
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549



FORM 10-Q

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

For the Quarterly Period Ended September 27, 2015

Commission File Number 1-4949

CUMMINS INC.

(Exact name of registrant as specified in its charter)

Indiana
(State of Incorporation)

35-0257090
(IRS Employer Identification No.)

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

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

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

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

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

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

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

As of September 27, 2015, there were 177,621,278 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

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

In millions, except per share amounts	Three months ended		Nine months ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
NET SALES ^(a)	\$ 4,620	\$ 4,890	\$ 14,344	\$ 14,131
Cost of sales	3,412	3,606	10,609	10,543
GROSS MARGIN	1,208	1,284	3,735	3,588
OPERATING EXPENSES AND INCOME				
Selling, general and administrative expenses	530	529	1,584	1,527
Research, development and engineering expenses	197	198	558	567
Equity, royalty and interest income from investees (Note 5)	78	99	240	294
Other operating (expense) income, net	(2)	3	(5)	(4)
OPERATING INCOME	557	659	1,828	1,784
Interest income	9	6	20	17
Interest expense	16	15	47	47
Other income, net	11	19	12	68
INCOME BEFORE INCOME TAXES	561	669	1,813	1,822
Income tax expense (Note 6)	169	230	521	553
CONSOLIDATED NET INCOME	392	439	1,292	1,269
Less: Net income attributable to noncontrolling interests	12	16	54	62
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 380	\$ 423	\$ 1,238	\$ 1,207
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.				
Basic	\$ 2.15	\$ 2.32	\$ 6.92	\$ 6.59
Diluted	\$ 2.14	\$ 2.32	\$ 6.90	\$ 6.58
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	177.0	182.2	178.9	183.1
Dilutive effect of stock compensation awards	0.4	0.5	0.4	0.4
Diluted	177.4	182.7	179.3	183.5
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.975	\$ 0.78	\$ 2.535	\$ 2.03

^(a) Includes sales to nonconsolidated equity investees of \$274 million and \$956 million and \$518 million and \$1,656 million for the three and nine month periods ended September 27, 2015 and September 28, 2014, respectively.

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

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

In millions	Three months ended		Nine months ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
CONSOLIDATED NET INCOME	\$ 392	\$ 439	\$ 1,292	\$ 1,269
Other comprehensive (loss) income, net of tax (Note 12)				
Change in pension and other postretirement defined benefit plans	15	14	43	28
Foreign currency translation adjustments	(221)	(172)	(252)	(62)
Unrealized loss on marketable securities	(1)	(1)	(1)	(12)
Unrealized gain (loss) on derivatives	7	(5)	15	—
Total other comprehensive loss, net of tax	(200)	(164)	(195)	(46)
COMPREHENSIVE INCOME	192	275	1,097	1,223
Less: Comprehensive income attributable to noncontrolling interests	(1)	10	39	59
COMPREHENSIVE INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 193	\$ 265	\$ 1,058	\$ 1,164

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

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

In millions, except par value	September 27, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,688	\$ 2,301
Marketable securities (Note 7)	35	93
Total cash, cash equivalents and marketable securities	1,723	2,394
Accounts and notes receivable, net		
Trade and other	2,915	2,744
Nonconsolidated equity investees	244	202
Inventories (Note 8)	3,059	2,866
Prepaid expenses and other current assets	921	849
Total current assets	8,862	9,055
Long-term assets		
Property, plant and equipment	7,262	7,123
Accumulated depreciation	(3,545)	(3,437)
Property, plant and equipment, net	3,717	3,686
Investments and advances related to equity method investees	959	981
Goodwill	481	479
Other intangible assets, net	337	343
Pension assets	785	637
Other assets	656	595
Total assets	\$ 15,797	\$ 15,776
LIABILITIES		
Current liabilities		
Accounts payable (principally trade)	\$ 1,824	\$ 1,881
Loans payable	27	86
Current portion of accrued product warranty (Note 9)	388	363
Accrued compensation, benefits and retirement costs	505	508
Current portion of deferred revenue	414	401
Other accrued expenses	779	759
Current maturities of long-term debt (Note 10)	31	23
Total current liabilities	3,968	4,021
Long-term liabilities		
Long-term debt (Note 10)	1,595	1,589
Postretirement benefits other than pensions	347	369
Pensions	292	289
Other liabilities and deferred revenue	1,514	1,415
Total liabilities	\$ 7,716	\$ 7,683
Commitments and contingencies (Note 11)		
EQUITY		
Cummins Inc. shareholders' equity		
Common stock, \$2.50 par value, 500 shares authorized, 222.3 and 222.3 shares issued	\$ 2,173	\$ 2,139
Retained earnings	10,331	9,545
Treasury stock, at cost, 44.7 and 40.1 shares	(3,486)	(2,844)
Common stock held by employee benefits trust, at cost, 1.0 and 1.1 shares	(11)	(13)
Accumulated other comprehensive loss (Note 12)	(1,258)	(1,078)
Total Cummins Inc. shareholders' equity	7,749	7,749
Noncontrolling interests	332	344
Total equity	\$ 8,081	\$ 8,093
Total liabilities and equity	\$ 15,797	\$ 15,776

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

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

In millions	Nine months ended	
	September 27, 2015	September 28, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 1,292	\$ 1,269
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	383	330
Gain on fair value adjustment for consolidated investees (Note 3)	(17)	(38)
Deferred income taxes	(120)	(37)
Equity in income of investees, net of dividends	(68)	(103)
Pension contributions in excess of expense	(119)	(154)
Other post-retirement benefits payments in excess of expense	(18)	(22)
Stock-based compensation expense	24	27
Translation and hedging activities	22	(19)
Changes in current assets and liabilities, net of acquisitions		
Accounts and notes receivable	(163)	(236)
Inventories	(179)	(302)
Other current assets	133	(6)
Accounts payable	(52)	316
Accrued expenses	(153)	162
Changes in other liabilities and deferred revenue	219	184
Other, net	(53)	17
Net cash provided by operating activities	1,131	1,388
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(393)	(409)
Investments in internal use software	(38)	(40)
Investments in and advances to equity investees	(9)	(39)
Acquisitions of businesses, net of cash acquired (Note 3)	(102)	(266)
Investments in marketable securities—acquisitions (Note 7)	(175)	(213)
Investments in marketable securities—liquidations (Note 7)	228	316
Cash flows from derivatives not designated as hedges	17	—
Other, net	(5)	11
Net cash used in investing activities	(477)	(640)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	24	39
Payments on borrowings and capital lease obligations	(64)	(72)
Net payments under short-term credit agreements	(38)	(41)
Distributions to noncontrolling interests	(35)	(52)
Dividend payments on common stock	(452)	(370)
Repurchases of common stock	(650)	(605)
Other, net	—	2
Net cash used in financing activities	(1,215)	(1,099)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(52)	(20)
Net decrease in cash and cash equivalents	(613)	(371)
Cash and cash equivalents at beginning of year	2,301	2,699
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,688	\$ 2,328

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, 2013	\$ 556	\$ 1,543	\$ 8,406	\$ (2,195)	\$ (16)	\$ (784)	\$ 7,510	\$ 360	\$ 7,870
Net income			1,207				1,207	62	1,269
Other comprehensive income (loss) (Note 12)						(43)	(43)	(3)	(46)
Issuance of shares		8					8	—	8
Employee benefits trust activity		19			2		21	—	21
Acquisition of shares				(605)			(605)	—	(605)
Cash dividends on common stock			(370)				(370)	—	(370)
Distributions to noncontrolling interests							—	(63)	(63)
Stock based awards		(5)		21			16	—	16
Other shareholder transactions		4					4	(7)	(3)
BALANCE AT SEPTEMBER 28, 2014	\$ 556	\$ 1,569	\$ 9,243	\$ (2,779)	\$ (14)	\$ (827)	\$ 7,748	\$ 349	\$ 8,097
BALANCE AT DECEMBER 31, 2014	\$ 556	\$ 1,583	\$ 9,545	\$ (2,844)	\$ (13)	\$ (1,078)	\$ 7,749	\$ 344	\$ 8,093
Net income			1,238				1,238	54	1,292
Other comprehensive income (loss) (Note 12)						(180)	(180)	(15)	(195)
Issuance of shares		7					7	—	7
Employee benefits trust activity		21			2		23	—	23
Acquisition of shares				(650)			(650)	—	(650)
Cash dividends on common stock			(452)				(452)	—	(452)
Distributions to noncontrolling interests							—	(46)	(46)
Stock based awards		(4)		8			4	—	4
Other shareholder transactions		10					10	(5)	5
BALANCE AT SEPTEMBER 27, 2015	\$ 556	\$ 1,617	\$ 10,331	\$ (3,486)	\$ (11)	\$ (1,258)	\$ 7,749	\$ 332	\$ 8,081

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

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

NOTE 1. NATURE OF OPERATIONS

Cummins Inc. (“Cummins,” “we,” “our” or “us”) was founded in 1919 as a corporation in Columbus, Indiana and as one of the first diesel engine manufacturers. We are a global power leader that designs, manufactures, distributes and services diesel and natural gas engines and engine-related component products, including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems and electric power generation systems. We sell our products to original equipment manufacturers (OEMs), distributors and other customers worldwide. We serve our customers through a network of approximately 600 company-owned and independent distributor locations and approximately 7,200 dealer locations in more than 190 countries and territories.

NOTE 2. BASIS OF PRESENTATION

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

Our reporting period usually ends on the Sunday closest to the last day of the quarterly calendar period. The third quarters of 2015 and 2014 ended on September 27 and September 28, respectively. Our fiscal year ends on December 31, regardless of the day of the week on which December 31 falls.

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

The weighted-average diluted common shares outstanding exclude the anti-dilutive effect of certain stock options since such options had an exercise price in excess of the monthly average market value of our common stock. The options excluded from diluted earnings per share for the three and nine month periods ended September 27, 2015 and September 28, 2014, were as follows:

	Three months ended		Nine months ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Options excluded	950,345	225,773	593,436	110,488

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, 2014. Our interim period financial results for the three and nine month interim periods presented are not necessarily indicative of results to be expected for any other interim period or for the entire year. The year-end *Condensed Consolidated Balance Sheet* data was derived from audited financial statements, but does not include all disclosures required by GAAP.

NOTE 3. ACQUISITIONS

In September 2013, we announced our intention to acquire the equity that we do not already own in most of our partially-owned U.S. and Canadian distributors over three to five year period.

The Distribution segment North American distributor acquisitions for the nine months ended September 27, 2015, versus the comparable period in 2014 were as follows:

Entity Acquired (Dollars in millions)	Date of Acquisition	Additional Percent Interest Acquired	Payments to Former Owners	Acquisition Related Debt Retirements	Total Purchase Consideration	Type of Acquisition ⁽¹⁾	Gain Recognized ⁽¹⁾	Goodwill Acquired	Intangibles Recognized ⁽²⁾	Net Sales Previous Fiscal Year Ended ⁽³⁾
2015										
Cummins Crosspoint LLC ⁽⁴⁾	08/03/15	50%	\$ 20	\$ 36	\$ 65 ⁽⁵⁾	COMB	\$ 10	\$ 7	\$ 2	\$ 258
Cummins Atlantic LLC ⁽⁴⁾	08/03/15	51%	14	28	48 ⁽⁵⁾	COMB	7	2	6	245
Cummins Central Power LLC	06/29/15	20.01%	8	—	8	EQUITY	—	—	—	—
2014										
Cummins Eastern Canada LP	08/04/14	50%	\$ 30	\$ 32	\$ 62	COMB	\$ 18	\$ 5	\$ 4	\$ 228
Cummins Power Systems LLC	05/05/14	30%	14	—	14	EQUITY	—	—	—	—
Cummins Southern Plains LLC	03/31/14	50%	44	48	92	COMB	13	1	11	433
Cummins Mid-South LLC	02/14/14	62.2%	57	61	118	COMB	7	4	8	368

⁽¹⁾ All results from acquired entities were included in Distribution segment results subsequent to the acquisition date. Previously consolidated entities were accounted for as equity transactions (EQUITY). Newly consolidated entities were accounted for as business combinations (COMB) with gains recognized based on the requirement to remeasure our pre-existing ownership to fair value in accordance with GAAP and are included in the *Condensed Consolidated Statements of Income* as "Other income, net."

⁽²⁾ Intangible assets acquired in business combinations were mostly customer related, the majority of which will be amortized over a period of up to five years from the date of the acquisition.

⁽³⁾ Sales amounts are not fully incremental to our consolidated sales as the amount would be reduced by the elimination of sales to the previously unconsolidated entity.

⁽⁴⁾ Purchase accounting for these acquisitions are preliminary, awaiting customary adjustments to purchase price in accordance with the purchase agreements.

⁽⁵⁾ The "Total Purchase Consideration" represents the total amount that will or is estimated to be paid to complete the acquisition. In some instances a portion of the acquisition payment has not yet been made and will be paid in future periods in accordance with the purchase contract. The total estimated remaining consideration at September 27, 2015, was \$15 million.

NOTE 4. PENSION AND OTHER POSTRETIREMENT BENEFITS

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

In millions	Pension					
	U.S. Plans		U.K. Plans		Other Postretirement Benefits	
	Three months ended					
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Service cost	\$ 20	\$ 16	\$ 7	\$ 7	\$ —	\$ —
Interest cost	25	26	14	16	4	4
Expected return on plan assets	(47)	(43)	(23)	(23)	—	—
Recognized net actuarial loss	11	8	8	7	1	—
Net periodic benefit cost	\$ 9	\$ 7	\$ 6	\$ 7	\$ 5	\$ 4

In millions	Pension					
	U.S. Plans		U.K. Plans		Other Postretirement Benefits	
	Nine months ended					
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Service cost	\$ 60	\$ 50	\$ 20	\$ 19	\$ —	\$ —
Interest cost	76	79	42	49	12	13
Expected return on plan assets	(142)	(131)	(68)	(66)	—	—
Recognized net actuarial loss	34	23	25	20	3	—
Net periodic benefit cost	\$ 28	\$ 21	\$ 19	\$ 22	\$ 15	\$ 13

NOTE 5. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEEES

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

In millions	Three months ended		Nine months ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Distribution Entities				
North American distributors	\$ 9	\$ 27	\$ 27	\$ 89
Komatsu Cummins Chile, Ltda.	8	8	23	22
All other distributors	1	—	2	2
Manufacturing Entities				
Beijing Foton Cummins Engine Co., Ltd	18	5	47	6
Dongfeng Cummins Engine Company, Ltd.	11	15	40	51
Chongqing Cummins Engine Company, Ltd.	9	13	32	39
All other manufacturers	13	20	41	54
Cummins share of net income	69	88	212	263
Royalty and interest income	9	11	28	31
Equity, royalty and interest income from investees	\$ 78	\$ 99	\$ 240	\$ 294

NOTE 6. INCOME TAXES

Our effective tax rate for the year is expected to approximate 29.5 percent, excluding any one-time items that may arise. The expected tax rate does not include the benefits of the research tax credit, which expired December 31, 2014 and has not yet been renewed by Congress. If the research credit is reinstated during 2015, we anticipate the 2015 effective tax rate will be reduced to 28.5 percent. 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.

