
**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, 2020

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, \$2.50 par value	CMI	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>		

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

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

As of September 27, 2020, there were 148,006,581 shares of common stock outstanding with a par value of \$2.50 per share.

**CUMMINS INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
ITEM 1. Condensed Consolidated Financial Statements

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

In millions, except per share amounts	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
NET SALES ^(a) (Note 3)	\$ 5,118	\$ 5,768	\$ 13,981	\$ 17,993
Cost of sales	3,769	4,274	10,448	13,326
GROSS MARGIN	1,349	1,494	3,533	4,667
OPERATING EXPENSES AND INCOME				
Selling, general and administrative expenses	533	600	1,549	1,822
Research, development and engineering expenses	224	242	651	730
Equity, royalty and interest income from investees (Note 5)	98	68	342	256
Other operating expense, net	(20)	(21)	(35)	(25)
OPERATING INCOME	670	699	1,640	2,346
Interest income	4	14	15	38
Interest expense	25	26	71	87
Other income, net	37	68	119	174
INCOME BEFORE INCOME TAXES	686	755	1,703	2,471
Income tax expense (Note 6)	182	139	402	501
CONSOLIDATED NET INCOME	504	616	1,301	1,970
Less: Net income (loss) attributable to noncontrolling interests	3	(6)	13	10
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 501	\$ 622	\$ 1,288	\$ 1,960
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.				
Basic	\$ 3.39	\$ 3.99	\$ 8.69	\$ 12.50
Diluted	\$ 3.36	\$ 3.97	\$ 8.65	\$ 12.45
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
Basic	147.9	155.9	148.3	156.8
Dilutive effect of stock compensation awards	1.0	0.7	0.6	0.6
Diluted	148.9	156.6	148.9	157.4

^(a) Includes sales to nonconsolidated equity investees of \$311 million and \$906 million for the three and nine months ended September 27, 2020, compared with \$ 280 million and \$882 million for the comparable periods in 2019.

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, 2020	September 29, 2019	September 27, 2020	September 29, 2019
CONSOLIDATED NET INCOME	\$ 504	\$ 616	\$ 1,301	\$ 1,970
Other comprehensive income (loss), net of tax (Note 13)				
Change in pension and other postretirement defined benefit plans	16	6	34	2
Foreign currency translation adjustments	111	(182)	(62)	(197)
Unrealized gain (loss) on derivatives	18	(29)	(63)	(40)
Total other comprehensive income (loss), net of tax	145	(205)	(91)	(235)
COMPREHENSIVE INCOME	649	411	1,210	1,735
Less: Comprehensive income (loss) attributable to noncontrolling interests	13	(11)	1	8
COMPREHENSIVE INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 636	\$ 422	\$ 1,209	\$ 1,727

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, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,967	\$ 1,129
Marketable securities (Note 7)	345	341
Total cash, cash equivalents and marketable securities	3,312	1,470
Accounts and notes receivable, net		
Trade and other	3,291	3,387
Nonconsolidated equity investees	337	283
Inventories (Note 8)	3,470	3,486
Prepaid expenses and other current assets	652	761
Total current assets	11,062	9,387
Long-term assets		
Property, plant and equipment	8,753	8,699
Accumulated depreciation	(4,666)	(4,454)
Property, plant and equipment, net	4,087	4,245
Investments and advances related to equity method investees	1,418	1,237
Goodwill	1,288	1,286
Other intangible assets, net	990	1,003
Pension assets	1,010	1,001
Other assets	1,713	1,578
Total assets	\$ 21,568	\$ 19,737
LIABILITIES		
Current liabilities		
Accounts payable (principally trade)	\$ 2,597	\$ 2,534
Loans payable (Note 9)	129	100
Commercial paper (Note 9)	316	660
Accrued compensation, benefits and retirement costs	433	560
Current portion of accrued product warranty (Note 10)	646	803
Current portion of deferred revenue (Note 3)	540	533
Other accrued expenses (Note 11)	990	1,039
Current maturities of long-term debt (Note 9)	58	31
Total current liabilities	5,709	6,260
Long-term liabilities		
Long-term debt (Note 9)	3,609	1,576
Pensions and other postretirement benefits	571	591
Accrued product warranty (Note 10)	635	645
Deferred revenue (Note 3)	837	821
Other liabilities (Note 11)	1,566	1,379
Total liabilities	\$ 12,927	\$ 11,272
Commitments and contingencies (Note 12)		
EQUITY		
Cummins Inc. shareholders' equity		
Common stock, \$2.50 par value, 500 shares authorized, 222.5 and 222.4 shares issued	\$ 2,385	\$ 2,346
Retained earnings	15,118	14,416
Treasury stock, at cost, 74.4 and 71.7 shares	(7,696)	(7,225)
Common stock held by employee benefits trust, at cost, 0.0 and 0.2 shares	—	(2)
Accumulated other comprehensive loss (Note 13)	(2,107)	(2,028)
Total Cummins Inc. shareholders' equity	7,700	7,507
Noncontrolling interests	941	958
Total equity	\$ 8,641	\$ 8,465
Total liabilities and equity	\$ 21,568	\$ 19,737

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, 2020	September 29, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 1,301	\$ 1,970
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	499	493
Deferred income taxes	(7)	(14)
Equity in income of investees, net of dividends	(136)	(44)
Pension and OPEB expense (Note 4)	81	56
Pension contributions and OPEB payments (Note 4)	(102)	(130)
Stock-based compensation expense	22	37
Restructuring payments (Note 14)	(100)	—
Gain on corporate owned life insurance	(50)	(64)
Foreign currency remeasurement and transaction exposure	(7)	(54)
Changes in current assets and liabilities, net of acquisitions		
Accounts and notes receivable	47	(101)
Inventories	(50)	(62)
Other current assets	73	48
Accounts payable	109	(3)
Accrued expenses	(236)	(74)
Changes in other liabilities	208	168
Other, net	(72)	117
Net cash provided by operating activities	1,580	2,343
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(268)	(395)
Investments in internal use software	(33)	(50)
Investments in and advances to equity investees	(30)	(16)
Acquisitions of businesses, net of cash acquired (Note 15)	—	(237)
Investments in marketable securities—acquisitions	(422)	(367)
Investments in marketable securities—liquidations (Note 7)	408	296
Cash flows from derivatives not designated as hedges	(15)	(86)
Other, net	23	26
Net cash used in investing activities	(337)	(829)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings (Note 9)	1,999	10
Net (payments) borrowings of commercial paper	(344)	122
Payments on borrowings and finance lease obligations	(41)	(47)
Net borrowings under short-term credit agreements	6	53
Distributions to noncontrolling interests	(26)	(33)
Dividend payments on common stock	(582)	(562)
Repurchases of common stock	(550)	(806)
Other, net	102	65
Net cash provided by (used in) financing activities	564	(1,198)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
Net increase in cash and cash equivalents	1,838	257
Cash and cash equivalents at beginning of year	1,129	1,303
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,967	\$ 1,560

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, except per share amounts	Three months ended								
	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 JUNE 28, 2020	\$ 556	\$ 1,797	\$ 14,811	\$ (7,729)	\$ (1)	\$ (2,242)	\$ 7,192	\$ 938	\$ 8,130
Net income			501				501	3	504
Other comprehensive income, net of tax (Note 13)						135	135	10	145
Employee benefits trust activity		5			1		6	—	6
Cash dividends on common stock, \$1.311 per share			(194)				(194)	—	(194)
Distributions to noncontrolling interests							—	(13)	(13)
Stock-based awards		13		33			46	—	46
Other shareholder transactions		14					14	3	17
BALANCE AT SEPTEMBER 27, 2020	<u>\$ 556</u>	<u>\$ 1,829</u>	<u>\$ 15,118</u>	<u>\$ (7,696)</u>	<u>\$ —</u>	<u>\$ (2,107)</u>	<u>\$ 7,700</u>	<u>\$ 941</u>	<u>\$ 8,641</u>
BALANCE AT JUNE 30, 2019	\$ 556	\$ 1,751	\$ 13,897	\$ (6,082)	\$ (4)	\$ (1,840)	\$ 8,278	\$ 918	\$ 9,196
Net income			622				622	(6)	616
Other comprehensive loss, net of tax (Note 13)						(200)	(200)	(5)	(205)
Employee benefits trust activity		6			1		7	—	7
Repurchases of common stock				(706)			(706)	—	(706)
Cash dividends on common stock, \$1.311 per share			(204)				(204)	—	(204)
Distributions to noncontrolling interests							—	(20)	(20)
Stock-based awards		1		4			5	—	5
Other shareholder transactions		8					8	56	64
BALANCE AT SEPTEMBER 29, 2019	<u>\$ 556</u>	<u>\$ 1,766</u>	<u>\$ 14,315</u>	<u>\$ (6,784)</u>	<u>\$ (3)</u>	<u>\$ (2,040)</u>	<u>\$ 7,810</u>	<u>\$ 943</u>	<u>\$ 8,753</u>

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, except per share amounts	Nine months ended								
	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, 2019	\$ 556	\$ 1,790	\$ 14,416	\$ (7,225)	\$ (2)	\$ (2,028)	\$ 7,507	\$ 958	\$ 8,465
Adoption of new accounting standards (Note 17)			(4)				(4)	—	(4)
Net income			1,288				1,288	13	1,301
Other comprehensive loss, net of tax (Note 13)						(79)	(79)	(12)	(91)
Issuance of common stock		10					10	—	10
Employee benefits trust activity		27			2		29	—	29
Repurchases of common stock				(550)			(550)	—	(550)
Cash dividends on common stock, \$3.933 per share			(582)				(582)	—	(582)
Distributions to noncontrolling interests							—	(26)	(26)
Stock-based awards		(1)		79			78	—	78
Other shareholder transactions		3					3	8	11
BALANCE AT SEPTEMBER 27, 2020	<u>\$ 556</u>	<u>\$ 1,829</u>	<u>\$ 15,118</u>	<u>\$ (7,696)</u>	<u>\$ —</u>	<u>\$ (2,107)</u>	<u>\$ 7,700</u>	<u>\$ 941</u>	<u>\$ 8,641</u>
BALANCE AT DECEMBER 31, 2018	\$ 556	\$ 1,715	\$ 12,917	\$ (6,028)	\$ (5)	\$ (1,807)	\$ 7,348	\$ 911	\$ 8,259
Net income			1,960				1,960	10	1,970
Other comprehensive loss, net of tax (Note 13)						(233)	(233)	(2)	(235)
Issuance of common stock		2					2	—	2
Employee benefits trust activity		26			2		28	—	28
Repurchases of common stock				(806)			(806)	—	(806)
Cash dividends on common stock, \$3.591 per share			(562)				(562)	—	(562)
Distributions to noncontrolling interests							—	(33)	(33)
Stock-based awards		(2)		50			48	—	48
Other shareholder transactions		25					25	57	82
BALANCE AT SEPTEMBER 29, 2019	<u>\$ 556</u>	<u>\$ 1,766</u>	<u>\$ 14,315</u>	<u>\$ (6,784)</u>	<u>\$ (3)</u>	<u>\$ (2,040)</u>	<u>\$ 7,810</u>	<u>\$ 943</u>	<u>\$ 8,753</u>

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

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

NOTE 1. NATURE OF OPERATIONS

Cummins Inc. (“Cummins,” “we,” “our” or “us”) was founded in 1919 as Cummins Engine Company, a corporation in Columbus, Indiana, and one of the first diesel engine manufacturers. In 2001, we changed our name to Cummins Inc. We are a global power leader that designs, manufactures, distributes and services diesel, natural gas, electric and hybrid powertrains and powertrain-related components including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems, automated transmissions, electric power generation systems, batteries, electrified power systems, hydrogen generation and fuel cell products. We sell our products to original equipment manufacturers (OEMs), distributors, dealers and other customers worldwide. We serve our customers through a network of approximately 600 wholly-owned, joint venture and independent distributor locations and over 7,600 Cummins certified dealer locations in more than 190 countries and territories.

NOTE 2. BASIS OF PRESENTATION

Interim Condensed Financial Statements

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

These interim condensed financial statements should be read in conjunction with the *Consolidated Financial Statements* included in our [Annual Report on Form 10-K for the year ended December 31, 2019](#). Our interim period financial results for the three and nine month periods presented are not necessarily indicative of results to be expected for any other interim period or for the entire year. The year-end *Condensed Consolidated Balance Sheet* data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Reclassifications

Certain amounts for prior year periods were reclassified to conform to the current year presentation.

COVID-19

The outbreak of the coronavirus disease of 2019 (COVID-19) spread throughout the world and became a global pandemic with the resultant economic impacts evolving into a worldwide recession. The pandemic triggered a significant downturn in our markets globally, which continued to unfavorably impact market conditions through the end of the third quarter and these challenging market conditions could continue for an extended period of time. In an effort to contain the spread of COVID-19, maintain the well-being of our employees and stakeholders, match the reduced demand from our customers and in accordance with governmental requirements, we closed or partially shut down certain office, manufacturing, distribution and technical center facilities around the world in March 2020. Although most of our manufacturing, distribution and technical center facilities re-opened early in the second quarter of 2020, many operated at reduced capacities and most of our global office buildings remained closed through the third quarter.

Use of Estimates in Preparation of Financial Statements

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts presented and disclosed in our *Condensed Consolidated Financial Statements*. Significant estimates and assumptions in these *Condensed Consolidated Financial Statements* require the exercise of judgment. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

The global market downturn, closures and limitations on movement related to COVID-19 are expected to be temporary, however, the duration of the production and supply chain disruptions, and related financial impacts, cannot be estimated at this time. This uncertainty could have an impact on certain estimates used in the preparation of our third quarter financial results.

Reporting Period

Our reporting period usually ends on the Sunday closest to the last day of the quarterly calendar period. The third quarters of 2020 and 2019 ended on September 27 and September 29, respectively. Our fiscal year ends on December 31, regardless of the day of the week on which December 31 falls.

Weighted-Average Diluted Shares Outstanding

The weighted-average diluted common shares outstanding exclude the anti-dilutive effect of certain stock options. The options excluded from diluted earnings per share were as follows:

	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Options excluded	2,405	874,604	858,651	631,042

NOTE 3. REVENUE RECOGNITION

Long-term Contracts

Most of our contracts are for a period of less than one year. We have certain long-term maintenance agreements, construction contracts and extended warranty coverage arrangements that span a period in excess of one year. The aggregate amount of the transaction price for long-term maintenance agreements and construction contracts allocated to performance obligations that had not been satisfied as of September 27, 2020, was \$900 million. We expect to recognize the related revenue of \$172 million over the next 12 months and \$728 million over periods up to 10 years. See Note 10, "PRODUCT WARRANTY LIABILITY," for additional disclosures on extended warranty coverage arrangements. Our other contracts generally are for a duration of less than one year, include payment terms that correspond to the timing of costs incurred when providing goods and services to our customers or represent sales-based royalties.

Deferred and Unbilled Revenue

The following is a summary of our unbilled and deferred revenue and related activity:

In millions	September 27, 2020	December 31, 2019
Unbilled revenue	\$ 79	\$ 68
Deferred revenue, primarily extended warranty	1,377	1,354

We recognized revenue of \$84 million and \$290 million for the three and nine months ended September 27, 2020, compared with \$79 million and \$282 million for the comparable periods in 2019, that was included in the deferred revenue balance at the beginning of each year. We did not record any impairment losses on our unbilled revenues during the three and nine months ended September 27, 2020 or September 29, 2019.

Disaggregation of Revenue

Consolidated Revenue

The table below presents our consolidated sales by geographic area. Net sales attributed to geographic areas were based on the location of the customer.

