of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments as well as assets recognized from costs incurred to fulfill these contracts.

The standard allows either full or modified retrospective adoption effective for annual and interim periods beginning January 1, 2018. We will adopt the standard using the modified retrospective approach.

We identified a change in the manner in which we will account for certain license income. We license certain technology to our unconsolidated joint ventures that meet the definition of functional under the standard, which requires that revenue be recognized at a point in time rather than the current requirement of recognizing it over the license term. Using the modified retrospective adoption method, we will record an adjustment to our opening equity balance at January 1, 2018, to account for the differences between existing revenue recorded and what would have been recorded under the new standard for contracts which we started recognizing revenue prior to the adoption date. We are still quantifying the potential amount of this adjustment, but we expect to record a credit to equity of between \$30 million and \$35 million for the licensing change. We do not expect a material impact on any individual year from this change.

We also identified transactions where revenue recognition is currently limited to the amount of billings not contingent on our future performance. With the allocation provisions of the new model, we expect to accelerate the timing of revenue recognition for amounts related to satisfied performance obligations that would be delayed under the current guidance. We do not expect the impact of this change to be material, but we are still quantifying the impact which will depend on the contracts in progress at the time of adoption.

We are still in the process of evaluating the impact the amendment will have on our *Consolidated Financial Statements*, including our internal controls over financial reporting. The revenue recognition disclosures will significantly expand under the new standard, specifically around the quantitative and qualitative information about performance obligations, changes in contract assets and liabilities and disaggregation of revenue.

NOTE 14. SUBSEQUENT EVENT

On October 12, 2017, we entered into an asset purchase agreement with Brammo Inc., an engineer and manufacturer of lithium ion batteries primarily related to the utility vehicle markets, for approximately \$70 million to be paid in cash at closing. In addition to the closing consideration, the agreement contains an earnout based on future results of the acquired business, which could result in a maximum additional \$100 million payment to the former owners. The majority of the purchase price will likely be assigned to intangible assets and goodwill. We expect the transaction to close in the fourth quarter of 2017.

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;
- changes in the engine outsourcing practices of significant customers;
- a major customer experiencing financial distress;
- lower than expected acceptance of new or existing products or services;
- any significant problems in our new engine platforms;
- a further slowdown in infrastructure development and/or continuing depressed commodity prices;
- unpredictability in the adoption, implementation and enforcement of emission standards around the world;
- foreign currency exchange rate changes;
- the actions of, and income from, joint ventures and other investees that we do not directly control;
- the integration of our previously partially-owned United States and Canadian distributors;
- our plan to reposition our portfolio of product offerings through exploring strategic acquisitions and divestitures and related uncertainties of entering such transactions;
- supply shortages and supplier financial risk, particularly from any of our single-sourced suppliers;
- variability in material and commodity costs;
- product recalls;
- competitor activity;
- increasing competition, including increased global competition among our customers in emerging markets;
- exposure to potential security breaches or other disruptions to our information technology systems and data security;
- political, economic and other risks from operations in numerous countries;
- changes in taxation;
- global legal and ethical compliance costs and risks;
- aligning our capacity and production with our demand;
- product liability claims;
- increasingly stringent environmental laws and regulations;
- the price and availability of energy;
- the performance of our pension plan assets and volatility of discount rates;

- labor relations;

[Table of Contents](#)

- changes in accounting standards;
- future bans or limitations on the use of diesel-powered vehicles;
- 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 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; and
- other risk factors described in our 2016 Form 10-K, Part I, 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 Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2016 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 and Recently Issued 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, transmissions 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, Navistar International Corporation and Fiat Chrysler Automobiles. We serve our customers through a network of approximately 600 wholly-owned and independent distributor locations and over 7,400 dealer locations in more than 190 countries and territories.

Our reportable operating segments consist of Engine, Distribution, Components and Power Systems. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines (15 liters and less in size) and associated parts for sale to customers in on-highway and various off-highway markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, agriculture, power generation systems and other off-highway applications. 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. The Components segment sells filtration products, aftertreatment systems, turbochargers, fuel systems and transmissions. The Power Systems segment is an integrated power provider, which designs, manufactures and sells engines (16 liters and larger) for industrial applications (including mining, oil and gas, marine and rail), standby and prime power generator sets, alternators and other power components.

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, production schedules and stoppages. Economic downturns in markets we serve generally result in reduced sales of our products and can result in price reductions in certain products and/or markets. 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 26 percent in the three months ended October 1, 2017, as compared to the same period in 2016, with all operating segments reporting higher revenue. Revenue in the U.S. and Canada improved by 25 percent primarily due to increased demand in the North American on-highway markets, organic growth and higher sales related to the acquisition of North American distributors since December 31, 2015, in the distribution business, increased industrial demand (especially in the oil and gas market) and sales related to the acquisition of the automated transmission business. International demand growth (excludes the U.S. and Canada) improved revenues by 28 percent, with sales up in most of our markets, especially in China, Russia, U.K. and India. The increase in international sales was primarily due to increased demand in industrial markets (especially construction markets in China and mining markets in Europe) and increased demand in all Components businesses (especially on-highway truck demand in China and product sales to meet new emission requirements for trucks in India).

Worldwide revenues increased 15 percent in the first nine months of 2017 as compared to the same period in 2016, with all operating segments reporting higher revenue. Revenue in the U.S. and Canada improved by 13 percent primarily due to increased demand in the North American on-highway markets, organic growth and higher sales related to the acquisition of North American distributors since December 31, 2015, in our distribution business and increased industrial demand (especially in the oil and gas, construction and mining markets). International demand growth (excludes the U.S. and Canada) in 2017 improved revenues by 18 percent, with sales up in most of our markets, especially in China, Russia, India and the U.K. The increase in international sales was primarily due to increased demand in the truck market in China, new emission regulations in India and increased demand in industrial markets (especially construction markets in China and mining markets in Europe), partially offset by unfavorable foreign currency impacts of 1 percent (primarily in the British pound and Chinese renminbi).

The following tables contain sales and earnings before interest expense, income tax expense and noncontrolling interests (EBIT) by operating segment for the three and nine months ended October 1, 2017 and October 2, 2016. Refer to the section titled "OPERATING SEGMENT RESULTS" for a more detailed discussion of sales and EBIT by operating segment, including the reconciliation of segment EBIT to net income attributable to Cummins Inc.

Operating Segments	Three months ended							
	October 1, 2017			October 2, 2016			Percent change	
	In millions	Percent		Sales	Percent		2017 vs. 2016	
Sales		of Total	EBIT		Sales	of Total	Sales	EBIT
Engine	\$ 2,336	44 %	\$ 229	\$ 1,859	44 %	\$ 89	26%	NM
Distribution	1,753	33 %	91	1,504	36 %	96	17%	(5)%
Components ⁽¹⁾	1,533	29 %	217	1,143	27 %	148	34%	47 %
Power Systems	1,056	20 %	81	856	21 %	59	23%	37 %
Intersegment eliminations	(1,393)	(26)%	—	(1,175)	(28)%	—	19%	—
Non-segment	—	—	22	—	—	6	—	NM
Total	\$ 5,285	100 %	\$ 640	\$ 4,187	100 %	\$ 398	26%	61 %

"NM" - not meaningful information

⁽¹⁾ The 2017 disclosures include Eaton Cummins Automated Transmission Technologies joint venture results consolidated during the third quarter. See Note 11, "ACQUISITION," to the Condensed Consolidated Financial Statements for additional information.

Net income attributable to Cummins was \$453 million, or \$2.71 per diluted share, on sales of \$5.3 billion for the three months ended October 1, 2017, versus the comparable prior year period net income attributable to Cummins of \$289 million, or \$1.72 per diluted share, on sales of \$4.2 billion. The increase in net income and earnings per diluted share was driven by significantly higher net sales and gross margin, the absence of an accrual for a loss contingency recorded in the third quarter of 2016 and higher equity, royalty and interest income from investees, partially offset by increased selling, general and administrative expenses, higher research, development and engineering expenses and a higher effective tax rate. The increase in gross margin was primarily due to higher volumes, improved leverage and lower material costs, partially offset by higher warranty costs (\$105 million primarily due to campaigns in the Engine and Components segments) and increased variable compensation expense of \$59 million. Diluted earnings per share for the three months ended October 1, 2017, benefited \$0.01 from fewer weighted average shares outstanding due to the stock repurchase program.

Operating Segments	Nine months ended							
	October 1, 2017			October 2, 2016			Percent change	
	In millions	Percent		Sales	Percent		2017 vs. 2016	
Sales		of Total	EBIT		Sales	of Total	Sales	EBIT
Engine	\$ 6,666	45 %	\$ 735	\$ 5,837	45 %	\$ 492	14%	49%
Distribution	5,120	34 %	287	4,511	35 %	270	14%	6%
Components ⁽¹⁾	4,331	29 %	586	3,659	28 %	501	18%	17%
Power Systems	2,955	20 %	199	2,585	20 %	195	14%	2%
Intersegment eliminations	(4,120)	(28)%	—	(3,586)	(28)%	—	15%	—
Non-segment	—	—	19	—	—	15	—	27%
Total	\$ 14,952	100 %	\$ 1,826	\$ 13,006	100 %	\$ 1,473	15%	24%

⁽¹⁾ The 2017 disclosures include Eaton Cummins Automated Transmission Technologies joint venture results consolidated during the third quarter of 2017. See Note 11, "ACQUISITION," to the Condensed Consolidated Financial Statements for additional information.

Net income attributable to Cummins was \$1.3 billion, or \$7.60 per diluted share, on sales of \$15.0 billion for the nine months ended October 1, 2017, versus the comparable prior year period net income attributable to Cummins of \$1.0 billion, or \$5.99 per diluted share, on sales of \$13.0 billion. The increase in net income and earnings per diluted share was driven by higher net sales and gross margin, the absence of an accrual for a loss contingency recorded in the second and third quarters of 2016 and higher equity, royalty and interest income from investees, partially offset by increased selling, general and administrative expenses and higher research, development and engineering expenses and a higher effective tax rate. The increase in gross margin was primarily due to higher volumes, improved leverage and lower material costs, partially offset by higher warranty costs (\$234 million primarily due to campaigns in the Engine, Components and Power Systems segments and changes in estimates in the Engine and Components segments) and increased variable compensation expense of \$101 million. Diluted earnings per share for the nine months ended October 1, 2017, benefited \$0.04 from fewer weighted average shares outstanding, primarily due to the stock repurchase program.

We generated \$1.5 billion of operating cash flows for the nine months ended October 1, 2017, compared to \$1.3 billion for the comparable period in 2016. Refer to the section titled "Cash Flows" in the "LIQUIDITY AND CAPITAL RESOURCES" section for a discussion of items impacting cash flows.

During the first nine months of 2017, we repurchased \$391 million, or 2.5 million shares of common stock.

On September 5, 2017, we entered into a 364-day credit facility that allows us to borrow up to \$1 billion of additional unsecured funds at any time through September 2018. Revolving credit facilities are maintained primarily to provide backup liquidity for our commercial paper borrowings, letters of credit and general corporate purposes.

Our debt to capital ratio (total capital defined as debt plus equity) at October 1, 2017, was 20.8 percent, compared to 20.6 percent at December 31, 2016. At October 1, 2017, we had \$1.4 billion in cash and marketable securities on hand and access to our \$2.75 billion credit facilities, if necessary, to meet currently anticipated investment and funding needs.

We expect our effective tax rate for the full year of 2017 to approximate 26.0 percent, excluding any one-time tax items.

In April 2017, we entered into an agreement to form a joint venture with Eaton Corporation PLC (Eaton), which closed on July 31, 2017 (the acquisition date). We purchased a 50 percent interest in the new venture named Eaton Cummins Automated Transmission Technologies for \$600 million in cash. In addition, each partner contributed \$20 million for working capital. The joint venture will design, assemble, sell and support medium-duty and heavy-duty automated transmissions for the commercial vehicle market, including new product launches. We consolidated the results of the joint venture in our Components segment as we have a majority voting interest in the venture by virtue of a tie-breaking vote on the joint venture's board of directors. We do not expect this new venture to have a significant impact on our consolidated results in 2017. See Note 11 "ACQUISITION," to the *Condensed Consolidated Financial Statements* for additional information.

On October 12, 2017, we entered into an asset purchase agreement with Brammo Inc., an engineer and manufacturer of lithium ion batteries primarily related to the utility vehicle markets, for approximately \$70 million to be paid in cash at closing. In addition to the closing consideration, the agreement contains an earnout based on future results of the acquired business, which could result in a maximum additional \$100 million payment to the former owners. The majority of the purchase price will likely be assigned to intangible assets and goodwill. We expect the transaction to close in the fourth quarter of 2017.

OUTLOOK

Our outlook reflects the following positive trends and challenges to our business that we expect could impact our revenue and earnings potential for the remainder of 2017.

Positive Trends

- North American heavy-duty truck demand will remain strong.
- Demand for pick-up trucks in North America will remain strong.
- Market demand in truck and off-highway markets in China will remain strong.
- Industry production of medium-duty trucks in North America will remain strong.
- North American construction markets will remain strong.
- Market demand may continue to improve in global mining.

Challenges

- Power generation markets may remain soft.
- Weak economic conditions in Brazil may continue to negatively impact demand across our businesses.
- Marine markets are expected to remain weak.

Demand has improved in certain markets and we expect demand will continue to improve over time, as in prior economic cycles. We are well positioned to benefit as market conditions improve.

RESULTS OF OPERATIONS

In millions, except per share amounts	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	October 1, 2017	October 2, 2016	Amount	Percent	October 1, 2017	October 2, 2016	Amount	Percent
NET SALES	\$ 5,285	\$ 4,187	\$ 1,098	26 %	\$ 14,952	\$ 13,006	\$ 1,946	15 %
Cost of sales	3,946	3,108	(838)	(27)%	11,236	9,674	(1,562)	(16)%
GROSS MARGIN	1,339	1,079	260	24 %	3,716	3,332	384	12 %
OPERATING EXPENSES AND INCOME								
Selling, general and administrative expenses	624	513	(111)	(22)%	1,757	1,527	(230)	(15)%
Research, development and engineering expenses	213	157	(56)	(36)%	545	478	(67)	(14)%
Equity, royalty and interest income from investees	95	74	21	28 %	301	234	67	29 %
Loss contingency	—	99	99	100 %	—	138	138	100 %
Other operating income (expense), net	32	—	32	NM	55	(2)	57	NM
OPERATING INCOME	629	384	245	64 %	1,770	1,421	349	25 %
Interest income	4	6	(2)	(33)%	11	18	(7)	(39)%
Interest expense	18	16	(2)	(13)%	57	51	(6)	(12)%
Other income (expense), net	7	8	(1)	(13)%	45	34	11	32 %
INCOME BEFORE INCOME TAXES	622	382	240	63 %	1,769	1,422	347	24 %
Income tax expense	165	82	(83)	NM	466	362	(104)	(29)%
CONSOLIDATED NET INCOME	457	300	157	52 %	1,303	1,060	243	23 %
Less: Net income attributable to noncontrolling interests	4	11	7	64 %	30	44	14	32 %
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 453	\$ 289	\$ 164	57 %	\$ 1,273	\$ 1,016	\$ 257	25 %
Diluted Earnings Per Common Share Attributable to Cummins Inc.	\$ 2.71	\$ 1.72	\$ 0.99	58 %	\$ 7.60	\$ 5.99	\$ 1.61	27 %

"NM" - not meaningful information

Percent of sales	Three months ended		Favorable/ (Unfavorable)	Nine months ended		Favorable/ (Unfavorable)
	October 1, 2017	October 2, 2016	Percentage Points	October 1, 2017	October 2, 2016	Percentage Points
Gross margin	25.3%	25.8%	(0.5)	24.9%	25.6%	(0.7)
Selling, general and administrative expenses	11.8%	12.3%	0.5	11.8%	11.7%	(0.1)
Research, development and engineering expenses	4.0%	3.7%	(0.3)	3.6%	3.7%	0.1

Net Sales

Net sales for the three months ended October 1, 2017, increased by \$1.1 billion versus the comparable period in 2016. The primary drivers were as follows:

- Engine segment sales increased 26 percent primarily due to higher demand in most North American on-highway markets and improved demand in global construction markets.
- Components segment sales increased 34 percent due to higher demand across all businesses, especially the emission solutions business, due to strong on-highway sales in North America, India and China and sales related to the acquisition of the automated transmissions business.
- Distribution segment sales increased 17 percent primarily due to an increase in organic sales and higher sales related to the acquisition of North American distributors since December 31, 2015.
- Power Systems segment sales increased 23 percent due to higher demand for all product lines, especially in industrial markets, due to higher demand in North America oil and gas markets and international mining markets.