The effective tax rate for the three and nine month periods ended September 27, 2015, was 30.1 percent and 28.7 percent, respectively. The tax rate for the nine month period ended September 27, 2015, included a net \$14 million discrete tax benefit primarily to reflect the release of reserves for uncertain tax positions related to a favorable federal audit settlement.

Our effective tax rate for the three and nine month periods ended September 28, 2014, was 34.4 percent and 30.4 percent, respectively. The tax rate for the three months ended September 28, 2014, included a \$19 million discrete tax expense to reflect the reduction in value of state tax credits as a result of a favorable state tax rate change that will lower future taxes. Additionally, the tax rate for the nine month period included a \$2 million discrete tax benefit for the release of reserves for uncertain tax positions related to multiple state audit settlements, a \$12 million discrete tax expense attributable primarily to state deferred tax adjustments, as well as a \$6 million discrete net tax benefit resulting from a \$70 million dividend paid from China earnings generated prior to 2012.

The decrease in the effective tax rate for the three months ended September 27, 2015, versus the comparable period in 2014 was primarily due to favorable changes in the jurisdictional mix of pre-tax income and the 2014 unfavorable discrete tax items.

It is reasonably possible that our existing liabilities for uncertain tax benefits may decrease in an amount ranging from \$0 to \$70 million within the next twelve months for U.S. and non-U.S. audits that are in process.

NOTE 7. MARKETABLE SECURITIES

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

In millions	September 27, 2015			December 31, 2014		
	Cost	Gross unrealized gains/(losses)	Estimated fair value	Cost	Gross unrealized gains/(losses)	Estimated fair value
Available-for-sale						
Level 2 ⁽¹⁾						
Debt mutual funds	\$ 25	\$ —	\$ 25	\$ 75	\$ 1	\$ 76
Equity mutual funds	9	(1)	8	9	—	9
Bank debentures	—	—	—	6	—	6
Government debt securities	2	—	2	2	—	2
Total marketable securities	\$ 36	\$ (1)	\$ 35	\$ 92	\$ 1	\$ 93

⁽¹⁾ The fair value of Level 2 securities is estimated primarily using actively quoted prices for similar instruments from brokers and observable inputs, including market transactions and third-party pricing services. 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 2015 and 2014.

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

In millions	Three months ended		Nine months ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Proceeds from sales and maturities of marketable securities	\$ 73	\$ 137	\$ 228	\$ 316
Gross realized gains from the sale of marketable securities	—	1	1	14

At September 27, 2015, the fair value of available-for-sale investments in debt securities that utilize a Level 2 fair value measure by contractual maturity was as follows:

Maturity date	Fair value (in millions)
1 year or less	\$ 25
1 - 5 years	1
5 - 10 years	1
Total	\$ 27

NOTE 8. INVENTORIES

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

In millions	September 27, 2015	December 31, 2014
Finished products	\$ 2,001	\$ 1,859
Work-in-process and raw materials	1,168	1,129
Inventories at FIFO cost	3,169	2,988
Excess of FIFO over LIFO	(110)	(122)
Total inventories	\$ 3,059	\$ 2,866

NOTE 9. 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	September 27, 2015	September 28, 2014
Balance, beginning of year	\$ 1,283	\$ 1,129
Provision for warranties issued	326	307
Deferred revenue on extended warranty contracts sold	217	175
Payments	(282)	(313)
Amortization of deferred revenue on extended warranty contracts	(132)	(109)
Changes in estimates for pre-existing warranties	18	28
Foreign currency translation	(10)	(4)
Balance, end of period	\$ 1,420	\$ 1,213

Warranty related deferred revenue, supplier recovery receivables and the long-term portion of the warranty liability on our September 27, 2015, balance sheet were as follows:

In millions	September 27, 2015	Balance Sheet Location
Deferred revenue related to extended coverage programs		
Current portion	\$ 183	Deferred revenue
Long-term portion	508	Other liabilities and deferred revenue
Total	\$ 691	
Receivables related to estimated supplier recoveries		
Current portion	\$ 6	Trade and other receivables
Long-term portion	4	Other assets
Total	\$ 10	
Long-term portion of warranty liability	\$ 341	Other liabilities and deferred revenue

NOTE 10. DEBT

A summary of long-term debt was as follows:

In millions	September 27, 2015	December 31, 2014
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
Credit facilities related to consolidated joint ventures	3	3
Other debt	43	31
Unamortized discount	(46)	(47)
Fair value adjustments due to hedge on indebtedness	68	65
Capital leases	85	87
Total long-term debt	1,626	1,612
Less: Current maturities of long-term debt	(31)	(23)
Long-term debt	<u>\$ 1,595</u>	<u>\$ 1,589</u>

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

In millions	Required Principal Payments				
	2015	2016	2017	2018	2019
Principal payments	\$ 9	\$ 40	\$ 16	\$ 17	\$ 11

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 value and carrying value of total debt, including current maturities, was as follows:

In millions	September 27, 2015	December 31, 2014
Fair value of total debt ⁽¹⁾	\$ 1,859	\$ 1,993
Carrying value of total debt	1,653	1,698

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

NOTE 11. COMMITMENTS AND CONTINGENCIES

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

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

Guarantees and Commitments

From time to time 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 third-party obligations. As of September 27, 2015, the maximum potential loss related to these guarantees was \$20 million.

We have arrangements with certain suppliers that require us to purchase minimum volumes or be subject to monetary penalties. As of September 27, 2015, if we were to stop purchasing from each of these suppliers, the aggregate amount of the penalty would be approximately \$134 million, of which \$78 million relates to a contract with a components supplier that extends to 2018. These arrangements enable us to secure critical components. We do not currently anticipate paying any penalties under these contracts.

During 2014, we began entering into physical forward contracts with suppliers of platinum and palladium to purchase minimum volumes of the commodities at contractually stated prices for various periods, not to exceed two years. As of September 27, 2015, the total commitments under these contracts were \$38 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 \$69 million at September 27, 2015 and \$76 million at December 31, 2014.

Indemnifications

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

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

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

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

In millions	Three months ended						
	Change in pensions and other postretirement defined benefit plans	Foreign currency translation adjustment	Unrealized gain (loss) on marketable securities	Unrealized gain (loss) on derivatives	Total attributable to Cummins Inc.	Noncontrolling interests	Total
Balance at June 29, 2014	\$ (597)	\$ (76)	\$ —	\$ 4	\$ (669)		
Other comprehensive income before reclassifications							
Before tax amount	—	(184)	—	(5)	(189)	\$ (6)	\$ (195)
Tax (expense) benefit	—	18	—	1	19	—	19
After tax amount	—	(166)	—	(4)	(170)	(6)	(176)
Amounts reclassified from accumulated other comprehensive income ⁽¹⁾⁽²⁾	14	—	(1)	(1)	12	—	12
Net current period other comprehensive income (loss)	14	(166)	(1)	(5)	(158)	\$ (6)	\$ (164)
Balance at September 28, 2014	\$ (583)	\$ (242)	\$ (1)	\$ (1)	\$ (827)		
Balance at June 28, 2015	\$ (641)	\$ (435)	\$ (1)	\$ 6	\$ (1,071)		
Other comprehensive income before reclassifications							
Before tax amount	—	(239)	(1)	13	(227)	\$ (13)	\$ (240)
Tax (expense) benefit	—	31	—	(1)	30	—	30
After tax amount	—	(208)	(1)	12	(197)	(13)	(210)
Amounts reclassified from accumulated other comprehensive income ⁽¹⁾⁽²⁾	15	—	—	(5)	10	—	10
Net current period other comprehensive income (loss)	15	(208)	(1)	7	(187)	\$ (13)	\$ (200)
Balance at September 27, 2015	\$ (626)	\$ (643)	\$ (2)	\$ 13	\$ (1,258)		

⁽¹⁾ Amounts are net of tax.

⁽²⁾ See reclassifications out of accumulated other comprehensive income (loss) disclosure below for further details.

In millions	Nine months ended						
	Change in pensions and other postretirement defined benefit plans	Foreign currency translation adjustment	Unrealized gain (loss) on marketable securities	Unrealized gain (loss) on derivatives	Total attributable to Cummins Inc.	Noncontrolling interests	Total
Balance at December 31, 2013	\$ (611)	\$ (179)	\$ 7	\$ (1)	\$ (784)		
Other comprehensive income before reclassifications							
Before tax amount	(7)	(77)	(1)	5	(80)	\$ 1	\$ (79)
Tax (expense) benefit	1	14	—	(2)	13	—	13
After tax amount	(6)	(63)	(1)	3	(67)	1	(66)
Amounts reclassified from accumulated other comprehensive income ⁽¹⁾⁽²⁾	34	—	(7)	(3)	24	(4)	20
Net current period other comprehensive income (loss)	28	(63)	(8)	—	(43)	\$ (3)	\$ (46)
Balance at September 28, 2014	\$ (583)	\$ (242)	\$ (1)	\$ (1)	\$ (827)		
Balance at December 31, 2014	\$ (669)	\$ (406)	\$ (1)	\$ (2)	\$ (1,078)		
Other comprehensive income before reclassifications							
Before tax amount	(3)	(290)	—	23	(270)	\$ (15)	\$ (285)
Tax (expense) benefit	1	53	—	(3)	51	—	51
After tax amount	(2)	(237)	—	20	(219)	(15)	(234)
Amounts reclassified from accumulated other comprehensive income ⁽¹⁾⁽²⁾	45	—	(1)	(5)	39	—	39
Net current period other comprehensive income (loss)	43	(237)	(1)	15	(180)	\$ (15)	\$ (195)
Balance at September 27, 2015	\$ (626)	\$ (643)	\$ (2)	\$ 13	\$ (1,258)		

⁽¹⁾ Amounts are net of tax.

⁽²⁾ See reclassifications out of accumulated other comprehensive income (loss) disclosure below for further details.

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

In millions (Gain)/Loss Components	Three months ended		Nine months ended		Statement of Income Location
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014	
Change in pension and other postretirement defined benefit plans					
Recognized actuarial loss	\$ 22	\$ 18	\$ 65	\$ 47	(1)
Tax effect	(7)	(4)	(20)	(13)	Income tax expense
Net change in pensions and other postretirement defined benefit plans	\$ 15	\$ 14	\$ 45	\$ 34	
Realized (gain) loss on marketable securities					
Realized (gain) loss on marketable securities	\$ —	\$ (1)	\$ (1)	\$ (14)	Other income (expense), net
Tax effect	—	—	—	3	Income tax expense
Net realized (gain) loss on marketable securities	\$ —	\$ (1)	\$ (1)	\$ (11)	
Realized (gain) loss on derivatives					
Foreign currency forward contracts	\$ (6)	\$ (1)	\$ (6)	\$ (6)	Net sales
Commodity swap contracts	—	(1)	—	2	Cost of sales
Total before taxes	(6)	(2)	(6)	(4)	
Tax effect	1	1	1	1	Income tax expense
Net realized (gain) loss on derivatives	\$ (5)	\$ (1)	\$ (5)	\$ (3)	
Total reclassifications for the period	\$ 10	\$ 12	\$ 39	\$ 20	

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 4, "PENSION AND OTHER POSTRETIREMENT BENEFITS").

NOTE 13. OPERATING SEGMENTS

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

Our reportable operating segments consist of the following: Engine, Distribution, Components and Power Generation. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines and parts for sale to customers in on-highway and various industrial markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, mining, agriculture, marine, oil and gas, rail and military equipment. The 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 and fuel systems. The Power Generation segment is an integrated provider of power systems, which sells engines, generator sets and alternators.

We use segment 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 have allocated certain common costs and expenses, primarily corporate functions, among segments differently than we would for stand-alone financial information prepared in accordance with GAAP. These include certain costs and expenses of shared services, such as information technology, human resources, legal and finance. We also do not allocate debt-related items, actuarial gains or losses, prior service costs or credits, changes in cash surrender value of corporate owned life insurance or income taxes to individual segments. Segment EBIT may not be consistent with measures used by other companies.

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

In millions	Engine	Distribution	Components	Power Generation	Non-segment Items ⁽¹⁾	Total
Three months ended September 27, 2015						
External sales	\$ 1,800	\$ 1,543	\$ 891	\$ 386	\$ —	\$ 4,620
Intersegment sales	728	8	349	273	(1,358)	—
Total sales	2,528	1,551	1,240	659	(1,358)	4,620
Depreciation and amortization ⁽²⁾	60	26	28	14	—	128
Research, development and engineering expenses	116	2	65	14	—	197
Equity, royalty and interest income from investees	40	19	9	10	—	78
Interest income	6	1	1	1	—	9
Segment EBIT	252	123 ⁽³⁾	156	42	4	577
Three months ended September 28, 2014						
External sales	\$ 2,181	\$ 1,282	\$ 946	\$ 481	\$ —	\$ 4,890
Intersegment sales	635	10	341	273	(1,259)	—
Total sales	2,816	1,292	1,287	754	(1,259)	4,890
Depreciation and amortization ⁽²⁾	50	22	27	13	—	112
Research, development and engineering expenses	114	2	64	18	—	198
Equity, royalty and interest income from investees	40	37	9	13	—	99
Interest income	3	1	1	1	—	6
Segment EBIT	330	131 ⁽³⁾	172	60	(9)	684
Nine months ended September 27, 2015						
External sales	\$ 5,747	\$ 4,499	\$ 2,839	\$ 1,259	\$ —	\$ 14,344
Intersegment sales	2,174	23	1,097	827	(4,121)	—
Total sales	7,921	4,522	3,936	2,086	(4,121)	14,344
Depreciation and amortization ⁽²⁾	178	78	82	43	—	381
Research, development and engineering expenses	321	8	183	46	—	558
Equity, royalty and interest income from investees	127	60	26	27	—	240
Interest income	11	3	3	3	—	20
Segment EBIT	846	324 ⁽³⁾	574	148	(32)	1,860
Nine months ended September 28, 2014						
External sales	\$ 6,449	\$ 3,453	\$ 2,821	\$ 1,408	\$ —	\$ 14,131
Intersegment sales	1,674	27	976	728	(3,405)	—
Total sales	8,123	3,480	3,797	2,136	(3,405)	14,131
Depreciation and amortization ⁽²⁾	153	58	79	38	—	328
Research, development and engineering expenses	335	7	170	55	—	567
Equity, royalty and interest income from investees	117	120	27	30	—	294
Interest income	9	2	3	3	—	17
Segment EBIT	910	333 ⁽³⁾	524	146	(44)	1,869

⁽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 September 27, 2015 and September 28, 2014.

⁽²⁾ 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 September 27, 2015 and September 28, 2014, respectively.

⁽³⁾ Distribution segment EBIT included gains of \$17 million for both the three and nine month periods ended September 27, 2015 and \$18 million and \$38 million for the three and nine month periods ended September 28, 2014, respectively, on the fair value adjustments resulting from the acquisition of the controlling interests in North American distributors. See Note 3, "ACQUISITIONS," 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	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Total EBIT	\$ 577	\$ 684	\$ 1,860	\$ 1,869
Less: Interest expense	16	15	47	47
Income before income taxes	\$ 561	\$ 669	\$ 1,813	\$ 1,822

NOTE 14. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The standard contains principles that we will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that we will recognize revenue in a manner that depicts 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 standard allows either full or modified retrospective adoption. 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 time value of money in the transaction price and allowing estimates 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 judgments and assets recognized from costs incurred to fulfill a contract. The new rules would have become effective for annual and interim periods beginning January 1, 2017. In July 2015, the FASB approved a one year delay of the effective date of the standard to January 1, 2018, to provide adequate time for implementation. We are in the process of evaluating the impact the amendment will have on our *Consolidated Financial Statements*, and we are further considering the impact of each method of adoption.