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
United States	\$ 2,805	\$ 3,414	\$ 7,522	\$ 10,461
China	705	481	2,037	1,698
India	166	185	406	643
Other international	1,442	1,688	4,016	5,191
Total net sales	\$ 5,118	\$ 5,768	\$ 13,981	\$ 17,993

Segment Revenue

Engine segment external sales by market were as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Heavy-duty truck	\$ 486	\$ 635	\$ 1,226	\$ 2,112
Medium-duty truck and bus	389	525	1,177	1,765
Light-duty automotive	502	451	975	1,216
Total on-highway	1,377	1,611	3,378	5,093
Off-highway	240	211	755	786
Total sales	\$ 1,617	\$ 1,822	\$ 4,133	\$ 5,879

Distribution segment external sales by region were as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
North America	\$ 1,126	\$ 1,373	\$ 3,409	\$ 4,139
Asia Pacific	195	224	577	667
Europe	153	135	424	380
China	74	82	242	264
Africa and Middle East	47	60	136	170
India	42	46	101	142
Russia	41	33	126	113
Latin America	37	48	108	134
Total sales	\$ 1,715	\$ 2,001	\$ 5,123	\$ 6,009

Distribution segment external sales by product line were as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Parts	\$ 719	\$ 796	\$ 2,155	\$ 2,464
Power generation	415	466	1,166	1,292
Service	303	376	926	1,109
Engines	278	363	876	1,144
Total sales	\$ 1,715	\$ 2,001	\$ 5,123	\$ 6,009

Components segment external sales by business were as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Emission solutions	\$ 612	\$ 660	\$ 1,576	\$ 2,144
Filtration	260	249	715	771
Turbo technologies	163	151	463	522
Automated transmissions	90	146	215	451
Electronics and fuel systems	76	47	223	167
Total sales	\$ 1,201	\$ 1,253	\$ 3,192	\$ 4,055

Power Systems segment external sales by product line were as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Power generation	\$ 334	\$ 372	\$ 827	\$ 1,060
Industrial	167	227	477	704
Generator technologies	66	84	191	266
Total sales	\$ 567	\$ 683	\$ 1,495	\$ 2,030

NOTE 4. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

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

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Defined benefit pension contributions	\$ 11	\$ 33	\$ 77	\$ 110
OPEB payments, net	9	5	25	20
Defined contribution pension plans	18	23	70	80

During the remainder of 2020, we anticipate making \$7 million in additional defined benefit pension contributions in the U.K. and \$7 million in contributions to our U.S. non-qualified benefit plans. These contributions may be made from trusts or company funds either to increase pension assets or to make direct benefit payments to plan participants. We expect our 2020 annual net periodic pension cost to approximate \$102 million.

The components of net periodic pension and OPEB costs under our plans were as follows:

In millions	Pension						OPEB
	U.S. Plans		U.K. Plans				
	Three months ended						
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019	
Service cost	\$ 33	\$ 29	\$ 8	\$ 6	\$ —	\$ —	
Interest cost	24	27	8	10	2	3	
Expected return on plan assets	(49)	(47)	(19)	(16)	—	—	
Amortization of prior service cost	—	—	1	—	—	—	
Recognized net actuarial loss	10	4	9	3	—	—	
Net periodic benefit cost	\$ 18	\$ 13	\$ 7	\$ 3	\$ 2	\$ 3	

In millions	Pension						OPEB
	U.S. Plans		U.K. Plans				
	Nine months ended						
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019	
Service cost	\$ 100	\$ 87	\$ 22	\$ 19	\$ —	\$ —	
Interest cost	71	81	26	32	5	8	
Expected return on plan assets	(146)	(142)	(56)	(52)	—	—	
Amortization of prior service cost	1	1	2	1	—	—	
Recognized net actuarial loss	30	12	26	9	—	—	
Net periodic benefit cost	\$ 56	\$ 39	\$ 20	\$ 9	\$ 5	\$ 8	

NOTE 5. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEES

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

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Manufacturing entities				
Beijing Foton Cummins Engine Co., Ltd.	\$ 30	\$ 15	\$ 81	\$ 56
Dongfeng Cummins Engine Company, Ltd.	20	10	54	40
Chongqing Cummins Engine Company, Ltd.	7	10	27	32
All other manufacturers	22 ⁽¹⁾	21	100 ⁽¹⁾⁽²⁾	76
Distribution entities				
Komatsu Cummins Chile, Ltda.	6	6	23	19
All other distributors	1	1	1	—
Cummins share of net income	86	63	286	223
Royalty and interest income				
	12	5	56	33
Equity, royalty and interest income from investees	\$ 98	\$ 68	\$ 342	\$ 256

⁽¹⁾ Includes impairment charges of \$ 10 million and \$ 13 million for the three and nine months ended September 27, 2020, respectively, for a joint venture in the Power Systems segment.

⁽²⁾ Includes \$ 37 million in adjustments related to tax changes within India's 2020-2021 Union Budget of India (India Tax Law Change) passed in March 2020. See NOTE 6, "INCOME TAXES" for additional information on India Tax Law Change.

NOTE 6. INCOME TAXES

Our effective tax rates for the three and nine months ended September 27, 2020, were 26.5 percent and 23.6 percent, respectively.

The three months ended September 27, 2020, contained unfavorable discrete items of \$ 1 million, or \$ 0.21 per share, consisting of \$ 17 million of changes in tax reserves, \$ 8 million of provision to return adjustments relating to tax returns filed for 2019 and \$ 6 million of net other discrete items.

The nine months ended September 27, 2020, contained \$ 27 million, or \$ 0.18 per share, of unfavorable net discrete tax items, primarily due to \$ 34 million of unfavorable changes in tax reserves and \$ 8 million of provision to return adjustments, partially offset by \$ 15 million of favorable tax changes within India's 2020-2021 Union Budget of India (India Tax Law Change) passed in March of 2020. The India Tax Law Change eliminated the dividend distribution tax and replaced it with a lower rate withholding tax as the burden shifted from the dividend payor to the dividend recipient for a net favorable income statement impact of \$ 35 million.

The India Tax Law Change resulted in the following adjustments to the *Condensed Consolidated Statements of Net Income* for the nine months ended September 27, 2020:

In millions	Favorable (Unfavorable)
Equity, royalty and interest income from investees	\$ 37
Income tax expense ⁽¹⁾	17
Less: Net income attributable to noncontrolling interests	(19)
Net income statement impact	\$ 35

⁽¹⁾ The adjustment to "Income tax expense" includes \$ 15 million of discrete items.

Our effective tax rates for the three and nine months ended September 29, 2019, were 8.4 percent and 20.3 percent, respectively. The three months ended September 29, 2019, contained favorable discrete items of \$ 23 million, or \$ 0.14 per share, of favorable net discrete tax items, primarily due to withholding taxes and provision to return adjustments. The nine months ended September 27, 2020, contained \$ 30 million, or \$ 0.19 per share, of favorable net discrete tax items, primarily due to withholding taxes and provision to return adjustments.

NOTE 7. MARKETABLE SECURITIES

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

In millions	September 27, 2020			December 31, 2019		
	Cost	Gross unrealized gains/(losses) ⁽¹⁾	Estimated fair value	Cost	Gross unrealized gains/(losses) ⁽¹⁾	Estimated fair value
Equity securities						
Debt mutual funds	\$ 167	\$ 5	\$ 172	\$ 180	\$ 3	\$ 183
Certificates of deposit	151	—	151	133	—	133
Equity mutual funds	18	3	21	19	4	23
Bank debentures	—	—	—	1	—	1
Debt securities	1	—	1	1	—	1
Total marketable securities	<u>\$ 337</u>	<u>\$ 8</u>	<u>\$ 345</u>	<u>\$ 334</u>	<u>\$ 7</u>	<u>\$ 341</u>

⁽¹⁾ Unrealized gains and losses for debt securities are recorded in other comprehensive income while unrealized gains and losses for equity securities are recorded in "Other income, net" in our *Condensed Consolidated Statements of Net Income*.

All debt securities are classified as available-for-sale. All marketable securities presented use a Level 2 fair value measure. The fair value of Level 2 securities is estimated using actively quoted prices for similar instruments from brokers and observable inputs where available, including market transactions and third-party pricing services, or net asset values provided to investors. We do not currently have any Level 3 securities, and there were no transfers between Level 2 or 3 during the nine months ended September 27, 2020 or the year ended December 31, 2019.

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

- *Debt mutual funds* — The fair value measures for the vast majority of these investments are the daily net asset values published on a regulated governmental website. Daily quoted prices are available from the issuing brokerage and are used on a test basis to corroborate this Level 2 input.
- *Certificates of deposit and bank debentures* — These investments provide us with a contractual rate of return and generally range in maturity from three months to five years. The counterparties to these investments are reputable financial institutions with investment grade credit ratings. Since these instruments are not tradable and must be settled directly by us with the respective financial institution, our fair value measure is the financial institution's month-end statement.
- *Equity mutual funds* — The fair value measures for these investments are the net asset values published by the issuing brokerage. Daily quoted prices are available from reputable third-party pricing services and are used on a test basis to corroborate this Level 2 input measure.
- *Debt securities* — The fair value measures for these securities are broker quotes received from reputable firms. These securities are infrequently traded on a national exchange and these values are used on a test basis to corroborate our Level 2 input measure.

The proceeds from sales and maturities of marketable securities were as follows:

In millions	Nine months ended	
	September 27, 2020	September 29, 2019
Proceeds from sales of marketable securities	\$ 283	\$ 179
Proceeds from maturities of marketable securities	125	117
Investments in marketable securities - liquidations	<u>\$ 408</u>	<u>\$ 296</u>

NOTE 8. INVENTORIES

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

In millions	September 27, 2020	December 31, 2019
Finished products	\$ 2,182	\$ 2,214
Work-in-process and raw materials	1,416	1,395
Inventories at FIFO cost	3,598	3,609
Excess of FIFO over LIFO	(128)	(123)
Total inventories	\$ 3,470	\$ 3,486

NOTE 9. DEBT**Loans Payable and Commercial Paper**

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

In millions	September 27, 2020	December 31, 2019
Loans payable ⁽¹⁾	\$ 129	\$ 100
Commercial paper	316 ⁽²⁾	660 ⁽³⁾

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

⁽²⁾ The weighted-average interest rate, inclusive of all brokerage fees, was 0.03 percent at September 27, 2020. This includes \$116 million of borrowings under the EUR program that were at a negative weighted-average interest rate of 0.27 percent and \$200 million of borrowings under the U.S. program at a weighted-average rate of 0.20 percent.

⁽³⁾ The weighted-average interest rate, inclusive of all brokerage fees, was 1.82 percent at December 31, 2019. All borrowings were at positive interest rates.

We can issue up to \$3.5 billion of unsecured, short-term promissory notes (commercial paper) pursuant to the Board of Directors (the Board) authorized commercial paper programs. The programs facilitate the private placement of unsecured short-term debt through third-party brokers. We intend to use the net proceeds from the commercial paper borrowings for general corporate purposes.

On April 14, 2020, we were approved for the Federal Reserve Bank of New York's Commercial Paper Funding Facility (CPFF) program to assure access to the commercial paper funding markets during volatile credit market conditions. The CPFF was intended to provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (SPV). The facility allows us, based on our current short-term credit rating, to issue three-month unsecured commercial paper at a rate equal to a +110 basis point spread over the three-month overnight index swap rate on the date of issuance. The maximum amount of commercial paper that we may issue at any time through this program is \$1.5 billion less the total principal amount of all other outstanding commercial paper that we have issued. We retain full access to our Board authorized \$5 billion commercial paper program, as reduced by any amounts issued under this facility. The SPV is currently scheduled to cease purchasing commercial paper on March 17, 2021. At September 27, 2020, there were no outstanding borrowings under the CPFF program.

Revolving Credit Facilities

On August 19, 2020, we entered into an amended and restated 364-day credit agreement that allows us to borrow up to \$5 billion of unsecured funds at any time prior to August 18, 2021. This credit agreement amends and restates the prior \$1.5 billion 364-day credit facility that matured on August 19, 2020.

On August 24, 2020, we terminated our 364-day credit facility that had been entered into on May 1, 2020, concurrent with the \$2 billion bond issuance on August 24, 2020, described below.

We have access to committed credit facilities that total \$3.5 billion, including the new \$1.5 billion 364-day facility that expires August 18, 2021 and our \$2.0 billion five-year facility that expires on August 22, 2023. We maintain credit facilities at the current or higher aggregate amounts by renewing or replacing these facilities at or before expiration. These revolving credit facilities are maintained primarily to provide backup liquidity for our commercial paper borrowings and for general corporate purposes.

At September 27, 2020, the \$316 million of outstanding commercial paper effectively reduced the \$3.5 billion of revolving credit capacity to \$3.2 billion.

At September 27, 2020, we also had an additional \$191 million available for borrowings under our international and other domestic credit facilities.

Long-term Debt

On August 24, 2020, we issued \$2 billion aggregate principal amount of senior unsecured notes consisting of \$500 million aggregate principal amount of 0.75% senior unsecured notes due in 2025, \$850 million aggregate principal amount of 1.50% senior unsecured notes due in 2030 and \$650 million aggregate principal amount of 2.60% senior unsecured notes due in 2050. We received net proceeds of \$1.98 billion. The senior unsecured notes pay interest semi-annually on March 1 and September 1, commencing on March 1, 2021. The indenture governing the senior unsecured notes contains covenants that, among other matters, limit (i) our ability to consolidate or merge into, or sell, assign, convey, lease, transfer or otherwise dispose of all or substantially all of our and our subsidiaries' assets to another person, (ii) our and certain of our subsidiaries' ability to create or assume liens and (iii) our and certain of our subsidiaries' ability to engage in sale and leaseback transactions.

A summary of long-term debt was as follows:

In millions	Interest Rate	September 27, 2020	December 31, 2019
Long-term debt			
Senior notes, due 2023 ⁽¹⁾	3.65%	\$ 500	\$ 500
Senior notes, due 2025	0.75%	500	—
Debentures, due 2027	6.75%	58	58
Debentures, due 2028	7.125%	250	250
Senior notes, due 2030	1.50%	850	—
Senior notes, due 2043	4.875%	500	500
Senior notes, due 2050	2.60%	650	—
Debentures, due 2098 ⁽²⁾	5.65%	165	165
Other debt		130	59
Unamortized discount and deferred issuance costs		(73)	(50)
Fair value adjustments due to hedge on indebtedness		50	35
Finance leases		87	90
Total long-term debt		3,667	1,607
Less: Current maturities of long-term debt		58	31
Long-term debt		\$ 3,609	\$ 1,576

⁽¹⁾ In June and July 2020, we settled our February 2014 interest rate swap. See "Interest Rate Risk" below for additional information.

⁽²⁾ The effective interest rate is 7.48%.

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

In millions	2020	2021	2022	2023	2024
Principal payments	\$ 38	\$ 51	\$ 29	\$ 525	\$ 22

Interest Rate Risk

In the first half of 2020, we entered into additional interest rate lock agreements to reduce the variability of the cash flows of the interest payments on a total of \$500 million of fixed rate debt forecast to be issued in 2023 to replace our senior notes at maturity. We recorded a net gain of \$17 million and net loss of \$52 million in "Other comprehensive income" for the three and nine months ended September 27, 2020, respectively.

In June and July of 2020, we settled our February 2014 interest rate swap, which previously converted our \$00 million debt issue, due in 2023, from fixed rate to floating rate based on a LIBOR spread. We will amortize the \$24 million gain realized upon settlement over the remaining three year term of related debt.

Fair Value of Debt

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

In millions	September 27, 2020	December 31, 2019
Fair value of total debt ⁽¹⁾	\$ 4,532	\$ 2,706
Carrying value of total debt	4,112	2,367

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

NOTE 10. PRODUCT WARRANTY LIABILITY

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

In millions	Nine months ended	
	September 27, 2020	September 29, 2019
Balance, beginning of year	\$ 2,389	\$ 2,208
Provision for base warranties issued	277	360
Deferred revenue on extended warranty contracts sold	172	254
Provision for product campaigns issued	27	163
Payments made during period	(424)	(431)
Amortization of deferred revenue on extended warranty contracts	(169)	(174)
Changes in estimates for pre-existing product warranties	(41)	(16)
Foreign currency translation and other	(6)	(9)
Balance, end of period	\$ 2,225	\$ 2,355

We recognized supplier recoveries of \$5 million and \$16 million for the three and nine months ended September 27, 2020, compared with \$ million and \$64 million for the comparable periods in 2019.