Net sales for the nine months ended October 1, 2017, increased \$1.9 billion versus the comparable period in 2016. The primary drivers were as follows:

- Engine segment sales increased 14 percent primarily due to higher demand in most North American on-highway markets and improved demand in global industrial markets, especially international construction markets.
- Components segment sales increased 18 percent due to higher demand across all businesses, especially the emission solutions business, due to strong on-highway sales in China, India and North America and sales related to the acquisition of the automated transmissions business.
- Distribution segment sales increased 14 percent primarily due to an increase in organic sales and higher sales related to the acquisition of North American distributors since December 31, 2015.
- Power Systems segment sales increased 14 percent primarily due to higher demand for all product lines, especially in industrial markets, due to higher demand in global mining and North American oil and gas markets.

Sales to international markets (excluding the U.S. and Canada), based on location of customers, for the three and nine months ended October 1, 2017, were 41 percent and 42 percent of total net sales, respectively, compared with 41 percent and 41 percent of total net sales for the comparable periods in 2016. A more detailed discussion of sales by segment is presented in the "OPERATING SEGMENT RESULTS" section.

Gross Margin

Gross margin increased \$260 million for the three months ended October 1, 2017, versus the comparable period in 2016 and decreased 0.5 points as a percentage of sales. The increase in gross margin dollars was primarily due to higher volumes, improved leverage and lower material costs, partially offset by higher warranty costs (\$105 million primarily due to campaigns in the Engine and Components segments) and increased variable compensation expense of \$59 million.

Gross margin increased \$384 million for the nine months ended October 1, 2017, versus the comparable period in 2016 and decreased 0.7 points as a percentage of sales. The increase in gross margin dollars was primarily due to higher volumes, improved leverage and lower material costs, partially offset by higher warranty costs (\$234 million primarily due to campaigns in the Engine, Components and Power Systems segments and changes in estimates in the Engine and Components segments) and increased variable compensation expense of \$101 million.

The provision for base warranties issued, excluding campaigns, as a percent of sales for the three and nine months ended October 1, 2017, was 1.9 percent and 1.9 percent, respectively, compared to 1.5 percent and 1.7 percent for the comparable periods in 2016. A detailed discussion of margin by segment is presented in the "OPERATING SEGMENT RESULTS" section.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$111 million for the three months ended October 1, 2017, versus the comparable period in 2016, primarily due to higher compensation expenses (\$94 million), especially variable compensation, and higher consulting expenses (\$9 million). Compensation and related expenses include salaries, fringe benefits and variable compensation. Overall, selling, general and administrative expenses, as a percentage of sales, decreased to 11.8 percent in the three months ended October 1, 2017, from 12.3 percent in the comparable period in 2016.

Selling, general and administrative expenses increased \$230 million for the nine months ended October 1, 2017, versus the comparable period in 2016 primarily due to higher compensation expenses (\$162 million), especially variable compensation, and higher consulting expenses (\$39 million). Overall, selling, general and administrative expenses, as a percentage of sales, increased to 11.8 percent in the nine months ended October 1, 2017, from 11.7 percent in the comparable period in 2016.

Research, Development and Engineering Expenses

Research, development and engineering expenses increased \$56 million for the three months ended October 1, 2017, versus the comparable period in 2016, primarily due to increased compensation expenses (\$29 million), especially variable compensation, and higher consulting expenses (\$9 million). Overall, research, development and engineering expenses as a percentage of sales increased to 4.0 percent in the three months ended October 1, 2017, from 3.7 percent in the comparable period in 2016.

Research, development and engineering expenses increased \$67 million for the nine months ended October 1, 2017, versus the comparable period in 2016 primarily due to increased compensation expense (\$45 million), especially variable compensation, and higher consulting expenses (\$11 million). Overall, research, development and engineering expenses, as a percentage of sales, decreased to 3.6 percent in the nine months ended October 1, 2017, from 3.7 percent in the comparable period in 2016.

Research activities continue to focus on development of new products to meet future emission standards around the world and improvements in fuel economy performance of diesel and natural gas powered engines.

Equity, Royalty and Interest Income from Investees

Equity, royalty and interest income from investees increased \$21 million for the three months ended October 1, 2017, versus the comparable period in 2016, primarily due to higher earnings at Dongfeng Cummins Engine Company, Ltd. and Beijing Foton Cummins Engine Co., Ltd.

Equity, royalty and interest income from investees increased \$67 million for the nine months ended October 1, 2017, versus the comparable period in 2016, primarily due to higher earnings at Dongfeng Cummins Engine Company, Ltd. and Beijing Foton Cummins Engine Co.

Loss Contingency

In the third quarter of 2016, we recorded an additional accrual of \$99 million for an existing loss contingency. For the nine months ended October 2, 2016, we accrued a total of \$138 million related to this matter. See Note 9, "COMMITMENTS AND CONTINGENCIES," to the *Condensed Consolidated Financial Statements* for additional information.

Other Operating Income (Expense), Net

Other operating income (expense), net was as follows:

In millions	Three months ended		Nine months ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Royalty income, net	\$ 18	\$ 7	\$ 38	\$ 20
Gain (loss) on sale of assets, net	15	—	20	(1)
Amortization of intangible assets	(4)	(2)	(7)	(7)
Loss on write off of assets	—	(5)	(2)	(14)
Other, net	3	—	6	—
Total other operating income (expense), net	\$ 32	\$ —	\$ 55	\$ (2)

Interest Income

Interest income for the three months ended October 1, 2017, decreased \$2 million versus the comparable period in 2016, primarily due to lower investment balances in China and Brazil. Interest income for the nine months ended October 1, 2017, decreased \$7 million versus the comparable period in 2016, primarily due to lower investment balances in China and Brazil.

Interest Expense

Interest expense for the three months ended October 1, 2017, increased \$2 million versus the comparable period in 2016, primarily due to hedge ineffectiveness on our interest rate swap. Interest expense for the nine months ended October 1, 2017, increased \$6 million versus the comparable period in 2016, primarily due to hedge ineffectiveness on our interest rate swap.

Other Income (Expense), Net

Other income (expense), net was as follows:

In millions	Three months ended		Nine months ended	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Change in cash surrender value of corporate owned life insurance	\$ 9	\$ 10	\$ 38	\$ 33
Dividend income	1	1	4	3
Foreign currency gain (loss), net	(5)	—	(2)	(11)
Bank charges	(2)	(3)	(7)	(7)
Other, net	4	—	12	16
Total other income (expense), net	\$ 7	\$ 8	\$ 45	\$ 34

Income Tax Expense

Our effective tax rate for the year is expected to approximate 26.0 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 the research tax credit.

Our effective tax rate for the three and nine months ended October 1, 2017, was 26.5 percent and 26.3 percent, respectively, and contained only immaterial discrete items.

Our effective tax rate for the three and nine months ended October 2, 2016, was 21.5 percent and 25.5 percent, respectively, and contained only immaterial discrete items.

The changes in the effective tax rate for the three and nine months ended October 1, 2017, versus the comparable periods in 2016, were primarily due to differences in the jurisdictional mix of pre-tax income.

Noncontrolling Interests

Noncontrolling interests eliminate the income or loss attributable to non-Cummins ownership interests in our consolidated entities. Noncontrolling interests in income of consolidated subsidiaries for the three months ended October 1, 2017, decreased \$7 million versus the comparable period in 2016, primarily due to the acquisition of the remaining interest in Wuxi Cummins Turbo Technologies Co. Ltd, in the fourth quarter of 2016.

Noncontrolling interests in income of consolidated subsidiaries for the nine months ended October 1, 2017, decreased \$14 million versus the comparable period in 2016, primarily due to the acquisition of the remaining interest in Wuxi Cummins Turbo Technologies Co. Ltd, in the fourth quarter of 2016.

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 Inc. for the three months ended October 1, 2017, increased \$164 million and \$0.99 per share, respectively versus the comparable period in 2016, primarily due to significantly higher net sales and gross margin, the absence of an accrual for a loss contingency recorded in the third quarter of 2016 and higher equity, royalty and interest income from investees, partially offset by increased selling, general and administrative expenses, higher research, development and engineering expenses and a higher effective tax rate. Diluted earnings per share for the three months ended October 1, 2017, benefited \$0.01 from fewer weighted average shares outstanding due to the stock repurchase program.

Net income and diluted earnings per share attributable to Cummins Inc. for the nine months ended October 1, 2017, increased \$257 million and \$1.61 per share, respectively versus the comparable period in 2016, primarily due to higher net sales and gross margin, the absence of an accrual for a loss contingency recorded in the second and third quarters of 2016 and higher equity, royalty and interest income from investees, partially offset by increased selling, general and administrative expenses and higher research, development and engineering expenses and a higher effective tax rate. Diluted earnings per share for the nine months ended October 1, 2017, benefited \$0.04 from fewer weighted average shares outstanding, primarily due to the stock repurchase program.

Comprehensive Income - Foreign Currency Translation Adjustment

The foreign currency translation adjustment was a net gain of \$94 million and \$276 million, respectively, for the three and nine months ended October 1, 2017, compared to a net loss of \$29 million and \$299 million for the three and nine months ended October 2, 2016, and was driven by the following:

In millions	Three months ended			
	October 1, 2017		October 2, 2016	
	Translation adjustment	Primary currency driver vs. U.S. dollar	Translation adjustment	Primary currency driver vs. U.S. dollar
Wholly-owned subsidiaries	\$ 86	British pound, Chinese renminbi	\$ (33)	British pound, Brazilian real offset by Indian rupee
Equity method investments	10	Chinese renminbi	1	Indian rupee, Japanese yen offset by Chinese renminbi
Consolidated subsidiaries with a noncontrolling interest	(2)	Indian rupee	3	Indian rupee
Total	<u>\$ 94</u>		<u>\$ (29)</u>	

In millions	Nine months ended			
	October 1, 2017		October 2, 2016	
	Translation adjustment	Primary currency driver vs. U.S. dollar	Translation adjustment	Primary currency driver vs. U.S. dollar
Wholly-owned subsidiaries	\$ 233	British pound, Chinese renminbi, Indian rupee	\$ (288)	British pound, Chinese renminbi offset by Brazilian real
Equity method investments	31	Chinese renminbi, Indian rupee	(8)	Chinese renminbi offset by Japanese yen, Mexican peso
Consolidated subsidiaries with a noncontrolling interest	12	Indian rupee	(3)	Indian rupee, Chinese renminbi
Total	<u>\$ 276</u>		<u>\$ (299)</u>	

OPERATING SEGMENT RESULTS

Our reportable operating segments consist of the Engine, Distribution, Components and Power Systems segments. This reporting structure is organized according to the products and markets each segment serves. We use segment EBIT as a primary basis for the Chief Operating Decision Maker to evaluate the performance of each of our operating segments. Segment amounts exclude certain expenses not specifically identifiable to segments. See Note 12, "OPERATING SEGMENTS," to the *Condensed Consolidated Financial Statements* for additional information.

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)	
	October 1,	October 2,	Amount	Percent	October 1,	October 2,	Amount	Percent
	2017	2016			2017	2016		
External sales ⁽¹⁾	\$ 1,783	\$ 1,357	\$ 426	31 %	\$ 4,951	\$ 4,350	\$ 601	14 %
Intersegment sales ⁽¹⁾	553	502	51	10 %	1,715	1,487	228	15 %
Total sales	2,336	1,859	477	26 %	6,666	5,837	829	14 %
Depreciation and amortization	47	42	(5)	(12)%	137	122	(15)	(12)%
Research, development and engineering expenses	83	56	(27)	(48)%	200	166	(34)	(20)%
Equity, royalty and interest income from investees	58	38	20	53 %	186	120	66	55 %
Loss contingency	—	99	99	100 %	—	138	138	100 %
Interest income	1	3	(2)	(67)%	4	8	(4)	(50)%
EBIT	229	89	140	NM	735	492	243	49 %

	Percentage Points		Percentage Points	
EBIT as a percentage of total sales	9.8%	4.8%	5.0	8.4%

"NM" - not meaningful information

⁽¹⁾ Due to the acquisitions of North American distributors, sales previously recognized as external sales are now included in intersegment sales.

Sales for our Engine segment by market were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	October 1,	October 2,	Amount	Percent	October 1,	October 2,	Amount	Percent
	2017	2016			2017	2016		
Heavy-duty truck	\$ 776	\$ 625	\$ 151	24%	\$ 2,110	\$ 1,878	\$ 232	12%
Medium-duty truck and bus	625	517	108	21%	1,870	1,666	204	12%
Light-duty automotive	452	345	107	31%	1,304	1,172	132	11%
Total on-highway	1,853	1,487	366	25%	5,284	4,716	568	12%
Off-highway	483	372	111	30%	1,382	1,121	261	23%
Total sales	\$ 2,336	\$ 1,859	\$ 477	26%	\$ 6,666	\$ 5,837	\$ 829	14%

Unit shipments by engine classification (including unit shipments to Power Systems and off-highway engine units included in their respective classification) were as follows:

	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	October 1,	October 2,	Amount	Percent	October 1,	October 2,	Amount	Percent
	2017	2016			2017	2016		
Heavy-duty	28,100	20,100	8,000	40%	71,400	60,500	10,900	18%
Medium-duty	68,500	53,400	15,100	28%	200,400	171,100	29,300	17%
Light-duty	66,300	49,800	16,500	33%	195,000	168,600	26,400	16%
Total unit shipments	162,900	123,300	39,600	32%	466,800	400,200	66,600	17%

Sales

Engine segment sales for the three months ended October 1, 2017, increased \$477 million versus the comparable period in 2016, driven by:

- Heavy-duty truck sales increased \$151 million primarily due to higher demand in North American heavy-duty truck markets with increased shipments of 39 percent.
- Off-highway sales increased \$111 million primarily due to improved demand in global construction markets, with increased international unit shipments of 48 percent primarily in China and Western Europe.
- Medium-duty truck and bus sales increased \$108 million primarily due to higher demand in North American medium-duty truck markets with increased engine shipments of 41 percent.
- Light-duty automotive sales increased \$107 million primarily due to higher sales to Chrysler and higher sales of light commercial vehicles.

Total on-highway-related sales for the three months ended October 1, 2017, were 79 percent of total engine segment sales, versus 80 percent for the comparable period in 2016.

Engine segment sales for the nine months ended October 1, 2017, increased \$829 million versus the comparable period in 2016. The following were the primary drivers:

- Off-highway sales increased \$261 million primarily due to improved demand in global industrial markets, especially in international construction markets, with increased unit shipments of 52 percent primarily in China and Australia.
- Heavy-duty truck sales increased \$232 million primarily due to higher demand in North American heavy-duty truck markets with increased shipments of 14 percent.
- Medium-duty truck and bus sales increased \$204 million primarily due to higher demand in North American medium-duty truck markets with increased engine shipments of 24 percent.
- Light-duty automotive sales increased \$132 million primarily due to higher sales to Chrysler and higher sales of light commercial vehicles, partially offset by lower sales to Nissan.

Total on-highway-related sales for the nine months ended October 1, 2017, were 79 percent of total engine segment sales, versus 81 percent for the comparable period in 2016.

EBIT

Engine segment EBIT for the three months ended October 1, 2017, increased \$140 million versus the comparable period in 2016 primarily due to the absence of a loss contingency recorded in the third quarter of 2016 and higher gross margin, partially offset by higher research, development and engineering expenses and selling, general and administrative expenses.

Engine segment EBIT for the nine months ended October 1, 2017, increased \$243 million versus the comparable period in 2016 primarily due to the absence of a loss contingency recorded in the second and third quarters of 2016, improved gross margin and increased equity, royalty and interest income from investees, partially offset by higher selling, general and administrative expenses and higher research, development and engineering expenses. Major components of EBIT and related changes to EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended			Nine months ended		
	October 1, 2017 vs. October 2, 2016			October 1, 2017 vs. October 2, 2016		
	Favorable/(Unfavorable) Change			Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of total sales	Amount	Percent	Percentage point change as a percent of total sales
Gross margin	\$ 77	23 %	(0.4)	\$ 121	11 %	(0.5)
Selling, general and administrative expenses	(26)	(18)%	0.5	(58)	(14)%	0.1
Research, development and engineering expenses	(27)	(48)%	(0.6)	(34)	(20)%	(0.2)
Equity, royalty and interest income from investees	20	53 %	0.5	66	55 %	0.7
Loss contingency ⁽¹⁾	99	100 %	NM	138	100 %	NM

"NM" - not meaningful information

⁽¹⁾ See Note 9, "COMMITMENTS AND CONTINGENCIES," to the *Condensed Consolidated Financial Statements* for additional information.

The increase in gross margin dollars for the three months ended October 1, 2017, versus the comparable period in 2016, was primarily due to higher volumes and improved leverage, partially offset by increased warranty costs for campaigns related to pre-2015 engines and higher variable compensation expense. The increase in selling, general and administrative expenses was primarily due to higher compensation expense, especially variable compensation expense. The increase in research, development and engineering expenses was primarily due to higher compensation expense, especially variable compensation expense, and higher consulting expenses. The increase in equity, royalty and interest income from investees was primarily due to higher earnings at Dongfeng Cummins Engine Company, Ltd. and Beijing Foton Cummins Engine Co., Ltd.