NOTE 15. SUBSEQUENT EVENTS

On October 27, 2015, we announced we will reduce our worldwide professional work force by up to 2,000 employees in response to lower demand for our products in the United States and key markets around the world. The employee reductions will come from all parts of the company. We will incur a pre-tax fourth quarter charge in the range of \$70 million to \$90 million for the headcount reductions. In addition to these reductions, we expect to close or restructure several manufacturing facilities over time which could increase the fourth quarter charge and may result in additional charges in the future.

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

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

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

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

- a sustained slowdown or significant downturn in our markets;
- a slowdown in infrastructure development;
- unpredictability in the adoption, implementation and enforcement of emission standards around the world;
- the actions of, and income from, joint ventures and other investees that we do not directly control;
- changes in the engine outsourcing practices of significant customers;
- a downturn in the North American truck industry or financial distress of a major truck customer;
- a major customer experiencing financial distress;
- any significant problems in our new engine platforms;
- supply shortages and supplier financial risk, particularly from any of our single-sourced suppliers;
- variability in material and commodity costs;
- product recalls;
- competitor pricing activity;
- increasing competition, including increased global competition among our customers in emerging markets;
- exposure to information technology security threats and sophisticated "cyber attacks;"
- 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;
- the development of new technologies;

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

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 2014 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 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 and electric power generation systems. We sell our products to original equipment manufacturers (OEMs), distributors and other customers worldwide. We have long-standing relationships with many of the leading manufacturers in the markets we serve, including PACCAR Inc, Daimler Trucks North America, Chrysler Group, LLC (Chrysler), Volvo AB, Komatsu, Navistar International Corporation, Aggreko plc, Ford Motor Company and MAN Nutzfahrzeuge AG. We serve our customers through a network of approximately 600 company-owned and independent distributor locations and approximately 7,200 dealer locations in more than 190 countries and territories.

Our reportable operating segments consist of the following: Engine, Distribution, Components and Power Generation. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines and parts for sale to customers in on-highway and various industrial markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, mining, agriculture, marine, oil and gas, rail and military equipment. The 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 and fuel systems. The Power Generation segment is an integrated provider of power systems, which sells engines, generator sets and alternators.

Our financial performance depends, in large part, on varying conditions in the markets we serve, particularly the on-highway, construction and general industrial markets. Demand in these markets tends to fluctuate in response to overall economic conditions. Our sales may also be impacted by OEM inventory levels and production schedules and stoppages. Economic downturns in markets we serve generally result in 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 decreased 6 percent in the three months ended September 27, 2015, as compared to the same period in 2014, primarily due to unfavorable foreign currency fluctuations, lower global demand in most industrial markets, lower on-highway demand in international markets and weakness in global power generation markets, partially offset by sales increases related to the consolidation of partially-owned North American distributors since December 31, 2013. Continued international economic weakness in the third quarter of 2015 negatively impacted our international revenues (exclude the United States and Canada), which declined by 18 percent, with sales down in most of our markets, primarily in Brazil, as a result of challenging economic conditions and slower growth in China. The decline in international sales was primarily due to unfavorable foreign currency impacts of 4 percent (primarily in Europe, Brazil, Australia, India and the United Kingdom), lower demand in international industrial markets led by declines in the commercial marine market, the construction market (primarily in Europe) and the on-highway markets in Brazil. Revenue in the U.S. and Canada improved by 4 percent primarily due to increased Distribution segment sales related to the consolidation of North American distributors and higher demand in the North American on-highway markets, partially offset by lower demand in the industrial mining and construction markets.

Worldwide revenues increased 2 percent in the first nine months of 2015 as compared to the same period in 2014 primarily due to the consolidation of partially-owned North American distributors since December 31, 2013 and higher demand in North American on-highway markets, partially offset by unfavorable foreign currency fluctuations, lower global demand in many industrial markets and lower on-highway demand in international markets. Revenue in the U.S. and Canada improved by 11 percent primarily due to increased Distribution segment sales related to the consolidation of North American distributors and higher demand in North American on-highway markets, partially offset by lower demand in mining and construction markets. Continued international economic weakness in the first nine months of 2015 negatively impacted our international revenues, which declined by 10 percent with sales down in most of our markets, especially in Europe and Brazil, as a result of their challenging economic conditions and slower growth in China. The decline in international sales was primarily due to unfavorable foreign currency impacts of 4 percent (primarily in Europe, Brazil, Australia, the U.K. and India), declines in international industrial markets led by declines in the construction market (primarily in Europe) and the commercial marine market and lower demand in on-highway markets (primarily in Brazil and China). These decreases were partially offset by increased international demand in certain power generation markets, especially in the Middle East and Africa.

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The following tables contain sales and earnings before interest expense, income tax expense and noncontrolling interests (EBIT) results by operating segment for the three and nine month periods ended September 27, 2015 and September 28, 2014. Refer to the section titled "Operating Segment Results" for a more detailed discussion of net sales and EBIT by operating segment, including the reconciliation of segment EBIT to income before income taxes.

Operating Segments	Three months ended							
	September 27, 2015			September 28, 2014			Percent change	
	In millions	Percent		Sales	Percent		2015 vs. 2014	
Sales		of Total	EBIT		Sales	of Total	Sales	EBIT
Engine	\$ 2,528	55 %	\$ 252	\$ 2,816	58 %	\$ 330	(10)%	(24)%
Distribution	1,551	33 %	123	1,292	26 %	131	20 %	(6)%
Components	1,240	27 %	156	1,287	26 %	172	(4)%	(9)%
Power Generation	659	14 %	42	754	15 %	60	(13)%	(30)%
Intersegment eliminations	(1,358)	(29)%	—	(1,259)	(25)%	—	8 %	—
Non-segment	—	—	4	—	—	(9)	—	NM
Total	\$ 4,620	100 %	\$ 577	\$ 4,890	100 %	\$ 684	(6)%	(16)%

"NM" - not meaningful information

Net income attributable to Cummins was \$380 million, or \$2.14 per diluted share, on sales of \$4.6 billion for the three months ended September 27, 2015, versus the comparable prior year period net income attributable to Cummins of \$423 million, or \$2.32 per diluted share, on sales of \$4.9 billion. The decrease in net income and earnings per diluted share was driven by lower gross margin, unfavorable foreign currency fluctuations and lower equity, royalty and interest income from investees, partially offset by a lower effective tax rate. The decrease in gross margin was primarily due to lower volumes, unfavorable foreign currency fluctuations (primarily in Australia, Canada, Brazil and Europe), unfavorable pricing and unfavorable mix, partially offset by improved Distribution segment sales related to the consolidation of partially-owned North American distributors since December 31, 2013, lower material and commodity costs and lower warranty costs. Diluted earnings per share for the three months ended September 27, 2015, benefited \$0.01 from fewer weighted average shares outstanding due to purchases under the stock repurchase programs.

Operating Segments	Nine months ended							
	September 27, 2015			September 28, 2014			Percent change	
	In millions	Percent		Sales	Percent		2015 vs. 2014	
Sales		of Total	EBIT		Sales	of Total	Sales	EBIT
Engine	\$ 7,921	55 %	\$ 846	\$ 8,123	57 %	\$ 910	(2)%	(7)%
Distribution	4,522	32 %	324	3,480	25 %	333	30 %	(3)%
Components	3,936	27 %	574	3,797	27 %	524	4 %	10 %
Power Generation	2,086	15 %	148	2,136	15 %	146	(2)%	1 %
Intersegment eliminations	(4,121)	(29)%	—	(3,405)	(24)%	—	21 %	—
Non-segment	—	—	(32)	—	—	(44)	—	(27)%
Total	\$ 14,344	100 %	\$ 1,860	\$ 14,131	100 %	\$ 1,869	2 %	— %

Net income attributable to Cummins was \$1,238 million, or \$6.90 per diluted share, on sales of \$14.3 billion for the nine months ended September 27, 2015, versus the comparable prior year period net income attributable to Cummins of \$1,207 million, or \$6.58 per diluted share, on sales of \$14.1 billion. The increase in net income and earnings per diluted share was driven by improved gross margin, a lower effective tax rate and lower research, development and engineering expenses, partially offset by unfavorable foreign currency fluctuations, higher selling, general and administrative expenses, lower other income as a result of larger gains recognized in 2014 from the acquisition of North American distributors and lower equity, royalty and interest income from investees. The increase in gross margin was primarily due to improved Distribution segment sales related to the consolidation of partially-owned North American distributors since December 31, 2013 and lower material and commodity costs, partially offset by unfavorable foreign currency fluctuations (primarily in Australia, Canada, Brazil and Europe), unfavorable pricing, unfavorable mix and higher warranty costs. Diluted earnings per share for the nine months ended September 27, 2015, benefited \$0.09 from fewer weighted average shares outstanding, primarily due to purchases under the stock repurchase programs.

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We generated \$1.1 billion of operating cash flows for the nine months ended September 27, 2015, compared to \$1.4 billion for the same period in 2014. 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 six months of 2015, we repurchased \$174 million of common stock under the 2012 Board of Directors Authorized Plan, completing this program in the second quarter of 2015. In July 2014, our Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon the completion of the 2012 Plan. We repurchased \$476 million under the new authorization in 2015.

In the third quarter of 2015, we completed the acquisition of the remaining interest in three North American distributors for \$121 million and recognized a total gain of \$17 million on the fair value adjustment resulting from the acquisition of the controlling interests in two of these previously unconsolidated entities.

Our debt to capital ratio (total capital defined as debt plus equity) at September 27, 2015, was 17.0 percent, compared to 17.3 percent at December 31, 2014. At September 27, 2015, we had \$1.7 billion in cash and marketable securities on hand and access to our credit facilities, if necessary, to meet currently anticipated investment and funding needs. As of the date of filing this Quarterly Report on Form 10-Q, our credit ratings were as follows:

<u>Credit Rating Agency</u>	<u>Senior L-T Debt Rating</u>	<u>Outlook</u>	<u>Last Updated</u>
Standard & Poor's Rating Services	A+	Stable	August 2014
Fitch Ratings	A	Stable	October 2015
Moody's Investors Service, Inc.	A2	Stable	December 2014

In July 2015, the Board of Directors authorized an increase to our quarterly dividend of 25 percent from \$0.78 per share to \$0.975 per share.

Our global pension plans, including our unfunded and non-qualified plans, were 108 percent funded at December 31, 2014. Our U.S. qualified plan, which represents approximately 56 percent of the worldwide pension obligation, was 119 percent funded and our U.K. plan was 113 percent funded. We expect to contribute \$175 million to our global pension plans in 2015. Refer to Note 4, "PENSION AND OTHER POSTRETIREMENT BENEFITS" for additional information regarding our pension plans.

We expect our effective tax rate for the full year of 2015 to approximate 29.5 percent, excluding any one-time tax items.

On October 27, 2015, we announced we will reduce our worldwide professional work force by up to 2,000 employees in response to lower demand for our products in the U.S. and key markets around the world. The employee reductions will come from all parts of the company. We will incur a pre-tax fourth quarter charge in the range of \$70 million to \$90 million for the headcount reductions. In addition to these reductions, we expect to close or restructure several manufacturing facilities over time which could increase the fourth quarter charge and may result in additional charges in the future.

OUTLOOK

Near-Term

Our outlook reflects the following trends for the remainder of 2015:

- We expect demand in the North American medium-duty truck market to remain stable.
- We expect North American light-duty demand to remain stable.
- We expect the new ISG engine, which began production in the second quarter of 2014 with our Beijing Foton Cummins Engine Co., Ltd. joint venture, to continue to gain market share in China in its first full year of production.
- We expect demand in India to improve in some end markets as their economy continues to improve.

Our outlook reflects the following challenges to our business that may reduce our revenue and earnings potential for the remainder of 2015:

- We expect industry production in the North American heavy-duty truck markets to decline.
- Power generation markets are expected to remain weak.
- Weak economic conditions in Brazil will continue to negatively impact demand across our businesses.
- We anticipate end markets in China to remain weak.
- Demand in certain European markets could remain weak due to continued political and economic uncertainty.
- Foreign currency volatility could continue to put pressure on our revenues and earnings.
- We expect market demand to remain weak in the oil and gas markets as the result of low crude oil prices.
- Domestic and international mining markets could continue to deteriorate if commodity prices continue to weaken.

We expect the challenging conditions described above to persist for some time.

Long-Term

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

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

RESULTS OF OPERATIONS

In millions (except per share amounts)	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2015	September 28, 2014	Amount	Percent	September 27, 2015	September 28, 2014	Amount	Percent
NET SALES	\$ 4,620	\$ 4,890	\$ (270)	(6)%	\$ 14,344	\$ 14,131	\$ 213	2 %
Cost of sales	3,412	3,606	194	5 %	10,609	10,543	(66)	(1)%
GROSS MARGIN	1,208	1,284	(76)	(6)%	3,735	3,588	147	4 %
OPERATING EXPENSES AND INCOME								
Selling, general and administrative expenses	530	529	(1)	— %	1,584	1,527	(57)	(4)%
Research, development and engineering expenses	197	198	1	1 %	558	567	9	2 %
Equity, royalty and interest income from investees	78	99	(21)	(21)%	240	294	(54)	(18)%
Other operating (expense) income, net	(2)	3	(5)	NM	(5)	(4)	(1)	25 %
OPERATING INCOME	557	659	(102)	(15)%	1,828	1,784	44	2 %
Interest income	9	6	3	50 %	20	17	3	18 %
Interest expense	16	15	(1)	(7)%	47	47	—	— %
Other income, net	11	19	(8)	(42)%	12	68	(56)	(82)%
INCOME BEFORE INCOME TAXES	561	669	(108)	(16)%	1,813	1,822	(9)	— %
Income tax expense	169	230	61	27 %	521	553	32	6 %
CONSOLIDATED NET INCOME	392	439	(47)	(11)%	1,292	1,269	23	2 %
Less: Net income attributable to noncontrolling interests	12	16	4	25 %	54	62	8	13 %
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 380	\$ 423	\$ (43)	(10)%	\$ 1,238	\$ 1,207	\$ 31	3 %
Diluted earnings per common share attributable to Cummins Inc.	\$ 2.14	\$ 2.32	\$ (0.18)	(8)%	\$ 6.90	\$ 6.58	\$ 0.32	5 %

"NM" - not meaningful information

Percent of sales	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2015	September 28, 2014	Percentage Points		September 27, 2015	September 28, 2014	Percentage Points	
Gross margin	26.1%	26.3%	(0.2)		26.0%	25.4%	0.6	
Selling, general and administrative expenses	11.5%	10.8%	(0.7)		11.0%	10.8%	(0.2)	
Research, development and engineering expenses	4.3%	4.0%	(0.3)		3.9%	4.0%	0.1	

Net Sales

Net sales for the three months ended September 27, 2015, decreased versus the comparable period in 2014. The primary drivers by segment were as follows:

- Engine segment sales decreased by 10 percent primarily due to lower demand in most global industrial markets as well as lower demand in international on-highway markets, partially offset by higher demand in global bus markets and North American medium-duty truck markets.
- Foreign currency fluctuations unfavorably impacted sales by approximately 4 percent (primarily in Europe, Brazil, Australia, Canada, India and the U.K.).
- Power Generation segment sales decreased by 13 percent due to lower demand in all lines of business.
- Components segment sales decreased by 4 percent primarily due to unfavorable foreign currency fluctuations and lower demand in turbo technologies and filtration businesses, partially offset by higher demand in the emission solutions business.