Warranty related deferred revenues and warranty liabilities on our *Condensed Consolidated Balance Sheets* were as follows:

In millions	September 27, 2020	December 31, 2019	Balance Sheet Location
Deferred revenue related to extended coverage programs			
Current portion	\$ 249	\$ 227	Current portion of deferred revenue
Long-term portion	695	714	Deferred revenue
Total	\$ 944	\$ 941	
Product warranty			
Current portion	\$ 646	\$ 803	Current portion of accrued product warranty
Long-term portion	635	645	Accrued product warranty
Total	\$ 1,281	\$ 1,448	
Total warranty accrual	\$ 2,225	\$ 2,389	

Engine System Campaign Accrual

During 2017, the California Air Resources Board (CARB) and the U.S. Environmental Protection Agency (EPA) selected certain of our pre-2013 model year engine systems for additional emissions testing. Some of these engine systems failed CARB and EPA tests as a result of degradation of an aftertreatment component. In the second quarter of 2018, we reached agreement with the CARB and EPA regarding our plans to address the affected populations. From the fourth quarter of 2017 through the second quarter of 2018, we recorded charges for the expected costs of field campaigns to repair these engine systems.

The campaigns launched in the third quarter of 2018 are being completed in phases across the affected population. The total engine system campaign charge, excluding supplier recoveries, was \$410 million. At September 27, 2020, the remaining accrual balance was \$157 million.

NOTE 11. SUPPLEMENTAL BALANCE SHEET DATA

Other accrued expenses included the following:

In millions	September 27, 2020	December 31, 2019
Marketing accruals	\$ 220	\$ 176
Other taxes payable	203	228
Current portion of operating lease liabilities	133	131
Income taxes payable	102	52
Other	332	452
Other accrued expenses	<u>\$ 990</u>	<u>\$ 1,039</u>

Other liabilities included the following:

In millions	September 27, 2020	December 31, 2019
Operating lease liabilities	\$ 322	\$ 370
Deferred income taxes	301	306
One-time transition tax	293	293
Accrued compensation	185	206
Mark-to-market valuation on interest rate locks	81	12
Other long-term liabilities	384	192
Other liabilities	<u>\$ 1,566</u>	<u>\$ 1,379</u>

NOTE 12. COMMITMENTS AND CONTINGENCIES

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

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

On April 29, 2019, we announced that we were conducting a formal internal review of our emissions certification process and compliance with emission standards for our pick-up truck applications, following conversations with the EPA and CARB regarding certification of our engines in model year 2019 RAM 2500 and 3500 trucks. This review is being conducted with external advisors to ensure the certification and compliance processes for all of our pick-up truck applications are consistent with our internal policies, engineering standards and applicable laws. In addition, we voluntarily disclosed our formal internal review to the regulators and to other government agencies, the Department of Justice (DOJ) and the SEC, and have been working cooperatively with them to ensure a complete and thorough review. During conversations with the EPA and CARB about the effectiveness of our pick-up truck applications, the regulators raised concerns that certain aspects of our emissions systems may reduce the effectiveness of our emissions control systems and thereby act as defeat devices. As a result, our internal review focuses, in part, on the regulators' concerns. We are working closely with the regulators to enhance our emissions systems to improve the effectiveness of all of our pick-up truck applications and to fully address the regulators' requirements. Based on discussions with the regulators, we have developed a new calibration for the engines in model year 2019 RAM 2500 and 3500 trucks that has been included in all engines shipped since September 2019. During our discussions, the regulators have asked us to look at other model years and other engines, though the primary focus of our review has been the model year 2019 RAM. We are also fully cooperating with the DOJ's and the SEC's information requests and inquiries. Due to the continuing nature of our formal review, our ongoing cooperation with our regulators and other government agencies, and the presence of many unknown facts and circumstances, we cannot predict the final outcome of this review and these regulatory and agency processes, and we cannot provide assurance that the matter will not have a materially adverse impact on our results of operations and cash flows.

Guarantees and Commitments

Periodically, we enter into guarantee arrangements, including guarantees of non-U.S. distributor financings, residual value guarantees on equipment under operating leases and other miscellaneous guarantees of joint ventures or third-party obligations. At September 27, 2020, the maximum potential loss related to these guarantees was \$40 million.

We have arrangements with certain suppliers that require us to purchase minimum volumes or be subject to monetary penalties. At September 27, 2020, if we were to stop purchasing from each of these suppliers, the aggregate amount of the penalty would be approximately \$37 million. Most of these arrangements enable us to secure supplies of critical components. We do not currently anticipate paying any penalties under these contracts.

We enter into physical forward contracts with suppliers of platinum and palladium to purchase certain volumes of the commodities at contractually stated prices for various periods, which generally fall within two years. At September 27, 2020, the total commitments under these contracts were \$30 million. These arrangements enable us to guarantee 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 \$94 million at September 27, 2020.

Indemnifications

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

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

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

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

In millions	Change in pensions and other postretirement defined benefit plans	Foreign currency translation adjustment	Unrealized gain (loss) on derivatives	Total attributable to Cummins Inc.	Noncontrolling interests	Total
Balance at June 28, 2020	\$ (716)	\$ (1,436)	\$ (90)	\$ (2,242)		
Other comprehensive income before reclassifications						
Before-tax amount	—	101	23	124	\$ 10	\$ 134
Tax benefit (expense)	—	—	(5)	(5)	—	(5)
After-tax amount	—	101	18	119	10	129
Amounts reclassified from accumulated other comprehensive income (loss) ⁽¹⁾	16	—	—	16	—	16
Net current period other comprehensive income (loss)	16	101	18	135	\$ 10	\$ 145
Balance at September 27, 2020	\$ (700)	\$ (1,335)	\$ (72)	\$ (2,107)		
Balance at June 30, 2019						
Other comprehensive income (loss) before reclassifications	\$ (675)	\$ (1,156)	\$ (9)	\$ (1,840)		
Before-tax amount	—	(177)	(39)	(216)	\$ (5)	\$ (221)
Tax benefit (expense)	—	—	8	8	—	8
After-tax amount	—	(177)	(31)	(208)	(5)	(213)
Amounts reclassified from accumulated other comprehensive income (loss) ⁽¹⁾	6	—	2	8	—	8
Net current period other comprehensive income (loss)	6	(177)	(29)	(200)	\$ (5)	\$ (205)
Balance at September 29, 2019	\$ (669)	\$ (1,333)	\$ (38)	\$ (2,040)		

⁽¹⁾ Amounts are net of tax. Reclassifications out of accumulated other comprehensive income (loss) and the related tax effects are immaterial for separate disclosure.

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

In millions	Change in pensions and other postretirement defined benefit plans	Foreign currency translation adjustment	Unrealized gain (loss) on derivatives	Total attributable to Cummins Inc.	Noncontrolling interests	Total
Balance at December 31, 2019	\$ (734)	\$ (1,285)	\$ (9)	\$ (2,028)		
Other comprehensive income (loss) before reclassifications						
Before-tax amount	(19)	(54)	(75)	(148)	\$ (12)	\$ (160)
Tax benefit (expense)	5	4	16	25	—	25
After-tax amount	(14)	(50)	(59)	(123)	(12)	(135)
Amounts reclassified from accumulated other comprehensive loss ⁽¹⁾	48	—	(4)	44	—	44
Net current period other comprehensive income (loss)	34	(50)	(63)	(79)	\$ (12)	\$ (91)
Balance at September 27, 2020	\$ (700)	\$ (1,335)	\$ (72)	\$ (2,107)		
Balance at December 31, 2018						
Before-tax amount	(22)	(194)	(47)	(263)	\$ (2)	\$ (265)
Tax benefit (expense)	5	(1)	11	15	—	15
After-tax amount	(17)	(195)	(36)	(248)	(2)	(250)
Amounts reclassified from accumulated other comprehensive loss ⁽¹⁾	19	—	(4)	15	—	15
Net current period other comprehensive income (loss)	2	(195)	(40)	(233)	\$ (2)	\$ (235)
Balance at September 29, 2019	\$ (669)	\$ (1,333)	\$ (38)	\$ (2,040)		

⁽¹⁾ Amounts are net of tax. Reclassifications out of accumulated other comprehensive income (loss) and the related tax effects are immaterial for separate disclosure.

⁽²⁾ Primarily related to interest rate lock activity. See the Interest Rate Risk section in NOTE 9 "DEBT" for additional information.

NOTE 14. RESTRUCTURING ACTIONS

In November 2019, we announced our intentions to reduce our global workforce in response to the continued deterioration in our global markets in the second half of 2019, as well as expected reductions in orders in most U.S. and international markets in 2020. In the fourth quarter of 2019, we began executing restructuring actions, primarily in the form of voluntary and involuntary employee separation programs. To the extent these programs involve voluntary separations, a liability is generally recorded at the time offers to employees are accepted. To the extent these programs provide separation benefits in accordance with pre-existing agreements or policies, a liability is recorded once the amount is probable and reasonably estimable. We incurred a charge of \$119 million (\$90 million after-tax) in the fourth quarter of 2019 for these actions which impacted approximately 2,300 employees. The voluntary actions were completed by December 31, 2019 and the involuntary actions were completed by June 28, 2020.

The table below summarizes the activity and balance of accrued restructuring, which is included in "Other accrued expenses" in our *Condensed Consolidated Balance Sheets*:

<u>In millions</u>	<u>Restructuring Accrual</u>
Balance at December 31, 2019	\$ 116
Cash payments	(100)
Change in estimate	(6)
Balance at September 27, 2020	<u>\$ 10</u>

NOTE 15. ACQUISITION

The Hydrogenics Corporation acquisition for the nine months ended September 29, 2019 was as follows:

Entity Acquired (Dollars in millions)	Date of Acquisition	Additional Percent Interest Acquired	Payments to Former Owners	Total Purchase Consideration	Type of Acquisition⁽¹⁾	Goodwill Acquired	Intangibles Recognized⁽²⁾	Net Sales Previous Fiscal Year Ended
2019								
Hydrogenics Corporation	9/09/19	81%	\$ 235	\$ 235	COMB	\$ 161	\$ 161	\$ 34

⁽¹⁾ The newly consolidated entity was accounted for as business combinations (COMB) and was included in the New Power segment on the date of acquisition.

⁽²⁾ Intangible assets acquired in the business combination were mostly technology and customer related, the majority of which will be amortized over a period of up to 20 years from the date of the acquisition.

Hydrogenics Corporation

On September 9, 2019, we acquired an 81 percent interest in Hydrogenics Corporation for total consideration of \$235 million. The Hydrogen Company, a wholly-owned subsidiary of L'Air Liquide, S.A., maintains a 19 percent noncontrolling interest in Hydrogenics Corporation of \$56 million, based on the publicly traded share price of Hydrogenics at the acquisition date, which was representative of its fair value. We accounted for the transaction as a business combination and included it in the New Power segment in the third quarter of 2019. We assigned this business to our New Power reporting unit, which included both our electrified power and fuel cell businesses, for goodwill impairment purposes. As of December 31, 2019, our purchase accounting was complete. The intangible assets will be amortized over periods ranging from 3 to 20 years. The final purchase price allocation was as follows:

In millions	
Inventory	\$ 21
Other current assets	25
Intangible assets	
Technology assets	96
Customer relationships	29
In-process research and development	35
Other intangible assets	1
Goodwill	161
Other assets	18
Current liabilities	(53)
Other liabilities	(42)
Total business valuation	291
Less: Noncontrolling interest	56
Total purchase consideration	\$ 235

Technology assets represent the value of both the existing fuel cells and generation equipment. These assets were valued using the relief-from-royalty method, which is a combination of the income approach and market approach that values a subject asset based on an estimate of the relief from the royalty expense that would be incurred if the subject asset were licensed from a third-party. Key assumptions are expected revenue, the royalty rate, the estimated remaining useful life and the discount rate. This value is considered a level 3 measurement under the GAAP fair value hierarchy.

Customer relationship assets represent the value of the long-term strategic relationship the business has with its significant customers. The assets were valued using an income approach, specifically the multi-period excess earnings method, which identifies an estimated stream of revenues and expenses for a particular group of assets from which deductions of portions of the projected economic benefits, attributable to assets other than the subject asset (contributory assets), are deducted in order to isolate the prospective earnings of the subject asset. Key assumptions are expected revenue, related expenses, the estimated remaining useful life and the discount rate. These assets are each being amortized over 15 to 20 years. Annual amortization of the intangible assets for the next five years was expected to approximate \$ million.

In-process research and development assets represent acquired research and development assets that have been initiated, achieved material progress, but have not yet resulted in a technologically feasible or commercially viable project. These assets were valued using the relief-from-royalty method, as described above. These assets will not be amortized until they have been completed, but will be tested annually for impairment until that time.

Goodwill was determined based on the residual difference between the fair value of consideration transferred and the value assigned to tangible and intangible assets and liabilities. The goodwill amount will not be deductible for tax purposes. Among the factors contributing to a purchase price resulting in the recognition of goodwill are the acquisition of engineering talent in the fuel cell space, the ability to be one of the forerunners in the development of clean fuel cell energy and the continued opportunity to expand our position as a global power leader.

NOTE 16. OPERATING SEGMENTS

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

Our reportable operating segments consist of Engine, Distribution, Components, Power Systems and New Power. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines (15 liters and smaller) and associated parts for sale to customers in on-highway and various off-highway markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, agriculture, power generation systems and other off-highway applications. The Distribution segment includes wholly-owned and partially-owned distributorships engaged in wholesaling engines, generator sets and service parts, as well as performing service and repair activities on our products and maintaining relationships with various OEMs throughout the world. The Components segment sells filtration products, aftertreatment systems, turbochargers, electronics, fuel systems and automated transmissions. The Power Systems segment is an integrated power provider, which designs, manufactures and sells engines (16 liters and larger) for industrial applications (including mining, oil and gas, marine and rail), standby and prime power generator sets, alternators and other power components. The New Power segment designs, manufactures, sells and supports electrified power systems ranging from fully electric to hybrid along with innovative components and subsystems, including battery, fuel cell and hydrogen production technologies. We continue to serve all our markets as they adopt electrification and alternative power technologies, meeting the needs of our OEM partners and end customers.

We use EBITDA (defined as earnings or losses before interest expense, income taxes, depreciation and amortization and noncontrolling interests) as the primary basis for the CODM to evaluate the performance of each of our reportable operating segments. We believe EBITDA is a useful measure of our operating performance as it assists investors and debt holders in comparing our performance on a consistent basis without regard to financing methods, capital structure, income taxes or depreciation and amortization methods, which can vary significantly depending upon many factors. Segment amounts exclude certain expenses not specifically identifiable to segments.

The accounting policies of our operating segments are the same as those applied in our *Condensed Consolidated Financial Statements*. We prepared the financial results of our operating segments on a basis that is consistent with the manner in which we internally disaggregate financial information to assist in making internal operating decisions. We allocate certain common costs and expenses, primarily corporate functions, among segments differently than we would for stand-alone financial information prepared in accordance with GAAP. These include certain costs and expenses of shared services, such as information technology, human resources, legal, finance and supply chain management. We do not allocate gains or losses of corporate owned life insurance to individual segments. EBITDA may not be consistent with measures used by other companies.

Summarized financial information regarding our reportable operating segments for the three months ended is shown in the table below:

In millions	Engine	Distribution	Components	Power Systems	New Power	Total Segments	Intersegment Eliminations ⁽¹⁾	Total
Three months ended September 27, 2020								
External sales	\$ 1,617	\$ 1,715	\$ 1,201	\$ 567	\$ 18	\$ 5,118	\$ —	\$ 5,118
Intersegment sales	495	6	340	414	—	1,255	(1,255)	—
Total sales	2,112	1,721	1,541	981	18	6,373	(1,255)	5,118
Research, development and engineering expenses	72	9	64	53	26	224	—	224
Equity, royalty and interest income (loss) from investees	74	13	13	—	(2)	98	—	98
Interest income	1	1	1	1	—	4	—	4
EBITDA	382	182	261	101	(40)	886	(10)	876
Depreciation and amortization ⁽²⁾	51	30	47	32	5	165	—	165
Three months ended September 29, 2019								
External sales	\$ 1,822	\$ 2,001	\$ 1,253	\$ 683	\$ 9	\$ 5,768	\$ —	\$ 5,768
Intersegment sales	594	3	397	443	—	1,437	(1,437)	—
Total sales	2,416	2,004	1,650	1,126	9	7,205	(1,437)	5,768
Research, development and engineering expenses	79	7	73	58	25	242	—	242
Equity, royalty and interest income from investees	34	12	9	13	—	68	—	68
Interest income	5	4	2	3	—	14	—	14
EBITDA	341	186	286	158	(36)	935	23	958
Depreciation and amortization ⁽²⁾	50	29	67	29	2	177	—	177

⁽¹⁾ Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the three months ended September 27, 2020 and September 29, 2019.