The increase in gross margin dollars for the nine months ended October 1, 2017, versus the comparable period in 2016 was primarily due to higher volumes, improved leverage, favorable pricing and mix and lower material costs, partially offset by increased warranty costs for campaigns related to pre-2015 engines and higher variable compensation expense. The increase in selling, general and administrative expenses was primarily due to higher compensation expense, especially variable compensation expense. The increase in research, development and engineering expenses was primarily due to higher compensation expense, especially higher variable compensation expense, and higher consulting expenses. The increase in equity, royalty and interest income from investees was primarily due to higher earnings at Dongfeng Cummins Engine Company, Ltd. and Beijing Foton Cummins Engine Co.

Distribution Segment Results

Financial data for the Distribution segment was as follows:

In millions	Three months ended		Favorable/		Nine months ended		Favorable/	
	October 1,	October 2,	(Unfavorable)		October 1,	October 2,	(Unfavorable)	
	2017	2016	Amount	Percent	2017	2016	Amount	Percent
External sales	\$ 1,748	\$ 1,497	\$ 251	17 %	\$ 5,101	\$ 4,493	\$ 608	14 %
Intersegment sales	5	7	(2)	(29)%	19	18	1	6 %
Total sales	1,753	1,504	249	17 %	5,120	4,511	609	14 %
Depreciation and amortization	29	28	(1)	(4)%	90	85	(5)	(6)%
Research, development and engineering expenses	6	3	(3)	(100)%	14	10	(4)	(40)%
Equity, royalty and interest income from investees	11	19	(8)	(42)%	35	56	(21)	(38)%
Interest income	2	1	1	100 %	4	3	1	33 %
EBIT	91	96	(5)	(5)%	287	270	17	6 %
			Percentage Points				Percentage Points	
EBIT as a percentage of total sales	5.2%	6.4%	(1.2)		5.6%	6.0%	(0.4)	

In the first quarter of 2017, our Distribution segment reorganized its regions to align with how the segment is managed. All prior year amounts have been reclassified to conform to our new regional structure. Sales for our Distribution segment by region were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	October 1,	October 2,	Amount	Percent	October 1,	October 2,	Amount	Percent
	2017	2016			2017	2016		
North America	\$ 1,188	\$ 979	\$ 209	21 %	\$ 3,432	\$ 2,899	\$ 533	18 %
Asia Pacific	201	175	26	15 %	558	531	27	5 %
Europe	112	103	9	9 %	316	315	1	— %
China	66	52	14	27 %	199	166	33	20 %
Africa and Middle East	58	85	(27)	(32)%	239	274	(35)	(13)%
Latin America	47	36	11	31 %	125	107	18	17 %
India	41	44	(3)	(7)%	136	131	5	4 %
Russia	40	30	10	33 %	115	88	27	31 %
Total sales	\$ 1,753	\$ 1,504	\$ 249	17 %	\$ 5,120	\$ 4,511	\$ 609	14 %

Sales for our Distribution segment by product line were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	October 1,	October 2,	Amount	Percent	October 1,	October 2,	Amount	Percent
	2017	2016			2017	2016		
Parts	\$ 768	\$ 643	\$ 125	19%	\$ 2,272	\$ 1,933	\$ 339	18%
Engines	342	271	71	26%	931	791	140	18%
Service	326	299	27	9%	965	895	70	8%
Power generation	317	291	26	9%	952	892	60	7%
Total sales	\$ 1,753	\$ 1,504	\$ 249	17%	\$ 5,120	\$ 4,511	\$ 609	14%

Sales

Distribution segment sales for the three months ended October 1, 2017, increased \$249 million versus the comparable period in 2016 primarily due to an increase in organic sales of \$185 million (primarily in North America) and \$89 million of sales related to the acquisition of a North American distributor in the fourth quarter of 2016.

Distribution segment sales for the nine months ended October 1, 2017, increased \$609 million versus the comparable period in 2016 primarily due to an increase in organic sales of \$399 million (primarily in North America) and \$266 million of sales related to the acquisition of a North American distributor in the fourth quarter of 2016.

EBIT

Distribution segment EBIT for the three months ended October 1, 2017, decreased \$5 million versus the comparable period in 2016 primarily due to higher selling, general and administrative expenses (mainly related to higher variable compensation expense) and lower equity, royalty and interest income from investees, offset by higher gross margin and a gain on the sale of assets.

Distribution segment EBIT for the nine months ended October 1, 2017, increased \$17 million versus the comparable period in 2016 primarily due to higher gross margin, partially offset by higher selling, general and administrative expenses (mainly related to higher variable compensation expense) and lower equity, royalty and interest income from investees. Major components of EBIT and related changes to EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended October 1, 2017 vs. October 2, 2016			Nine months ended October 1, 2017 vs. October 2, 2016		
	Favorable/(Unfavorable) Change			Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of total sales	Amount	Percent	Percentage point change as a percent of total sales
Gross margin	\$ 25	9 %	(1.1)	\$ 93	12 %	(0.2)
Selling, general and administrative expenses	(37)	(20)%	(0.3)	(79)	(14)%	(0.1)
Equity, royalty and interest income from investees	(8)	(42)%	(0.7)	(21)	(38)%	(0.5)
Gain on sale of assets	15	100 %	NM	15	100 %	NM

"NM" - not meaningful information

The increase in gross margin dollars for the three months ended October 1, 2017, versus the comparable period in 2016, was primarily due to higher organic volumes and the acquisition of a North American distributor in the fourth quarter of 2016, partially offset by increased variable compensation expense. Gross margin as a percentage of sales declined primarily due to the increase in variable compensation expense. The increase in selling, general and administrative expenses was primarily due to higher variable compensation expense and increased compensation expense related to the acquisition of a North American distributor. The decrease in equity, royalty and interest income from investees was primarily due to the acquisition of a North American distributor in the fourth quarter of 2016.

The increase in gross margin for the nine months ended October 1, 2017, versus the comparable period in 2016 was primarily due to higher organic volumes and the acquisition of a North American distributor in the fourth quarter of 2016, partially offset by increased variable compensation expense. Gross margin as a percentage of sales declined primarily due to the increase in variable compensation expense. The increase in selling, general and administrative expenses was primarily due to higher variable compensation expense, increased compensation expense related to the acquisition of a North American distributor and higher consulting expenses. The decrease in equity, royalty and interest income from investees was primarily due to the acquisition of a North American distributor, in the fourth quarter of 2016.

Components Segment Results

Financial data for the Components segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	October 1,	October 2,	Amount	Percent	October 1,	October 2,	Amount	Percent
	2017	2016			2017	2016		
External sales ⁽¹⁾	\$ 1,139	\$ 824	\$ 315	38 %	\$ 3,183	\$ 2,654	\$ 529	20 %
Intersegment sales ⁽¹⁾	394	319	75	24 %	1,148	1,005	143	14 %
Total sales	1,533	1,143	390	34 %	4,331	3,659	672	18 %
Depreciation and amortization	42	32	(10)	(31)%	117	95	(22)	(23)%
Research, development and engineering expenses	63	54	(9)	(17)%	170	161	(9)	(6)%
Equity, royalty and interest income from investees	12	9	3	33 %	40	29	11	38 %
Interest income	—	1	(1)	(100)%	1	3	(2)	(67)%
EBIT	217	148	69	47 %	586	501	85	17 %
				Percentage Points				Percentage Points
EBIT as a percentage of total sales	14.2%	12.9%		1.3	13.5%	13.7%		(0.2)

⁽¹⁾ Due to the acquisitions of North American distributors, sales previously recognized as external sales are now included in intersegment sales.

In the first quarter of 2017, our Components segment reorganized its reporting structure to move an element of the emission solutions business to the fuel systems business to enhance operational, administrative and product development efficiencies. Prior year sales were reclassified to conform with this change.

In the third quarter of 2017, we completed the Eaton Cummins Automated Transmission Technologies joint venture (ECJV), which was consolidated and included in our Components segment as the automated transmissions business. See Note 11, "ACQUISITION", in the *Notes to Condensed Consolidated Financial Statements* for additional information.

Sales for our Components segment by business were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	October 1,	October 2,	Amount	Percent	October 1,	October 2,	Amount	Percent
	2017	2016			2017	2016		
Emission solutions	\$ 696	\$ 522	\$ 174	33%	\$ 1,986	\$ 1,714	\$ 272	16%
Turbo technologies	297	241	56	23%	891	782	109	14%
Filtration	287	244	43	18%	855	758	97	13%
Fuel systems	184	136	48	35%	530	405	125	31%
Automated transmissions	69	—	69	NM	69	—	69	NM
Total sales	\$ 1,533	\$ 1,143	\$ 390	34%	\$ 4,331	\$ 3,659	\$ 672	18%

"NM" - not meaningful information

Sales

Components segment sales for the three months ended October 1, 2017, increased \$390 million, across all lines of business, versus the comparable period in 2016. The following were the primary drivers:

- Emission solutions sales increased \$174 million primarily due to stronger market demand for trucks in North America and China and increased sales of products to meet new emission standards in India.
- Automated transmissions had North American sales of \$69 million following the consolidation of the ECJV during August and September.
- Turbo technologies sales increased \$56 million primarily due to higher demand in China and North America.
- Fuel systems sales increased \$48 million primarily due to higher demand in China, North America and Mexico.
- Filtration sales increased \$43 million primarily due to higher demand in North America, Australia and Eastern Europe.

Components segment sales for the nine months ended October 1, 2017, increased \$672 million, across all lines of business, versus the comparable period in 2016. The following were the primary drivers:

- Emission solutions sales increased \$272 million primarily due to stronger market demand for trucks in North America and China and increased sales of products to meet new emission standards in India.
- Fuel systems sales increased \$125 million primarily due to higher demand in China and Mexico.
- Turbo technologies sales increased \$109 million primarily due to higher demand in China and North America.
- Filtration sales increased \$97 million primarily due to higher demand in North America, Australia, China and Eastern Europe.
- Automated transmissions had North American sales of \$69 million following consolidation of the ECJV during August and September.

These increases were partially offset by unfavorable foreign currency fluctuations (primarily in the Chinese renminbi and British pound).

EBIT

Components segment EBIT for the three months ended October 1, 2017, increased \$69 million versus the comparable period in 2016, as higher gross margin was partially offset by increased selling, general and administrative expenses and higher research, development and engineering expenses.

Components segment EBIT for the nine months ended October 1, 2017, increased \$85 million versus the comparable period in 2016 primarily due to higher gross margin and increased equity, royalty and interest income from investees, partially offset by higher selling, general and administrative expenses. Major components of EBIT and related changes to EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended October 1, 2017 vs. October 2, 2016			Nine months ended October 1, 2017 vs. October 2, 2016		
	Favorable/(Unfavorable) Change			Favorable/(Unfavorable) Change		
	Amount	Percent	Percentage point change as a percent of total sales	Amount	Percent	Percentage point change as a percent of total sales
Gross margin	\$ 94	34 %	—	\$ 122	14 %	(0.9)
Selling, general and administrative expenses	(30)	(34)%	—	(64)	(24)%	(0.3)
Research, development and engineering expenses	(9)	(17)%	0.6	(9)	(6)%	0.5
Equity, royalty and interest income from investees	3	33 %	—	11	38 %	0.1

The increase in gross margin for the three months ended October 1, 2017, versus the comparable period in 2016, was primarily due to higher volumes, lower material costs and improved leverage, partially offset by higher warranty costs driven by campaigns and increased variable compensation expense. The increase in selling, general and administrative expenses was primarily due to higher compensation expense, especially variable compensation expense and expenses related to the new ECJV. The increase in research, development and engineering expenses was primarily due to higher variable compensation expense.

The increase in gross margin for the nine months ended October 1, 2017, versus the comparable period in 2016, was primarily due to higher volumes, lower material costs and improved leverage, partially offset by unfavorable pricing in North America, higher warranty costs driven by campaigns and changes in estimates and increased variable compensation expense. The increase in selling, general and administrative expenses was primarily due to higher compensation expense, especially variable compensation expense, and expenses related to the new ECJV. The increase in research, development and engineering expenses was primarily due to higher variable compensation expense. The increase in equity, royalty and interest income from investees was primarily due to higher earnings at Dongfeng Cummins Emission Solutions Co., Ltd., Shanghai Fleetguard Filter Co. and Fleetguard Filtration Systems India Pvt.

Power Systems Segment Results

Financial data for the Power Systems segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	October 1,	October 2,	Amount	Percent	October 1,	October 2,	Amount	Percent
	2017	2016			2017	2016		
External sales ⁽¹⁾	\$ 615	\$ 509	\$ 106	21 %	\$ 1,717	\$ 1,509	\$ 208	14 %
Intersegment sales ⁽¹⁾	441	347	94	27 %	1,238	1,076	162	15 %
Total sales	1,056	856	200	23 %	2,955	2,585	370	14 %
Depreciation and amortization	30	29	(1)	(3)%	87	87	—	— %
Research, development and engineering expenses	61	44	(17)	(39)%	161	141	(20)	(14)%
Equity, royalty and interest income from investees	14	8	6	75 %	40	29	11	38 %
Interest income	1	1	—	— %	2	4	(2)	(50)%
EBIT	81	59	22	37 %	199	195	4	2 %
	Percentage Points				Percentage Points			
EBIT as a percentage of total sales	7.7%	6.9%	0.8		6.7%	7.5%	(0.8)	

⁽¹⁾ Due to the acquisitions of North American distributors, sales previously recognized as external sales are now included in intersegment sales.

In the first quarter of 2017, our Power Systems segment reorganized its product lines to better reflect how the segment is managed. Prior year sales were reclassified to reflect these changes. Sales for our Power Systems segment by product line were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	October 1,	October 2,	Amount	Percent	October 1,	October 2,	Amount	Percent
	2017	2016			2017	2016		
Power generation	\$ 580	\$ 543	\$ 37	7%	\$ 1,676	\$ 1,663	\$ 13	1%
Industrial	385	235	150	64%	1,013	686	327	48%
Generator technologies	91	78	13	17%	266	236	30	13%
Total sales	\$ 1,056	\$ 856	\$ 200	23%	\$ 2,955	\$ 2,585	\$ 370	14%

High-horsepower unit shipments by engine classification were as follows:

Units	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	October 1,	October 2,	Amount	Percent	October 1,	October 2,	Amount	Percent
	2017	2016			2017	2016		
Power generation	2,200	2,000	200	10%	6,200	6,000	200	3%
Industrial	1,600	1,000	600	60%	4,600	3,100	1,500	48%
Total engine shipments	3,800	3,000	800	27%	10,800	9,100	1,700	19%

Sales

Power Systems segment sales for the three months ended October 1, 2017, increased \$200 million versus the comparable period in 2016. The following were the primary drivers:

- Industrial sales increased \$150 million principally due to higher demand in global mining markets, especially in North America, Europe and China, oil and gas markets in North America and marine markets in North America.
- Power generation sales increased \$37 million primarily due to higher demand in Western Europe, China and North America, partially offset by lower demand in the Middle East and Africa.

Power Systems segment sales for the nine months ended October 1, 2017, increased \$370 million versus the comparable period in 2016. The following were the primary drivers:

- Industrial sales increased \$327 million primarily due to higher demand in global mining markets in Europe, North America and China and oil and gas markets in North America.

- Generator technologies sales increased \$30 million primarily due to higher demand in Western Europe and China.

These increases were partially offset by unfavorable foreign currency fluctuations that negatively impacted sales (primarily due to the British pound).

EBIT

Power Systems segment EBIT for the three months ended October 1, 2017, increased \$22 million versus the comparable period in 2016 primarily due to higher gross margin and equity, royalty and interest income from investees, partially offset by increased selling, general and administrative expenses and higher research, development and engineering expenses.

Power Systems segment EBIT for the nine months ended October 1, 2017, increased \$4 million versus the comparable period in 2016 primarily due to higher gross margin and equity, royalty and interest income from investees, partially offset by increased selling, general and administrative expenses and higher research, development and engineering expenses. Major components of EBIT and related changes to EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended			Nine months ended		
	October 1, 2017 vs. October 2, 2016			October 1, 2017 vs. October 2, 2016		
	Favorable/(Unfavorable) Change		Percentage point change as a percent of total sales	Favorable/(Unfavorable) Change		Percentage point change as a percent of total sales
	Amount	Percent		Amount	Percent	
Gross margin	\$ 49	25 %	0.3	\$ 49	8 %	(1.2)
Selling, general and administrative expenses	(18)	(18)%	0.5	(29)	(10)%	0.4
Research, development and engineering expenses	(17)	(39)%	(0.7)	(20)	(14)%	0.1
Equity, royalty and interest income from investees	6	75 %	0.4	11	38 %	0.3

The increase in gross margin for the three months ended October 1, 2017, versus the comparable period in 2016, was primarily due to increased volumes, partially offset by unfavorable mix, higher variable compensation expense and increased material costs. The increase in selling, general and administrative expenses was primarily due to higher compensation expense, especially variable compensation expense. The increase in research, development and engineering expenses was primarily due to higher compensation expense, especially variable compensation expense, higher consulting expenses and lower expense recovery. The increase in equity, royalty and interest income from investees was primarily due to the absence of a joint venture asset impairment recorded in the third quarter of 2016.