The decreases above were partially offset by increased Distribution segment sales of 20 percent, principally related to the acquisitions of North American distributors since December 31, 2013.

Net sales for the nine months ended September 27, 2015, increased versus the comparable period in 2014. The primary drivers by segment were as follows:

- Distribution segment sales increased by 30 percent, principally related to the acquisitions of North American distributors since December 31, 2013.
- Components segment sales increased by 4 percent primarily due to higher demand in the emission solutions and fuel systems businesses, partially offset by lower demand in the filtration and turbo technologies businesses.

The increases above were partially offset by the following:

- Foreign currency fluctuations unfavorably impacted sales by approximately 4 percent (primarily in Europe, Brazil, Australia, Canada the U.K. and India).
- Engine segment sales decreased by 2 percent primarily due to lower global demand in many industrial markets and lower on-highway demand in international markets, partially offset by higher demand in North American on-highway markets.
- Power Generation segment sales decreased by 2 percent primarily due to lower demand in the alternator business, partially offset by higher demand in the power systems business.

Sales to international markets, based on location of customers, for the three and nine months ended September 27, 2015, were 38 percent and 39 percent, respectively, of total net sales compared to 44 percent of total net sales, for both of the comparable periods in 2014. A more detailed discussion of sales by segment is presented in the “OPERATING SEGMENT RESULTS” section.

Gross Margin

Gross margin decreased for the three months ended September 27, 2015, versus the comparable period in 2014, and decreased as a percentage of sales by 0.2 percentage points. The decrease in gross margin was primarily due to lower volumes, unfavorable foreign currency fluctuations (primarily in Australia, Canada, Brazil and Europe), unfavorable pricing and unfavorable mix, partially offset by improved Distribution segment sales related to the consolidation of partially-owned North American distributors since December 31, 2013, lower material and commodity costs and lower warranty costs.

Gross margin increased for the nine months ended September 27, 2015, versus the comparable period in 2014, and increased as a percentage of sales by 0.6 percentage points. The increase in gross margin was primarily due to improved Distribution segment sales related to the consolidation of partially-owned North American distributors since December 31, 2013 and lower material and commodity costs, partially offset by unfavorable foreign currency fluctuations (primarily in Australia, Canada, Brazil and Europe), unfavorable pricing, unfavorable mix and higher warranty costs.

The provision for base warranties issued as a percent of sales for the three and nine months ended September 27, 2015, was 1.8 percent and 2.0 percent, respectively, compared to 1.9 percent and 2.0 percent for the comparable periods in 2014. A more detailed discussion of margin by segment is presented in the “OPERATING SEGMENT RESULTS” section.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended September 27, 2015, were relatively flat versus the comparable period in 2014, despite the acquisitions of North American distributors. Higher compensation and related expenses of \$9 million were offset by lower consulting expenses of \$10 million. Overall, selling, general and administrative expenses, as a percentage of sales, increased to 11.5 percent in the three months ended September 27, 2015, from 10.8 percent in the comparable period in 2014. Compensation and related expenses include salaries, fringe benefits and variable compensation.

Selling, general and administrative expenses for the nine months ended September 27, 2015, increased versus the comparable period in 2014 despite the acquisitions of North American distributors, primarily due to higher compensation and related expenses of \$65 million, partially offset by lower consulting expenses of \$28 million. Overall, selling, general and administrative expenses, as a percentage of sales, increased to 11.0 percent in the first nine months of 2015, from 10.8 percent for the comparable period in 2014.

Research, Development and Engineering Expenses

Research, development and engineering expenses for the three months ended September 27, 2015, were relatively flat versus the comparable period in 2014. Higher expense recovery of \$9 million was partially offset by higher consulting expenses of \$5 million. Overall, research, development and engineering expenses, as a percentage of sales, increased to 4.3 percent in the three months ended September 27, 2015, from 4.0 percent in the comparable period in 2014.

Research, development and engineering expenses for the nine months ended September 27, 2015, decreased versus the comparable period in 2014 primarily due to higher expense recovery of \$11 million, partially offset by higher consulting

expenses of \$3 million. Overall, research, development and engineering expenses, as a percentage of sales, decreased to 3.9 percent in the first nine months of 2015, from 4.0 percent in the comparable period in 2014. Research activities continue to focus on development of new products to meet future emission standards around the world and improvements in fuel economy performance.

Equity, Royalty and Interest Income From Investees

Equity, royalty and interest income from investees decreased \$21 million and \$54 million for the three and nine months ended September 27, 2015, respectively, versus the comparable periods in 2014, primarily due to the consolidation of the partially-owned North American distributors since December 31, 2013, (\$18 million and \$62 million, respectively) and lower earnings at Dongfeng Cummins Engine Company, Ltd. (\$4 million and \$11 million, respectively) and Chongqing Cummins Engine Company, Ltd. (\$4 million and \$7 million, respectively). These decreases were partially offset by higher equity earnings at Beijing Foton Cummins Engine Co., Ltd. (\$13 million and \$41 million, respectively) as the joint venture continues to increase market share with the new heavy-duty engine platform introduced in 2014.

Other Operating (Expense) Income, Net

Other operating (expense) income was as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Amortization of intangible assets	\$ (4)	\$ (3)	\$ (15)	\$ (10)
Royalty income, net	4	8	14	16
Other, net	(2)	(2)	(4)	(10)
Total other operating (expense) income, net	\$ (2)	\$ 3	\$ (5)	\$ (4)

Interest Income

Interest income for the three and nine months ended September 27, 2015, increased versus the comparable periods in 2014 primarily due to interest earned on a favorable tax settlement in Brazil.

Interest Expense

Interest expense for the three and nine months ended September 27, 2015, remained flat versus the comparable periods in 2014.

Other Income, Net

Other income was as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Gain on fair value adjustment for consolidated investees ⁽¹⁾	\$ 17	\$ 18	\$ 17	\$ 38
Foreign currency gains (losses), net	3	1	(2)	(2)
Dividend income	—	1	2	2
Gain on marketable securities, net	—	1	1	14
Bank charges	(3)	(3)	(7)	(8)
Change in cash surrender value of corporate owned life insurance	(11)	(2)	(9)	16
Other, net	5	3	10	8
Total other income, net	\$ 11	\$ 19	\$ 12	\$ 68

⁽¹⁾ See Note 3, "ACQUISITIONS" for additional information.

Income Tax Expense

Our effective tax rate for the year is expected to approximate 29.5 percent, excluding any one-time items that may arise. The expected tax rate does not include the benefits of the research tax credit, which expired December 31, 2014 and has not yet been renewed by Congress. If the research credit is reinstated during 2015, we anticipate the 2015 effective tax rate will be reduced to 28.5 percent. 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.

The effective tax rate for the three and nine month periods ended September 27, 2015, was 30.1 percent and 28.7 percent, respectively. The tax rate for the nine month period ended September 27, 2015, included a net \$14 million discrete tax benefit primarily to reflect the release of reserves for uncertain tax positions related to a favorable federal audit settlement.

Our effective tax rate for the three and nine month periods ended September 28, 2014, was 34.4 percent and 30.4 percent, respectively. The tax rate for the three months ended September 28, 2014, included a \$19 million discrete tax expense to reflect the reduction in value of state tax credits as a result of a favorable state tax rate change that will lower future taxes. Additionally, the tax rate for the nine month period included a \$2 million discrete tax benefit for the release of reserves for uncertain tax positions related to multiple state audit settlements, a \$12 million discrete tax expense attributable primarily to state deferred tax adjustments, as well as a \$6 million discrete net tax benefit resulting from a \$70 million dividend paid from China earnings generated prior to 2012.

The decrease in the effective tax rate for the three months ended September 27, 2015, versus the comparable period in 2014 was primarily due to favorable changes in the jurisdictional mix of pre-tax income and the 2014 unfavorable discrete tax items.

It is reasonably possible that our existing liabilities for uncertain tax benefits may decrease in an amount ranging from \$0 to \$70 million within the next twelve months for U.S. and non-U.S. audits that are in process.

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 September 27, 2015, decreased primarily due to lower earnings at Wuxi Cummins Turbo Technologies Co. Ltd. and a decline from the acquisition of the remaining interest in previously consolidated North American distributors since December 31, 2013.

Noncontrolling interests in income of consolidated subsidiaries for the nine months ended September 27, 2015, decreased primarily due to lower earnings at Wuxi Cummins Turbo Technologies Co. Ltd. and a decline from the acquisition of the remaining interest in previously consolidated North American distributors since December 31, 2013, partially offset by higher earnings at Cummins India Ltd.

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 September 27, 2015, decreased versus the comparable period in 2014, primarily due to lower gross margin, unfavorable foreign currency fluctuations and lower equity, royalty and interest income from investees, partially offset by a lower effective tax rate. Diluted earnings per share for the three months ended September 27, 2015, benefited \$0.01 from fewer weighted average shares outstanding due to purchases under the stock repurchase programs.

Net income and diluted earnings per share attributable to Cummins for the nine months ended September 27, 2015, increased versus the comparable period in 2014 primarily due to improved gross margin, a lower effective tax rate and lower research, development and engineering expenses, partially offset by unfavorable foreign currency fluctuations, higher selling, general and administrative expenses, lower other income as a result of larger gains recognized in 2014 from the acquisition of North American distributors and lower equity, royalty and interest income from investees. Diluted earnings per share for the nine months ended September 27, 2015, benefited \$0.09 from fewer weighted average shares outstanding, primarily due to purchases under the stock repurchase programs.

OPERATING SEGMENT RESULTS

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

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

Engine Segment Results

Financial data for the Engine segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27,	September 28,	Amount	Percent	September 27,	September 28,	Amount	Percent
	2015	2014			2015	2014		
External sales ⁽¹⁾	\$ 1,800	\$ 2,181	\$ (381)	(17)%	\$ 5,747	\$ 6,449	\$ (702)	(11)%
Intersegment sales ⁽¹⁾	728	635	93	15 %	2,174	1,674	500	30 %
Total sales	2,528	2,816	(288)	(10)%	7,921	8,123	(202)	(2)%
Depreciation and amortization	60	50	(10)	(20)%	178	153	(25)	(16)%
Research, development and engineering expenses	116	114	(2)	(2)%	321	335	14	4 %
Equity, royalty and interest income from investees	40	40	—	— %	127	117	10	9 %
Interest income	6	3	3	100 %	11	9	2	22 %
Segment EBIT	252	330	(78)	(24)%	846	910	(64)	(7)%
			Percentage Points				Percentage Points	
Segment EBIT as a percentage of total sales	10.0 %	11.7%	(1.7)		10.7%	11.2%	(0.5)	

⁽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 2015, our Engine segment reorganized its reporting structure to include the following markets:

- **Heavy-duty truck** - We manufacture diesel engines that range from 310 to 600 horsepower serving global heavy-duty truck customers worldwide and fire trucks, primarily in North America.
- **Medium-duty truck and bus** - We manufacture medium-duty diesel engines ranging from 200 to 450 horsepower serving medium-duty truck and bus customers worldwide, with key markets including North America, Latin America, Europe and Mexico. We provide diesel or natural gas engines for school buses, transit buses and shuttle buses worldwide, with key markets including North America, Europe, Latin America and Asia. We also provide diesel engines for Class A motor homes (RVs), primarily in North America.
- **Light-duty automotive (Pickup and Light Commercial Vehicle (LCV))** - We manufacture 320 to 385 horsepower diesel engines for Chrysler's heavy-duty chassis cab and pickup trucks. We also manufacture 105 to 300 horsepower diesel engines for LCV's worldwide, with key markets in Europe, Latin America and Asia.
- **Industrial** - We provide mid-range, heavy-duty and high-horsepower engines that range from 49 to 5,100 horsepower for a wide variety of equipment in the construction, agricultural, mining, rail, government, oil and gas, and commercial and recreational marine applications throughout the world. Across these markets we have major customers in North America, Europe, Middle East, Africa, China, Korea, Japan, Latin America, India, Russia, Southeast Asia, South Pacific and Mexico.
- **Stationary power** - We provide mid-range, heavy-duty and high-horsepower engines, that range from 60 to 4,300 horsepower, to our power generation business for standby, mobile and distributed power generation solutions throughout the world.

Engine segment net sales by market (including 2014 reorganized balances) were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27,	September 28,	Amount	Percent	September 27,	September 28,	Amount	Percent
	2015	2014			2015	2014		
Heavy-duty truck	\$ 784	\$ 801	\$ (17)	(2)%	\$ 2,416	\$ 2,288	\$ 128	6 %
Medium-duty truck and bus	585	599	(14)	(2)%	1,867	1,779	88	5 %
Light-duty automotive	339	396	(57)	(14)%	1,074	1,179	(105)	(9)%
Total on-highway	1,708	1,796	(88)	(5)%	5,357	5,246	111	2 %
Industrial	617	768	(151)	(20)%	1,857	2,176	(319)	(15)%
Stationary power	203	252	(49)	(19)%	707	701	6	1 %
Total sales	\$ 2,528	\$ 2,816	\$ (288)	(10)%	\$ 7,921	\$ 8,123	\$ (202)	(2)%

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

	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27,	September 28,	Amount	Percent	September 27,	September 28,	Amount	Percent
	2015	2014			2015	2014		
Mid-range	107,400	117,700	(10,300)	(9)%	339,800	355,300	(15,500)	(4)%
Heavy-duty	28,600	32,300	(3,700)	(11)%	90,100	91,400	(1,300)	(1)%
High-horsepower	3,200	3,900	(700)	(18)%	10,400	11,200	(800)	(7)%
Total unit shipments	139,200	153,900	(14,700)	(10)%	440,300	457,900	(17,600)	(4)%

Sales

Engine segment sales for the three months ended September 27, 2015, decreased versus the comparable period in 2014. The following were the primary drivers by market:

- Industrial engine sales decreased primarily due to lower global demand in construction markets with decreased engine shipments of 31 percent, primarily in Europe and North America, reduced demand in global commercial marine markets with decreased engine shipments of 25 percent and reduced demand in North American mining markets with decreased engine shipments of 38 percent.
- Light-duty automotive sales decreased due to lower demand, primarily in Brazil.
- Stationary power sales decreased due to lower demand in most global power generation markets.
- Foreign currency fluctuations unfavorably impacted sales results (primarily in Brazil and Europe).
- Heavy-duty truck engine sales decreased due to lower demand in global heavy-duty truck markets with decreased engine shipments of 13 percent, primarily in Korea, North America and China.
- Medium-duty truck and bus sales decreased due to lower demand in international medium-duty truck markets with decreased engine shipments of 21 percent, primarily in Brazil, partially offset by higher global bus demand with improved engine shipments of 24 percent and increased North American medium-duty truck demand.