⁽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 Net Income* as "Interest expense." A portion of depreciation expense is included in "Research, development and engineering expenses."

Summarized financial information regarding our reportable operating segments for the nine months ended is shown in the table below:

In millions	Engine	Distribution	Components	Power Systems	New Power	Total Segments	Intersegment Eliminations ⁽¹⁾	Total
Nine months ended September 27, 2020								
External sales	\$ 4,133	\$ 5,123	\$ 3,192	\$ 1,495	\$ 38	\$ 13,981	\$ —	\$ 13,981
Intersegment sales	1,560	17	1,001	1,147	—	3,725	(3,725)	—
Total sales	5,693	5,140	4,193	2,642	38	17,706	(3,725)	13,981
Research, development and engineering expenses	217	20	187	148	79	651	—	651
Equity, royalty and interest income (loss) from investees	236	45	46	18	(3)	342	—	342
Interest income	6	3	3	3	—	15	—	15
EBITDA	897	500	681	269	(121)	2,226	45	2,271
Depreciation and amortization ⁽²⁾	155	91	142	96	13	497	—	497
Nine months ended September 29, 2019								
External sales	\$ 5,879	\$ 6,009	\$ 4,055	\$ 2,030	\$ 20	\$ 17,993	\$ —	\$ 17,993
Intersegment sales	1,893	24	1,302	1,376	—	4,595	(4,595)	—
Total sales	7,772	6,033	5,357	3,406	20	22,588	(4,595)	17,993
Research, development and engineering expenses	245	21	223	171	70	730	—	730
Equity, royalty and interest income from investees	152	35	30	39	—	256	—	256
Interest income	13	12	6	7	—	38	—	38
EBITDA	1,195	529	908	469	(98)	3,003	46	3,049
Depreciation and amortization ⁽²⁾	151	86	160	88	6	491	—	491

⁽¹⁾ Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the nine months ended September 27, 2020 and September 29, 2019.

⁽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 Net Income* as "Interest expense." The amortization of debt discount and deferred costs was \$2 million and \$2 million for the nine months ended September 27, 2020 and September 29, 2019, respectively. A portion of depreciation expense is included in "Research, development and engineering expenses."

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

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Total EBITDA	\$ 876	\$ 958	\$ 2,271	\$ 3,049
Less:				
Depreciation and amortization	165	177	497	491
Interest expense	25	26	71	87
Income before income taxes	\$ 686	\$ 755	\$ 1,703	\$ 2,471

NOTE 17. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In August 2018, the Financial Accounting Standards Board (FASB) issued a new standard that aligns the accounting for implementation costs incurred in a cloud computing arrangement accounted for as a service contract with the model currently used for internal use software costs. Under the new standard, costs that meet certain criteria will be required to be capitalized on the balance sheet and subsequently amortized over the term of the hosting arrangement. We adopted the standard on January 1, 2020, on a prospective basis as allowed by the standard. The adoption is not expected to have a material impact on our *Condensed Consolidated Financial Statements*.

On January 1, 2020, we adopted the new FASB standard related to accounting for credit losses on financial instruments. This standard introduces new guidance for accounting for credit losses on instruments including trade receivables and held-to-maturity debt securities. The standard requires entities to record a cumulative effect adjustment to the statement of financial position. We recorded a net decrease to opening retained earnings of \$4 million, net of tax, as of January 1, 2020, due to the cumulative impact of adopting the new standard. The impact to any individual financial statement line item as a result of applying the new standard, as compared to the old standard, was not material for the nine months ended September 27, 2020.

In March 2020, the FASB amended its standard to provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendment allows entities to elect not to apply certain modification accounting requirements to contracts affected by reference rate reform if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met. These expedients would apply to interest rate locks. The guidance was effective upon issuance and expires after December 31, 2022. The amendment did not have an effect on our *Condensed Consolidated Financial Statements* at September 27, 2020. We are still evaluating which contracts will be impacted by reference rate reform, but the expedients will allow us to make permitted changes prior to the expiration of the amendments without resulting in an impact to our *Consolidated Financial Statements*.

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:

- market slowdown due to the impacts from the COVID-19 pandemic, other public health crises, epidemics or pandemics;
- impacts to manufacturing and supply chain abilities from an extended shutdown or disruption of our operations due to the COVID-19 pandemic;
- supply shortages and supplier financial risk, particularly from any of our single-sourced suppliers, including suppliers that may be impacted by the COVID-19 pandemic;
- aligning our capacity and production with our demand, including impacts of COVID-19;
- a major customer experiencing financial distress, particularly related to the COVID-19 pandemic;
- any adverse results of our internal review into our emissions certification process and compliance with emission standards;
- increased scrutiny from regulatory agencies, as well as unpredictability in the adoption, implementation and enforcement of emission standards around the world;
- disruptions in global credit and financial markets as the result of the COVID-19 pandemic;
- adverse impacts from government actions to stabilize credit markets and financial institutions and other industries;
- product recalls;
- the development of new technologies that reduce demand for our current products and services;
- policy changes in international trade;
- a slowdown in infrastructure development and/or depressed commodity prices;
- the U.K.'s exit from the European Union (EU);
- labor relations or work stoppages;
- reliance on our executive leadership team and other key personnel;
- lower than expected acceptance of new or existing products or services;
- changes in the engine outsourcing practices of significant customers;
- our plan to reposition our portfolio of product offerings through exploration of strategic acquisitions and divestitures and related uncertainties of entering such transactions;
- exposure to potential security breaches or other disruptions to our information technology systems and data security;
- challenges or unexpected costs in completing cost reduction actions and restructuring initiatives;
- failure to realize expected results from our investment in Eaton Cummins Automated Transmission Technologies joint venture;
- political, economic and other risks from operations in numerous countries;
- competitor activity;

- increasing competition, including increased global competition among our customers in emerging markets;
- foreign currency exchange rate changes;
- variability in material and commodity costs;
- the actions of, and income from, joint ventures and other investees that we do not directly control;
- changes in taxation;
- global legal and ethical compliance costs and risks;
- product liability claims;
- increasingly stringent environmental laws and regulations;
- the performance of our pension plan assets and volatility of discount rates, particularly those related to the sustained slowdown of the global economy due to the COVID-19 pandemic;
- future bans or limitations on the use of diesel-powered products;
- the price and availability of energy;
- our sales mix of products;
- protection and validity of our patent and other intellectual property rights;
- the outcome of pending and future litigation and governmental proceedings;
- continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support our future business; and
- other risk factors described in Part II, Item 1A. in this quarterly report 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 2019 Form 10-K](#). Our MD&A is presented in the following sections:

- EXECUTIVE SUMMARY AND FINANCIAL HIGHLIGHTS
- RESULTS OF OPERATIONS
- OPERATING SEGMENT RESULTS
- OUTLOOK
- LIQUIDITY AND CAPITAL RESOURCES
- APPLICATION OF CRITICAL ACCOUNTING ESTIMATES
- RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

EXECUTIVE SUMMARY AND FINANCIAL HIGHLIGHTS

Overview

We are a global power leader that designs, manufactures, distributes and services diesel, natural gas, electric and hybrid powertrains and powertrain-related components including filtration, aftertreatment, turbochargers, fuel systems, controls systems, air handling systems, automated transmissions, electric power generation systems, batteries, electrified power systems, hydrogen generation and fuel cell products. We sell our products to original equipment manufacturers (OEMs), distributors, dealers and other customers worldwide. We have long-standing relationships with many of the leading manufacturers in the markets we serve, including PACCAR Inc, Navistar International Corporation, Daimler Trucks North America and Fiat Chrysler Automobiles (Chrysler). We serve our customers through a network of approximately 600 wholly-owned, joint venture and independent distributor locations and over 7,600 Cummins certified dealer locations in more than 190 countries and territories.

Our reportable operating segments consist of Engine, Distribution, Components, Power Systems and New Power. This reporting structure is organized according to the products and markets each segment serves. The Engine segment produces engines (15 liters and smaller) and associated parts for sale to customers in on-highway and various off-highway markets. Our engines are used in trucks of all sizes, buses and recreational vehicles, as well as in various industrial applications, including construction, agriculture, power generation systems and other off-highway applications. The Distribution segment includes wholly-owned and partially-owned distributorships engaged in wholesaling engines, generator sets and service parts, as well as performing service and repair activities on our products and maintaining relationships with various OEMs throughout the world. The Components segment sells filtration products, aftertreatment systems, turbochargers, electronics, fuel systems and automated transmissions. The Power Systems segment is an integrated power provider, which designs, manufactures and sells engines (16 liters and larger) for industrial applications (including mining, oil and gas, marine and rail), standby and prime power generator sets, alternators and other power components. The New Power segment designs, manufactures, sells and supports electrified power systems ranging from fully electric to hybrid along with innovative components and subsystems, including battery, fuel cell and hydrogen production technologies. We continue to serve all our markets as they adopt electrification and alternative power technologies, meeting the needs of our OEM partners and end customers.

Our financial performance depends, in large part, on varying conditions in the markets we serve, particularly the on-highway, construction and general industrial markets. Demand in these markets tends to fluctuate in response to overall economic conditions. Our sales may also be impacted by OEM inventory levels, production schedules and stoppages. Economic downturns in markets we serve generally result in reduced sales of our products and can result in price reductions in certain products and/or markets. As a worldwide business, our operations are also affected by currency, political, economic, public health crises, epidemics or pandemics 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.

COVID-19 Update

The outbreak of COVID-19 spread throughout the world and became a global pandemic with the resultant economic impacts evolving into a worldwide recession. The pandemic triggered a significant downturn in our markets globally, which continued to unfavorably

impact market conditions through the end of the third quarter and these challenging market conditions could continue for an extended period of time. In an effort to contain the spread of COVID-19, maintain the well-being of our employees and stakeholders, match the reduced demand from our customers and in accordance with governmental requirements, we closed or partially shut down certain office, manufacturing, distribution and technical center facilities around the world in March 2020. Although most of our manufacturing, distribution and technical center facilities re-opened early in the second quarter of 2020, many operated at reduced capacities and most of our global office buildings remained closed through the third quarter. While the impacts of the pandemic and the resulting global recession are expected to be temporary, the duration of the production and supply chain disruptions, and related financial impacts, cannot be estimated at this time. Should the reduced manufacturing and distribution capacities continue for an extended period of time or worsen, the impact on our production and supply chain could have a material adverse effect on our results of operations, financial condition and cash flows. Our Board of Directors (the Board) continues to monitor and evaluate all of these factors along with the continuing impacts of the COVID-19 pandemic on our business and operations.

2020 Results

Our results for the first nine months of 2020 were significantly impacted by COVID-19, which caused manufacturing and supplier plant closures in China in early 2020 and other targeted shut-downs beginning in late March 2020 in response to both customer plant closures and government actions to slow the spread of the virus. Plants closed in China during the first quarter were reopened in late March 2020; however, additional plants and distribution locations around the world were shut down or working at reduced capacities early in the second quarter. Although these actions did not have a material effect on our results of operations in the first quarter, they materially impacted our second quarter and continued to affect third quarter results, and we expect them to continue to impact our results of operations, financial condition and cash flows throughout the remainder of 2020.

Worldwide revenues decreased 11 percent in the three months ended September 27, 2020, compared to the same period in 2019, due to lower demand in all major operating segments and most geographic regions of the world as we experienced the anticipated 2020 down cycle in most of our markets and the continuing economic impacts of COVID-19. Net sales in the U.S. and Canada declined 18 percent, primarily due to COVID-19 impacts resulting in decreased demand in North American on-highway markets, which also negatively impacted our emission solutions and automated transmissions businesses and reduced sales in our distribution product lines. International demand (excludes the U.S. and Canada) was flat as lower sales in most geographic regions was offset by increased demand in China and a \$44 million value added tax (VAT) recovery approved by the Brazilian tax authorities. Excluding the VAT recovery, the decrease in international sales was principally due to lower off-highway demand (mainly international mining markets, construction markets in Western Europe and Asia Pacific and oil and gas markets in China, partially offset by higher construction markets in China), lower demand for power generation equipment, reduced demand in all distribution product lines and unfavorable foreign currency impacts of 1 percent of international sales (primarily the Brazilian real), partially offset by higher demand in on-highway markets (mainly light commercial vehicle (LCV) and heavy-duty truck in China), which also positively impacted our emission solutions, electronics and fuel systems and turbo technologies businesses.

Worldwide revenues decreased 22 percent in the nine months ended September 27, 2020, compared to the same period in 2019, as we experienced lower demand in all major operating segments and all geographic regions, except China, due to the economic impacts of COVID-19 and the anticipated 2020 down cycle in most of our related markets. Net sales in the U.S. and Canada declined 28 percent, primarily due to COVID-19 impacts resulting in decreased demand in the North American on-highway markets, which also negatively impacted our emission solutions, automated transmissions and turbo technologies businesses, reduced sales in our distribution product lines, decreased demand for power generation equipment and lower demand in off-highway markets (especially construction and oil and gas). International demand (excludes the U.S. and Canada) declined by 14 percent, with lower sales in all geographic regions except China and a \$44 million VAT recovery. The decrease in international sales was principally due to COVID-19 impacts resulting in lower off-highway demand (mainly international mining markets, construction markets in Western Europe and Asia Pacific, oil and gas markets in China and international marine markets, partially offset by higher construction market demand in China), decreased demand in on-highway markets (mainly medium-duty truck markets), which also negatively impacted our turbo technologies and emission solutions businesses, lower demand for power generation equipment, reduced demand in all distribution product lines and unfavorable foreign currency impacts of 2 percent of international sales (primarily the Chinese renminbi, Brazilian real, Australian dollar and Euro), partially offset by higher demand in the off-highway construction and the heavy-duty constructions markets in China.

The following tables contain sales and EBITDA (defined as earnings or losses before interest expense, income taxes, depreciation and amortization and noncontrolling interests) by operating segment for the three and nine months ended September 27, 2020 and September 29, 2019. See the section titled "OPERATING SEGMENT RESULTS" for a more detailed discussion of net sales and EBITDA by operating segment including the reconciliation of segment EBITDA to net income attributable to Cummins Inc.

Operating Segments	Three months ended								
	September 27, 2020			September 29, 2019			Percent change		
	In millions	Percent		Sales	Percent		2020 vs. 2019		
Sales		of Total	EBITDA		Sales	of Total	Sales	EBITDA	
Engine	\$ 2,112	41 %	\$ 382	\$ 2,416	42 %	\$ 341	(13)%	12 %	
Distribution	1,721	34 %	182	2,004	35 %	186	(14)%	(2) %	
Components	1,541	30 %	261	1,650	29 %	286	(7)%	(9) %	
Power Systems	981	19 %	101	1,126	19 %	158	(13)%	(36) %	
New Power	18	— %	(40)	9	— %	(36)	100 %	(11) %	
Intersegment eliminations	(1,255)	(24) %	(10)	(1,437)	(25) %	23	(13)%	NM	
Total	\$ 5,118	100 %	\$ 876	\$ 5,768	100 %	\$ 958	(11)%	(9) %	

"NM" - not meaningful information

Net income attributable to Cummins was \$501 million, or \$3.36 per diluted share, on sales of \$5.1 billion for the three months ended September 27, 2020, versus the comparable prior year period net income attributable to Cummins of \$622 million, or \$3.97 per diluted share, on sales of \$5.8 billion. The decreases in net income and earnings per diluted share were driven by lower net sales, decreased gross margin, higher variable compensation expenses, a higher effective tax rate, the absence of a \$35 million gain from unwinding derivative instruments recognized in the third quarter of 2019 and unfavorable foreign currency impacts (primarily in the Brazilian real), partially offset by prior restructuring actions and temporary salary reductions resulting in lower compensation expenses and increased equity, royalty and interest income from investees primarily in China (due to stronger demand for trucks and construction equipment.) The decrease in gross margin was primarily due to lower volumes and unfavorable foreign currency impacts (primarily in the Brazilian real), partially offset by prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses, a \$44 million VAT recovery and lower material costs. The increase in gross margin as a percentage of sales was primarily due to prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses, a VAT recovery and lower material costs.