The increase in gross margin for the nine months ended October 1, 2017, versus the comparable period in 2016, was primarily due to increased volumes and favorable foreign currency fluctuations (primarily the British pound), partially offset by unfavorable mix, higher warranty cost related to a campaign accrual, increased material costs and higher variable compensation expense. The increase in selling, general and administrative expenses was primarily due to higher variable compensation expense and higher consulting expenses. The increase in research, development and engineering expenses was primarily due to higher variable compensation expense, increased project spending and higher consulting expenses. The increase in equity, royalty and interest income from investees was primarily due to the absence of a joint venture asset impairment recorded in the third quarter of 2016.

Reconciliation of Segment EBIT to Net Income Attributable to Cummins Inc.

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	
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
TOTAL SEGMENT EBIT	\$ 618	\$ 392	\$ 1,807	\$ 1,458
Non-segment EBIT ⁽¹⁾	22	6	19	15
TOTAL EBIT	640	398	1,826	1,473
Less: Interest expense	18	16	57	51
INCOME BEFORE INCOME TAXES	622	382	1,769	1,422
Less: Income tax expense	165	82	466	362
CONSOLIDATED NET INCOME	457	300	1,303	1,060
Less: Net income attributable to noncontrolling interest	4	11	30	44
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 453	\$ 289	\$ 1,273	\$ 1,016

⁽¹⁾Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the three and nine months ended October 1, 2017 and October 2, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Key Working Capital and Balance Sheet Data

We fund our working capital with cash from operations and short-term borrowings, including commercial paper, 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. Working capital and balance sheet measures are provided in the following table:

Dollars in millions	October 1, 2017	December 31, 2016
Working capital ⁽¹⁾	\$ 3,298	\$ 3,382
Current ratio	1.57	1.78
Accounts and notes receivable, net	\$ 3,810	\$ 3,025
Days' sales in receivables	63	61
Inventories	\$ 3,146	\$ 2,675
Inventory turnover	4.9	4.7
Accounts payable (principally trade)	\$ 2,486	\$ 1,854
Days' payable outstanding	53	51
Total debt	\$ 2,255	\$ 1,856
Total debt as a percent of total capital	20.8%	20.6%

⁽¹⁾ Working capital includes cash and cash equivalents.

Cash Flows

Cash and cash equivalents were impacted as follows:

In millions	Nine months ended		
	October 1, 2017	October 2, 2016	Change
Net cash provided by operating activities	\$ 1,471	\$ 1,314	\$ 157
Net cash used in investing activities	(786)	(590)	(196)
Net cash used in financing activities	(600)	(1,045)	445
Effect of exchange rate changes on cash and cash equivalents	85	(139)	224
Net increase (decrease) in cash and cash equivalents	\$ 170	\$ (460)	\$ 630

Net cash provided by operating activities increased \$157 million for the nine months ended October 1, 2017, versus the comparable period in 2016, primarily due to higher consolidated net income, favorable translation and hedging activities and lower working capital levels, partially offset by higher equity in income of investees. During the first nine months of 2017, the lower working capital requirements resulted in a cash outflow of \$215 million compared to a cash outflow of \$302 million in the comparable period in 2016.

Net cash used in investing activities increased \$196 million for the nine months ended October 1, 2017, versus the comparable period in 2016, primarily due to the acquisition of Eaton Cummins Automated Transmission Technologies for \$600 million, partially offset by lower net investments in marketable securities of \$268 million, higher proceeds from the disposal of property, plant and equipment of \$93 million and higher cash flows from derivatives not designated as hedges of \$73 million.

Net cash used in financing activities decreased \$445 million for the nine months ended October 1, 2017, versus the comparable period in 2016, primarily due to lower repurchases of common stock of \$354 million and lower payments on borrowings and capital lease obligations of \$118 million, partially offset by lower proceeds from borrowings of \$107 million.

The effect of exchange rate changes on cash and cash equivalents for the nine months ended October 1, 2017, versus the comparable period in 2016, increased \$224 million primarily due to the British pound, which increased cash and cash equivalents by \$198 million.

Sources of Liquidity

We generate significant ongoing cash flow. Cash provided by operations is our principal source of liquidity with \$1.5 billion provided in the nine months ended October 1, 2017.

At October 1, 2017, our sources of liquidity included:

In millions	October 1, 2017			Primary location of international balances
	Total	U.S.	International	
Cash and cash equivalents	\$ 1,290	\$ 297	\$ 993	U.K., Singapore, China, Canada, Belgium, Australia
Marketable securities ⁽¹⁾	154	42	112	India
Total	\$ 1,444	\$ 339	\$ 1,105	
Available credit capacity				
Revolving credit facility ⁽²⁾	\$ 2,236			
International and other uncommitted domestic credit facilities ⁽³⁾	\$ 188			

⁽¹⁾ The majority of marketable securities could be liquidated into cash within a few days.

⁽²⁾ The five-year credit facility for \$1.75 billion and the 364-day credit facility for \$1.0 billion, maturing November 2020 and September 2018 respectively, are maintained primarily to provide backup liquidity for our commercial paper borrowings and general corporate purposes. At October 1, 2017, we had \$514 million of commercial paper outstanding, which effectively reduced the available capacity under our revolving credit facility to \$2.24 billion.

⁽³⁾ The available capacity is net of letters of credit.

Cash, Cash Equivalents and Marketable Securities

A significant portion of our cash flows is generated outside the U.S. 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 operating needs with local resources.

Debt Facilities and Other Sources of Liquidity

On September 5, 2017, we entered into a 364-day credit facility that allows us to borrow up to \$1 billion of additional unsecured funds at any time through September 2018.

We have access to credit facilities that total \$2.75 billion, including the new 364-day facility and the \$1.75 billion facility that expires on November 13, 2020. We intend to maintain credit facilities of a similar aggregate amount by renewing or replacing these facilities before expiration. Revolving credit facilities are maintained primarily to provide backup liquidity for our commercial paper borrowings, letters of credit and general corporate purposes.

We can issue up to \$1.75 billion of unsecured short-term promissory notes ("commercial paper") pursuant to our board authorized commercial paper programs. The programs facilitate the private placement of unsecured short-term debt through third party brokers. We intend to use the net proceeds from the commercial paper borrowings for general corporate purposes.

As a well-known seasoned issuer, we filed an automatic shelf registration for an undetermined amount of debt and equity securities with the Securities and Exchange Commission on February 16, 2016. 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.

Uses of Cash**Stock Repurchases**

In December 2016, our Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon completion of the 2015 repurchase plan. In the first nine months of 2017, we made the following purchases under the 2015 stock repurchase program:

In millions, except per share amounts	Shares Purchased	Average Cost Per Share	Total Cost of Repurchases	Remaining Authorized Capacity ⁽¹⁾
April 2	0.3	\$ 151.32	\$ 51	\$ 445
July 2	0.5	153.95	69	376
October 1	1.7	155.05	271	105
Total	2.5	154.36	\$ 391	

⁽¹⁾ The remaining authorized capacity under the 2015 plan was calculated based on the cost to purchase the shares but excludes commission expenses in accordance with the authorized plan.

We may continue to repurchase outstanding shares from time to time during 2017 to enhance shareholder value and to offset the dilutive impact of employee stock based compensation plans.

Dividends

In July 2017, our Board of Directors authorized an increase to our quarterly dividend of 5.4 percent from \$1.025 per share to \$1.08 per share. We paid dividends of \$522 million during the nine months ended October 1, 2017.

Acquisition

In April 2017, we entered into an agreement to form a joint venture with Eaton Corporation PLC (Eaton), which closed on July 31, 2017 (the acquisition date). We purchased a 50 percent interest in the new venture named Eaton Cummins Automated Transmission Technologies for \$600 million in cash. In addition, each partner contributed \$20 million for working capital. The joint venture will design, assemble, sell and support medium-duty and heavy-duty automated transmissions for the commercial vehicle market, including new product launches. We consolidated the results of the joint venture in our Components segment as we have a majority voting interest in the venture by virtue of a tie-breaking vote on the joint venture's board of directors. We do not expect this new venture to have a significant impact on our consolidated results in 2017. See Note 11 "ACQUISITION," to the *Condensed Consolidated Financial Statements* for additional information.

Capital Expenditures

Capital expenditures, including spending on internal use software, for the nine months ended October 1, 2017, were \$341 million compared to \$354 million in the comparable period in 2016. We continue to invest in new product lines and targeted capacity expansions. We plan to spend between \$500 million and \$530 million in 2017 on capital expenditures as we continue with product launches and facility improvements. Approximately 50 percent of our capital expenditures are expected to be invested outside of the U.S. in 2017.

Pensions

Our global pension plans, including our unfunded and non-qualified plans, were 110 percent funded at December 31, 2016. Our U.S. qualified plans, which represent approximately 56 percent of the worldwide pension obligation, were 118 percent funded and our U.K. plans were 121 percent funded. 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 2017, the investment return on our U.S. pension trust was 9.7 percent while our U.K. pension trust return was 0.2 percent. Approximately 76 percent of our pension plan assets are held in highly liquid investments such as fixed income and equity securities. The remaining 24 percent of our plan assets are held in less liquid, but market valued investments, including real estate, private equity, venture capital, opportunistic credit and insurance contracts. We anticipate making additional defined benefit pension contributions during the remainder of 2017 of \$10 million for our U.S. and U.K. pension plans. Approximately \$134 million of the estimated \$135 million of U.S. and U.K. pension contributions for the full year are voluntary. These contributions may be made from trusts or company funds either to increase pension assets or to make direct benefit payments to plan participants. We expect our 2017 net periodic pension cost to approximate \$83 million.

Current Maturities of Short and Long-Term Debt

We had \$514 million of commercial paper outstanding at October 1, 2017, that matures in less than one year. The maturity schedule of our existing long-term debt does not require significant cash outflows in the intermediate term. Required annual principal payments range from \$6 million to \$59 million over the next five years (including the remainder of 2017). See Note 7 "DEBT," to the *Condensed Consolidated Financial Statements* for additional information.

Credit Ratings

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 ⁽¹⁾	Long-Term	Short-Term	Outlook
	Senior Debt Rating	Debt Rating	
Standard & Poor's Rating Services	A+	A1	Stable
Moody's Investors Service, Inc.	A2	P1	Stable

⁽¹⁾ 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.

Management's Assessment of Liquidity

Our financial condition and liquidity remain strong. Our solid balance sheet and credit ratings enable us to have ready access to credit and the capital markets. We assess our liquidity in terms of our ability to generate adequate cash to fund our operating, investing and financing activities. We believe our operating cash flow and liquidity provides us with the financial flexibility needed to fund working capital, common stock repurchases, acquisitions, capital expenditures, dividend payments, projected pension obligations and debt service obligations. We continue to generate cash from operations and maintain access to our revolving credit facility as noted above.

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 2016 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. Our critical accounting estimates disclosed in the Form 10-K address the estimation of liabilities for warranty programs, 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 2016 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 2017.

RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 13, "RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS," in the *Notes to Condensed Consolidated Financial Statements* for additional information.

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 2016 Form 10-K. There have been no material changes in this information since the filing of our 2016 Form 10-K.

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 October 1, 2017, 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; product recalls; 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 pursuant to U.S. generally accepted accounting principles 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.

The disclosure set forth under "Loss Contingency" in Note 9, "COMMITMENTS AND CONTINGENCIES," to the *Condensed Consolidated Financial Statements* is incorporated herein by reference.

ITEM 1A. Risk Factors

In addition to other information set forth in this report, 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, 2016, 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.

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			
	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
July 3 - August 6	—	\$ —	—	37,707
August 7 - September 3	1,741,037	155.07	1,740,194	41,303
September 4 - October 1	3,743	158.81	2,600	40,360
Total	<u>1,744,780</u>	<u>155.08</u>	<u>1,742,794</u>	

⁽¹⁾ 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 Board of Directors authorized share repurchase programs.

⁽²⁾ These values reflect the sum of shares held in loan status under our Key Employee Stock Investment Plan. The repurchase programs authorized by the Board of Directors do not limit the number of shares that may be purchased and were excluded from this column. The dollar value remaining available for future purchases under such programs as of October 1, 2017, was \$1.1 billion.

In December 2016, our Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon completion of the 2015 repurchase plan. During the three months ended October 1, 2017, we repurchased \$271 million of common stock under the 2015 Board of Directors authorized plan.

[Table of Contents](#)

During the three months ended October 1, 2017, we repurchased 1,986 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 their initial five-year period for an additional five-year period. Participants must hold shares for a minimum of six months from date of purchase. If the shares are sold before the loan is paid off, the employee 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

The exhibits listed in the following Exhibit Index are filed as part of this Quarterly Report on Form 10-Q.

**CUMMINS INC.
EXHIBIT INDEX**

Exhibit No.	Description of Exhibit
3.1	By-Laws, as amended and restated effective as of May 9, 2017 (filed herewith)
10.1	364-Day Credit Agreement, dated as of September 5, 2017, by and among Cummins Inc., the subsidiary borrowers referred to therein, the Lenders and Agents party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to Cummins Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 6, 2017)(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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cummins Inc.

Date: October 31, 2017

By: _____
/s/ PATRICK J. WARD
Patrick J. Ward
Vice President and Chief Financial Officer
(Principal Financial Officer)

By: _____
/s/ CHRISTOPHER C. CLULOW
Christopher C. Clulow
Vice President-Corporate Controller
(Principal Accounting Officer)

BY-LAWS

OF

CUMMINS INC.

(Effective as of May 9, 2017)

ARTICLE 1
MEETINGS OF SHAREHOLDERS

Section 1.1 *Annual Meetings*. Annual meetings of the shareholders of the Corporation shall be held each year on such date, at such hour and at such place within or without the State of Indiana as shall be designated by the Board of Directors. If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, any or all shareholders and proxy holders may participate in an annual shareholders' meeting by, or through the use of, any means of communication by which all shareholders participating may simultaneously hear each other during the meeting in accordance with Section 23-1-29-1 of the Indiana Business Corporation Law. Any shareholder or proxy holder participating in a meeting by such means of communication is deemed to be present in person at the meeting.

Section 1.2 *Special Meetings*.

(a) Except as set forth in Section 1.2(b) of these By-Laws, special meetings of the shareholders of the Corporation may be called at any time only by the Board of Directors or the Chairman of the Board.

(b) Subject to the provisions of this Section 1.2(b) and all other applicable sections of these By-Laws, a special meeting of the shareholders of the Corporation shall be called by the Secretary of the Corporation (the "Secretary") upon written request (a "Special Meeting Request") to the Secretary by one or more Eligible Holders (as defined below) representing not less than 25% of the voting power of all outstanding shares of capital stock of the Corporation (the "Requisite Percentage"); provided that only shares of capital stock that are determined to be "Net Long Shares" in accordance with this Section 1.2(b) shall be counted in determining whether the Eligible Holders requesting the meeting represent the Requisite Percentage.

(i) "Eligible Holder" means any record holder of outstanding shares of common stock of the Corporation that (A) is making such request on its own behalf (and not on behalf of a beneficial owner of such common stock), or (B) is making such request on behalf of a beneficial owner of such common stock (the "Requesting Beneficial Owner").

(ii) For purposes of this Section 1.2(b) and for determining the Requisite Percentage, Net Long Shares shall be limited to the number of shares owned by any Eligible Holder or Requesting Beneficial Owner that constitute such person's net long position as defined in Rule 14e-4 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), provided that for purposes of applying such definition, (A) the reference in Rule 14e-4 to the date that a tender offer is first announced shall be deemed to refer to the date for determining and/or documenting an Eligible Holder's or Requesting Beneficial Owner's Net Long Shares under this Section 1.2(b) (the "Determination Date") and (B) the reference in Rule 14e-4 to the highest tender price shall be deemed to refer to the market price on the Determination Date. In addition, (1) to the extent not otherwise excluded by such definition, an Eligible Holder's or Requesting Beneficial Owner's Net Long Shares shall be determined excluding any shares as to which such person does not, at the time the Special Meeting Request is delivered to the Corporation, have the right to vote or direct the vote at the special meeting or as to which such person has entered into a derivative or other agreement, arrangement or understanding that hedges or transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of such shares and (2) to the extent any affiliates of the Requesting Shareholder (as defined below) are acting in concert with the Requesting Shareholder with respect to the calling of the special meeting, the determination of Net Long Shares may include the effect of aggregating the Net Long Shares (including any negative number) of such affiliate or affiliates.

Whether shares constitute “Net Long Shares” shall be decided by the Board of Directors or its designated committee in its discretion.