Total on-highway-related sales for the three months ended September 27, 2015, were 68 percent of total engine segment sales, compared to 64 percent for the comparable period in 2014.

Engine segment sales for the nine months ended September 27, 2015, decreased versus the comparable period in 2014. The following were the primary drivers by market:

- Industrial engine sales decreased due to lower global demand in construction markets with decreased engine shipments of 25 percent, primarily in Europe, North America and China and reduced demand in international commercial marine markets with decreased engine shipments of 16 percent.
- Light-duty automotive sales decreased due to lower demand, primarily in Brazil, and unfavorable pricing.
- Foreign currency fluctuations unfavorably impacted sales results (primarily in Brazil, Europe and the U.K.).

The increases above were partially offset by the following:

- Heavy-duty truck engine sales increased due to improved demand in the North American heavy-duty truck market with increased engine shipments of 5 percent, partially offset by weaker demand in China and Korea.
- Medium-duty truck and bus sales increased due to higher demand in the North American medium-duty truck market with increased engine shipments of 14 percent and higher global bus demand with improved engine shipments of 18 percent. These increases were partially offset by weaker medium-duty truck demand in Brazil.

Total on-highway-related sales for the nine months ended September 27, 2015, were 68 percent of total engine segment sales, compared to 65 percent for the comparable period in 2014.

Segment EBIT

Engine segment EBIT for the three months ended September 27, 2015, decreased versus the comparable period in 2014 primarily due to lower gross margin and slightly higher research, development and engineering expenses, partially offset by lower selling, general and administrative expenses and favorable foreign currency fluctuations (primarily in the U.K., Mexico and Europe).

Engine segment EBIT for the nine months ended September 27, 2015, decreased versus the comparable period in 2014 primarily due to lower gross margin, partially offset by favorable foreign currency fluctuations (primarily in the U.K., Europe and Mexico), lower research, development and engineering expenses, higher equity, royalty and interest income from investees and lower selling, general and administrative expenses. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended			Nine months ended		
	September 27, 2015 vs. September 28, 2014			September 27, 2015 vs. September 28, 2014		
	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	\$ (89)	(14)%	(1.0)	\$ (89)	(5)%	(0.6)
Selling, general and administrative expenses	12	6 %	(0.4)	7	1 %	(0.1)
Research, development and engineering expenses	(2)	(2)%	(0.6)	14	4 %	—
Equity, royalty and interest income from investees	—	— %	0.2	10	9 %	0.2

The decrease in gross margin for the three months ended September 27, 2015, versus the comparable period in 2014, was primarily due to lower volumes and unfavorable mix, partially offset by lower material and commodity costs and favorable foreign currency fluctuations. The decrease in selling, general and administrative expenses was primarily due to lower consulting expenses, lower compensation expenses and higher expense recovery.

The decrease in gross margin for the nine months ended September 27, 2015, versus the comparable period in 2014 was primarily due to lower volumes, higher warranty costs and unfavorable mix, partially offset by lower material and commodity costs and favorable foreign currency fluctuations. The decrease in selling, general and administrative expenses was primarily due to lower consulting expenses, partially offset by higher compensation expenses. The decrease in research, development and engineering expenses was primarily due to higher expense recovery and lower consulting expenses, partially offset by increased compensation expenses. The increase in equity, royalty and interest income from investees was primarily due to increased earnings at Beijing Foton Cummins Engine Co., Ltd. as the joint venture continues to increase market share with the new heavy-duty engine platform introduced in 2014, partially offset by an asset impairment of \$12 million.

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Distribution segment sales for the nine months ended September 27, 2015, increased versus the comparable period in 2014 primarily due to \$1.2 billion of segment sales related to the consolidation of partially-owned North American distributors since December 31, 2013, \$19 million of segment sales related to the acquisition of international distributors and \$105 million of organic sales growth primarily in Africa and Asia Pacific, partially offset by unfavorable foreign currency fluctuations (primarily in Australia, Canada, Europe and Brazil) and decreased sales in China, Western Europe, Russia and South America.

Segment EBIT

Distribution segment EBIT for the three months ended September 27, 2015, decreased versus the comparable period in 2014, primarily due to unfavorable foreign currency fluctuations (primarily in Australia and Canada), partially offset by the acquisition of North American distributors. EBIT as a percentage of sales for the three months ended September 27, 2015, was 7.9 percent compared to 10.1 percent for the comparable period in 2014. The decrease was due to the dilutive effect of the 2014 and 2015 acquisitions and unfavorable foreign currency fluctuations.

Distribution segment EBIT for the nine months ended September 27, 2015, decreased versus the comparable period in 2014, primarily due to unfavorable foreign currency fluctuations (primarily in Australia and Canada), partially offset by the acquisition of North American distributors and organic growth, primarily in Africa and Asia Pacific. EBIT as a percentage of sales for the nine months ended September 27, 2015, was 7.2 percent compared to 9.6 percent for the comparable period in 2014. The decrease was due to the dilutive effect of the 2014 and 2015 acquisitions and unfavorable foreign currency fluctuations. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended			Nine months ended		
	September 27, 2015 vs. September 28, 2014			September 27, 2015 vs. September 28, 2014		
	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	\$ 37	16 %	(0.5)	\$ 151	25 %	(0.7)
Selling, general and administrative expenses	(22)	(14)%	0.6	(74)	(17)%	1.2
Equity, royalty and interest income from investees	(18)	(49)%	(1.7)	(60)	(50)%	(2.1)

Components Segment Results

Financial data for the Components segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2015	September 28, 2014	Amount	Percent	September 27, 2015	September 28, 2014	Amount	Percent
External sales ⁽¹⁾	\$ 891	\$ 946	\$ (55)	(6)%	\$ 2,839	\$ 2,821	\$ 18	1 %
Intersegment sales ⁽¹⁾	349	341	8	2 %	1,097	976	121	12 %
Total sales	1,240	1,287	(47)	(4)%	3,936	3,797	139	4 %
Depreciation and amortization	28	27	(1)	(4)%	82	79	(3)	(4)%
Research, development and engineering expenses	65	64	(1)	(2)%	183	170	(13)	(8)%
Equity, royalty and interest income from investees	9	9	—	— %	26	27	(1)	(4)%
Interest income	1	1	—	— %	3	3	—	— %
Segment EBIT	156	172	(16)	(9)%	574	524	50	10 %
Segment EBIT as a percentage of total sales	12.6%	13.4%	(0.8)		14.6%	13.8%	0.8	

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

Sales for our Components segment by business were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27,	September 28,	Amount	Percent	September 27,	September 28,	Amount	Percent
	2015	2014			2015	2014		
Emission solutions	\$ 607	\$ 598	\$ 9	2 %	\$ 1,899	\$ 1,723	\$ 176	10 %
Turbo technologies	266	297	(31)	(10)%	874	917	(43)	(5)%
Filtration	240	268	(28)	(10)%	761	808	(47)	(6)%
Fuel systems	127	124	3	2 %	402	349	53	15 %
Total sales	\$ 1,240	\$ 1,287	\$ (47)	(4)%	\$ 3,936	\$ 3,797	\$ 139	4 %

Sales

Components segment sales for the three months ended September 27, 2015, decreased versus the comparable period in 2014. The following were the primary drivers by business:

- Foreign currency fluctuations unfavorably impacted sales results (primarily in Europe, Brazil and Australia).
- Turbo technologies sales decreased primarily due to lower demand in China, Europe and Latin America.
- Filtration sales decreased primarily due to lower demand in the North American on-highway markets and lower demand in Europe, North America and Latin America.

The decreases above were partially offset by improved emission solutions sales, primarily due to improved demand in certain North American on-highway markets and higher demand in China, partially offset by lower demand in Brazil.

Components segment sales for the nine months ended September 27, 2015, increased versus the comparable period in 2014. The following were the primary drivers by business:

- Emission solutions sales increased primarily due to improved demand in the North American on-highway markets.
- Fuel systems sales increased due to the new Beijing Foton ISG engine that entered production in the second quarter of 2014 in China and improved demand in certain North American on-highway markets.

The increases above were partially offset by the following:

- Foreign currency fluctuations unfavorably impacted sales results (primarily in Europe and Brazil).
- Filtration sales decreased primarily due to lower demand in Europe and Brazil.
- Turbo technologies sales decreased primarily due to lower demand in China, Europe and Brazil, partially offset by higher demand in the North American on-highway markets.

Segment EBIT

Components segment EBIT for the three months ended September 27, 2015, decreased versus the comparable period in 2014, primarily due to lower gross margin and unfavorable foreign currency fluctuations (primarily in Brazil and Europe).

Components segment EBIT for the nine months ended September 27, 2015, increased versus the comparable period in 2014, primarily due to higher gross margin, partially offset by unfavorable foreign currency fluctuations (primarily in Brazil and Europe), higher research, development and engineering expenses and higher selling, general and administrative expenses. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended			Nine months ended		
	September 27, 2015 vs. September 28, 2014			September 27, 2015 vs. September 28, 2014		
	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	\$ (14)	(5)%	(0.2)	\$ 70	8 %	0.9
Selling, general and administrative expenses	—	— %	(0.2)	(4)	(2)%	0.1
Research, development and engineering expenses	(1)	(2)%	(0.2)	(13)	(8)%	(0.1)
Equity, royalty and interest income from investees	—	— %	—	(1)	(4)%	—

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The decrease in gross margin for the three months ended September 27, 2015, versus the comparable period in 2014, was primarily due to unfavorable pricing and unfavorable foreign currency fluctuations (primarily in Europe and Brazil), partially offset by lower material costs.

The increase in gross margin for the nine months ended September 27, 2015, versus the comparable period in 2014, was primarily due to higher volumes, mainly in the emission solutions business, and lower material costs, partially offset by unfavorable pricing and unfavorable foreign currency fluctuations (primarily in Europe and Brazil). The increase in selling, general and administrative expenses was primarily due to higher compensation expenses. The increase in research, development and engineering expenses was primarily due to higher consulting expenses and higher compensation expenses.

Power Generation Segment Results

Financial data for the Power Generation segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27,	September 28,	Amount	Percent	September 27,	September 28,	Amount	Percent
	2015	2014			2015	2014		
External sales ⁽¹⁾	\$ 386	\$ 481	\$ (95)	(20)%	\$ 1,259	\$ 1,408	\$ (149)	(11)%
Intersegment sales ⁽¹⁾	273	273	—	— %	827	728	99	14 %
Total sales	659	754	(95)	(13)%	2,086	2,136	(50)	(2)%
Depreciation and amortization	14	13	(1)	(8)%	43	38	(5)	(13)%
Research, development and engineering expenses	14	18	4	22 %	46	55	9	16 %
Equity, royalty and interest income from investees	10	13	(3)	(23)%	27	30	(3)	(10)%
Interest income	1	1	—	— %	3	3	—	— %
Segment EBIT	42	60	(18)	(30)%	148	146	2	1 %
			Percentage Points				Percentage Points	
Segment EBIT as a percentage of total sales	6.4%	8.0%		(1.6)	7.1%	6.8%		0.3

⁽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 2015, our Power Generation segment reorganized its reporting structure to include the following businesses:

- **Power systems** - We manufacture generators for commercial and consumer applications ranging from 2 kilowatts to 3.5 megawatts, as well as paralleling systems and transfer switches for applications such as data centers, health care facilities and waste water treatment plants.
- **Alternators** - We design, manufacture, sell and service A/C generator/alternator products internally as well as to other generator set assemblers. Our products are sold under the Stamford, AVK and Markon brands and range in output from 3 kilovolt-amperes (kVA) to 12,000 kVA.
- **Power solutions** - We provide natural gas fuel-based turnkey solutions for distributed generation and energy management applications using natural or biogas as a fuel. The business also serves a global rental account for diesel and gas generator sets.

Sales for our Power Generation segment by business (including 2014 reorganized balances) were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27,	September 28,	Amount	Percent	September 27,	September 28,	Amount	Percent
	2015	2014			2015	2014		
Power systems	\$ 551	\$ 598	\$ (47)	(8)%	\$ 1,705	\$ 1,694	\$ 11	1 %
Alternators	86	115	(29)	(25)%	276	346	(70)	(20)%
Power solutions	22	41	(19)	(46)%	105	96	9	9 %
Total sales	\$ 659	\$ 754	\$ (95)	(13)%	\$ 2,086	\$ 2,136	\$ (50)	(2)%

Sales

Power Generation segment sales for the three months ended September 27, 2015, decreased versus the comparable period in 2014. The following were the primary drivers by business:

- Power systems sales decreased primarily due to lower demand in North America, China and Asia, partially offset by higher demand in the Middle East.
- Alternator sales decreased primarily due to lower demand in Western Europe, China and the U.K.
- Foreign currency fluctuations unfavorably impacted sales results (primarily in Europe, Brazil and India).
- Power solutions sales decreased primarily due to lower demand in Russia, the U.K., North America and China, partially offset by higher demand in Asia.

Power Generation segment sales for the nine months ended September 27, 2015, decreased versus the comparable period in 2014. The following were the primary drivers by business:

- Alternator sales decreased primarily due to lower demand in Western Europe, China and the U.K.
- Foreign currency fluctuations unfavorably impacted sales results (primarily in Europe, Brazil and India).

The decreases above were partially offset by the following:

- Power systems sales increased primarily due to higher demand in the Middle East, Africa and China, partially offset by lower demand in North America and Russia.
- Power solutions sales increased primarily due to higher demand in the U.K., partially offset by lower demand in North America and Russia.

Segment EBIT

Power Generation segment EBIT for the three months ended September 27, 2015, decreased versus the comparable period in 2014, primarily due to lower gross margin, partially offset by lower selling, general and administrative expenses and lower research, development and engineering expenses.

Power Generation segment EBIT for the nine months ended September 27, 2015, increased slightly versus the comparable period in 2014 primarily due to lower selling, general and administrative expenses and lower research, development and engineering expenses, partially offset by lower gross margin. Major components of EBIT and related changes to segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended September 27, 2015 vs. September 28, 2014			Nine months ended September 27, 2015 vs. September 28, 2014		
	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	\$ (29)	(20)%	(1.7)	\$ (20)	(5)%	(0.5)
Selling, general and administrative expenses	8	10 %	(0.3)	13	6 %	0.3
Research, development and engineering expenses	4	22 %	0.3	9	16 %	0.4
Equity, royalty and interest income from investees	(3)	(23)%	(0.2)	(3)	(10)%	(0.1)

The decrease in gross margin for the three months ended September 27, 2015, versus the comparable period in 2014, was primarily due to lower volumes and unfavorable pricing, partially offset by savings from operating actions taken in December of 2014. The decrease in selling, general and administrative expenses was primarily due to lower compensation expenses as the result of operating actions taken in December of 2014 and lower consulting expenses. The decrease in research, development and engineering expenses was primarily due to lower compensation expenses as the result of operating actions taken in December of 2014.