Operating Segments	Nine months ended							
	September 27, 2020			September 29, 2019			Percent change	
	In millions	Percent		Sales	Percent		2020 vs. 2019	
Sales		of Total	of Total		EBITDA	Sales	EBITDA	
Engine	\$ 5,693	41 %	\$ 897	\$ 7,772	43 %	\$ 1,195	(27)%	(25) %
Distribution	5,140	37 %	500	6,033	34 %	529	(15)%	(5) %
Components	4,193	30 %	681	5,357	30 %	908	(22)%	(25) %
Power Systems	2,642	19 %	269	3,406	19 %	469	(22)%	(43) %
New Power	38	— %	(121)	20	— %	(98)	90 %	(23) %
Intersegment eliminations	(3,725)	(27)%	45	(4,595)	(26) %	46	(19)%	(2) %
Total	\$ 13,981	100 %	\$ 2,271	\$ 17,993	100 %	\$ 3,049	(22)%	(26) %

Net income attributable to Cummins was \$1,288 million, or \$8.65 per diluted share, on sales of \$14.0 billion for the nine months ended September 27, 2020, versus the comparable prior year period net income attributable to Cummins of \$1,960 million, or \$12.45 per diluted share, on sales of \$18.0 billion. The decreases in net income and earnings per diluted share were driven by lower net sales, decreased gross margin, a higher effective tax rate, the absence of a \$35 million gain from unwinding derivative instruments recognized in the third quarter of 2019 and unfavorable foreign currency fluctuations (primarily the Brazilian real, Chinese renminbi and emerging market currencies), partially offset by prior restructuring actions, temporary salary reductions and lower variable compensation resulting in lower compensation expenses, increased equity, royalty and interest income from investees in China (due to stronger demand for trucks and construction equipment) and favorable adjustments related to India Tax Law Changes in March 2020. The decreases in gross margin and gross margin as a percentage of sales were primarily due to lower volumes and unfavorable mix, partially offset by prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses, lower material costs, reduced warranty costs and a \$44 million VAT recovery. Diluted earnings per common share for the nine months ended September 27, 2020, benefited \$0.16 from fewer weighted-average shares outstanding, primarily due to the stock repurchase programs in the first quarter of 2020.

We generated \$1,223 million and \$1,580 million of cash from operations for the three and nine months ended September 27, 2020, compared to \$1,123 million and \$2,343 million for the comparable periods in 2019. Refer to the section titled "Cash Flows" in the "LIQUIDITY AND CAPITAL RESOURCES" section for a discussion of items impacting cash flows.

Our debt to capital ratio (total capital defined as debt plus equity) at September 27, 2020, was 32.2 percent, compared to 21.9 percent at December 31, 2019. The increase was primarily due to higher debt balances of \$1,745 million since December 31, 2019, as the result of our August 2020 debt issuance. At September 27, 2020, we had \$3.3 billion in cash and marketable securities on hand and access to our \$3.5 billion credit facilities, if necessary, to meet currently anticipated working capital, investment and funding needs.

In the first half of 2020, we entered into additional interest rate lock agreements to reduce the variability of the cash flows of the interest payments on a total of \$500 million of fixed rate debt forecast to be issued in 2023 to replace our senior notes at maturity.

In the first nine months of 2020, we purchased \$550 million, or 3.5 million shares of common stock, which was all purchased in the first quarter of 2020.

On April 14, 2020, we were approved for the Federal Reserve Bank of New York's Commercial Paper Funding Facility to assure access to commercial paper funding during volatile market conditions. See NOTE 9, "DEBT" to the *Condensed Consolidated Financial Statements* for additional information.

In June and July of 2020, we settled our February 2014 interest rate swap, which previously converted our \$500 million debt issue, due in 2023, from fixed rate to floating rate based on a LIBOR spread. We will amortize the \$24 million gain realized upon settlement over the remaining three year term of related debt.

On August 19, 2020, we entered into an amended and restated 364-day credit agreement that allows us to borrow up to \$1.5 billion of unsecured funds at any time prior to August 18, 2021. This credit agreement amends and restates the prior \$1.5 billion 364-day credit facility that matured on August 19, 2020.

On August 24, 2020, we issued \$2 billion aggregate principal amount of senior unsecured notes consisting of \$500 million aggregate principal amount of 0.75% senior unsecured notes due in 2025, \$850 million aggregate principal amount of 1.50% senior unsecured notes due in 2030 and \$650 million aggregate principal amount of 2.60% senior unsecured notes due in 2050. We received net proceeds of \$1.98 billion.

On August 24, 2020, we terminated our 364-day credit facility that had been entered into on May 1, 2020, concurrent with the \$2 billion bond issuance on August 24, 2020.

In October 2020, the Board authorized an increase to our quarterly dividend of 3 percent from \$1.311 per share to \$1.35 per share.

In the first nine months of 2020, the investment gain on our U.S. pension trust was 2.7 percent while our U.K. pension trust gain was 7.9 percent. Investment performance year-to-date in both trusts is still recovering from the negative impacts of COVID-19 on capital markets. During the remainder of 2020, we anticipate making \$7 million in additional defined benefit pension contributions in the U.K. and \$7 million in contributions to our U.S. non-qualified benefit plans. We expect our 2020 annual net periodic pension cost to approximate \$102 million.

As of the date of this filing, our credit ratings and outlooks from the credit rating agencies were confirmed, with the \$2 billion bond issuance on August 24, 2020, and remain unchanged.

RESULTS OF OPERATIONS

In millions, except per share amounts	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2020	September 29, 2019	Amount	Percent	September 27, 2020	September 29, 2019	Amount	Percent
	NET SALES	\$ 5,118	\$ 5,768	\$ (650)	(11) %	\$ 13,981	\$ 17,993	\$ (4,012)
Cost of sales	3,769	4,274	505	12 %	10,448	13,326	2,878	22 %
GROSS MARGIN	1,349	1,494	(145)	(10) %	3,533	4,667	(1,134)	(24) %
OPERATING EXPENSES AND INCOME								
Selling, general and administrative expenses	533	600	67	11 %	1,549	1,822	273	15 %
Research, development and engineering expenses	224	242	18	7 %	651	730	79	11 %
Equity, royalty and interest income from investees	98	68	30	44 %	342	256	86	34 %
Other operating expense, net	(20)	(21)	1	5 %	(35)	(25)	(10)	(40) %
OPERATING INCOME	670	699	(29)	(4) %	1,640	2,346	(706)	(30) %
Interest income	4	14	(10)	(71) %	15	38	(23)	(61) %
Interest expense	25	26	1	4 %	71	87	16	18 %
Other income, net	37	68	(31)	(46) %	119	174	(55)	(32) %
INCOME BEFORE INCOME TAXES	686	755	(69)	(9) %	1,703	2,471	(768)	(31) %
Income tax expense	182	139	(43)	(31) %	402	501	99	20 %
CONSOLIDATED NET INCOME	504	616	(112)	(18) %	1,301	1,970	(669)	(34) %
Less: Net income (loss) attributable to noncontrolling interests	3	(6)	(9)	NM	13	10	(3)	(30) %
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 501	\$ 622	\$ (121)	(19) %	\$ 1,288	\$ 1,960	\$ (672)	(34) %
Diluted Earnings Per Common Share Attributable to Cummins Inc.	\$ 3.36	\$ 3.97	\$ (0.61)	(15) %	\$ 8.65	\$ 12.45	\$ (3.80)	(31) %

"NM" - not meaningful information

Percent of sales	Three months ended		Favorable/ (Unfavorable) Percentage Points	Nine months ended		Favorable/ (Unfavorable) Percentage Points
	September 27, 2020	September 29, 2019		September 27, 2020	September 29, 2019	
Gross margin	26.4 %	25.9 %	0.5	25.3 %	25.9 %	(0.6)
Selling, general and administrative expenses	10.4 %	10.4 %	—	11.1 %	10.1 %	(1.0)
Research, development and engineering expenses	4.4 %	4.2 %	(0.2)	4.7 %	4.1 %	(0.6)

Net Sales

Net sales for the three months ended September 27, 2020, decreased by \$650 million versus the comparable period in 2019. The primary drivers were as follows:

- Engine segment sales decreased 13 percent due to lower volumes in the North American heavy-duty truck and medium-duty truck and bus markets, partially offset by increased light-commercial vehicle demand in China and Brazil.
- Distribution segment sales decreased 14 percent due to lower demand in all product lines.
- Power Systems segment sales decreased 13 percent primarily due to reduced industrial market demand in international mining markets and oil and gas markets in China and lower demand in power generation markets in India and North America.
- Components segment sales decreased 7 percent largely due to lower demand in North America, partially offset by higher demand in China.
- Unfavorable foreign currency fluctuations of 1 percent of total sales, primarily in the Brazilian real.

These decreases were partially offset by a \$44 million VAT recovery.

Net sales for the nine months ended September 27, 2020, decreased \$4,012 million versus the comparable period in 2019. The primary drivers were as follows:

- Engine segment sales decreased 27 percent due to lower volumes in all North American on-highway markets.
- Components segment sales decreased 22 percent largely due to lower demand in North America and Western Europe, partially offset by higher demand in China.
- Distribution segment sales decreased 15 percent due to lower demand in all product lines.
- Power Systems segment sales decreased 22 percent primarily due to reduced industrial demand in international mining markets and oil and gas market in China and lower demand in power generation markets in North America and India.
- Unfavorable foreign currency fluctuations of 1 percent of total sales, primarily in the Chinese renminbi, Brazilian real, Australian dollar and Euro.

These decreases were partially offset by a \$44 million VAT recovery.

Sales to international markets (excluding the U.S. and Canada), based on location of customers, for the three and nine months ended September 27, 2020, were 41 percent and 42 percent of total net sales compared with 37 percent and 38 percent of total net sales for the comparable periods in 2019. A more detailed discussion of sales by segment is presented in the “OPERATING SEGMENT RESULTS” section.

Cost of Sales

The types of expenses included in cost of sales are the following: parts and material consumption, including direct and indirect materials; salaries, wages and benefits; depreciation on production equipment and facilities and amortization of technology intangibles; estimated costs of warranty programs and campaigns; production utilities; production-related purchasing; warehousing, including receiving and inspection; engineering support costs; repairs and maintenance; production and warehousing facility property insurance; rent for production facilities and other production overhead.

Gross Margin

Gross margin decreased \$145 million for the three months ended September 27, 2020 and increased 0.5 points as a percentage of sales, versus the comparable period in 2019. The decrease in gross margin was primarily due to lower volumes and unfavorable foreign currency impacts (primarily in the Brazilian real), partially offset by prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses, a \$44 million VAT recovery and lower material costs. The increase in gross margin as a percentage of sales was primarily due to prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses, a VAT recovery and lower material costs.

Gross margin decreased \$1,134 million for the nine months ended September 27, 2020 and decreased 0.6 points as a percentage of sales versus the comparable period in 2019. The decreases in gross margin and gross margin as a percentage of sales were primarily due to lower volumes and unfavorable mix, partially offset by prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses, lower material costs, reduced warranty costs and a \$44 million VAT recovery.

The provision for base warranties issued as a percent of sales for the three and nine months ended September 27, 2020, was 2.3 percent and 2.0 percent, respectively, compared to 1.8 percent and 2.0 percent for the comparable periods in 2019. A detailed discussion of gross margin by segment is presented in the “OPERATING SEGMENT RESULTS” section.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased \$67 million for the three months ended September 27, 2020, versus the comparable period in 2019, primarily due to prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses, reduced travel expenses and lower consulting expenses, partially offset by increased variable compensation expenses. Overall, selling, general and administrative expenses, as a percentage of sales, remained flat at 10.4 percent in the three months ended September 27, 2020.

Selling, general and administrative expenses decreased \$273 million for the nine months ended September 27, 2020, versus the comparable period in 2019, primarily due to prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses and reduced travel expenses. Overall, selling, general and administrative expenses, as a percentage of sales, increased to 11.1 percent in the nine months ended September 27, 2020, from 10.1 percent in the comparable period in 2019. The increase in selling, general and administrative expenses as a percentage of sales was primarily due to sales declining faster than selling, general and administrative expenses.

Research, Development and Engineering Expenses

Research, development and engineering expenses decreased \$18 million for the three months ended September 27, 2020, versus the comparable period in 2019 primarily due to prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses and reduced consulting expenses, partially offset by increased variable compensation expenses. Overall, research, development and engineering expenses as a percentage of sales increased to 4.4 percent in the three months ended September 27, 2020, from 4.2 percent in the comparable period in 2019, primarily due to sales declining faster than research, development and engineering expenses decreased, despite lower compensation expenses.

Research, development and engineering expenses decreased \$79 million for the nine months ended September 27, 2020, versus the comparable period in 2019 primarily due to prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses and reduced consulting expenses. Overall, research, development and engineering expenses as a percentage of sales increased to 4.7 percent in the nine months ended September 27, 2020, from 4.1 percent in the comparable period in 2019, primarily due to sales declining faster than research, development and engineering expenses decreased, despite lower compensation expenses. Research activities continue to focus on development of new products to meet future emission standards around the world, improvements in fuel economy performance of diesel and natural gas-powered engines and related components as well as development activities around fully electric, hybrid and hydrogen powertrain solutions.

Equity, Royalty and Interest Income from Investees

Equity, royalty and interest income from investees increased \$30 million for the three months ended September 27, 2020, versus the comparable period in 2019, primarily due to higher earnings at Beijing Foton Cummins Engine Co., Ltd. and Dongfeng Cummins Engine Co., Ltd., partially offset by \$10 million of impairment charges for a joint venture in our Power Systems segment.

Equity, royalty and interest income from investees increased \$86 million for the nine months ended September 27, 2020, versus the comparable period in 2019, primarily due to a \$37 million adjustment as the result of tax changes within India's 2020-2021 Union Budget of India (India Tax Law Changes) passed in March 2020, higher earnings at Beijing Foton Cummins Engine Co., Ltd. and \$18 million of technology fee revenue recorded in the first quarter of 2020, partially offset by \$13 million of impairment charges. See NOTE 6, "INCOME TAXES" to the *Condensed Consolidated Financial Statements* for additional information on India Tax Law Changes.

Other Operating Expense, Net

Other operating expense, net was as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Loss on write-off of assets	\$ (13)	\$ (20) ⁽¹⁾	\$ (18)	\$ (20) ⁽¹⁾
Amortization of intangible assets	(5)	(5)	(16)	(15)
(Loss) gain on sale of assets, net	(2)	(2)	(8)	3
Royalty income, net	1	3	3	12
Other, net	(1)	3	4	(5)
Total other operating expense, net	\$ (20)	\$ (21)	\$ (35)	\$ (25)

⁽¹⁾ Includes \$19 million of charges related to ending production of the 5 liter ISV engine for the U.S. pick-up truck market during the three and nine months ended September 29, 2019.

Interest Income

Interest income decreased \$10 million and \$23 million for the three and nine months ended September 27, 2020, versus the comparable periods in 2019, primarily due to lower rates of return on higher average cash and marketable securities balances.

Interest Expense

Interest expense decreased \$1 million and \$16 million for the three and nine months ended September 27, 2020, versus the comparable periods in 2019, mainly due to lower interest rates despite an increase in the average short-term borrowings through the nine months ended September 27, 2020

Other Income, Net

Other income, net was as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Non-service pension and other postretirement benefits credit	\$ 16	\$ 18	\$ 48	\$ 54
Gain on corporate owned life insurance	12	9	50	64
Rental income	2	2	6	6
Foreign currency loss, net	2	36 ⁽¹⁾	(1)	28 ⁽¹⁾
Gain on marketable securities, net	2	1	6	8
Bank charges	(5)	(3)	(15)	(9)
Other, net	8	5	25	23
Total other income, net	<u>\$ 37</u>	<u>\$ 68</u>	<u>\$ 119</u>	<u>\$ 174</u>

⁽¹⁾ Includes \$35 million in gains from unwinding derivative instruments not designated as hedges as a result of foreign dividends paid during the three and nine months ended September 29, 2019.

Income Tax Expense

Our effective tax rates for the three and nine months ended September 27, 2020, were 26.5 percent and 23.6 percent, respectively.

The three months ended September 27, 2020, contained unfavorable discrete items of \$31 million, or \$0.21 per share, consisting of \$17 million of changes in tax reserves, \$8 million of provision to return adjustments relating to tax returns filed for 2019 and \$6 million of net other discrete items.