(iii) A Special Meeting Request must be delivered by hand or by registered U.S. mail, postage prepaid, return receipt requested, or courier service, postage prepaid, to the attention of the Secretary at the principal executive offices of the Corporation. A Special Meeting Request shall be valid only if it (A) is signed and dated by each Eligible Holder submitting the Special Meeting Request and by each of the Requesting Beneficial Owners, if any, on whose behalf the Special Meeting Request is being made (each such Eligible Holder and Requesting Beneficial Owner, a “Requesting Shareholder”), and (B) includes (1) a statement of the specific purpose(s) of the special meeting and the matters proposed to be acted on by shareholders at the special meeting, the text of any proposal or business (including the text of any resolutions proposed for consideration by shareholders, and, in the event that such business includes a proposal to amend the By-Laws or the Articles of Incorporation of the Corporation, the text of the proposed amendment), the reasons for conducting such business at the special meeting, and any material interest in such business of each Requesting Shareholder; (2) in the case of any director nominations proposed to be presented at the special meeting, the information required by Section 2.11(b), including with respect to each Requesting Shareholder; (3) in the case of any matter (other than a director nomination) proposed to be conducted at the special meeting, the information required by Section 1.3(c), including with respect to each Requesting Shareholder; (4) a representation that each Requesting Shareholder, or one or more representatives of each such shareholder, intends to appear in person or by proxy at the special meeting to present the proposal(s) or business to be brought before the special meeting; (5) a representation as to whether the Requesting Shareholders intend, or are part of a group that intends, to solicit proxies with respect to the proposals or business to be presented at the special meeting; (6) an agreement by the Requesting Shareholders to notify the Corporation within 10 days in the event of any decrease in the number of Net Long Shares held by the Requesting Shareholders following the delivery of such Special Meeting Request and prior to the special meeting and an acknowledgement that any such decrease shall be deemed to be a revocation of such Special Meeting Request to the extent such reduction decreases the number of Net Long Shares held by the Requesting Shareholders below the Requisite Percentage; and (7) documentary evidence that the Requesting Shareholders own the Requisite Percentage as of the date on which the Special Meeting Request is delivered to the Secretary; provided, however, that if the Eligible Holders submitting the Special Meeting Request are not the beneficial owners of the shares representing the Requisite Percentage, then to be valid, the Special Meeting Request must also include documentary evidence (or, if not simultaneously provided with the Special Meeting Request, such documentary evidence must be delivered to the Secretary within 10 days after the date on which the Special Meeting Request is delivered to the Secretary) that the Requesting Beneficial Owners on whose behalf the Special Meeting Request is made beneficially own the Requisite Percentage as of the date on which such Special Meeting Request is delivered to the Secretary. In addition, each Requesting Shareholder shall promptly provide any other information reasonably requested by the Corporation.

(iv) The Corporation will provide the Requesting Shareholders with notice of the record date for the determination of shareholders entitled to vote at the special meeting. Each Requesting Shareholder is required to update the Special Meeting Request delivered pursuant to Section 1.2(b)(iii) not later than 10 business days after such record date to provide any material changes in the foregoing information as of such record date and, with respect to the information required under Section 1.2(b)(iii)(7), also as of a date not more than five business days before the scheduled date of the special meeting as to which the Special Meeting Request relates.

(v) A Special Meeting Request shall not be valid, and a special meeting requested by shareholders shall not be held, if (A) the Special Meeting Request does not comply with this Section 1.2(b); (B) the Special Meeting Request relates to an item of business that is not a proper subject for shareholder action under applicable law; (C) the Special Meeting Request is delivered during the period commencing ninety (90) days prior to the first anniversary of the date of the immediately preceding annual meeting of shareholders and ending on the date of the next annual meeting; (D) an identical or substantially similar item (as determined by the Board of Directors or a designated committee, in its discretion, a “Similar Item”), other than the election or removal of director(s), was presented at an annual or special meeting of shareholders held not more than 12 months before the Special Meeting Request is delivered; (E) the Special Meeting Request relates to the election or removal of director(s) and the election or removal of director(s) was presented at an annual or special meeting of shareholders held not more than ninety (90) days before the Special Meeting Request is delivered; (F) a Similar Item, including the election or removal of director(s), is (or is intended to be) included in the Corporation’s notice of meeting as an item of business to be brought before an annual or special meeting of shareholders that has been called but not yet held or that is called for a date within ninety (90) days of the receipt by the Corporation of a Special Meeting Request; (G) the Special Meeting Request was made in a manner that involved a violation of Regulation

14A under the Exchange Act or other applicable law; or (H) any Requesting Shareholder shall have violated the reporting requirements of Section 13 of the Exchange Act. The Board of Directors (or a designated committee thereof) shall determine, in its discretion, whether all requirements set forth in this Section 1.2(b) have been satisfied and such determination shall be binding on the Corporation and its shareholders, including the Requesting Shareholders.

(vi) Except as otherwise provided in this Section 1.2(b), a special meeting held following a Special Meeting Request shall be held at any such date, time and place, within or without the State of Indiana, as may be fixed by the Board of Directors (or a designated committee thereof) in its discretion.

(vii) A Requesting Shareholder may revoke a Special Meeting Request by written revocation delivered to the Secretary at the principal executive offices of the Corporation at any time prior to the special meeting. If, following such revocation (or deemed revocation pursuant to Section 1.2(b)(iii)(6)), there are unrevoked requests from Requesting Shareholders holding, in the aggregate, less than the Requisite Percentage, the Board (or a designated committee thereof), in its discretion, may cancel the special meeting and, in such event, the Requesting Shareholders who revoked the Special Meeting Request shall be jointly and severally liable to the Corporation for its costs incurred in connection with the cancelled special meeting.

(viii) If none of the Requesting Shareholders appears or sends a duly authorized agent to present the business to be presented for consideration specified in the Special Meeting Request, the Corporation need not present such business for a vote at the special meeting, notwithstanding that proxies in respect of such matter may have been received by the Corporation. In such event, the Requesting Shareholders who did not appear or send a duly authorized agent shall be jointly and severally liable to the Corporation for the Corporation's costs incurred in connection with the special meeting.

(ix) Business transacted at any special meeting shall be limited to (A) the purpose(s) stated in the valid Special Meeting Request for such special meeting and (B) any additional matters the Board of Directors or designated committee determines, in its discretion, to submit to the shareholders at such special meeting.

Section 1.3 *Proper Business*. To be properly brought before an annual meeting, business must be specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, otherwise properly brought before the meeting by or at the direction of the Board of Directors, or otherwise properly brought before the meeting by a shareholder.

(a) The exclusive means for a shareholder to make nominations for the election of Directors are set forth in Section 2.11 and Section 2.13 of these By-Laws.

(b) For business (other than nominations for the election of Directors) to be properly brought before an annual meeting by a shareholder, the shareholder must have given written notification thereof, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than ninety (90) days in advance of the Originally Scheduled Date (as defined in Section 1.3(g) of these By-Laws) of such meeting (provided, however, that if the Originally Scheduled Date of such meeting is earlier than the first anniversary of the date set forth in the Corporation's first mailed definitive proxy materials for the prior year's annual meeting (the "Anniversary Date"), such written notification may be so given and received not later than the close of business on the 10th day following the date of the first public disclosure, which may include any public filing by the Corporation with the Securities and Exchange Commission, of the Originally Scheduled Date of such meeting).

(c) Any notification by a shareholder under Section 1.3(b) of these By-Laws shall set forth as to each matter the shareholder proposes to bring before the meeting (i) a brief description of the business described to be brought before the meeting, the reasons for conducting such business at the meeting; (ii) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business and of any beneficial owner or owners, if any, on whose behalf the business is being proposed; (iii) a representation that the shareholder is a holder of record of shares of stock of the Corporation entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to propose such business; (iv) the class and number of shares of stock of the Corporation that are owned beneficially and of record by such shareholder or beneficial owner or owners and a representation that such shareholder will notify the Corporation in writing of the class and number of such shares owned of record and beneficially as of the record date for the meeting within five (5) business days following the later of the record date or the date the record date is first publicly disclosed; (v) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the Corporation, whether or not

such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Corporation or otherwise (a “Derivative Instrument”) directly or indirectly owned beneficially by such shareholder or beneficial owner and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Corporation; (vi) any proxy, contract, arrangement, understanding or relationship pursuant to which such shareholder or beneficial owner has a right to vote any shares of any security of the Corporation; (vii) any short interest in any security of the Corporation (for purposes of this Section 1.3(c)(vii), a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security); (viii) any rights to dividends on the shares of the Corporation owned beneficially by such shareholder or beneficial owner that are separated or separable from the underlying shares of the Corporation; (ix) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such shareholder or beneficial owner is a general partner or, directly or indirectly, beneficially owns an interest in a general partner; (x) any performance-related fees (other than an asset-based fee) that such shareholder or beneficial owner is entitled to based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such shareholder’s or beneficial owner’s immediate family sharing the same household (which information shall be supplemented by such shareholder or beneficial owner not later than five (5) business days after the later of the record date or the date the record date is disclosed to disclose such ownership as of the record date); (xi) any other information relating to such shareholder and beneficial owner, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated thereunder; (xii) any material interest of the shareholder in such business, (xiii) a representation whether the proposing shareholder intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the outstanding shares of the Corporation’s stock required to approve the proposal and/or otherwise to solicit proxies from shareholders in support of the proposal and (xiv) a description of all agreements, arrangements and understandings between such shareholder and beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and a representation that such shareholder will notify the Corporation in writing of any such agreements, arrangements or understandings in effect as of the record date within five (5) business days following the later of the record date or the date notice of the record date is first publicly disclosed. For purposes of these By-Laws, the information required by items (iv) through (xi) of the preceding sentence shall be referred to as the “Required Disclosures.”

(d) To be properly brought before a special meeting of shareholders called pursuant to Section 1.2, business must be specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors or must otherwise be properly brought before the meeting by or at the direction of the Board of Directors.

(e) Notwithstanding the foregoing provisions of this Section 1.3 or Section 2.11 of these By-Laws, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations promulgated thereunder with respect to the matters set forth in this Section 1.3 and Section 2.11 and Section 2.13 of these By-Laws; provided, however, that any references in these By-Laws to the Exchange Act or the rules and regulations promulgated thereunder are not intended to and shall not limit the requirements applicable to proposals as to any other business to be considered pursuant to this Section 1.3 or any nominations to be considered pursuant to Section 2.11 or Section 2.13 of these By-Laws. Nothing in this Section 1.3 or in Section 2.11 or Section 2.13 of these By-Laws shall be deemed to limit the Corporation’s obligation to include shareholder proposals in its proxy statement if such inclusion is required by Rule 14a-8 under the Exchange Act.

(f) No business shall be conducted at a meeting of shareholders except in accordance with this Section 1.3 and the chairman of any meeting of shareholders may refuse to permit any business to be brought before a meeting without compliance with the foregoing procedures.

(g) For purposes of these By-Laws, the “Originally Scheduled Date” of any meeting of shareholders shall be the date such meeting is scheduled to occur in the notice of such meeting first given to shareholders regardless of whether any subsequent notice is given for such meeting or the record date of such meeting is changed.

Section 1.4 *Notices.*

(a) A written notice (as the term “written” is defined in Section 7.9 of these By-Laws) stating (i) the date, time and place of any meeting of the shareholders, (ii) the means of remote communications, if any, by which shareholders and proxy holders may be deemed to be present in person and vote at such meeting and (iii) in the case of a special meeting, the

purpose or purposes for which such meeting is called, shall be delivered or mailed by the Secretary of the Corporation, to each shareholder of record of the Corporation entitled to notice of or to vote at such meeting no fewer than ten (10) nor more than sixty (60) days before the date of the meeting. Notice of shareholders' meetings, if mailed, shall be mailed, postage prepaid, to each shareholder at the shareholder's address shown in the Corporation's current record of shareholders; provided that this requirement shall be satisfied with respect to shareholders of record who share an address, and notice shall be deemed to have been given to all such shareholders, if notice is given in accordance with the "householding" rules set forth in Rule 14a-3(e) under the Exchange Act and the provisions of Section 23-1-20-29 of the Indiana Business Corporation Law. If mailed, notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his, her or its address as it appears in the books of the Corporation, with postage thereon prepaid. If sent by electronic transmission, notice shall be deemed to be delivered when sent.

(b) Except as provided by the Indiana Business Corporation Law or the Corporation's Restated Articles of Incorporation, notice of a meeting of shareholders is required to be given only to shareholders entitled to vote at the meeting; provided, however, notice of a meeting of shareholders shall be given to shareholders not entitled to vote if a purpose for the meeting is to vote on any amendment to the Corporation's Restated Articles of Incorporation, a merger or share exchange to which the Corporation would be a party, a sale of the Corporation's assets, or dissolution of the Corporation.

(c) A shareholder or the shareholder's proxy may at any time waive notice of a meeting if the waiver is in writing and is delivered to the Corporation for inclusion in the minutes or filing with the Corporation's records. A shareholder's attendance at a meeting, whether in person or by proxy, (i) waives objection to lack of notice or defective notice of the meeting, unless the shareholder or the shareholder's proxy at the beginning of the meeting objects to holding the meeting or transacting business at the meeting, and (ii) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder or the shareholder's proxy objects to considering the matter when it is presented. Each shareholder who has in the matter above provided waived notice or objection to notice of a shareholders' meeting shall be conclusively presumed to have been given due notice of such meeting, including the purpose or purposes thereof.

(d) If an annual or special shareholders' meeting is adjourned to a different date, time or place, notice need not be given of the new date, time or place if the new date, time or place is announced at the meeting before adjournment, unless a new record date is or must be established for the adjourned meeting.

Section 1.5 *Voting.* Except as otherwise provided by the Indiana Business Corporation Law or the Corporation's Restated Articles of Incorporation, each share of the capital stock of any class of the Corporation that is outstanding at the record date established for any annual or special meeting of shareholders and is outstanding at the time of and represented in person or by proxy at the annual or special meeting, shall entitle the record holder thereof, or the record holder's proxy, to one (1) vote on each matter voted on at the meeting.

Section 1.6 *Quorum.* Unless the Corporation's Restated Articles of Incorporation or the Indiana Business Corporation Law provides otherwise, at all meetings of shareholders a majority of the votes entitled to be cast on a matter, represented in person or by proxy, constitutes a quorum for action on the matter. Action may be taken at a shareholders' meeting only on matters with respect to which a quorum exists; provided, however, that any meeting of shareholders, including annual and special meetings and any adjournments thereof, may be adjourned to a later date although less than a quorum is present. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting.

Section 1.7 *Vote Required to Take Action; Majority Voting in Director Elections.*

(a) If a quorum exists as to a matter to be considered at a meeting of shareholders, action on such matter (other than the election of Directors) is approved if the votes properly cast favoring the action exceed the votes properly cast opposing the action, except as the Corporation's Restated Articles of Incorporation or the Indiana Business Corporation Law require a greater number of affirmative votes.

(b) The election of Directors by the shareholders shall be determined as follows:

(i) *Majority Voting Standard.* Each Director to be elected by shareholders shall be elected if a majority of the votes cast with respect to that Director's election at any meeting for the election of Directors at which a quorum is present are cast in favor of such Director's election. For purposes of the preceding sentence, a majority of the votes cast shall mean the number of shares voted "for" a nominee's election exceeds the number of votes

cast “against” that nominee’s election (with “abstentions” and “broker nonvotes” not counted as a vote cast either “for” or “against” that nominee’s election).

(ii) *Contested Elections.* If the number of nominees for Director exceeds the number of Directors to be elected, (A) shareholders will not be permitted to vote “against” a nominee for Director and (B) Directors shall be elected by a plurality of the votes represented in person or by proxy and entitled to vote on such election of Directors.

(iii) *Effect of Failure to Receive Required Vote.* If an incumbent Director nominee fails to receive the required vote, the Director’s term shall end at the meeting at which he or she failed to receive the required vote. If a Director’s term ends as described in the immediately preceding sentence, then the Board of Directors may fill the resulting vacancy as provided in Section 2.2 of these By-Laws, or may decrease the size of the Board of Directors pursuant to Section 2.1 of these By-Laws.

Section 1.8 *Record Date.* Only such persons shall be entitled to notice of or to vote, in person or by proxy, at any shareholders’ meeting as shall appear as shareholders upon the books of the Corporation as of such record date as the Board of Directors shall determine, which date may not be earlier than the date seventy (70) days immediately preceding the meeting. In the absence of such determination, the record date shall be the day next preceding the date on which notice is given, or, if notice is waived, on the date next preceding the day on which the meeting is held. Unless otherwise provided by the Board of Directors, shareholders shall be determined as of the close of business on the record date.