The decrease in gross margin for the nine months ended September 27, 2015, versus the comparable period in 2014, was primarily due to unfavorable pricing and lower volumes, partially offset by savings from operating actions taken in December of 2014. The decrease in selling, general and administrative expenses was primarily due to lower consulting expenses and lower compensation expenses as the result of operating actions taken in December of 2014. The decrease in research,

development and engineering expenses was primarily due to lower compensation expenses as the result of operating actions taken in December of 2014.

Reconciliation of Segment EBIT to Income Before Income Taxes

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

In millions	Three months ended		Nine months ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Total segment EBIT	\$ 573	\$ 693	\$ 1,892	\$ 1,913
Non-segment EBIT ⁽¹⁾	4	(9)	(32)	(44)
Total EBIT	577	684	1,860	1,869
Less: Interest expense	16	15	47	47
Income before income taxes	\$ 561	\$ 669	\$ 1,813	\$ 1,822

⁽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 September 27, 2015 and September 28, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Key Working Capital and Balance Sheet Data

We fund our working capital with cash from operations and short-term borrowings when necessary. Various assets and liabilities, including short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. As a result, working capital is a prime focus of management attention. Working capital and balance sheet measures are provided in the following table:

Dollars in millions	September 27, 2015	December 31, 2014
Working capital ⁽¹⁾	\$ 4,894	\$ 5,034
Current ratio	2.23	2.25
Accounts and notes receivable, net	\$ 3,159	\$ 2,946
Days' sales in receivables	58	53
Inventories	\$ 3,059	\$ 2,866
Inventory turnover	4.6	5.3
Accounts payable (principally trade)	\$ 1,824	\$ 1,881
Days' payable outstanding	48	44
Total debt	\$ 1,653	\$ 1,698
Total debt as a percent of total capital ⁽²⁾	17.0 %	17.3 %

⁽¹⁾ Working capital includes cash and cash equivalents.

⁽²⁾ Total capital is defined as total debt plus equity.

Cash Flows

Cash and cash equivalents were impacted as follows:

In millions	Nine months ended		Change
	September 27, 2015	September 28, 2014	
Net cash provided by operating activities	\$ 1,131	\$ 1,388	\$ (257)
Net cash used in investing activities	(477)	(640)	163
Net cash used in financing activities	(1,215)	(1,099)	(116)
Effect of exchange rate changes on cash and cash equivalents	(52)	(20)	(32)
Net decrease in cash and cash equivalents	\$ (613)	\$ (371)	\$ (242)

Net cash provided by operating activities decreased for the nine months ended September 27, 2015, versus the comparable period in 2014, primarily due to unfavorable working capital fluctuations, partially offset by higher consolidated net income. During the first nine months of 2015, the higher working capital requirements resulted in a cash outflow of \$414 million compared to a cash outflow of \$66 million in the prior period in 2014.

Net cash used in investing activities decreased for the nine months ended September 27, 2015, versus the comparable period in 2014, primarily due to lower cash investment for the acquisitions of businesses of \$164 million.

Net cash used in financing activities increased for the nine months ended September 27, 2015, versus the comparable period in 2014, primarily due to higher dividend payments of \$82 million and higher common stock repurchases of \$45 million.

Sources of Liquidity

We generate significant ongoing cash flow, which has been used, in part, to fund working capital, common stock repurchases, capital expenditures, dividends on our common stock, acquisitions, projected pension obligations and debt service. Cash provided by operations is our principal source of liquidity with \$1.1 billion provided in the nine months ended September 27, 2015.

As of September 27, 2015, our other sources of liquidity included:

- cash and cash equivalents of \$1.7 billion, of which approximately 41 percent is located in the U.S. and 59 percent is located outside the U.S., primarily in the U.K., China and Singapore,

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- a revolving credit facility with \$1.7 billion available, net of letters of credit and
- international and other domestic credit facilities with \$197 million available.

Cash, Cash Equivalents and Marketable Securities

A significant portion of our cash flows is generated outside the U.S. At September 27, 2015, the total of cash, cash equivalents and marketable securities held by foreign subsidiaries was \$1.0 billion, the majority of which was located in the U.K., China and Singapore. The geographic location of our cash and marketable securities aligns well with our ongoing investments. We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. As a result, we do not anticipate any local liquidity restrictions to preclude us from funding our targeted expansion or operating needs with local resources.

If we distribute our foreign cash balances to the U.S. or to other foreign subsidiaries, we could be required to accrue and pay U.S. taxes. For example, we would be required to accrue and pay additional U.S. taxes if we repatriated cash from certain foreign subsidiaries whose earnings we have asserted are permanently reinvested outside of the U.S. Foreign earnings for which we assert permanent reinvestment outside the U.S. consist primarily of earnings of our China and U.K. domiciled subsidiaries. At present, we do not foresee a need to repatriate any earnings from these subsidiaries for which we have asserted permanent reinvestment. However, to help fund cash needs of the U.S. or other international subsidiaries as they arise, we repatriate available cash from certain foreign subsidiaries whose earnings are not permanently reinvested when it is cost effective to do so. Earnings generated after 2011 from our China operations are considered permanently reinvested, while earnings generated prior to 2012, for which U.S. deferred tax liabilities have been recorded, are expected to be repatriated in future years.

Debt Facilities and Other Sources of Liquidity

We have a \$1.7 billion revolving credit facility, the proceeds of which can be used for general corporate purposes. This facility expires on November 9, 2018. We expect to successfully negotiate an amended and restated revolver agreement at similar terms in the fourth quarter of 2015.

We have a current shelf registration filed with the Securities and Exchange Commission under which we may offer, from time to time, debt securities, common stock, preferred and preference stock, depository shares, warrants, stock purchase contracts and stock purchase units.

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 \$9 million to \$40 million over the next five years (including the remainder of 2015).

Uses of Cash

Capital Expenditures

Capital expenditures and spending on internal use software for the nine months ended September 27, 2015, were \$431 million compared to \$449 million in the comparable period in 2014. Despite the challenging international economies, we continue to invest in new product lines and targeted capacity expansions. We plan to spend between \$650 million and \$700 million in 2015 as we continue with product launches and facility improvements. Approximately 40 percent of our capital expenditures are expected to be invested outside of the U.S. in 2015.

Share Repurchases

In July 2014, our Board of Directors authorized the acquisition of up to \$1 billion of additional common stock upon the completion of the 2012 Plan. In 2015, we made the following purchases under the respective stock purchase programs:

In millions (except per share amounts) For each quarter ended	Shares Purchased	Average Cost Per Share	Total Cost of Repurchases	Remaining Authorized Capacity ⁽¹⁾
December 2012, \$1 billion repurchase program				
March 29	1.0	\$ 138.15	\$ 137	\$ 37
June 28	0.3	136.68	37	—
Subtotal	1.3	137.83	174	—
July 2014, \$1 billion repurchase program				
June 28	2.4	140.04	340	660
September 27	1.1	127.77	136	524
Subtotal	3.5	136.30	476	524
Total	4.8	136.71	\$ 650	

⁽¹⁾ The remaining authorized capacities under the 2012 and 2014 Plans were calculated based on the cost to purchase the shares, but exclude commission expenses in accordance with the authorized Plans.

We may continue to repurchase outstanding shares from time to time during 2015 to offset the dilutive impact of employee stock based compensation plans and to enhance shareholder value.

Dividends

In July 2015, the Board of Directors authorized an increase to our quarterly dividend of 25 percent from \$0.78 per share to \$0.975 per share. We paid dividends of \$452 million during the nine months ended September 27, 2015.

Pensions

The funded status of our pension plans is dependent upon a variety of variables and assumptions including return on invested assets, market interest rates and levels of voluntary contributions to the plans. In the first nine months of 2015, the investment return on our U.S. pension trust was negative 0.8 percent while our U.K. pension trust return was 0.2 percent. Approximately 77 percent of our pension plan assets are held in highly liquid investments such as fixed income and equity securities. The remaining 23 percent of our plan assets are held in less liquid, but market valued investments, including real estate, private equity and insurance contracts.

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

In millions	Nine months ended	
	September 27, 2015	September 28, 2014
Defined benefit pension and other postretirement plans		
Voluntary contribution	\$ 79	\$ 109
Mandatory contribution	87	88
Defined benefit pension contributions	166	197
Other postretirement plans	33	35
Total defined benefit plans	\$ 199	\$ 232
Defined contribution pension plans		
	\$ 56	\$ 57

We anticipate making additional defined benefit pension contributions and other postretirement benefit payments during the remainder of 2015 of \$9 million and \$7 million, respectively. The estimated \$175 million of pension contributions for the full year include voluntary contributions of approximately \$82 million. These contributions and payments may be made from trusts or company funds either to increase pension assets or to make direct benefit payments to plan participants. Claims and

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premiums for other postretirement benefits are expected to approximate \$40 million in 2015. We expect our 2015 net periodic pension cost to approximate \$63 million.

Restructuring Actions

On October 27, 2015, we announced we will reduce our worldwide professional work force by up to 2,000 employees in response to lower demand for our products in the U.S. and key markets around the world. The employee reductions will come from all parts of the company. We will incur a pre-tax fourth quarter charge in the range of \$70 million to \$90 million for the headcount reductions. In addition to these reductions, we expect to close or restructure several manufacturing facilities over time which could increase the fourth quarter charge and may result in additional charges in the future.

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⁾	Senior L-T Debt Rating	Outlook	Last Updated
Standard & Poor's Rating Services	A+	Stable	August 2014
Fitch Ratings	A	Stable	October 2015
Moody's Investors Service, Inc.	A2	Stable	December 2014

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

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 2014 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 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 2014 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 2015.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 14, "RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS," in the *Notes to Condensed Consolidated Financial Statements*.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

A discussion of quantitative and qualitative disclosures about market risk may be found in Item 7A of our 2014 Form 10-K. There have been no material changes in this information since the filing of our 2014 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 September 27, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. Legal Proceedings**

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

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

ITEM 1A. Risk Factors

In addition to other information set forth in this report, 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, 2014, 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			
	(a) Total Number of Shares Purchased ⁽¹⁾	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
June 29 - August 2, 2015	751,522	\$ 130.59	751,522	84,095
August 3 - August 30, 2015	156,097	128.79	155,297	102,096
August 31 - September 27, 2015	158,109	113.54	158,109	103,967
Total	1,065,728	127.79	1,064,928	

⁽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 program.

⁽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 was excluded from this column.

We repurchased \$136 million of stock under the 2014 Board of Directors authorized stock repurchase plan during the three months ended September 27, 2015.

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During the three months ended September 27, 2015, we repurchased 800 shares from employees in connection with the Key Employee Stock Investment Plan which allows certain employees, other than officers, to purchase shares of common stock on an installment basis up to an established credit limit. Loans are issued for five-year terms at a fixed interest rate established at the date of purchase and may be refinanced after its initial five-year period for an additional five-year period. Participants must hold shares for a minimum of six months from date of purchase and after shares are sold must wait six months before another share purchase may be made. We hold participants' shares as security for the loans and would, in effect repurchase shares if the participant defaulted in repayment of the loan. There is no maximum amount of shares that we may purchase under this plan.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

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

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 27, 2015

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

By: _____
 /s/ MARSHA L. HUNT
 Marsha L. Hunt
 Vice President-Corporate Controller
 (Principal Accounting Officer)

**CUMMINS INC.
EXHIBIT INDEX**

Exhibit No.	Description of Exhibit
10(c)	Deferred Compensation Plan, as amended (filed herewith).
12	Calculation of Ratio of Earnings to Fixed Charges.
31(a)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

EXHIBIT 10(c)
CUMMINS INC. DEFERRED COMPENSATION PLAN

Amended and Restated as of January 1, 2014
with amendments through July 2014
and amendments through February 2015

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**ARTICLE I
RESTATEMENT AND PURPOSE**

Section 1.01 History and Restatement. Cummins Inc. established the Cummins Engine Company, Inc. 1994 Deferred Compensation Plan ("Plan"), effective February 1, 1994, and it has amended and/or restated the Plan on several occasions since that time. The Company restated the Plan effective January 1, 2008 to comply with the requirements of the final regulations under Code Section 409A and to change the name of the Plan to the Cummins Inc. Deferred Compensation Plan (the "2008 Restatement"), and restated the Plan again effective as of October 15, 2012 and January 1, 2014. By this restatement, which is effective as of January 1, 2016 (the "Restatement Effective Date"), the Company amends the Plan to incorporate certain changes to the terms of the Plan.

Section 1.02 Application of Restatement. The 2008 Restatement applied, effective January 1, 2008, to all amounts deferred or vested under the Plan after 2004 and any earnings credited with respect to such amounts. None of the 2008 Restatement, this restatement nor any interim restatement applies to any amount deferred and vested as of December 31, 2004, or any earnings credited under the Plan with respect to such amounts (together, "Grandfathered Amounts"), and Grandfathered Amounts shall continue to be governed by the terms and conditions of the Plan without regard to the 2008 Restatement, this restatement or any interim restatement; provided, however, the person or persons entitled to receive any remaining portion of a Participant's Accounts after his death shall be determined pursuant to this restatement, provided that the Participant's death occurs after 2004.

Section 1.03 Purpose. The Plan is intended to constitute an unfunded plan maintained by the Employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Sections 201, 301, and 401 of ERISA.

Section 1.04 Grantor Trust. The Company has established a grantor trust to hold assets for the provision of certain benefits under the Plan as well as other employee benefits. Assets of the Trust are subject to the claims of the Employer's general creditors, and no Participant shall have any interest in any assets of the Trust or an Employer other than as a general creditor of the Employer.

**ARTICLE II
DEFINITIONS AND INTERPRETATION**

Section 2.01 Definitions. When the first letter of a word or the words in a phrase are capitalized herein, the word or phrase shall have the meaning specified below:

(a) "Account" means the bookkeeping account established to reflect a Participant's interest under the Plan attributable to amounts deferred pursuant a specific deferral election and related RSP true up matching credits under Section 5.03. The Administrator shall maintain a separate Account with respect to amounts deferred pursuant to all deferral elections made with respect to a single year and any related RSP True Up Matching Credits. Where the context so permits, the term "Account" means the amount credited to such bookkeeping account.

(b) "Administrator" means the Company's Benefits Policy Committee or such other person that the Board designates as Administrator. To the extent that the Administrator delegates a duty or responsibility to an agent, the term "Administrator" shall include such agent.

(c) "Affiliated Employer" means (i) a member of a controlled group of corporations (as defined in Code Section 414(b)) of which the Company is a member or (ii) an unincorporated trade or business under common control (as defined in Code Section 414(c)) with the Company.

(d) "Affirmation of Domestic Partnership" means an Applicable Form for affirming the relationship between a Participant and his Domestic Partner.

(e) "Alternate Payee" has the meaning set out in ERISA Section 206(d)(3)(K).

(f) "Applicable Form" means a form provided by the Administrator for making an election or designation under the Plan. To the extent permitted by the Administrator, an Applicable Form may be provided and/or an election or designation made electronically.

(g) "Beneficiary" means the person or persons entitled to receive a Participant's remaining Accounts, if any, after his death. A Participant's Beneficiary shall be determined as provided in Section 6.07.

(h) "Benefit Claim" means a request or claim for a benefit under the Plan, including a claim for greater benefits than have been paid.