The nine months ended September 27, 2020, contained \$27 million, or \$0.18 per share, of unfavorable net discrete tax items, primarily due to \$34 million of unfavorable changes in tax reserves and \$8 million of provision to return adjustments, partially offset by \$15 million of favorable tax changes within India's 2020-2021 Union Budget of India (India Tax Law Change) passed in March of 2020. The India Tax Law Change eliminated the dividend distribution tax and replaced it with a lower rate withholding tax as the burden shifted from the dividend payor to the dividend recipient for a net favorable income statement impact of \$35 million. See NOTE 6, "INCOME TAXES" to the *Condensed Consolidated Financial Statements* for additional information on India Tax Law Changes.

Our effective tax rates for the three and nine months ended September 29, 2019, were 18.4 percent and 20.3 percent, respectively. The three months ended September 29, 2019, contained favorable discrete items of \$23 million, or \$0.14 per share, of favorable net discrete tax items, primarily due to withholding taxes and provision to return adjustments. The nine months ended September 27, 2020, contained \$30 million, or \$0.19 per share, of favorable net discrete tax items, primarily due to withholding taxes and provision to return adjustments.

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 and nine months ended September 27, 2020, increased \$9 million and \$3 million, respectively, versus the comparable periods in 2019. The increases for the three months ended September 27, 2020 are primarily due to increased earnings at Eaton Cummins Joint Venture. The increases for nine months ended September 27, 2020 are principally due to a \$19 million unfavorable adjustment as the result of India Tax Law Changes passed in March 2020, partially offset by decreased earnings at Cummins India Limited. See NOTE 6, "INCOME TAXES" to the *Condensed Consolidated Financial Statements* for additional information on India Tax Law Changes.

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

Net income and diluted earnings per common share attributable to Cummins Inc. for the three months ended September 27, 2020, decreased \$121 million and \$0.61 per diluted share versus the comparable period in 2019, primarily due to lower net sales, decreased gross margin, higher variable compensation expenses, a higher effective tax rate, the absence of a \$35 million gain from unwinding derivative instruments recognized in the third quarter of 2019 and unfavorable foreign currency impacts (primarily in the Brazilian real), partially offset by prior restructuring actions and temporary salary reductions resulting in lower compensation expenses and increased equity, royalty and interest income from investees primarily in China due to stronger demand for trucks and construction equipment.

Net income and diluted earnings per common share attributable to Cummins Inc. for the nine months ended September 27, 2020, decreased \$672 million and \$3.80 per diluted share versus the comparable period in 2019, primarily due to lower net sales, decreased gross margin, a higher effective tax rate, the absence of a \$35 million gain from unwinding derivative instruments recognized in the third quarter of 2019 and unfavorable foreign currency fluctuations (primarily the Brazilian real, Chinese renminbi and emerging market currencies), partially offset by prior restructuring actions, temporary salary reductions and lower variable compensation resulting in lower compensation expenses, increased equity, royalty and interest income from investees in China (due to stronger demand for trucks and construction equipment) and favorable adjustments related to India Tax Law Changes in March 2020. Diluted earnings per common share for the nine months ended September 27, 2020, benefited \$0.16 from fewer weighted-average shares outstanding, primarily due to the stock repurchase programs in the first quarter of 2020.

Comprehensive Income - Foreign Currency Translation Adjustment

The foreign currency translation adjustment was a net gain of \$111 million and net loss of \$62 million, respectively, for the three and nine months ended September 27, 2020, compared to a net loss of \$182 million and \$197 million, respectively, for the three and nine months ended September 29, 2019 and was driven by the following:

In millions	Three months ended			
	September 27, 2020		September 29, 2019	
	Translation adjustment	Primary currency driver vs. U.S. dollar	Translation adjustment	Primary currency driver vs. U.S. dollar
Wholly-owned subsidiaries	\$ 69	Chinese renminbi, Indian rupee	\$ (153)	British pound, Chinese renminbi, Brazilian real
Equity method investments	32	Chinese renminbi	(24)	Chinese renminbi
Consolidated subsidiaries with a noncontrolling interest	10	Indian rupee	(5)	Indian rupee
Total	<u>\$ 111</u>		<u>\$ (182)</u>	

In millions	Nine months ended			
	September 27, 2020		September 29, 2019	
	Translation adjustment	Primary currency driver vs. U.S. dollar	Translation adjustment	Primary currency driver vs. U.S. dollar
Wholly-owned subsidiaries	\$ (62)	Brazilian real, Indian rupee, offset by Chinese renminbi	\$ (161)	British pound, Chinese renminbi, Brazilian real
Equity method investments	12	Chinese renminbi	(34)	Chinese renminbi, British pound
Consolidated subsidiaries with a noncontrolling interest	(12)	Indian rupee	(2)	Indian rupee
Total	<u>\$ (62)</u>		<u>\$ (197)</u>	

OPERATING SEGMENT RESULTS

Our reportable operating segments consist of the Engine, Distribution, Components, Power Systems and New Power segments. This reporting structure is organized according to the products and markets each segment serves. We use segment EBITDA as a primary basis for the Chief Operating Decision Maker to evaluate the performance of each of our reportable operating segments. We believe EBITDA is a useful measure of our operating performance as it assists investors and debt holders in comparing our performance on a consistent basis without regard to financing methods, capital structure, income taxes or depreciation and amortization methods, which can vary significantly depending upon many factors. Segment amounts exclude certain expenses not specifically identifiable to segments. See Note 16, "OPERATING SEGMENTS," to the *Condensed Consolidated Financial Statements* for additional information.

Our results for the first nine months of 2020 were significantly impacted by COVID-19, which caused manufacturing and supplier plant closures in China in early 2020 and other targeted shut-downs beginning in late March 2020 in response to both customer plant closures and government actions to slow the spread of the virus. Plants closed in China during the first quarter were reopened in late March 2020; however, additional plants and distribution locations around the world were shut down or working at reduced capacities early in the second quarter. Although these actions did not have a material effect on our results of operations in the first quarter, they materially impacted our second quarter and continued to affect third quarter results, and we expect them to continue to impact our results of operations, financial condition and cash flows throughout the remainder of 2020. The Board continues to monitor and evaluate all of these factors along with the continuing impacts of the COVID-19 pandemic on our business and operations.

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, 2020	September 29, 2019	Amount	Percent	September 27, 2020	September 29, 2019	Amount	Percent
External sales	\$ 1,617	\$ 1,822	\$ (205)	(11) %	\$ 4,133	\$ 5,879	\$ (1,746)	(30) %
Intersegment sales	495	594	(99)	(17) %	1,560	1,893	(333)	(18) %
Total sales	2,112	2,416	(304)	(13) %	5,693	7,772	(2,079)	(27) %
Research, development and engineering expenses	72	79	7	9 %	217	245	28	11 %
Equity, royalty and interest income from investees	74	34	40	NM	236	152	84	55 %
Interest income	1	5	(4)	(80) %	6	13	(7)	(54) %
Segment EBITDA	382	341	41	12 %	897	1,195	(298)	(25) %

			Percentage Points				Percentage Points	
Segment EBITDA as a percentage of total sales	18.1 %	14.1 %	4.0		15.8 %	15.4 %	0.4	

"NM" - not meaningful information

Sales for our Engine segment by market were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2020	September 29, 2019	Amount	Percent	September 27, 2020	September 29, 2019	Amount	Percent
Heavy-duty truck	\$ 694	\$ 851	\$ (157)	(18) %	\$ 1,859	\$ 2,800	\$ (941)	(34) %
Medium-duty truck and bus	492	645	(153)	(24) %	1,501	2,105	(604)	(29) %
Light-duty automotive	522	478	44	9 %	1,055	1,340	(285)	(21) %
Total on-highway	1,708	1,974	(266)	(13) %	4,415	6,245	(1,830)	(29) %
Off-highway	404	442	(38)	(9) %	1,278	1,527	(249)	(16) %
Total sales	\$ 2,112	\$ 2,416	\$ (304)	(13) %	\$ 5,693	\$ 7,772	\$ (2,079)	(27) %

			Percentage Points				Percentage Points	
On-highway sales as percentage of total sales	81 %	82 %	(1)		78 %	80 %	(2)	

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

	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27,	September 29,	Amount	Percent	September 27,	September 29,	Amount	Percent
	2020	2019			2020	2019		
Heavy-duty	23,300	28,000	(4,700)	(17) %	65,000	96,900	(31,900)	(33) %
Medium-duty	50,100	63,200	(13,100)	(21) %	156,200	218,600	(62,400)	(29) %
Light-duty	67,200	62,600	4,600	7 %	146,400	183,100	(36,700)	(20) %
Total unit shipments	140,600	153,800	(13,200)	(9) %	367,600	498,600	(131,000)	(26) %

Sales

Engine segment sales for the three months ended September 27, 2020, decreased \$304 million versus the comparable period in 2019. The following were the primary drivers by market:

- Heavy-duty truck sales decreased \$157 million principally due to lower volumes in North America with lower shipments of 29 percent.
- Medium-duty truck and bus sales decreased \$153 million mainly due to lower demand in North America with decreased unit shipments of 30 percent.
- Off-highway sales decreased \$38 million primarily due to lower demand in construction markets in North America, Western Europe and Asia Pacific, partially offset by higher construction demand in China.
- Unfavorable foreign currency fluctuations, primarily in the Brazilian real.

These decreases were partially offset by increased light-duty automotive sales of \$44 million primarily due to higher light commercial vehicle demand in China and a \$30 million VAT recovery.

Engine segment sales for the nine months ended September 27, 2020, decreased \$2,079 million versus the comparable period in 2019. The following were the primary drivers by market:

- Heavy-duty truck sales decreased \$941 million principally due to lower volumes in North America with lower shipments of 47 percent.
- Medium-duty truck and bus sales decreased \$604 million mainly due to lower demand in North America with decreased shipments of 34 percent.
- Light-duty truck automotive sales decreased \$285 million primarily due to lower pick-up sales in North America.
- Off-highway sales decreased \$249 million principally due to lower demand in construction markets in North America, Western Europe and Asia Pacific, partially offset by higher construction demand in China.

Segment EBITDA

Engine segment EBITDA for the three months ended September 27, 2020, increased \$41 million versus the comparable period in 2019, primarily due to increased equity, royalty and interest income from investees, the absence of a \$33 million charge related to ending production of the 5 liter ISV engine for the U.S. pick-up truck market in the third quarter of 2019 and lower selling, general and administrative expenses, partially offset by lower gross margin. The decrease in gross margin was mainly due to lower volumes, partially offset by a \$30 million VAT recovery, prior restructuring actions and temporary salary reductions resulting in lower compensation expenses, decreased warranty expenses and lower material costs. The increase in gross margin as a percentage of sales was primarily due to a VAT recovery, prior restructuring actions and temporary salary reductions resulting in lower compensation expenses, decreased warranty expenses, lower material costs and the absence of a charge related to ending production of the 5 liter ISV engine for the U.S. pick-up truck market in the third quarter of 2019. The decrease in selling, general and administrative expenses was primarily due to prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses, reduced consulting expenses and lower travel expenses, partially offset by increased variable compensation expenses. The increase in equity, royalty and interest income from investees was principally due to higher earnings at Beijing Foton Cummins Engine Co., Ltd. and Dongfeng Cummins Engine Co., Ltd.

Engine segment EBITDA for the nine months ended September 27, 2020, decreased \$298 million versus the comparable period in 2019, primarily due to lower gross margin, partially offset by increased equity, royalty and interest income from investees, lower selling, general and administrative expenses and decreased research, development and engineering expenses. The decrease in gross margin and gross margin as a percentage of sales was mainly due to lower volumes, partially offset by prior restructuring actions, temporary salary reductions and lower variable compensation resulting in lower compensation expenses, decreased material costs, reduced warranty expenses and a \$30 million VAT recovery. Selling, general and administrative expenses and research, development and engineering expenses decreased principally due to prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses and reduced consulting expenses. The increase in equity, royalty and interest income from investees was largely due to higher earnings at Beijing Foton Cummins Engine Co., Ltd., increased earnings at Tata Cummins Ltd., mainly due to an \$18 million adjustment related to India Tax Law Changes passed in March 2020 and \$18 million of technology fee revenue recorded in the first quarter of 2020, and higher earnings at Dongfeng Cummins Engine Co., Ltd. See NOTE 6, "INCOME TAXES" to the *Condensed Consolidated Financial Statements* for additional information on India Tax Law Changes.

Distribution Segment Results

Financial data for the Distribution segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2020	September 29, 2019	Amount	Percent	September 27, 2020	September 29, 2019	Amount	Percent
External sales	\$ 1,715	\$ 2,001	\$ (286)	(14) %	\$ 5,123	\$ 6,009	\$ (886)	(15) %
Intersegment sales	6	3	3	100 %	17	24	(7)	(29) %
Total sales	1,721	2,004	(283)	(14) %	5,140	6,033	(893)	(15) %
Research, development and engineering expenses	9	7	(2)	(29) %	20	21	1	5 %
Equity, royalty and interest income from investees	13	12	1	8 %	45	35	10	29 %
Interest income	1	4	(3)	(75) %	3	12	(9)	(75) %
Segment EBITDA	182	186	(4)	(2) %	500	529	(29)	(5) %
			Percentage Points				Percentage Points	
Segment EBITDA as a percentage of total sales	10.6 %	9.3 %		1.3	9.7 %	8.8 %		0.9

Sales for our Distribution segment by region were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2020	September 29, 2019	Amount	Percent	September 27, 2020	September 29, 2019	Amount	Percent
North America	\$ 1,125	\$ 1,374	\$ (249)	(18) %	\$ 3,412	\$ 4,157	\$ (745)	(18) %
Asia Pacific	196	224	(28)	(13) %	582	667	(85)	(13) %
Europe	153	135	18	13 %	425	382	43	11 %
China	77	82	(5)	(6) %	246	266	(20)	(8) %
Africa and Middle East	49	60	(11)	(18) %	138	170	(32)	(19) %
Russia	42	34	8	24 %	128	114	14	12 %
India	42	47	(5)	(11) %	101	143	(42)	(29) %
Latin America	37	48	(11)	(23) %	108	134	(26)	(19) %
Total sales	\$ 1,721	\$ 2,004	\$ (283)	(14) %	\$ 5,140	\$ 6,033	\$ (893)	(15) %

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

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2020	September 29, 2019	Amount	Percent	September 27, 2020	September 29, 2019	Amount	Percent
Parts	\$ 722	\$ 798	\$ (76)	(10) %	\$ 2,163	\$ 2,475	\$ (312)	(13) %
Power generation	416	467	(51)	(11) %	1,169	1,297	(128)	(10) %
Service	304	376	(72)	(19) %	929	1,112	(183)	(16) %
Engines	279	363	(84)	(23) %	879	1,149	(270)	(23) %
Total sales	\$ 1,721	\$ 2,004	\$ (283)	(14) %	\$ 5,140	\$ 6,033	\$ (893)	(15) %

Sales

Distribution segment sales for the three months ended September 27, 2020, decreased \$283 million versus the comparable period in 2019. The primary regional driver was decreased North American sales of \$249 million, representing 88 percent of the total change in Distribution segment sales, due to decreased demand in all product lines.

Distribution segment sales for the nine months ended September 27, 2020, decreased \$893 million versus the comparable period in 2019. The following were the primary drivers by region:

- North American sales decreased \$745 million, representing 83 percent of the total change in Distribution segment sales, primarily due to decreased demand in all product lines, especially parts and engines sales in oil and gas markets.
- Unfavorable foreign currency fluctuations, principally in the Australian dollar, Brazilian real, Chinese renminbi and South African rand.

Segment EBITDA

Distribution segment EBITDA for the three months ended September 27, 2020, decreased \$4 million versus the comparable period in 2019, primarily due to lower gross margin and unfavorable foreign currency fluctuations (especially Indian rupee and emerging market currencies), partially offset by lower selling, general and administrative expenses. The decrease in gross margin was mainly due to lower volumes, partially offset by prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses. The increase in gross margin as a percentage of sales was primarily due to prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses and favorable pricing. The decrease in selling, general and administrative expenses was due to prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses and reduced travel expenses, partially offset by higher variable compensation expenses and increased consulting expenses.