Section 1.9 *Proxies; Acceptance of Instruments Showing Shareholder Action.*

(a) A shareholder’s shares may be voted either in person or by proxy. A shareholder may appoint a proxy to vote or otherwise act for the shareholder (including authorizing the proxy to receive, or to waive, notice of any shareholders’ meetings within the effective period of such proxy) by signing an appointment form, either personally or by the shareholder’s attorney-in-fact or by transmitting or authorizing the transmission of an electronic submission to the person who will be the holder of the proxy, a proxy solicitation firm or a proxy support service organization or similar agency authorized by the person who will be the holder of the proxy to receive the electronic submission; provided that such electronic submission either contains or is accompanied by information from which it can be determined that the electronic submission was transmitted or authorized by the shareholder. A copy, facsimile telecommunication or other reliable reproduction of a writing or electronic submission authorized by this Section 1.9 may be used instead of the original writing or electronic submission for any and all purposes for which the original writing or electronic submission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete copy of the entire original writing or electronic submission. An appointment of a proxy is effective when received by the Secretary or other officer or agent authorized to tabulate votes and is effective for eleven (11) months unless a shorter or longer period is expressly provided in the appointment form. The proxy’s authority may be limited to a particular meeting or may be general and authorize the proxy to represent the shareholder at any meeting of shareholders held within the time provided in the appointment form. The presence of a shareholder who has filed a proxy at a meeting shall not of itself constitute a revocation of such proxy. Subject to the Indiana Business Corporation Law and to any express limitation on the proxy’s authority appearing on the face of the appointment form, the Corporation is entitled to accept the proxy’s vote or other action as that of the shareholder making the appointment.

(b) If the name signed on a vote, consent, waiver or proxy appointment corresponds to the name of a shareholder, then the Corporation, if acting in good faith, may accept the vote, consent, waiver or proxy appointment and give it effect as the act of a shareholder. If the name signed on a vote, consent, waiver or proxy appointment does not correspond to the name of a shareholder, then the Corporation, if acting in good faith, may accept the vote, consent, waiver or proxy appointment and give it effect as the act of the shareholder if any of the following apply:

(i) The shareholder is an entity and the name signed purports to be that of an officer or agent of the entity.

(ii) The name purports to be that of an administrator, executor, guardian or conservator representing the shareholder and, if the Corporation requests, evidence of fiduciary status acceptable to the Corporation is presented with respect to the vote, consent, waiver or proxy appointment.

(iii) The name purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the Corporation requests, evidence of this status acceptable to the Corporation is presented with respect to the vote, consent, waiver or proxy appointment.

(iv) The name purports to be that of a pledgee, beneficial owner, or attorney in fact of the shareholder and, if the Corporation requests, evidence acceptable to the Corporation of the signatory's authority to sign for the shareholder is presented with respect to the vote, consent, waiver or proxy appointment.

(v) Two (2) or more persons are the shareholders as cotenants or fiduciaries and the name purports to be the name of at least one (1) of the coowners and the person acting appears to be acting on behalf of all coowners.

The Corporation may reject a vote, consent, waiver or proxy appointment if the Secretary of the Corporation or other officer or agent of the Corporation who is authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on a writing or about the signatory's authority to sign for the shareholder, or the validity of an electronic submission or the submitter's authority to make the electronic transmission.

Section 1.10 *Organization*. At every meeting of the shareholders, the Chairman of the Board, or, in the Chairman's absence, a person designated by the Chairman, or, in the absence of such designation, a person chosen by the Board of Directors, shall act as a chairman. The Secretary of the Corporation shall act as secretary of such meeting or, in the Secretary's absence, the chairman shall appoint a secretary.

Section 1.11 *Voting Lists*. At least five business days before each meeting of shareholders, the officer or agent having charge of the stock transfer books shall make a complete list of the shareholders entitled to notice of a shareholders' meeting, arranged in alphabetical order, with the address and number of shares so entitled to vote held by each, which list shall be on file at the principal office of the Corporation and subject to inspection by any shareholder entitled to vote at the meeting. Such list shall be produced and kept open at the time and place of the meeting and subject to the inspection of any shareholder during the holding of such meeting. Unless otherwise required by law, the Corporation need not include electronic mail addresses or other electronic contact information on such list. The original stock register or transfer book, or a duplicate thereof, kept in this state, shall be the only evidence as to who are the shareholders entitled to examine such list or the stock ledger or transfer book or to vote at any meeting of the shareholders.

Section 1.12 *Inspectors of Election*. The Board of Directors may appoint Inspectors of Election to serve at meetings of shareholders. If, at the time of any meeting, any Inspector so appointed shall be absent, the presiding officer may appoint an Inspector to serve in place of the absent Inspector. The Inspector or Inspectors so appointed or designated shall, according to any rules and/or procedures prescribed by the Board of Directors, (i) ascertain the number of shares of capital stock of the Corporation outstanding and the voting power of each such share, (ii) determine the shares of capital stock of the Corporation represented at the meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) specify the information upon which the Inspector or Inspectors rely in determining the validity of proxies; (v) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the Inspector or Inspectors, and (vi) certify its or their determination of the number of shares of capital stock of the Corporation represented at the meeting and such Inspector's or Inspectors' count of all votes and ballots. Such certification shall specify such other information as may be required by law. In determining the validity and counting of proxies and ballots cast at any meeting of shareholders of the Corporation, the Inspector or Inspectors may consider such information as is permitted by applicable law and any rules and/or procedures prescribed by the Board of Directors. No person who is a candidate for an office at an election may serve as an Inspector at such election.

Section 1.13 *Conduct of Meeting*. At any meeting of shareholders of the Corporation, the Chairman of the Board (or, in the absence of the Chairman of the Board, such person designated by the Chairman or the Board of Directors as chair pursuant to Section 1.10 of these By-Laws) shall prescribe the order of business to be conducted at the meeting and establish procedures incident thereto. The Board of Directors of the Corporation may adopt by resolution such rules or regulations for the conduct of meetings of shareholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the Chairman of the Board or designated chair of any meeting of shareholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of the Chairman of the Board or such chair, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the Chairman of the Board or the chair of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting, to shareholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chair shall permit; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof, and (e) the format for the submission of, and limitations on the time allotted to, questions or comments by participants. Unless, and to the extent determined by the Board of Directors, the Chairman of the Board or the designated chair of the meeting, meetings of shareholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE 2 DIRECTORS

Section 2.1 *Number, Qualification and Terms.*

(a) The business and affairs of the Corporation shall be managed under the direction of a Board of Directors. The number of Directors shall be fixed by resolution of the Board of Directors from time to time. It shall be the policy of the Corporation that no person seventy-two years of age or more shall be elected to the Board of Directors. Any Director who attains the age of seventy-two years during the Director's term of office shall be eligible to remain a Director for the duration of the term for which the Director was elected but shall not be eligible for re-election.

(b) The Corporation hereby elects not to be governed by Section 23-1-33-6(c) of the Indiana Business Corporation Law. Each Director shall be elected for a term of office to expire at the annual meeting of shareholders next following the Director's election, except that each Director elected pursuant to Section 2.2 of this Article 2 shall hold office until the next annual meeting of shareholders. Despite the expiration of a Director's term, the Director shall continue to serve until the Director's successor is elected and qualified, or until the earlier of the Director's death, resignation, disqualification or removal, or until there is a decrease in the number of Directors.

(c) The Directors and each of them shall have no authority to bind the Corporation except when acting as a Board.

Section 2.2 *Vacancies.* Any vacancy occurring in the Board of Directors, from whatever cause arising, including an increase in the number of Directors, shall be filled by selection of a successor by a majority vote of the remaining members of the Board of Directors (although less than a quorum) until the next annual meeting of the shareholders.

Section 2.3 *Quorum and Vote Required to Take Action.* A majority of the whole Board of Directors shall be necessary to constitute a quorum for the transaction of any business, except the filling of vacancies; provided that less than two Directors shall not constitute a quorum. If a quorum is present when a vote is taken, the affirmative vote of a majority of the Directors present shall be the act of the Board of Directors, unless the act of a greater number is required by the Indiana Business Corporation Law, the Corporation's Restated Articles of Incorporation or these By-Laws. A Director who is present at a meeting of the Board of Directors or a committee thereof of which he or she is a member at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless any of the following occurs: (a) the Director objects at the beginning of the meeting (or promptly upon the Director's arrival) to holding it or transacting business at the meeting; (b) the Director's dissent or abstention from the action taken is entered in the minutes of the meeting; or (c) the Director delivers written notice of the Director's dissent or abstention to the presiding officer of the meeting before its adjournment or to the Secretary of the Corporation immediately after adjournment of the meeting. Such right to dissent or abstain shall not apply to a Director who voted in favor of such action.

Section 2.4 *Regular Meetings.* The Board of Directors shall meet regularly, without notice, at such times and places as may be specified from time to time by the Board of Directors or the Chairman of the Board (but no fewer than one time annually) for the purpose of transacting such business as properly may come before the meeting.

Section 2.5 *Special Meetings.* Special meetings of the Board of Directors may be called by the Chairman of the Board or a majority of the Directors upon not less than twenty-four (24) hours' notice given to each Director of the date, time and place of the meeting, which notice need not specify the purpose or purposes of the special meeting. Such notice may be communicated in person (either in writing or orally), by telephone, telegraph, teletype or other form of wire or wireless communication, or by mail, and shall be effective at the earlier of the time of its receipt or, if mailed, five (5) days after its mailing. Notice of any meeting of the Board may be waived in writing at any time if the waiver is signed by the Director entitled to the notice and is filed with the minutes or corporate records. A Director's attendance at or participation in a meeting waives any required notice to the Director of the meeting, unless the Director at the beginning of the meeting (or promptly upon the Director's arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

Section 2.6 *Written Consents.* Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board. The action must be evidenced by one (1) or more written consents describing the action taken, signed by each Director, included in the minutes or filed with the corporate records reflecting the action taken and delivered to the Secretary of the Corporation. Action taken under this Section 2.6 is effective when the last Director signs the consent, unless (a) the consent specifies a different prior or subsequent effective date, in which case the action is effective on or as of the specified date or (b) the action taken under this Section 2.6 is taken electronically as contemplated by Indiana Code § 26-2-8, in which case the effective date is determined in accordance with Indiana Code § 26-2-8. A Director's consent may be withdrawn by a revocation signed by the Director and delivered to the Corporation before the delivery to the

Corporation of unrevoked written consents signed by all the Directors. A consent signed under this Section 2.6 shall have the same effect as a unanimous meeting vote of all members of the Board and may be described as such in any document.

Section 2.7 *Participation by Conference Telephone.* The Board of Directors may permit any or all Directors to participate in a regular or special meeting by, or through the use of, any means of communication, such as conference telephone, by which all Directors participating may simultaneously hear each other during the meeting. A Director participating in a meeting by such means shall be deemed to be present in person at the meeting.

Section 2.8 *Organization.* At every meeting of the Board of Directors, the Chairman of the Board, or in the Chairman's absence, a person designated by the Chairman, shall act as chairman. The Secretary of the Corporation shall act as secretary of such meeting or, in the Secretary's absence, the Chairman shall appoint a secretary.

Section 2.9 *Resignation.* A Director may resign at any time by delivering written notice to the Chairman of the Board, the Secretary of the Corporation, the Board of Directors, or such other officer as the Board of Directors may designate, and such resignation shall become effective upon such delivery unless the notice specifies a later effective date.

Section 2.10 *Compensation.* Any Director who is also an officer of the Corporation shall receive no separate compensation for serving as Director. Each Director who is not an officer of the Corporation shall be paid such compensation or other remuneration as shall be fixed from time to time by resolution of the Board of Directors. Each Director shall be reimbursed by the Corporation for travel and other reasonable out-of-pocket expenses incurred in attending such meetings, as well as meetings of the Corporation's shareholders and committees of the Board of Directors and other Corporation functions and events.

Section 2.11 *Nominations.* Nominations for the election of Directors may be made by the Board of Directors or by any shareholder entitled to vote for the election of Directors who complies fully with the requirements of these By-Laws.

(a) Any shareholder entitled to vote for the election of Directors at a meeting may nominate a person or persons for election as Directors only if written notice of such shareholder's intent to make such nominations is given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than one hundred sixty (160) days in advance of the Originally Scheduled Date of such meeting (provided, however, that if the Originally Scheduled Date of such meeting is earlier than the Anniversary Date, such written notice may be so given and received not later than the close of business on the 10th day following the date of the first public disclosure, which may include any public filing by the Corporation with the Securities and Exchange Commission, of the Originally Scheduled Date of such meeting).

(b) Each notice under Section 2.11(a) of these By-Laws shall be signed manually or by facsimile by the shareholder of record and shall set forth (i) the name and address, as they appear on the Corporation's books, of the shareholder who intends to make the nomination and of any beneficial owner or owners on whose behalf the nomination is made; (ii) a representation that the shareholder is a holder of record of shares of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) the Required Disclosures; (iv) the name, age, business address and residential address of each nominee proposed in such notice; (v) the principal occupation or employment of each such nominee; (vi) the number of shares of capital stock of the Corporation that are owned of record or beneficially by each such nominee; (vii) with respect to each nominee for election or reelection to the Board of Directors, include a completed and signed questionnaire, representation and agreement required by Section 2.12 of these By-Laws; (viii) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated, by the Board of Directors; (ix) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, including all arrangements or understandings pursuant to which the nominations are being made, between or among such shareholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or any other person or persons (naming such person or persons), on the other hand; and (x) the written consent of each nominee to serve as a Director of the Corporation if so elected.

(c) The chairman of any meeting of shareholders to elect Directors and the Board of Directors may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure; only persons who are nominated in accordance with the procedures set forth in this Section 2.11 shall be eligible to serve as Directors.

(d) This Section 2.11 shall not affect the right of the holders of either Preference or Preferred Stock to nominate and elect Directors in the event such right arises.

Section 2.12 *Submission of Questionnaire; Representation and Agreement.* To be eligible to be a nominee for election or reelection as a Director, a person must deliver (in accordance with the time periods prescribed for delivery of notice under Section 2.11 or Section 2.13, as applicable, of these By-Laws) to the Secretary of the Corporation at the principal executive offices of the Corporation a written questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the Secretary upon written request) and a written representation and agreement (in the form provided by the Secretary upon written request) that such person (a) is not and will not become a party to (i) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a Director of the Corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Corporation or (ii) any Voting Commitment that could limit or interfere with such person's ability to comply, if elected as a Director, with such person's fiduciary duties under applicable law, (b) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a Director that has not been disclosed therein, and (c) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a Director, and will comply with, applicable law and all applicable publicly disclosed corporate governance, conflict of interest, corporate opportunities, confidentiality and stock ownership and trading policies and guidelines of the Corporation.

Section 2.13 *Shareholder Nominations Included in the Corporation's Proxy Materials.*

(a) *Inclusion of Nominee in Proxy Statement.* Subject to the provisions of this Section 2.13, if expressly requested in the relevant Nomination Notice (as defined below), the Corporation shall include in its proxy statement for any annual meeting:

- (i) the name of any person nominated for election (the "Nominee") to the Board of Directors, which shall also be included on the Corporation's form of proxy and ballot for the relevant annual meeting, by any Eligible Holder (as defined below) or group of up to 20 Eligible Holders that has (individually and collectively, in the case of a group) satisfied, as determined by the Board of Directors or its designee, acting in good faith, all applicable conditions and complied with all applicable procedures set forth in this Section 2.13 (such Eligible Holder or group of Eligible Holders being a "Nominating Shareholder");
- (ii) disclosure about the Nominee and the Nominating Shareholder required under Securities and Exchange Commission rules or any other applicable law, rule or regulation to be included in the proxy statement; and
- (iii) any statement included by the Nominating Shareholder in the Nomination Notice for inclusion in the proxy statement in support of the Nominee's election to the Board of Directors (subject, without limitation, to Section 2.13(e)(ii)), if such statement does not exceed 500 words.

Notwithstanding anything herein to the contrary, the Corporation may solicit shareholders against any Nominee and include in its proxy statement for any annual meeting any other information that the Corporation or the Board of Directors determines, in their discretion, to include in the proxy statement relating to the nomination of the Nominee, including without limitation any statement in opposition to the nomination and any of the information provided pursuant to this Section 2.13.

(b) *Maximum Number of Nominees.*

- (i) The Corporation shall not be required to include in the proxy statement for an annual meeting more Nominees than that number of Directors constituting 25% of the total number of Directors of the Corporation on the last day on which a Nomination Notice may be submitted pursuant to Section 2.13(d) (the "Final Nomination Date"), rounded down to the nearest whole number, but not less than two (the "Maximum Number"). The Maximum Number for a particular annual meeting shall be reduced by (A) Nominees nominated by a Nominating Shareholder for that annual meeting whose nomination is subsequently withdrawn after the Nominating Shareholder is notified by the Corporation that the Nominees will be included in the Corporation's proxy statement and proxy card for the annual meeting, (B) Nominees nominated by a Nominating Shareholder for such annual meeting pursuant to this Section 2.13 that the Board of Directors itself decides to nominate for election at such annual meeting and (C) the number of Directors in office as of the Final Nomination Date who had been Nominees nominated by a Nominating Shareholder with respect to any of the preceding two annual
-

meetings (including any Nominee who had been counted at any such annual meeting pursuant to the immediately preceding clause (B)) and whose reelection at the upcoming annual meeting is being recommended by the Board of Directors. If one or more vacancies for any reason occurs on the Board of Directors after the Final Nomination Date but before the date of the annual meeting and the Board of Directors resolves to reduce the size of the Board of Directors in connection with the occurrence of the vacancy or vacancies, then the Maximum Number shall be calculated based on the number of directors in office as so reduced.