(i) "Benefit Commencement Date" means the date as of which distribution of an Account begins or is paid, if payable as a lump sum, as determined under Section 6.01.

(j) "Board" or "Board of Directors" means the Company's Board of Directors or, where the context so permits, its designee.

(k) "Change of Control" means the occurrence of any of the following:

(1) there shall be consummated (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's common stock would be converted in whole or in part into cash or other securities or property, other than a merger of the Company in which the holders of the Company's common stock immediately before the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (B) any sale, lease, exchange, or transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company, or

(2) the liquidation or dissolution of the Company, or

(3) any 'person' (as such term is used in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), other than the Company or a subsidiary thereof or any employee benefit plan sponsored by the Company or a subsidiary thereof or a corporation owned, directly or indirectly, by the shareholders of the

Company in substantially the same proportions as their ownership of stock of the Company, shall become the beneficial owners (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases, or otherwise, or

(4) at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors shall cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's stockholders of each new director during such two-year period was approved by a vote of at least two-thirds (2/3) of the directors then still in office who were directors at the beginning of such two-year period, or

(5) any other event shall occur that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A or Regulation 14A promulgated under the Exchange Act.

Notwithstanding the preceding provisions, an event or series of events shall not constitute a Change of Control with respect to a Participant unless the event or series of events qualifies as a change in the ownership or effective control of the corporation or in the ownership of a substantial portion of the assets of the corporation within the meaning of Code Section 409A(a)(2)(A)(v).

(l) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(m) "Company" means Cummins Inc.

(n) "Denial" or "Denied" means a denial, reduction, termination, or failure to provide or make payment (in whole or in part) of a Plan benefit.

(o) "Designated Benefit Commencement Date" means, with respect to an Account, the date elected by an Eligible Employee for distribution (or commencing distribution, if payable in installments) of the Account. Except as otherwise provided in Section 4.06, a Participant's Designated Benefit Commencement Date must be either (i) a specified Quarterly Distribution Date occurring at least two years after the end of the calendar year for which the deferral is made or (ii) a specified Quarterly Distribution Date occurring in the calendar quarter after the Participant's Retirement or one of the next following three calendar quarters.

(p) "Designated Form" means, with respect to an Account, the form in which an Eligible Employee has elected for the Account to be distributed. The "Designated Form" must be either (i) a single lump sum payment or (ii) annual installments beginning on the Designated Benefit Commencement Date and continuing over the next following anniversaries of such date for a designated number of years, not to exceed a total of 15 annual installments. Each installment shall consist of a portion of the remaining Account, which shall be equal to (i) one divided by (ii) one

plus the number of installments remaining after the installment for which the calculation is being made. If an Eligible Employee fails to elect the Designated Form for an Account, the Designated Form for such Account shall be a single lump sum payment.

(q) "Domestic Partner" means a person of the same or opposite sex (i) with whom the Participant has a single, dedicated relationship and has shared the same permanent residence for at least six months, (ii) who is not married to another person or part of another domestic partner relationship and is at least age 18, (iii) who, with the Participant, is mutually responsible for the other's welfare, (iv) who, with the Participant, intends for their relationship to be permanent, (v) who is not so closely related to the Participant as to preclude marriage under state law, and (vi) for whom there is an Affirmation of Domestic Partnership on file with the Administrator. In determining whether the requirements of clauses (i) through (v) of the preceding sentence have been satisfied, the Administrator may rely on the Affirmation of Domestic Partner filed with the Administrator.

(r) "Domestic Relations Order" has the meaning specified in Code Section 414(p)(1)(B).

(s) "Earnings Credit" means, with respect to an Account, the amount credited to the Account pursuant to Section 5.05.

(t) "Eligible Employee" means, on and after the Restatement Effective Date, a common-law employee of the Employer who (i) is paid on the Employer's United States payroll, (ii) is in a compensation class of CC04 or CC05, (iii) is either (A) a citizen or legal permanent resident of the United States or (B) holds one of the following types of United States' visas: F-1, F-2, H-1B, H-2B, H-3, H-4, L-1, O-1, O-3, or TN, and (iv) has received written notice from the Administrator that he is eligible to participate in the Plan; provided that no employee of any North American distributorship acquired by the Company in 2013 or subsequent years shall be an Eligible Employee until such time as the distributorship has been integrated, as determined by the Company in its sole discretion, into Cummins Inc.; and provided further that any individual who (a) was an Eligible Employee based on the eligibility criteria in effect immediately prior to the Restatement Effective Date and (b) became an active Participant shall be deemed an Eligible Employee so long as such individual continues to satisfy either the eligibility criteria in effect immediately prior to the Restatement Effective Date or the eligibility criteria in effect on and after the Restatement Effective Date.

(u) "Employer" means the Company and all of its Affiliated Employers.

(v) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

(w) "Fund" means an Investment Fund.

(x) "Grandfathered Amount" has the meaning specified in Section 1.02.

(y) "Investment Fund" means one or more funds selected by the Administrator pursuant to Section 5.04 to determine Earnings Credits.

(z) "Longer-Term Performance Plan" means the Cummins Inc. Longer-Term Performance Plan, the Cummins Inc. Senior Executive Longer-Term Performance Plan, or the successor of either.

(aa) "Non-Grandfathered Amount" means an amount deferred under the Plan that is not a Grandfathered Amount.

(bb) "Participant" means an Eligible Employee who has elected to make deferrals under the Plan on an Applicable Form and whose Accounts have not been fully distributed.

(cc) "Plan" means the "Cummins Inc. Deferred Compensation Plan" as set out in this document, as amended from time to time.

(dd) "Quarterly Distribution Date" means March 15, June 15, September 15, or December 15.

(ee) "Retire" or "Retirement" refers to Termination of Employment after (i) reaching age 55 and completing at least five years of employment with the Affiliated Employers or (ii) completing 30 years of employment with the Affiliated Employers.

(ff) "RSP True Up Matching Credit" means an amount credited to a Participant's Account pursuant to Section 5.03.

(gg) "Specified Employee" means, with respect to the 12-month period beginning on the Specified Employee Effective Date, an individual who, (i) during any part of the 12-month period ending on the Specified Employee Identification Date, is in salary grade 99 or compensation class 6, or (ii) is a specified employee within the meaning of Code Section 409A(a)(2)(B)(i) and the guidance thereunder.

(hh) "Specified Employee Effective Date" means, in the case of an Employee who Terminates Employment before December 31, 2009, the April 1 next following the Specified Employee Identification Date, and, in the case of an Employee who Terminates Employment after December 31, 2009, the January 1 next following the Specified Employee Identification Date.

(ii) "Specified Employee Identification Date" means December 31.

(jj) "Spouse" means, as of a Participant's Benefit Commencement Date, (i) the person to whom the Participant is married in accordance with applicable law of the jurisdiction in which the Participant resides, or (ii) in the case of an Participant not described in clause (i), the Participant's Domestic Partner.

(kk) "Terminates Employment," "Termination of Employment," or any variation thereof means a separation from service within the meaning of Code Section 409A(a)(2)(A)(i).

(ll) "Trust" means the grantor trust established by the Company to hold assets for the provision of certain benefits under the Plan as well as other Employer benefits.

(mm) "Unforeseeable Emergency" has the meaning given to such term by Code Section 409A and the guidance thereunder. In general, the term means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's beneficiary or a dependent (as defined in Code Section 152(a)) of the Participant; loss of the Participant's property due to casualty; or other similar extraordinary and unforeseeable circumstances arising from events beyond the control of the Participant.

Section 2.02 Rules of Interpretation.

(a) The Plan is intended to comply with (i) Code Section 409A and (ii) the applicable provisions of ERISA, and it shall be interpreted and administered in accordance with such intent. Except as provided in the preceding sentence or as otherwise expressly provided herein, the Plan shall be construed, enforced, and administered, and the validity thereof determined, in accordance with the internal laws of the State of Indiana without regard to conflict of law principles and the following provisions of this Section.

(b) Words used herein in the masculine shall be construed to include the feminine, where appropriate, and *vice versa*, and words used herein in the singular or plural shall be construed to include the plural or singular, where appropriate.

(c) Headings and subheadings are used for convenience of reference only and shall not affect the interpretation of any provision hereof.

(d) If any provision of the Plan shall be held to violate the Code or ERISA or be illegal or invalid for any other reason, that provision shall be deemed null and void, but the invalidation of that provision shall not otherwise affect the Plan.

(e) Reference to any provision of the Code, ERISA, or other law shall be deemed to include a reference to the successor of such provision.

**ARTICLE III
PARTICIPATION**

The Administrator shall notify an individual of his eligibility to participate in the Plan as soon as administratively feasible after it determines that the individual has satisfied the requirements (other than notification) for eligibility to participate. An individual shall become an Eligible Employee upon receipt of the Administrator's notice. An Eligible Employee shall become a Participant only after completing such forms and making such elections as the Administrator may prescribe.

**ARTICLE IV
DEFERRAL AND DISTRIBUTION ELECTIONS**

Section 4.01 Deferral of Compensation. An Eligible Employee may elect pursuant to this Article IV to defer receipt of all or a portion, as specified in the election, of his base salary, annual bonus, and/or Longer-Term Performance Plan payments that would otherwise be paid to

him in cash. All elections pursuant to this Article IV shall be made by filing an Applicable Form with the Administrator. Subject to the provisions of Section 4.06 and 4.07, elections under this Article IV shall become irrevocable (i) in the case of initial deferral elections pursuant to Section 4.02, when it is filed, or (ii) in the case of deferral elections other than initial deferral elections, as of the last day of the applicable election period; provided, however, if the Administrator grants a Participant's request for a distribution on account of an Unforeseeable Emergency, it shall cancel the Participant's existing deferral elections. Amounts deferred pursuant to a Participant's election shall be withheld from his cash compensation and credited to his Account as provided in Section 5.02. The Participant's Employer shall withhold employment and other taxes with respect to the deferred amounts from the Participant's other compensation, as required by law. If the Participant's other compensation is insufficient for that purpose, the required amounts shall be withheld by the Participant's Employer from the amounts subject to the Participant's deferral election or the Participant shall reimburse the Employer for the required withholding not withheld from the Participant's other compensation.

Section 4.02 Initial Deferral Election. An individual may make a deferral election pursuant to this Section only within the enrollment period specified by the Administrator, which shall end not later than 30 days after the individual first becomes an Eligible Employee (or, if earlier, within 30 days after the date on which he first becomes eligible to participate in any other plan of an Affiliated Employer that is required to be aggregated with this Plan for purposes of Code Section 409A). Pursuant to such election, an Eligible Employee may elect to defer (i) part or all of his base salary for services performed after the date on which his election is filed with the Administrator and/or (ii) part or all of his annual bonus for services performed in months after the date on which his election is filed with the Administrator. For purposes of clause (ii) of the preceding sentence, the portion of an Eligible Employee's annual bonus for services performed in months after the date on which his election is filed with the Administrator shall be equal to the amount of his annual bonus multiplied by a fraction, the numerator of which is the number of full months in the calendar year occurring after the filing of the Eligible Employee's election and the denominator of which is 12.

Section 4.03 Annual Deferral Elections. An Eligible Employee may elect to defer part or all of his base salary and/or annual bonus for services performed during a calendar year by filing an election during the enrollment period established by the Administrator, which period shall end not later than December 31 of the preceding year.

Section 4.04 Elections to Defer Longer-Term Performance Plan Payouts. An Eligible Employee may elect to defer part or all of his cash payouts under the Longer-Term Performance Plan, provided that such election is made during the enrollment period established by the Administrator, which period shall end not later than 12 months before the end of the performance period, and such election is otherwise permitted by Code Section 409A. Except as permitted by the preceding provisions of this Section, an Eligible Employee's election to defer part or all of his cash payouts under the Longer-Term Performance Plan must be made before the beginning of the applicable performance period.

Section 4.05 Election of Form and Timing of Payment. At the time a Participant makes a deferral election pursuant to Section 4.02, 4.03 or 4.04, he shall also elect a Designated Benefit Commencement Date and Designated Form for the Account to which amounts subject to the deferral are credited.

Section 4.06 Election Changes. A Participant may, pursuant to this Section, elect to change the Designated Distribution Date and/or Designated Form for an Account, provided, however, that a Participant may make only one election pursuant to this Section with respect to an Account. A Participant's election change pursuant to this Section shall be not be valid until 12 months after it is filed with the Administrator, and it shall be valid only if (i) it defers the original Designated Distribution Date for at least five years, and (ii) if it changes an election for payment at a specified time or pursuant to a specified schedule, it is made at least 12 months before the prior Designated Distribution Date. In addition, if the prior Designated Distribution Date is based on the Participant's Retirement date, the Participant's new Designated Distribution Date must be precisely five years after the prior Designated Distribution Date.

Section 4.07 Special Transition Period Elections.

(a) A Participant was permitted to elect during the election period established by the Administrator (which shall begin no earlier than September 1, 2007, and end no later than December 31, 2007) to change his Designated Benefit Commencement Date and/or Designated Form with respect to an Account, provided that such election does not cause any amounts otherwise payable in another year to be payable in 2007 or cause any amounts otherwise payable in 2007 to be paid in a later year.

(b) A Participant was permitted to elect during the election period established by the Administrator (which shall begin and end in 2008) to change his Designated Benefit Commencement Date and/or Designated Form with respect to an Account, provided that such election does not cause any amounts otherwise payable in another year to be payable in 2008 or cause any amounts otherwise payable in 2008 to be paid in a later year.

**ARTICLE V
PARTICIPANT ACCOUNTS**

Section 5.01 Establishment of Accounts. The Administrator shall establish a separate Account to reflect each Participant's interest under the Plan with respect to amounts deferred pursuant to all of the Participant's deferral elections made with respect to a single year. The Administrator also shall separately account for Grandfathered Amounts and Non-Grandfathered Amounts.

Section 5.02 Crediting of Deferrals. A Participant's deferrals shall be credited to his appropriate Account as of the payroll date on which they are withheld from his pay.

Section 5.03 Crediting of RSP True Up Matching Credits. As a result of a Participant's deferrals under the Plan, he may not receive matching contributions that he would have received under the Cummins Inc. and Affiliates Retirement and Savings Plans ("RSP") in the absence of such election. In such a case, to the extent determined by the Company, in its discretion, the

Participant's Account with respect to such deferrals may be credited with the amount of such lost matching contributions and any earnings thereon deemed appropriate by the Company. Such credited amounts shall be subject to the same deferral elections otherwise in effect with respect to such Account.

Section 5.04 Investment Options. The Administrator shall, from time to time, specify the available Investment Funds, which the Administrator may prospectively change or close to new investments in its discretion. Each Participant shall elect one or more Investment Funds to which his existing Accounts shall be allocated, in increments of 1%. Before 2008, a Participant may change his investment election once each calendar year. After 2007, a Participant may change his investment elections one time per month, and he may make separate investment elections with respect to his existing Accounts and future deferrals. The sole purpose of the Investment Funds is to measure Earnings Credits to the Participant's Accounts, and there is no requirement that amounts be invested in the Investment Funds.