Distribution segment EBITDA for the nine months ended September 27, 2020, decreased \$29 million versus the comparable period in 2019, primarily due to lower gross margin and unfavorable foreign currency fluctuations (especially the Australian dollar and emerging market currencies), partially offset by decreased selling, general and administrative expenses and higher equity, royalty and interest income from investees. The decrease in gross margin was mainly due to lower volumes, partially offset by prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses and favorable pricing. The increase in gross margin as a percentage of sales was primarily due to prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses and favorable pricing. The decrease in selling, general and administrative expenses was due to prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses and reduced travel expenses, partially offset by higher consulting expenses. The increase in equity, royalty and interest income from investees was principally due to higher earnings at Komatsu Cummins Chile, Ltda. and Valvoline Cummins Ltd. due to a \$5 million adjustment related to India Tax Law Changes passed in March 2020. See NOTE 6, "INCOME TAXES" to the *Condensed Consolidated Financial Statements* for additional information on India Tax Law Changes.

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,	September 29,	Amount	Percent	September 27,	September 29,	Amount	Percent
	2020	2019			2020	2019		
External sales	\$ 1,201	\$ 1,253	\$ (52)	(4)%	\$ 3,192	\$ 4,055	\$ (863)	(21)%
Intersegment sales	340	397	(57)	(14)%	1,001	1,302	(301)	(23)%
Total sales	1,541	1,650	(109)	(7)%	4,193	5,357	(1,164)	(22)%
Research, development and engineering expenses	64	73	9	12 %	187	223	36	16 %
Equity, royalty and interest income from investees	13	9	4	44 %	46	30	16	53 %
Interest income	1	2	(1)	(50)%	3	6	(3)	(50)%
Segment EBITDA	261	286	(25)	(9)%	681	908	(227)	(25)%
			Percentage Points				Percentage Points	
Segment EBITDA as a percentage of total sales	16.9 %	17.3 %	(0.4)		16.2 %	16.9 %	(0.7)	

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 29,	Amount	Percent	September 27,	September 29,	Amount	Percent
	2020	2019			2020	2019		
Emission solutions	\$ 665	\$ 745	\$ (80)	(11) %	\$ 1,801	\$ 2,427	\$ (626)	(26) %
Filtration	314	310	4	1 %	881	966	(85)	(9) %
Turbo technologies	281	279	2	1 %	767	933	(166)	(18) %
Electronics and fuel systems	187	170	17	10 %	525	580	(55)	(9) %
Automated transmissions	94	146	(52)	(36) %	219	451	(232)	(51) %
Total sales	\$ 1,541	\$ 1,650	\$ (109)	(7) %	\$ 4,193	\$ 5,357	\$ (1,164)	(22) %

Sales

Components segment sales for the three months ended September 27, 2020, decreased \$109 million versus the comparable period in 2019. The following were the primary drivers by business:

- Emission solutions sales decreased \$80 million primarily due to weaker demand in North America, partially offset by stronger demand in China.
- Automated transmissions sales decreased \$52 million primarily due to lower heavy-duty truck demand in North America.

These decreases were partially offset by increased demand in electronics and fuel systems of \$17 million, mostly in China, partially offset by lower demand in North America.

Components segment sales for the nine months ended September 27, 2020, decreased \$1,164 million versus the comparable period in 2019. The following were the primary drivers by business:

- Emission solutions sales decreased \$626 million primarily due to weaker demand in North America and Western Europe, partially offset by stronger demand in China.
- Automated transmissions sales decreased \$232 million primarily due to lower heavy-duty truck demand in North America.
- Turbo technologies sales decreased \$166 million primarily due to lower demand in North America and Western Europe, partially offset by higher demand in China.
- Unfavorable foreign currency fluctuations, primarily in the Chinese renminbi and Brazilian real.

Segment EBITDA

Components segment EBITDA for the three months ended September 27, 2020, decreased \$25 million versus the comparable period in 2019, mainly due to lower gross margin, the absence of a gain from unwinding derivative instruments recognized in the third quarter of 2019 and unfavorable foreign currency fluctuations (primarily in the Brazilian real), partially offset by lower selling, general and administrative expenses. The decrease in gross margin was mainly due to lower volumes, partially offset by prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses, lower material costs, a VAT recovery and reduced warranty expenses. The increase in gross margin as a percentage of sales was primarily due to prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses, lower material costs and a VAT recovery. Selling, general and administrative expenses decreased due to prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses and reduced consulting expenses, partially offset by higher variable compensation expenses.

Components segment EBITDA for the nine months ended September 27, 2020, decreased \$227 million versus the comparable period in 2019, mainly due to lower gross margin and unfavorable foreign currency fluctuations (primarily in the Brazilian real and Chinese renminbi), partially offset by lower selling, general and administrative expenses, decreased research, development and engineering expenses and higher equity, royalty and interest income from investees. The decrease in gross margin and gross margin as a percentage of sales was mainly due to lower volumes, unfavorable mix and unfavorable foreign currency fluctuations (primarily in the Brazilian real and Chinese renminbi), partially offset by prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses, reduced warranty expenses and lower material costs. Selling, general and administrative expenses and research, development and engineering expenses decreased due to prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses and reduced consulting expenses. The increase in equity, royalty and interest income from investees was principally due to higher earnings at Fleetguard Filtration Systems India Pvt. due to a \$14 million adjustment related to India Tax Law Changes passed in March 2020. See NOTE 6, "INCOME TAXES" to the *Condensed Consolidated Financial Statements* for additional information on India Tax Law Changes.

Power Systems Segment Results

Financial data for the Power Systems segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2020	September 29, 2019	Amount	Percent	September 27, 2020	September 29, 2019	Amount	Percent
External sales	\$ 567	\$ 683	\$ (116)	(17)%	\$ 1,495	\$ 2,030	\$ (535)	(26)%
Intersegment sales	414	443	(29)	(7)%	1,147	1,376	(229)	(17)%
Total sales	981	1,126	(145)	(13)%	2,642	3,406	(764)	(22)%
Research, development and engineering expenses	53	58	5	9%	148	171	23	13%
Equity, royalty and interest income from investees	—	13	(13)	(100)%	18	39	(21)	(54)%
Interest income	1	3	(2)	(67)%	3	7	(4)	(57)%
Segment EBITDA	101	158	(57)	(36)%	269	469	(200)	(43)%
			Percentage Points				Percentage Points	
Segment EBITDA as a percentage of total sales	10.3 %	14.0 %		(3.7)	10.2 %	13.8 %		(3.6)

Sales for our Power Systems segment by product line were as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2020	September 29, 2019	Amount	Percent	September 27, 2020	September 29, 2019	Amount	Percent
Power generation	\$ 601	\$ 647	\$ (46)	(7)%	\$ 1,544	\$ 1,882	\$ (338)	(18)%
Industrial	309	392	(83)	(21)%	896	1,244	(348)	(28)%
Generator technologies	71	87	(16)	(18)%	202	280	(78)	(28)%
Total sales	\$ 981	\$ 1,126	\$ (145)	(13)%	\$ 2,642	\$ 3,406	\$ (764)	(22)%

Sales

Power Systems segment sales for the three months ended September 27, 2020, decreased \$145 million versus the comparable period in 2019. The following were the primary drivers by product line:

- Industrial sales decreased \$83 million due to lower demand in international mining markets and decreased demand in oil and gas markets in China.
- Power generation sales decreased \$46 million due to lower demand in India and North America.

These decreases were partially offset by a \$7 million VAT recovery.

Power Systems segment sales for the nine months ended September 27, 2020, decreased \$764 million versus the comparable period in 2019. The following were the primary drivers by product line:

- Industrial sales decreased \$348 million due to lower demand in international mining markets and decreased demand in oil and gas markets in China and North America.
- Power generation sales decreased \$338 million due to lower demand in North America and India.
- Unfavorable foreign currency fluctuations, primarily in the Chinese renminbi, British pound and Indian rupee.

These decreases were partially offset by a \$7 million VAT recovery.

Segment EBITDA

Power Systems segment EBITDA for the three months ended September 27, 2020, decreased \$57 million versus the comparable period in 2019, primarily due to lower gross margin, decreased equity, royalty and interest income from investees and the absence of a gain from unwinding derivative instruments recognized in the third quarter of 2019, partially offset by lower selling, general and administrative expenses. The decrease in gross margin and gross margin as a percentage of sales was mainly due to lower volumes and unfavorable mix, partially offset by prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses. Selling, general and administrative expenses decreased primarily due to prior restructuring actions and temporary salary reductions resulting in decreased compensation expenses, lower travel expenses and reduced consulting expenses, partially offset by higher variable compensation expenses. The decrease in equity, royalty and interest income from investees was largely due to \$10 million of impairment charges.

Power Systems segment EBITDA for the nine months ended September 27, 2020, decreased \$200 million versus the comparable period in 2019, primarily due to lower gross margin and lower equity, royalty and interest income from investees, partially offset by lower selling, general and administrative expenses and decreased research, development and engineering expenses. The decrease in gross margin and gross margin as a percentage of sales was mainly due to lower volumes, partially offset by prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses and lower warranty expenses. Selling, general and administrative expenses decreased primarily due to prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses, reduced travel expenses and lower consulting expenses. Research, development and engineering expenses decreased principally due to prior restructuring actions, temporary salary reductions and lower variable compensation resulting in decreased compensation expenses and reduced consulting expenses. The decrease in equity, royalty and interest income from investees was largely due to a \$13 million impairment charge of a joint venture and lower earnings at Chongqing Cummins Engine Co., Ltd.

New Power Segment Results

The New Power segment designs, manufactures, sells and supports electrified power systems ranging from fully electric to hybrid along with innovative components and subsystems, including battery, fuel cell and hydrogen production technologies. The New Power segment is currently in the development phase with a primary focus on research and development activities for our power systems, components and subsystems. Financial data for the New Power segment was as follows:

In millions	Three months ended		Favorable/ (Unfavorable)		Nine months ended		Favorable/ (Unfavorable)	
	September 27, 2020	September 29, 2019	Amount	Percent	September 27, 2020	September 29, 2019	Amount	Percent
Total external sales	\$ 18	\$ 9	\$ 9	100 %	\$ 38	\$ 20	\$ 18	90 %
Research, development and engineering expenses	26	25	(1)	(4) %	79	70	(9)	(13) %
Segment EBITDA	(40)	(36)	(4)	(11) %	(121)	(98)	(23)	(23) %

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

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

In millions	Three months ended		Nine months ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
TOTAL SEGMENT EBITDA	\$ 886	\$ 935	\$ 2,226	\$ 3,003
Intersegment eliminations ⁽¹⁾	(10)	23	45	46
TOTAL EBITDA	876	958	2,271	3,049
Less:				
Interest expense	25	26	71	87
Depreciation and amortization ⁽²⁾	165	177	497	491
INCOME BEFORE INCOME TAXES	686	755	1,703	2,471
Less: Income tax expense	182	139	402	501
CONSOLIDATED NET INCOME	504	616	1,301	1,970
Less: Net income (loss) attributable to noncontrolling interests	3	(6)	13	10
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 501	\$ 622	\$ 1,288	\$ 1,960

⁽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, 2020 and September 29, 2019.

⁽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 Net Income* as "Interest expense." The amortization of debt discount and deferred costs was \$2 million and \$2 million for the nine months ended September 27, 2020 and September 29, 2019, respectively.

OUTLOOK

Our outlook reflects the following positive trends and challenges to our business, primarily with respect to the ongoing pandemic, that could impact our revenue and earnings potential for the remainder of 2020.

Positive Trends

As a result of actions taken throughout 2020 our liquidity of \$6.5 billion in cash, marketable securities and available credit facilities puts us in a strong position to deal with any uncertainties that may arise in the fourth quarter.

Challenges

- The tiered payroll cut across our workforce ended at September 30 and will add approximately \$90 million to our fourth quarter expenses.
- The risk of customer shutdowns and the impact of lower economic activity, driven by COVID-19, may continue to negatively impact our results of operations, financial position and cash flows.
- Supply chain constraints related to COVID-19 may negatively impact our revenues and result in increased costs.
- In response to the pandemic we closed or slowed certain global manufacturing facilities in the first nine months of 2020. At the end of the third quarter our global manufacturing facilities remained open; however, it is possible these facilities may be closed again in response to future outbreaks.
- We may close or restructure additional manufacturing and distribution facilities as we evaluate the appropriate size and structure of our manufacturing and distribution capacity, which could result in additional charges.
- In response to COVID-19, we will continue to incur additional operating costs as we implement safety and sanitization procedures to protect our employees, customers, vendors and other stakeholders utilizing our facilities, which could limit our ability to further reduce operating costs.
- Uncertainty in the U.K. surrounding its ability to negotiate trade agreements as a sovereign country could have material negative impacts on our European operations in the long-term.

COVID-19 Impacts

The COVID-19 pandemic negatively impacted our financial performance in the first nine months of 2020 and may continue to do so in the future. Because the magnitude and duration of the pandemic and its economic consequences are unclear, the pandemic's impact on our performance is difficult to predict. The three principle areas where COVID-19 may negatively impact our financial performance are through its impact on customer demand, the impact on our ability to procure parts from suppliers and our ability to operate our manufacturing and distribution facilities.

Customer Demand – The majority of our major customers, including PACCAR, Navistar, Daimler and FCA experienced extended production shutdowns related to the pandemic in the second quarter. Many customers ramped up their production in the third quarter as they reopened their facilities. Levels of future production remain uncertain and will be determined by supply chain constraints, market demand and government decisions to keep economies open.

Supply Chain Impact – Supplier shutdowns may result in parts shortages and negatively impact our ability to manufacture products and meet aftermarket demand. In addition, industry parts shortages may impact the timing of when customer facilities reopen and the speed at which customers ramp up production, negatively impacting demand for our products. Lower demand increases the risk that certain suppliers will face financial issues, potentially impacting their ability to supply parts.

Operations Impact - Our manufacturing and distribution locations are generally considered critical services and the majority of our facilities remain open to meet customer demand. In an effort to contain the spread of COVID-19, maintain the well-being of our employees, ensure compliance with governmental requirements or respond to declines in demand from customers, we closed or partially shut down certain office, manufacturing and distribution facilities around the world at the end of the first quarter and into the third quarter. We have taken, and will continue to take, a variety of steps to reduce the risk of employees contracting COVID-19 at work. These steps include social distancing, expanded cleaning and sanitization, adjusting work hours and temperature checks. All manufacturing and distribution facilities are now opened, but many of them are operating at reduced capacities and remain subject to future closure if deemed necessary for the safety of our employees or to comply with future government mandates.

LIQUIDITY AND CAPITAL RESOURCES

Key Working Capital and Balance Sheet Data

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

Dollars in millions	September 27, 2020	December 31, 2019
Working capital ⁽¹⁾	\$ 5,353	\$ 3,127
Current ratio	1.94	1.50
Accounts and notes receivable, net	\$ 3,628	\$ 3,670
Days' sales in receivables	71	58
Inventories	\$ 3,470	\$ 3,486
Inventory turnover	3.9	4.7
Accounts payable (principally trade)	\$ 2,597	\$ 2,534
Days' payable outstanding	69	58
Total debt	\$ 4,112	\$ 2,367
Total debt as a percent of total capital	32.2 %	21.9 %

⁽¹⁾ Working capital includes cash and cash equivalents.

Cash Flows

Cash and cash equivalents were impacted as follows:

In millions	Nine months ended		Change
	September 27, 2020	September 29, 2019	
Net cash provided by operating activities	\$ 1,580	\$ 2,343	\$ (763)
Net cash used in investing activities	(337)	(829)	492
Net cash provided by (used in) financing activities	564	(1,198)	1,762
Effect of exchange rate changes on cash and cash equivalents	31	(59)	90
Net increase in cash and cash equivalents	\$ 1,838	\$ 257	\$ 1,581

Net cash provided by operating activities decreased \$763 million for the nine months ended September 27, 2020, versus the comparable period in 2019, primarily due to lower consolidated net income of \$669 million, restructuring payments of \$100 million and higher equity in income of investees, net of dividends of \$92 million, partially offset by lower working capital requirements of \$135 million. During the first nine months of 2020, the lower working capital requirements resulted in a cash outflow of \$57 million compared to a cash outflow of \$192 million in the comparable period in 2019, mainly due to lower accounts and notes receivable and higher accounts payable, partially offset by lower accrued expenses.

Net cash used in investing activities decreased \$492 million for the nine months ended September 27, 2020, versus the comparable period in 2019, primarily due to the prior year acquisition of Hydrogenics for \$235 million, lower capital expenditures of \$127 million, lower cash flows from derivatives not designated as hedges of \$71 million and lower net investments in marketable securities of \$57 million.