(ii) Any Nominating Holder submitting more than one Nominee pursuant to this Section 2.13 for an annual meeting shall rank such Nominees based on the order in which the Nominating Holder desires such Nominees to be selected for inclusion in the corporation's proxy statement for such annual meeting if the number of Nominees pursuant to this Section 2.13 exceeds the Maximum Number. If the number of Nominees pursuant to this Section 2.13 for any annual meeting exceeds the Maximum Number, then the highest ranking Nominee who meets the requirements of this Section 2.13 from each Nominating Holder will be selected for inclusion in the Corporation's proxy statement until the Maximum Number is reached, going in order of the amount (largest to smallest) of the shares of common stock of the Corporation disclosed as owned in each Nominating Shareholder's Nomination Notice.

(iii) If, after the Final Nomination Date, (A) the Corporation is notified, or the Board of Directors or its designee, acting in good faith, determines that a Nominating Shareholder has failed to satisfy or to continue to satisfy the eligibility requirements described in Section 2.13(c), any of the representations and warranties made in the Nomination Notice cease to be true and accurate in all material respects (or omit a material fact necessary to make the statements therein not misleading) or any material violation or breach occurs of the obligations, agreements, representations or warranties of the Nominating Shareholder or the Nominee under this Section 2.13, (B) a Nominating Shareholder or any qualified representative thereof does not appear at the annual meeting to present any nomination submitted pursuant to this Section 2.13, or the Nominating Shareholder withdraws its nomination, or (C) a Nominee becomes ineligible for inclusion in the Corporation's proxy statement pursuant to this Section 2.13 or dies, becomes disabled or is otherwise disqualified from being nominated for election or serving as a Director of the Corporation or is unwilling or unable to serve as a Director of the Corporation, in each case as determined by the Board of Directors or its designee, acting in good faith, whether before or after the Corporation's definitive proxy statement for such annual meeting is made available to shareholders, then the nomination of the Nominating Shareholder or such Nominee, as the case may be, shall be disregarded and no vote on such Nominee will occur (notwithstanding that proxies in respect of such vote may have been received by the Corporation), the Nominating Shareholder may not cure in any way any defect preventing the nomination of the Nominee, and the Corporation (1) may omit from its proxy statement and any ballot or form of proxy the disregarded Nominee and any information concerning such Nominee (including a Nominating Shareholder's statement in support) or any successor or replacement nominee proposed by the Nominating Shareholder or by any other Nominating Shareholder and (2) may otherwise communicate to its shareholders, including without limitation by amending or supplementing its proxy statement or ballot or form of proxy, that the Nominee will not be included as a Nominee in the proxy statement or on any ballot or form of proxy and will not be voted on at the annual meeting.

(c) Eligibility of Nominating Shareholder.

(i) An "Eligible Holder" is a person who has either (A) been a record holder of the shares of the Corporation's common stock used to satisfy the eligibility requirements in this Section 2.13(c) continuously for the three-year period specified in Section 2.13(c)(ii) or (B) provides to the Secretary of the Corporation, within the time period referred to in Section 2.13(d), evidence of continuous ownership of such shares for such three-year period from one or more securities intermediaries in a form and in substance that the Board of Directors or its designee, acting in good faith, determines would be deemed acceptable for purposes of a shareholder proposal under Rule 14a-8(b)(2) under the Exchange Act (or any successor rule).

(ii) An Eligible Holder or group of up to 20 Eligible Holders may submit a nomination in accordance with this Section 2.13 only if the person or group (in the aggregate) has continuously owned at least the Minimum Number (as defined below) of shares of the Corporation's common stock throughout the three-year period preceding and including the date of submission of the Nomination Notice and continues to own at least the Minimum Number through the date of the annual meeting. A group of funds under common management and investment control shall be treated as one Eligible Holder for purposes of such limitation if such Eligible Holder shall provide together with the Nomination Notice documentation reasonably satisfactory to the Corporation that demonstrates that the funds are under common management and investment control. For the avoidance of doubt, in the event

of a nomination by a group of Eligible Holders, any and all requirements and obligations applicable to an individual Eligible Holder that are set forth in this Section 2.13, including the minimum holding period, shall apply to each member of such group; provided, however, that the Minimum Number shall apply to the ownership of the group in the aggregate, and a breach of any obligation, agreement, representation or warranty under this Section 2.13 by any member of a group shall be deemed a breach by the Nominating Shareholder. If any shareholder withdraws from a group of Eligible Holders at any time prior to the annual meeting, then the group of Eligible Shareholders shall only be deemed to own the shares held by the remaining members of the group and if, as a result of such withdrawal, the Nominating Shareholder no longer owns the Minimum Number of shares of the Corporation's common stock, then the nomination shall be disregarded as provided in Section 2.13(b)(iii).

(iii) The "Minimum Number" of shares of the Corporation's common stock means 3% of the number of outstanding shares of the Corporation's common stock as of the most recent date for which such amount is given in any filing by the Corporation with the Securities and Exchange Commission prior to the submission of the Nomination Notice.

(iv) For purposes of this Section 2.13, an Eligible Holder "owns" only those outstanding shares of common stock of the Corporation as to which the Eligible Holder possesses both:

- (1) the full voting and investment rights pertaining to such shares; and
- (2) the full economic interest in (including the opportunity for profit and risk of loss on) such shares;

provided that the number of shares calculated in accordance with clauses (a) and (b) shall not include any shares (1) sold by such Eligible Holder or any of its affiliates in any transaction that has not been settled or closed, (2) borrowed by such Eligible Holder or any of its affiliates for any purpose or purchased by such Eligible Holder or any of its affiliates pursuant to an agreement to resell or (3) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar instrument or agreement entered into by such Eligible Holder or any of its affiliates, whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of outstanding shares of common stock of the Corporation, in any such case which instrument or agreement has, or is intended to have, the purpose or effect of (x) reducing in any manner, to any extent or at any time in the future, such Eligible Holder's or any of its affiliates' full right to vote or direct the voting of any such shares and/or (y) hedging, offsetting, or altering to any degree gain or loss arising from maintaining the full economic ownership of such shares by such Eligible Holder or any of its affiliates. An Eligible Holder "owns" shares held in the name of a nominee or other intermediary so long as the Eligible Holder retains the right to instruct how the shares are voted with respect to the election of directors and possesses the full economic interest in the shares. An Eligible Holder's ownership of shares shall be deemed to continue during any period in which the Eligible Holder has delegated any voting power by means of a proxy, power of attorney or other similar instrument or arrangement that is revocable at any time by the Eligible Holder. An Eligible Holder's ownership of shares shall be deemed to continue during any period in which the Eligible Holder has loaned such shares provided that the Eligible Holder has the power to recall such loaned shares on five business days' notice, recalls such loaned shares upon being notified by the Corporation that any of the Eligible Holder's Nominees will be included in the Corporation's proxy statement and proxy card for the annual meeting (subject to the provisions of this Section 2.13) and holds such shares through the date of the annual meeting. The terms "owned," "owning," "ownership" and other variations of the word "own" shall have correlative meanings. Whether outstanding shares of the Corporation are "owned" for these purposes shall be determined by the Board of Directors. For purposes of this Section 2.13, the term "affiliate" or "affiliates" shall have the meaning ascribed thereto under the General Rules and Regulations under the Exchange Act.

(v) No person shall be permitted to be in more than one group constituting a Nominating Shareholder, and if any person appears as a member of more than one group, then it shall be deemed to be a member of the group that has the largest amount of shares of common stock of the Corporation disclosed as owned in the Nomination Notice.

(d) *Nomination Notice.* To nominate a Nominee for purposes of this Section 2.13, the Nominating Shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a Nominating Shareholder's notice shall be received by the Secretary at the principal offices of the Corporation not less than 120 days nor more than 150 days prior to the first annual anniversary of the date set forth in the Corporation's proxy statement for the immediately preceding annual meeting as the date on which the Corporation first made available to its shareholders definitive proxy

materials for the immediately preceding annual meeting; provided, however, that if the date for which the annual meeting is called is more than thirty days before or more than thirty days after the first annual anniversary of the immediately preceding annual meeting, then notice by the Nominating Shareholder to be timely must be received by the Secretary of the Corporation by the later of the close of business on the date that is 180 days prior to the date of such annual meeting or the tenth day following the day on which public announcement of such annual meeting is first made. In no event shall any adjournment or postponement of any annual meeting or the announcement thereof commence a new time period for the giving of a Nomination Notice. To be in proper form, a Nominating Shareholder's notice to the Secretary of the Corporation for purposes of this Section 2.13 shall include all of the following information and documents (collectively, the "Nomination Notice"):

- (i) A Schedule 14N (or any successor form) relating to the Nominee, completed and filed with the Securities and Exchange Commission by the Nominating Shareholder as applicable, in accordance with Securities and Exchange Commission rules;
 - (ii) A written notice of the nomination of such Nominee that includes the following additional information, agreements, representations and warranties by the Nominating Shareholder (including each group member):
 - (1) the information and representations that would be required to be set forth in a shareholder's notice of a nomination for the election of directors pursuant to Section 2.11;
 - (2) the details of any relationship that existed within the past three years and that would have been described pursuant to Item 6(e) of Schedule 14N (or any successor item) if it existed on the date of submission of the Schedule 14N;
 - (3) a representation and warranty that the shares of common stock of the Corporation owned by the Nominating Shareholder were acquired in the ordinary course of business and not with the intent or objective to influence or change control of the Corporation and are not being held with the purpose or effect of changing control of the Corporation or to gain a number of seats on the Board of Directors that exceeds the maximum number of nominees that shareholders may nominate pursuant to this Section 2.13;
 - (4) a representation and warranty that the Nominating Shareholder satisfies the eligibility requirements set forth in Section 2.13(c) and has provided evidence of ownership to the extent required by Section 2.13(c)(i);
 - (5) a representation and warranty that the Nominating Shareholder will continue to satisfy the eligibility requirements described in Section 2.13(c) through the date of the annual meeting;
 - (6) a representation and warranty that the Nominating Shareholder has not nominated and will not nominate for election to the Board of Directors at the annual meeting any person other than the Nominees it is nominating pursuant to this Section 2.13;
 - (7) a representation and warranty as to the Nominating Shareholder's intentions with respect to continuing to own the Minimum Number of shares of common stock of the Corporation for at least one year following the annual meeting;
 - (8) a representation and warranty that the Nominating Shareholder will not engage in, and will not be a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(l) under the Exchange Act (without reference to the exception in Rule 14a-1(l)(2)(iv)) (or any successor rules) with respect to the annual meeting, other than with respect to its Nominees or any nominees of the Board of Directors;
 - (9) a representation and warranty that the Nominating Shareholder will not use any proxy card other than the Corporation's proxy card in soliciting shareholders in connection with the election of a Nominee at the annual meeting;
 - (10) a representation and warranty that the Nominee's nomination for election to the Board of Directors or, if elected, Board membership would not violate applicable state or federal law or the rules of any stock exchange on which the Corporation's securities are traded;
-

(11) a representation and warranty that the Nominee (1) qualifies as independent under the rules of any stock exchange on which the Corporation's securities are traded, (2) meets the audit committee and compensation committee independence requirements under the rules of any stock exchange on which the Corporation's securities are traded, (3) is a "non-employee director" for the purposes of Rule 16b-3 under the Exchange Act (or any successor rule), (4) is an "outside director" for the purposes of Section 162(m) of the Internal Revenue Code (or any successor provision), (5) meets the director qualifications set forth in Section 2.1, and (6) is not and has not been subject to any event specified in Rule 506(d)(1) of Regulation D (or any successor rule) under the Securities Act of 1933 or Item 401(f) of Regulation S-K (or any successor rule) under the Exchange Act, without reference to whether the event is material to an evaluation of the ability or integrity of the Nominee;

(12) details of any position of the Nominee as an officer or director of any competitor of the Corporation (including any entity whose principal business is the design, manufacture, distribution or servicing of diesel or natural gas engines or engine-related component products), within the three years preceding the submission of the Nomination Notice;

(13) if desired, a statement for inclusion in the proxy statement in support of the Nominee's election to the Board of Directors, provided that such statement shall not exceed 500 words and shall fully comply with Section 14 of the Exchange Act and the rules and regulations thereunder, including Rule 14a-9; and

(14) in the case of a nomination by a group, the designation by all group members of one group member for purposes of receiving communications, notices and inquiries from the Corporation and that is authorized to act on behalf of all group members with respect to matters relating to the nomination, including withdrawal of the nomination.

(iii) An executed agreement, in a form deemed satisfactory by the Board of Directors or its designee, acting in good faith, pursuant to which the Nominating Shareholder (including each group member) agrees:

(1) to comply with all applicable laws, rules and regulations in connection with the nomination, solicitation and election;

(2) to file any written solicitation or other written communication with the Corporation's shareholders relating to one or more of the Corporation's Directors or Director nominees or any Nominee with the Securities and Exchange Commission, regardless of whether any such filing is required under rule or regulation or whether any exemption from filing is available for such materials under any rule or regulation;

(3) to assume all liability (jointly and severally by all group members in the case of a nomination by a group) stemming from any action, suit or proceeding concerning any actual or alleged legal or regulatory violation arising out of any communication by the Nominating Shareholder, its affiliates and associates or their respective agents and representatives with the Corporation, its shareholders or any other person in connection with the nomination or election of Directors, including without limitation the Nomination Notice, or out of the facts, statements or other information that the Nominating Shareholder or its Nominees provided to the Corporation in connection with the inclusion of such Nominees in the Corporation's proxy statement;

(4) to indemnify and hold harmless (jointly with all other group members, in the case of a group member) the Corporation and each of its Directors, officers and employees individually against any liability, loss, damages, expenses or other costs (including attorneys' fees) incurred in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Corporation or any of its Directors, officers or employees arising out of or relating to any nomination submitted by the Nominating Shareholder pursuant to this Section 2.13 or a failure or alleged failure of the Nominating Shareholder to comply with, or any breach or alleged breach of, its obligations, agreements or representations under this Section 2.13; and

(5) in the event that any information included in the Nomination Notice, or any other communication by the Nominating Shareholder (including with respect to any group member) with the Corporation, its shareholders or any other person in connection with the nomination or election ceases to be true and

accurate in all material respects or omits a material fact necessary to make the statements made not misleading or that the Nominating Shareholder (including any group member) has failed to continue to satisfy the eligibility requirements described in Section 2.13(c), to promptly (and in any event within 48 hours of discovering such misstatement, omission or failure) notify the Corporation and any other recipient of such communication of the misstatement or omission in such previously provided information and of the information that is required to correct the misstatement or omission and/or notify the Corporation of the failure to continue to satisfy the eligibility requirements described in Section 2.13(c), as the case may be.

(iv) An executed agreement, in a form deemed satisfactory by the Board of Directors or its designee, acting in good faith, by the Nominee:

(1) to make such other acknowledgments, enter into such agreements and provide such other information as the Board of Directors requires of all Directors, including promptly completing the Corporation's Director questionnaire;

(2) that the Nominee has read and agrees, if elected as a Director of the Corporation, to sign and adhere to the Corporation's corporate governance principles and codes of ethics and any other Corporation policies and guidelines applicable to Directors; and

(3) including the representations and agreements required of a nominee for Director by Section 2.12.

The information and documents required by this Section 2.13(d) shall be (i) provided with respect to and executed by each group member in the case of information applicable to group members and (ii) provided with respect to the persons specified in Instruction 1 to Items 6(c) and (d) of Schedule 14N (or any successor item) in the case of a Nominating Shareholder or group member that is an entity. The Nomination Notice shall be deemed submitted on the date on which all the information and documents referred to in this Section 2.13(d) (other than such information and documents contemplated to be provided after the date the Nomination Notice is provided) have been delivered to or, if sent by mail, received by the Secretary of the Corporation.

(c) *Exceptions.*

(i) Notwithstanding anything to the contrary contained in this Section 2.13, the Corporation may omit from its proxy statement and any ballot or form of proxy any Nominee and any information concerning such Nominee (including a Nominating Shareholder's statement in support), and no vote on such Nominee will occur (notwithstanding that proxies in respect of such vote may have been received by the Corporation), and the Nominating Shareholder may not, after the Final Nomination Date, cure in any way any defect preventing the nomination of the Nominee, if:

(1) the Corporation receives a notice pursuant to Section 2.11 that a shareholder intends to nominate a person for election to the Board of Directors at the annual meeting;

(2) the Board of Directors or its designee, acting in good faith, determines that such Nominee's nomination or election to the Board of Directors would result in the Corporation violating or failing to be in compliance with these By-laws, the Articles of Incorporation or any applicable law, rule or regulation to which the Corporation is subject, including any rules or regulations of any stock exchange on which the Corporation's securities are traded;

(3) the Nominee was nominated for election to the Board of Directors pursuant to this Section 2.13 at one of the Corporation's two preceding annual meetings and either (i) withdrew or became ineligible or unavailable for election at any such annual meeting or (ii) received a vote of less than 25% of the shares of common stock of the Corporation entitled to vote for such Nominee; or

(4) the Nominee has been, within the past three years, an officer or director of a competitor, as defined for purposes of Section 8 of the Clayton Antitrust Act of 1914, as amended.