Section 5.05 Crediting of Earnings. As of the end of each business day, the Administrator shall credit each Participant's Accounts with an Earnings Credit (which may be positive or negative) as provided in this Section. Except as the Administrator otherwise determines, the Earnings Credit rate for that portion of a Participant's Accounts allocated to a fixed income Investment Fund for any day in a calendar quarter shall be based on the rate under such fixed income investment on the last day of the preceding calendar quarter. The Earnings Credit rate for that portion of a Participant's Accounts allocated to any Investment Fund other than a fixed income Investment Fund shall be the rate of investment earnings under such Investment Fund. Notwithstanding the preceding provisions, no Earnings Credits shall be allocated with respect to a Payment after the last business day immediately preceding that Payment (or such earlier date preceding a Payment as reasonably designated by the Administrator). In determining the Earnings Credits, the Administrator may adopt such procedures as it deems appropriate, in its sole discretion.

Section 5.06 Charge for Distributions. Upon a distribution with respect to a Participant, the Participant's appropriate Accounts shall be reduced by the amount of the distribution.

ARTICLE VI DISTRIBUTION OF ACCOUNTS

Section 6.01 Distribution on Designated Benefit Commencement Date. Except as expressly provided in the following provisions of this Article, a Participant's Accounts subject to a deferral election shall be distributed in their respective Designated Forms, beginning as of their respective Designated Benefit Commencement Dates. Amounts payable as of a date shall be paid on such date or as soon as administratively feasible (and under no circumstances more than 30 days) thereafter. Notwithstanding the preceding provisions of this Section, if a Participant's Account on his separation from service is less than \$10,000, the Designated Form for such Account shall be deemed to be a lump sum.

Section 6.02 Distribution Upon Termination of Employment for Reasons other than Retirement. Notwithstanding Section 6.01, and subject to Section 6.06, if a Participant Terminates Employment for a reason other than Retirement, his remaining Account balances shall be paid to

him (or his Beneficiary, if he is deceased) in a single lump sum payment as of the Quarterly Distribution Date occurring in the first calendar quarter beginning after his Termination of Employment; provided, however this sentence shall not result in the deferral of any amount otherwise payable under the Plan.

Section 6.03 Distribution Upon Death. Notwithstanding Section 6.01, if a Participant dies before the distribution of his entire Account balance, his remaining Account balance shall be distributed to his Beneficiary in a single lump sum payment as of the Quarterly Distribution Date occurring in the first calendar quarter beginning after his death; provided, however, this sentence shall not result in the deferral of any amount otherwise payable under the Plan; and provided further that, if the Administrator does not receive notice of the Participant's death and distribution under this Section 6.01 therefore does not occur at the time specified herein, no breach of the Plan shall be deemed to have occurred.

Section 6.04 Distribution on Account of Unforeseeable Emergency. Notwithstanding Section 6.01, if a Participant demonstrates to the satisfaction of the Administrator that he has incurred an Unforeseeable Emergency, the amount reasonably necessary to satisfy the emergency need (including any amounts necessary to pay any income taxes or penalties reasonably anticipated to result from the distribution), as determined by the Administrator, shall be distributed to him as soon as administratively feasible after the Administrator's decision; provided that, in determining whether an Unforeseeable Emergency has been incurred and the amount reasonably necessary to satisfy the emergency need, the Administrator shall take into consideration, among other things, all amounts available to the Participant under the RSP (including by obtaining a loan under the RSP). If the Administrator grants a request for withdrawal pursuant to this Section, it shall prospectively cancel the Participant's existing deferral elections, and it shall take into account the additional compensation that is available as a result of the cancellation of those elections in determining the amount reasonably necessary to satisfy the Participant's emergency need.

Section 6.05 Distribution on Account of Change of Control. Notwithstanding Section 6.01, if a Change of Control occurs with respect to a Participant, the Participant's remaining Accounts shall be distributed to him in a single lump sum payment on the date of such Change of Control or as soon as administratively feasible (and not more than 30 days) thereafter; provided, however, this sentence shall not result in the deferral of any amount otherwise payable under the Plan.

Section 6.06 Delay in Payment for Specified Employees. Notwithstanding any provision of this Plan to the contrary, to the extent required by Code Section 409A(a)(2)(B)(i), distributions to a Participant who is a Specified Employee on account of his Termination of Employment for any reason other than death shall be delayed until the earliest date permitted by such section. Payments delayed pursuant to the preceding sentence shall be increased by deemed earnings, as determined pursuant to Section 5.05, to the date on which such payments are made.

Section 6.07 Designating a Beneficiary.

(a) The Participant may designate a Beneficiary only by filing a completed Applicable Form with the Administrator during his life. The Participant's proper filing of a Beneficiary designation shall cancel all prior Beneficiary designations. If the Participant does not designate a

Beneficiary, or if all properly designated Beneficiaries die before the Participant, then the Participant's Beneficiary shall be his Spouse, if living at the time of the Participant's death, or if his Spouse is not then living, the individual(s), if any, named as the Participant's beneficiary under his Employer-provided group life insurance program, who are living at the time of the Participant's death or, if no such beneficiaries are then living, the Participant's estate.

(b) Except to the extent the Participant's Beneficiary is the individual named as the Participant's beneficiary under his Employer-provided group life insurance program pursuant to the preceding paragraph and such program otherwise provides, the following rules shall determine the apportionment of payments due under the Plan among Beneficiaries in the event of the Participant's death:

- (1) If any Beneficiary designated by the Participant as a "Direct Beneficiary" dies before the Participant, his interest and the interest of his heirs in any payments under the Plan shall terminate and the percentage share of the remaining Beneficiaries designated as Direct Beneficiaries shall be increased on a pro rata basis. If no such Beneficiary survives the Participant, then the Participant's entire interest in the Plan shall pass to any Beneficiary designated as a "Contingent Beneficiary."
- (2) If any Beneficiary designated by the Participant as a "Contingent Beneficiary" dies before the Participant, his interest and the interest of his heirs in any payments under the Plan shall terminate and the percentage share of the remaining Beneficiaries designated as Contingent Beneficiaries shall be increased on a pro rata basis.
- (3) If any Beneficiary dies after the Participant, but before payment is made to such Beneficiary, then the payment shall be made to the Beneficiary's estate.

ARTICLE VII ADMINISTRATION OF PLAN

Section 7.01 Powers and Responsibilities of the Administrator.

(a) The Administrator shall have full responsibility and discretionary authority to control and manage the operation and administration of the Plan. The Administrator is authorized to accept service of legal process on behalf of the Plan. To the fullest extent permitted by applicable law, any action taken by the Administrator pursuant to a reasonable interpretation of the Plan shall be binding and conclusive on all persons claiming benefits under the Plan, except to the extent that a court of competent jurisdiction determines that such action was arbitrary or capricious.

(b) The Administrator's discretionary powers include, but are not limited to, the following:

- (1) to interpret Plan documents, decide all questions of eligibility, determine whether a Participant has Terminated Employment, determine the amount, manner, and timing of distributions under the Plan, and resolve any claims for benefits;
- (2) to prescribe procedures to be followed by a Participant, Beneficiary, or other person applying for benefits;
- (3) to appoint or employ persons to assist in the administration of the Plan and any other agents as it deems advisable;
- (4) to adopt such rules as it deems necessary or appropriate; and
- (5) to maintain and keep adequate records concerning the Plan, including sufficient records to determine each Participant's eligibility to participate and his interest in the Plan, and its proceedings and acts in such form and detail as it may decide.

Section 7.02 Indemnification. The Company shall indemnify and hold harmless the Administrator, any person serving on a committee that serves as Administrator, and any officer, employee, or director of an Employer to whom any duty or power relating to the administration of the Plan has been properly delegated from and against any cost, expense, or liability arising out of any act or omission in connection with the Plan, unless arising out of such person's own fraud or bad faith.

Section 7.03 Claims and Claims Review Procedure.

(a) In general, distributions under the Plan will be made automatically as provided in Article VI and no Benefit Claim will be necessary for a Participant to receive distributions under the Plan. If a Participant or his designated Beneficiary believes he is entitled to a benefit under the Plan that is not provided, however, he may file a written Benefit Claim for payments under the Plan with the Administrator provided such claim is filed within 90 days of the date payments under the Plan are made or begin to be made, or the date the Participant or his designated Beneficiary believes payments should have been made, as applicable. All Benefit Claims must be made in accordance with procedures established by the Administrator from time to time. A Benefit Claim and any appeal thereof may be filed by the claimant or his authorized representative.

(b) The Administrator shall provide the claimant with written or electronic notice of its approval or Denial of a properly filed Benefit Claim within 90 days after receiving the claim, unless special circumstances require an extension of the decision period. If special circumstances require an extension of the time for processing the claim, the initial 90-day period may be extended for up to an additional 90 days. If an extension is required, the Administrator shall provide written notice of the required extension before the end of the initial 90-day period, which notice shall (i) specify the circumstances requiring an extension and (ii) the date by which the Administrator expects to make a decision.

(c) If a Benefit Claim is Denied, the Administrator shall provide the claimant with written or electronic notice containing (i) the specific reasons for the Denial, (ii) references to the applicable

Plan provisions on which the Denial is based, (iii) a description of any additional material or information needed and why such material or information is necessary, and (iv) a description of the applicable review process and time limits.

(d) A claimant may appeal the Denial of a Benefit Claim by filing a written appeal with the Administrator within 60 days after receiving notice of the Denial. The claimant's appeal shall be deemed filed on receipt by the Administrator. If a claimant does not file a timely appeal, the Administrator's decision shall be deemed final, conclusive, and binding on all persons.

(e) The Administrator shall provide the claimant with written or electronic notice of its decision on appeal within 60 days after receipt of the claimant's appeal request, unless special circumstances require an extension of this time period. If special circumstances require an extension of the time to process the appeal, the processing period may be extended for up to an additional 60 days. If an extension is required, the Administrator shall provide written notice of the required extension to the claimant before the end of the original 60-day period, which shall specify the circumstances requiring an extension and the date by which the Administrator expects to make a decision. If the Benefit Claim is Denied on appeal, the Administrator shall provide the claimant with written or electronic notice containing a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant to the Benefit Claim, as well as the specific reasons for the Denial on appeal and references to the applicable Plan provisions on which the Denial is based. The Administrator's decision on appeal shall be final, conclusive, and binding on all persons, subject to the claimant's right to file a civil action pursuant to ERISA Section 502(a).

(f) Notwithstanding the foregoing claims and appeals procedures, to avoid an additional tax on payments that may be payable under the Plan, a claimant must make a reasonable, good faith effort to collect any payment or benefit to which the claimant believes he is entitled hereunder no later than 90 days after the latest date upon which the payment could have been timely made pursuant to Code Section 409A, and if not paid or provided, must take further enforcement measures within 180 days after such latest date.

ARTICLE VIII AMENDMENT AND TERMINATION

The Plan shall continue in force with respect to any Participant until the completion of any payments due hereunder. The Company may, however, at any time, amend the Plan to provide that no additional benefits shall accrue with respect to any Participant under the Plan following expiration of the Participant's irrevocable election; provided, however, that no such amendment shall (i) deprive any Participant or Beneficiary of any benefit that accrued under the Plan before the adoption of such amendment; (ii) result in an acceleration of benefit payments in violation of Code Section 409A and the guidance thereunder, or (iii) result in any other violation of Code Section 409A or the guidance thereunder. The Company may also, at any time, amend the Plan retroactively or otherwise, if and to the extent that it deems such action appropriate in light of government regulations or other legal requirements.

**ARTICLE IX
MISCELLANEOUS**

Section 9.01 Obligations of Employer. The Employer's only obligation hereunder shall be a contractual obligation to make payments to Participants or Beneficiaries entitled to benefits provided for herein when due, and only to the extent that such payments are not made from the Trust. Nothing herein shall give a Participant, Beneficiary, or other person any right to a specific asset of an Employer or the Trust, other than as a general creditor of the Employer.

Section 9.02 Employment Rights. Nothing contained herein shall confer any right on an Participant to be continued in the employ of any Employer or affect the Participant's right to participate in and receive benefits under and in accordance with any pension, profit-sharing, incentive compensation, or other benefit plan or program of an Employer.

Section 9.03 Non-Alienation. Except as otherwise required by a Domestic Relations Order, no right or interest of an Participant, Spouse, or other Beneficiary under this Plan shall be subject to voluntary or involuntary alienation, assignment, or transfer of any kind. Payments shall be made to an Alternate Payee to the extent provided in a Domestic Relations Order. To the extent permitted by Code Section 409A, payments pursuant to a Domestic Relations Order may be made in a lump sum and before the Participant's earliest retirement age (as defined by ERISA Section 206(d)(3)(E)(ii)).

Section 9.04 Tax Withholding. The Employer or Trustee may withhold from any distribution hereunder amounts that the Employer or Trustee deems necessary to satisfy federal, state, or local tax withholding requirements (or make other arrangements satisfactory to the Employer or Trustee with regard to such taxes).

Section 9.05 Other Plans. Amounts and benefits paid under the Plan shall not be considered compensation to the Participant for purposes of computing any benefits to which he may be entitled under any other pension or retirement plan maintained by an Employer.

Section 9.06 Liability of Affiliated Employers. If any payment to be made under the Plan is to be made on account of a Participant who is or was employed by an Affiliated Employer, the cost of such payment shall be borne in such proportion as the Company and the Affiliated Employer agree.

This Restatement of Cummins Inc. Deferred Compensation Plan has been signed by the Company's duly authorized officer, acting on behalf of the Company, on this 13th day of July 2015.

CUMMINS INC.

By: /s/ Jill E. Cook
Name: Jill E. Cook
Title: Vice President — Human Resources

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

In millions	Nine months ended	
	September 27, 2015	September 28, 2014
Earnings		
Income before income taxes	\$ 1,813	\$ 1,822
Add		
Fixed charges	105	102
Amortization of capitalized interest	1	1
Distributed income of equity investees	213	195
Less		
Equity in earnings of investees	212	263
Capitalized interest	5	5
Noncontrolling interest in pre-tax income of subsidiaries that have not incurred fixed charges	2	—
Earnings before fixed charges	\$ 1,913	\$ 1,852
Fixed charges		
Interest expense ⁽¹⁾	\$ 47	\$ 47
Capitalized interest	5	5
Amortization of debt discount and deferred costs	2	2
Interest portion of rental expense ⁽²⁾	51	48
Total fixed charges	\$ 105	\$ 102
Ratio of earnings to fixed charges ⁽³⁾	18.2	18.2

⁽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 ratio 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:
 - 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 27, 2015

/s/ N. THOMAS LINEBARGER

N. Thomas Linebarger

Chairman and Chief Executive Officer

Certification

I, Patrick J. Ward, certify that:

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

Date: October 27, 2015

/s/ PATRICK J. WARD

Patrick J. Ward

Vice President and Chief Financial Officer

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

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cummins Inc. (the "Company") on Form 10-Q for the period ended September 27, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, N. Thomas Linebarger, Chairman and Chief Executive Officer of the Company, and Patrick J. Ward, Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

October 27, 2015

/s/ N. THOMAS LINEBARGER

N. Thomas Linebarger
Chairman and Chief Executive Officer

October 27, 2015

/s/ PATRICK J. WARD

Patrick J. Ward
Vice President and Chief Financial Officer