(ii) Notwithstanding anything to the contrary contained in this Section 2.13, the Corporation may omit from its proxy statement, or may supplement or correct, any information, including all or any portion of the statement

in support of the Nominee included in the Nomination Notice, if the Board of Directors or its designee, acting in good faith, determines that:

- (1) such information is not true in all material respects or omits a material statement necessary to make the statements made not misleading;
- (2) such information directly or indirectly impugns character, integrity or personal reputation of, or directly or indirectly makes charges concerning improper, illegal or immoral conduct or associations, without factual foundation, with respect to, any person; or
- (3) the inclusion of such information in the proxy statement would otherwise violate Securities and Exchange Commission rules or any other applicable law, rule or regulation.

**ARTICLE 3
COMMITTEES OF THE BOARD OF DIRECTORS**

Section 3.1 General.

(a) The Board of Directors may create one (1) or more committees and appoint members of the Board of Directors to serve on them, by resolution of the Board of Directors adopted by a majority of all the Directors in office when the resolution is adopted. Each committee may have one (1) or more members, and all the members of a committee shall serve at the pleasure of the Board of Directors.

(b) To the extent specified by the Board of Directors in the resolution creating a committee (as such resolution may be amended by the Board of Directors from time to time), and except as otherwise provided in the Indiana Business Corporation Law, each committee may exercise all of the authority of the Board of Directors.

(c) Except to the extent inconsistent with the resolutions creating a committee, the provisions of these By-Laws which govern meetings, action without meetings, notice and waiver of notice, quorum and voting requirements and telephone participation in meetings of the Board of Directors, apply to each committee and its members as well.

(d) A member of a committee of the Board of Directors who is also an officer of the Corporation shall receive no separate compensation for serving as a member of such committee. Each member of a committee of the Board of Directors who is not an officer of the Corporation shall be paid such compensation for attendance at committee meetings as shall be fixed from time to time by resolution of the Board of Directors. Committee members shall be reimbursed by the Corporation for travel expenses incurred in attending committee meetings.

Section 3.2 Executive Committee.

(a) The Board of Directors shall elect from its members an Executive Committee consisting of not less than three members to serve at the pleasure of the Board of Directors. During the intervals between the meetings of the Board of Directors, the Executive Committee shall possess and may exercise, except as described in Section 3.1(b) of this Article 3, all the power of the Board of Directors in the management and direction of the business and affairs of the Corporation. All Directors, including those Directors who are not designated members of the Executive Committee, may attend meetings of the Executive Committee.

(b) The Board of Directors shall elect a Chairman of the Executive Committee from among the members of the Board of Directors. The Chairman of the Executive Committee shall preside at meetings of the Executive Committee, and shall perform such other duties and functions as may be assigned to the Chairman of the Executive Committee from time to time by the Board of Directors.

(c) The Secretary of the Corporation, or, in the Secretary's absence, a person appointed by the Chairman of the Executive Committee, shall act as secretary of the Executive Committee, and shall report all material action taken by the Executive Committee to the Board of Directors at its regularly scheduled meeting next following the meeting of the Executive Committee.

ARTICLE 4
OFFICERS

Section 4.1 *Designation and Selection.* The Board of Directors shall elect as officers of the Corporation a Chairman of the Board and a Chief Executive Officer. The Chief Executive Officer shall appoint a Secretary and such other officers of the Corporation as the Chief Executive Officer deems appropriate, which appointments shall be presented to the Board of Directors for ratification.

Section 4.2 *Duties and Functions.*

(a) *Chairman of the Board.* The Chairman of the Board shall be a member of the Board of Directors and shall, when present, preside at all meetings of the Board of Directors and of the shareholders. The Chairman of the Board shall perform such other duties and functions as may be assigned to the Chairman of the Board from time to time by the Board of Directors.

(b) *Chief Executive Officer.* The Chief Executive Officer may be a member of the Board of Directors and shall perform such other duties and functions as may be assigned from time to time by the Board of Directors.

(c) *Secretary.* The Secretary shall keep a record of proceedings at all meetings of the Board of Directors and of the shareholders, shall have custody of the corporate records and seal of the Corporation, shall be responsible for authenticating records of the Corporation, and shall perform such other duties and functions as may be assigned to the Secretary from time to time by the Chairman of the Board.

(d) *Other Officers.* Each other officer appointed by the Chairman of the Board shall have and perform such powers, duties and functions as may be assigned to such officer from time to time by the Board of Directors, the Chairman of the Board or the Chief Executive Officer.

Section 4.3 *Removal.* The Board of Directors may remove any officer at any time with or without cause by resolution adopted by a majority of the whole Board of Directors. An officer appointed by the Chairman of the Board may also be removed at any time, with or without cause, by the Chairman of the Board.

Section 4.4 *Resignations.* Any corporate officer may resign at any time by delivering written notice thereof to the Board of Directors, the Chairman of the Board or the Secretary. Such resignation shall take effect at the time delivered unless a later time is specified therein. The acceptance of such resignation shall not be necessary to make it effective.

Section 4.5 *Compensation.* The Board of Directors shall fix the salary and other compensation for officers of the Corporation who are also Directors of the Corporation and may delegate to the Chairman of the Board authority to fix salaries and other compensation of all remaining officers of the Corporation.

Section 4.6 *Special Authority.* The Chairman of the Board, or other officers designated by the Chairman, shall have authority to execute guarantees, indentures for monies borrowed by the Corporation, appointments of powers of attorney and proxies to act on behalf of the Corporation, instruments for the devise or conveyance of real estate or creation of mortgages, bank forms required to open, maintain or close bank accounts, and any other written agreements to which the Corporation shall be a party which pertain to the routine operation of the Corporation and are regularly being made in the ordinary course of carrying on such operations.

ARTICLE 5
SHARES

Section 5.1 *Certificates for Shares.* Shares in the Corporation may be issued in book-entry form or evidenced by certificates. However, every holder of shares in the Corporation shall be entitled upon request to have a certificate evidencing the shares owned by the shareholder, signed in the name of the Corporation by the Chairman of the Board, the President or a Vice President and the Secretary, certifying the number of shares owned by the shareholder in the Corporation. The signatures of the Chairman of the Board, the President, Vice President, and the Secretary, the signature of the transfer agent and registrar, and the Seal of the Corporation may be facsimiles. In case any officer or employee who shall have signed, or whose facsimile signature or signatures shall have been used on, any certificate shall cease to be an officer or employee of the Corporation before the certificate shall have been issued and delivered by the Corporation, the certificate may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed the certificate or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or employee of the Corporation; and the issuance and delivery by the Corporation of any such certificate shall constitute an adoption thereof. Every certificate shall state on its face (or in the case of book-entry shares, the statements evidencing ownership of such shares shall state) the name of the Corporation and that it is organized under

the laws of the State of Indiana, the name of the person to whom it is issued, and the number and class of shares and the designation of the series, if any, the certificate represents, and shall state conspicuously on its front or back that the Corporation will furnish the shareholder, upon written request and without charge, a summary of the designations, relative rights, preferences and limitations applicable to each class and the variations in rights, preferences and limitations determined for each series (and the authority of the Board of Directors to determine variations for future series). Every certificate (or book-entry statement) shall state whether such shares have been fully paid and are nonassessable. If any such shares are not fully paid, the certificate (or book-entry statement) shall be legibly stamped to indicate the percentum which has been paid up, and as further payments are made thereon, the certificate shall be stamped (or book-entry statement updated) accordingly. Subject to the foregoing provisions, certificates representing shares in the Corporation shall be in such form as shall be approved by the Board of Directors. There shall be entered upon the stock books of the Corporation at the time of the issuance or transfer of each share the number of the certificates representing such share (if any), the name of the person owning the shares represented thereby, the class of such share and the date of the issuance or transfer thereof.

Section 5.2 *Transfer of Shares; Holder of Record.*

(a) Transfer of shares of the Corporation shall be made on the books of the Corporation by the holder of record thereof, or by the shareholder's attorney thereunto duly authorized in writing and filed with the Secretary of the Corporation or any of its transfer agents, and on surrender of the certificate or certificates (if any) representing such shares.

(b) The Corporation and its transfer agents and registrars, shall be entitled to treat the holder of record of any share or shares as the holder in fact and absolute owner thereof for all purposes, and accordingly shall not be bound to recognize any legal, equitable or other claim to or interest in such share or shares on the part of any other person whether or not it or they shall have express or other notice thereof, except as otherwise expressly provided by the statutes of the State of Indiana. Shareholders shall notify the Corporation in writing of any changes in their addresses from time to time.

Section 5.3 *Regulations.* Subject to the provisions of this Article V the Board of Directors may make such rules and regulations as it may deem expedient concerning the issuance, transfer and regulation of certificates for shares or book-entry shares of the Corporation.

Section 5.4 *Transfer Agents and Registrars.* The Board of Directors may appoint one or more transfer agents, one or more registrars, and one or more agents to act in the dual capacity of transfer agent and registrar with respect to the certificates representing shares and the book-entry shares of the Corporation.

Section 5.5 *Lost or Destroyed Certificates.* The holders of any shares of the Corporation shall immediately notify the Corporation or one of its transfer agents and registrars of any loss or destruction of the certificate representing the same. The Corporation may issue a new certificate in the place of any certificate theretofore issued by it alleged to have been lost or destroyed upon such terms and under such regulations as may be adopted by the Board of Directors or the Secretary, and the Board of Directors or Secretary may require the owner of the lost or destroyed certificate or the owner's legal representatives to give the Corporation a bond in such form and for such amount as the Board of Directors or Secretary may direct, and with such surety or sureties as may be satisfactory to the Board of Directors or the Secretary to indemnify the Corporation and its transfer agents and registrars against any claim that may be made against it or any such transfer agent or registrar on account of the alleged loss or destruction of any such certificate or the issuance of such new certificate. A new certificate may be issued without requiring any bond when, in the judgment of the Board of Directors or the Secretary, it is proper so to do.

ARTICLE 6
INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 6.1 *Mandatory.* The Corporation shall, to the fullest extent permitted by Sections 1 through 13 of Indiana Code Ch. 23-1-37, (i) indemnify any person who is or was a Director or officer of the Corporation (and the heirs and legal representatives thereof) against expenses (including attorneys' fees), judgments, fines, and penalties and amounts paid in settlement resulting from any action, suit or proceeding threatened or brought against such person by reason of such person's serving in such position or serving another enterprise in any capacity at the request of the Corporation, and (ii) pay for or reimburse the reasonable expenses incurred by such person in advance of the final disposition of the action, suit or proceeding.

Section 6.2 *Discretionary.* Separate and apart from, and in addition to, the mandatory indemnification required under Section 6.1 of this Article, the Corporation may, in its sole discretion, provide for indemnification of any person in accordance with the provisions of Indiana Code Ch. 23-1-37, as from time to time amended, or superseding statutory provisions.

Section 6.3 *Other Capacity Service*. Any Director or officer of the Corporation serving in any capacity (i) another corporation, of which a majority of the shares entitled to vote in the election of its directors is held, directly or indirectly, by the Corporation, or (ii) any employee benefit plan of the Corporation or of another corporation described in Subsection (i) of this Section, shall be deemed to be doing so at the request of the Corporation.

Section 6.4 *Applicable Law*. Any person entitled to be indemnified as a matter of right pursuant to this Article VI may elect to have the right to indemnification interpreted on the basis of the applicable law in effect at the time of the occurrence of the event or events giving rise to the action, suit or proceeding, to the extent permitted by Indiana law, or on the basis of the applicable law in effect at the time indemnification is sought.

Section 6.5 *Rights*. The right to be indemnified pursuant to this Article VI (i) shall be a contract right of each individual entitled to be indemnified hereunder, (ii) is intended to be retroactive and shall be available with respect to events occurring prior to the adoption hereof, and (iii) shall continue to exist with respect to events occurring prior to any rescission or restrictive modification of this Article VI.

Section 6.6 *Claims*. If a claim for indemnification pursuant to this Article VI is not paid in full by the Corporation within ninety days after a written request therefor has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled also to be paid the expense of prosecuting such claim. Neither the failure of the Corporation (including its Board of Directors, special legal counsel or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because the claimant has met the applicable standard of conduct, nor an actual determination by the Corporation (including its Board of Directors, special legal counsel or its shareholders) that the claimant had not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant had not met the applicable standard of conduct.

ARTICLE 7 MISCELLANEOUS

Section 7.1 *Indiana Business Corporation Law*. The provisions of the Indiana Business Corporation Law, as amended, applicable to all matters relevant to, but not specifically covered by, these By-Laws are hereby, by reference, incorporated in and made a part of these By-Laws.

Section 7.2 *Fiscal Year*. The fiscal year of the Corporation shall end on the 31st of December of each year.

Section 7.3 *Control Share Act*. The provisions of Chapter 42 of the Indiana Business Corporation Law, Ind. Code §23-1-42-1 *et seq.*, shall not apply to control share acquisitions of shares of the Corporation.

Section 7.4 *Seal*. The Corporation shall have a corporate seal, which shall have inscribed the name of the Corporation and the word "INDIANA" around the outer edge and the words "CORPORATE SEAL" in the center.

Section 7.5 *Contracts and Other Instruments*. Bonds, contracts, deeds, leases and other obligations and instruments of the Corporation may be signed in the name of and on behalf of the Corporation by (i) officers or their designees, and (ii) agents of the Corporation as may be specifically authorized by resolution of the Board of Directors.

Section 7.6 *Books and Records*. Subject to the laws of the State of Indiana, the books of account, records, documents and papers of the Corporation may be kept at any place or places within or without the State of Indiana.

Section 7.7 *Amendments*. These By-Laws may be rescinded, changed or amended, and provisions hereof may be waived, at any meeting of the Board of Directors by the affirmative vote of a majority of the entire number of Directors at the time, except as otherwise required by the Corporation's Restated Articles of Incorporation or by the Indiana Business Corporation Law.

Section 7.8 *Amendments by Implication*. Except as otherwise required by the Corporation's Restated Articles of Incorporation or by the Indiana Business Corporation Law, any action taken or authorized by the Board of Directors that would be inconsistent with the By-Laws then in effect, but is taken or authorized by affirmative vote of not less than the number of Directors required to amend the By-Laws so that the By-Laws would be consistent with such action, shall be given the same effect as though the By-Laws had been temporarily amended or suspended so far, but only so far, as is necessary to permit the specific action so taken or authorized.

Section 7.9 *Electronic Transmission*. When used in these By-Laws, the terms “written” and “in writing” shall include any “electronic transmission” as defined in Section 23-120-8.5 of the Indiana Business Corporation Law, including without limitation any telegram, cablegram, facsimile transmission and communication by electronic mail.

Section 7.10 *Definition of Articles of Incorporation and Restated Articles of Incorporation*. The term “Articles of Incorporation” and “Restated Articles of Incorporation” as used in these By-Laws mean the Restated Articles of Incorporation of the Corporation as from time to time in effect.

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

In millions	Nine months ended	
	October 1, 2017	October 2, 2016
Earnings		
Income before income taxes	\$ 1,769	\$ 1,422
Add		
Fixed charges	117	110
Amortization of capitalized interest	1	1
Distributed income of equity investees	99	109
Less		
Equity in earnings of investees	265	205
Capitalized interest	4	4
Noncontrolling interest in pre-tax income of subsidiaries that have not incurred fixed charges	(1)	—
Earnings before fixed charges	\$ 1,718	\$ 1,433
Fixed charges		
Interest expense ⁽¹⁾	\$ 57	\$ 51
Capitalized interest	4	4
Amortization of debt discount and deferred costs	2	2
Interest portion of rental expense ⁽²⁾	54	53
Total fixed charges	\$ 117	\$ 110
Ratio of earnings to fixed charges ⁽³⁾	14.7	13.0

⁽¹⁾ The interest amount in the table above does not include interest expense associated with uncertain tax positions.

⁽²⁾ Amounts represent those portions of rent expense that are reasonable approximations of interest costs.

⁽³⁾ We have not issued preferred stock. Therefore, the ratios of earnings to combined fixed charges and preferred stock dividends are the same as the ratios presented above.

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 (or persons performing the equivalent functions):
 - 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 31, 2017

/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 (or persons performing the equivalent functions):
 - 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 31, 2017

/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 October 1, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company, 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 such officer's 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 31, 2017

/s/ N. THOMAS LINEBARGER

N. Thomas Linebarger
Chairman and Chief Executive Officer

October 31, 2017

/s/ PATRICK J. WARD

Patrick J. Ward
Vice President and Chief Financial Officer