Net cash provided by financing activities increased \$1,762 million for the nine months ended September 27, 2020, versus the comparable period in 2019, primarily due to higher proceeds from borrowings of \$1,989 million and lower repurchases of common stock of \$256 million, partially offset by higher net payments of commercial paper of \$466 million.

The effect of exchange rate changes on cash and cash equivalents for the nine months ended September 27, 2020, versus the comparable period in 2019, increased \$90 million primarily due to favorable fluctuations in the British pound of \$75 million.

Sources of Liquidity

Cash provided by operations is typically our principal source of liquidity with \$1,580 million generated in the nine months ended September 27, 2020. Our sources of liquidity include:

In millions	September 27, 2020			Primary location of international balances
	Total	U.S.	International	
Cash and cash equivalents	\$ 2,967	\$ 1,793	\$ 1,174	China, Mexico, Singapore, Belgium, Australia, Netherlands, Canada
Marketable securities ⁽¹⁾	345	75	270	India
Total	\$ 3,312	\$ 1,868	\$ 1,444	
Available credit capacity				
Revolving credit facilities ⁽²⁾	\$ 3,184			
International and other uncommitted domestic credit facilities	\$ 191			

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

⁽²⁾ The five-year credit facility for \$2.0 billion and the 364-day credit facility for \$1.5 billion, maturing August 2023 and August 2021, respectively, are maintained primarily to provide backup liquidity for our commercial paper borrowings and general corporate purposes. At September 27, 2020, we had \$316 million of commercial paper outstanding, which effectively reduced the available capacity under our revolving credit facilities to \$3.2 billion.

Cash, Cash Equivalents and Marketable Securities

A significant portion of our cash flow is generated outside the U.S. We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. As a result, we do not anticipate any local liquidity restrictions to preclude us from funding our operating needs with local resources.

Debt Facilities and Other Sources of Liquidity

On April 14, 2020, we were approved for the Federal Reserve Bank of New York's Commercial Paper Funding Facility (CPFF) program to assure access to the commercial paper funding markets during volatile credit market conditions. The CPFF was intended to provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (SPV). The facility allows us, based on our current short-term credit rating, to issue three-month unsecured commercial paper at a rate equal to a + 110 basis point spread over the three-month overnight index swap rate on the date of issuance. The maximum amount of commercial paper that we may issue at any time through this program is \$1.5 billion less the total principal amount of all other outstanding commercial paper that we have issued. We retain full access to our Board authorized \$3.5 billion commercial paper program, as reduced by any amounts issued under this facility. The SPV is currently scheduled to cease purchasing commercial paper on March 17, 2021. At September 27, 2020, there were no outstanding borrowings under the CPFF program.

In June and July of 2020, we settled our February 2014 interest rate swap, which previously converted our \$500 million debt issue, due in 2023, from fixed rate to floating rate based on a LIBOR spread. We will amortize the \$24 million gain realized upon settlement over the remaining three year term of related debt.

On August 19, 2020, we entered into an amended and restated 364-day credit agreement that allows us to borrow up to \$1.5 billion of unsecured funds at any time prior to August 18, 2021. This credit agreement amends and restates the prior \$1.5 billion 364-day credit facility that matured on August 19, 2020.

On August 24, 2020, we issued \$2 billion aggregate principal amount of senior unsecured notes consisting of \$500 million aggregate principal amount of 0.75% senior unsecured notes due in 2025, \$850 million aggregate principal amount of 1.50% senior unsecured notes due in 2030 and \$650 million aggregate principal amount of 2.60% senior unsecured notes due in 2050. We received net proceeds of \$1.98 billion.

On August 24, 2020, we terminated our 364-day credit facility that had been entered into on May 1, 2020, concurrent with the \$2 billion bond issuance on August 24, 2020.

We have access to committed credit facilities that total \$3.5 billion, including the new \$1.5 billion 364-day facility that expires August 18, 2021 and our \$2.0 billion five-year facility that expires on August 22, 2023. We maintain credit facilities at the current or higher aggregate amounts by renewing or replacing these facilities at or before expiration. These revolving credit facilities are maintained primarily to provide backup liquidity for our commercial paper borrowings and for general corporate purposes.

We can issue up to \$3.5 billion of unsecured, short-term promissory notes (commercial paper) pursuant to the Board authorized commercial paper programs. The programs facilitate the private placement of unsecured short-term debt through third-party brokers. We intend to use the net proceeds from the commercial paper borrowings for general corporate purposes. The total combined borrowing capacity under the revolving credit facilities and commercial programs should not exceed \$3.5 billion. See Note 9, "DEBT," to our *Condensed Consolidated Financial Statements* for additional information.

At September 27, 2020, we had \$316 million of commercial paper outstanding, which effectively reduced the available capacity under our revolving credit facilities to \$3.2 billion.

Supply Chain Financing

We currently have supply chain financing programs with financial intermediaries, which provide certain vendors the option to be paid by financial intermediaries earlier than the due date on the applicable invoice. When a vendor utilizes the program and receives an early payment from a financial intermediary, they take a discount on the invoice. We then pay the financial intermediary the face amount of the invoice on the regularly scheduled due date. We do not reimburse vendors for any costs they incur for participation in the program and their participation is completely voluntary. As a result, all amounts owed to the financial intermediaries are presented as "Accounts payable" in our *Condensed Consolidated Balance Sheets*.

Uses of Cash

Stock Repurchases

In December 2019, the Board authorized the acquisition of up to \$2.0 billion of additional common stock upon completion of the 2018 repurchase plan. In October 2018, the Board authorized the acquisition of up to \$2.0 billion of additional common stock. In the first nine months of 2020, we made the following purchases under the 2018 stock repurchase program:

In millions, except per share amounts	Shares Purchased	Average Cost Per Share	Total Cost of Repurchases	Remaining Authorized Capacity ⁽¹⁾
March 29	3.5	\$ 156.90	\$ 550	\$ 85
June 28	—	—	—	85
September 27	—	—	—	85
Total	<u>3.5</u>	<u>156.90</u>	<u>\$ 550</u>	

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

We suspended share repurchases during the second and third quarters of 2020 to conserve cash.

Dividends

In October 2020, the Board authorized an increase to our quarterly dividend of 3 percent from \$1.311 per share to \$1.35 per share.

We paid dividends of \$582 million during the nine months ended September 27, 2020.

Restructuring Actions

In November 2019, we announced our intentions to reduce our global workforce in response to the continued deterioration in our global markets in the second half of 2019, as well as expected reductions in orders in most U.S. and international markets in 2020. In the fourth quarter of 2019, we began executing restructuring actions, primarily in the form of voluntary and involuntary employee separation programs. We incurred a charge of \$119 million (\$90 million after-tax) in the fourth quarter of 2019 for these actions which impacted approximately 2,300 employees. Restructuring payments were substantially complete at September 27, 2020. See Note 14, "RESTRUCTURING ACTIONS," to the *Condensed Consolidated Financial Statements*, for additional information.

Capital Expenditures

Capital expenditures, including spending on internal use software, for the nine months ended September 27, 2020, were \$301 million versus \$445 million in the comparable period in 2019. While we continue to make targeted investments, we reduced our planned 2020 spending (previously estimated at \$675 million to \$700 million) in response to the weaker outlook for global growth due to the impact of COVID-19. We plan to spend an estimated \$500 million to \$525 million in 2020 on capital expenditures, excluding internal use software, with over 50 percent of these expenditures expected to be invested in North America. In addition, we plan to spend an estimated \$50 million to \$60 million on internal use software in 2020.

Pensions

Our global pension plans, including our unfunded and non-qualified plans, were 113 percent funded at December 31, 2019. Our U.S. defined benefit plan, which represents approximately 53 percent of the worldwide pension obligation, was 133 percent funded, and our U.K. defined benefit plan was 109 percent funded. The funded status of our pension plans is dependent upon a variety of variables and assumptions including return on invested assets, market interest rates and levels of voluntary contributions to the plans. In the first nine months of 2020, the investment gain on our U.S. pension trust was 2.7 percent while our U.K. pension trust gain was 7.9 percent. Investment performance year-to-date in both trusts is still recovering from the negative impacts of COVID-19 on capital markets. Approximately 73 percent of our pension plan assets are held in highly liquid investments such as fixed income and equity securities. The remaining 27 percent of our plan assets are held in less liquid, but market valued investments, including real estate, private equity, venture capital, opportunistic credit and insurance contracts. During the remainder of 2020, we anticipate making \$7 million in additional defined benefit pension contributions in the U.K. and \$7 million in contributions to our U.S. non-qualified benefit plans. These contributions may be made from trusts or company funds either to increase pension assets or to make direct benefit payments to plan participants. We expect our 2020 annual net periodic pension cost to approximate \$102 million.

Current Maturities of Short and Long-Term Debt

We had \$316 million of commercial paper outstanding at September 27, 2020, that matures in less than one year. The maturity schedule of our existing long-term debt does not require significant cash outflows until 2023 when our 3.65% senior notes are due. Required annual long-term debt principal payments range from \$22 million to \$525 million over the next five years (including the remainder of 2020). See Note 9, "DEBT," to the *Condensed Consolidated Financial Statements* for additional information.

Credit Ratings

In August of 2020, concurrent with our new \$2 billion debt issuance, both Standard and Poor's Rating Services and Moody's Investors Service, Inc. reviewed and reaffirmed their respective credit rating and stable outlook. Our rating and outlook from each of the credit rating agencies as of the date of filing are shown in the table below.

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

⁽¹⁾ Credit ratings are not recommendations to buy, are subject to change, and each rating should be evaluated independently of any other rating. In addition, we undertake no obligation to update disclosures concerning our credit ratings, whether as a result of new information, future events or otherwise.

Management's Assessment of Liquidity

Despite the global recession and volatility in the capital markets due to the pandemic, our financial condition and liquidity remain strong. Our solid balance sheet and credit ratings enable us to have ready access to the credit and 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 existing cash and marketable securities, operating cash flow and revolving credit facilities provide us with the financial flexibility needed to fund working capital, targeted capital expenditures, dividend payments, projected pension obligations and debt service obligations through 2020 and beyond. We continue to generate cash from operations and maintain access to our expanded revolving credit facilities and commercial paper programs as noted above.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

A summary of our significant accounting policies is included in [Note 1, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," of the Notes to the Consolidated Financial Statements of our 2019 Form 10-K](#), which discusses accounting policies that we have selected from acceptable alternatives.

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

Critical accounting estimates are defined as follows: the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made; different estimates reasonably could have been used; or if changes in the estimate are reasonably likely to occur from period to period and the change would have a material impact on our financial condition or results of operations. Our senior management has discussed the development and selection of our accounting policies, related accounting estimates and the disclosures set forth below with the Audit Committee of our Board of Directors. Our critical accounting estimates disclosed in the [Form 10-K](#) address the estimation of liabilities for warranty programs, accounting for income taxes, pension benefits and goodwill impairment.

A discussion of our critical accounting estimates may be found in the ["Management's Discussion and Analysis" section of our 2019 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 2020.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

See Note 17, "RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS," in the *Notes to Condensed Consolidated Financial Statements* for additional information.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

A discussion of quantitative and qualitative disclosures about market risk may be found in [Item 7A of our 2019 Form 10-K](#). There have been no material changes in this information since the filing of our [2019 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 (CEO) and Chief Financial Officer (CFO), 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 CEO and our CFO 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 CEO and CFO, 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, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

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

On April 29, 2019, we announced that we were conducting a formal internal review of our emissions certification process and compliance with emission standards for our pick-up truck applications, following conversations with the U.S. Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) regarding certification of our engines in model year 2019 RAM 2500 and 3500 trucks. This review is being conducted with external advisors to ensure the certification and compliance processes for all of our pick-up truck applications are consistent with our internal policies, engineering standards and applicable laws. In addition, we voluntarily disclosed our formal internal review to the regulators and to other government agencies, the Department of Justice (DOJ) and the Securities and Exchange Commission (SEC), and have been working cooperatively with them to ensure a complete and thorough review. During conversations with the EPA and CARB about the effectiveness of our pick-up truck applications, the regulators raised concerns that certain aspects of our emissions systems may reduce the effectiveness of our emissions control systems and thereby act as defeat devices. As a result, our internal review focuses, in part, on the regulators' concerns. We are working closely with the regulators to enhance our emissions systems to improve the effectiveness of all of our pick-up truck applications and to fully address the regulators' requirements. Based on discussions with the regulators, we have developed a new calibration for the engines in model year 2019 RAM 2500 and 3500 trucks that has been included in all engines shipped since September 2019. During our discussions, the regulators have asked us to look at other model years and other engines, though the primary focus of our review has been the model year 2019 RAM. We are also fully cooperating with the DOJ's and the SEC's information requests and inquiries. Due to the continuing nature of our formal review, our ongoing cooperation with our regulators and other government agencies, and the presence of many unknown facts and circumstances, we cannot predict the final outcome of this review and these regulatory and agency processes, and we cannot provide assurance that the matter will not have a materially adverse impact on our results of operations and cash flows.

ITEM 1A. Risk Factors

Set forth below and elsewhere in this Quarterly Report on Form 10-Q are some of the principal risks and uncertainties that could cause our actual business results to differ materially from any forward-looking statements contained in this Report and could individually, or in combination, have a material adverse effect on our results of operations, financial position and cash flows. These risk factors should be considered in addition to our cautionary comments concerning forward-looking statements in this Report, including statements related to markets for our products and trends in our business that involve a number of risks and uncertainties. Our separate section above, "CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION," should be considered in addition to the following statements. The risk factors below amend and supersede the risk factors previously disclosed in [Item 1A to the Annual Report on Form 10-K of Cummins Inc. for the year ended December 31, 2019](#)

A sustained market slowdown due to the impacts from the COVID-19 pandemic, other public health crises, epidemics or pandemics or otherwise, could have a material and adverse effect on our results of operations, financial condition and cash flows.

The coronavirus disease of 2019 (COVID-19) pandemic triggered a significant downturn in our markets globally and these challenging market conditions could continue for an extended period of time. Most global economies slowed and there is still much uncertainty as to when these global markets will fully recover. If any or all of these major markets were to endure a sustained

slowdown or recession due to the impacts of the COVID-19 pandemic, other public health crises, epidemics or pandemics or otherwise decline, it could have a material adverse effect on our results of operations, financial condition and cash flows.

Our manufacturing and supply chain abilities may be materially and adversely impacted by an extended shutdown or disruption of our operations due to the COVID-19 pandemic which could materially and adversely affect our results of operations, financial condition and cash flows.

The outbreak of COVID-19 spread throughout the world and became a global pandemic with the resultant economic impacts evolving into a worldwide recession. The pandemic triggered a significant downturn in our markets globally, which continued to unfavorably impact market conditions through the end of the third quarter and these challenging market conditions could continue for an extended period of time. In an effort to contain the spread of COVID-19, maintain the well-being of our employees and stakeholders, match the reduced demand from our customers and in accordance with governmental requirements, we closed or partially shut down certain office, manufacturing, distribution and technical center facilities around the world in March 2020. Although most of our manufacturing, distribution and technical center facilities re-opened early in the second quarter of 2020, many operated at reduced capacities and most of our global office buildings remained closed through the third quarter. While the impacts of the pandemic and the resulting global recession are expected to be temporary, the duration of the production and supply chain disruptions, and related financial impacts, cannot be estimated at this time. Should the reduced manufacturing and distribution capacities continue for an extended period of time or worsen, the impact on our production and supply chain could have a material adverse effect on our results of operations, financial condition and cash flows.

We are vulnerable to supply shortages from single-sourced suppliers, including suppliers that may be impacted by the COVID-19 pandemic, and any delay in receiving critical supplies could have a material adverse effect on our results of operations, financial condition and cash flows.

During 2019, we single sourced approximately 19 percent of the total types of parts in our product designs, compared to approximately 20 percent in 2018. Any delay in our suppliers' deliveries may adversely affect our operations at multiple manufacturing locations, forcing us to seek alternative supply sources to avoid serious disruptions. Delays may be caused by factors affecting our suppliers (including the COVID-19 pandemic, capacity constraints, labor disputes, economic downturns, availability of credit or impaired financial condition), suppliers' allocations to other purchasers, weather emergencies, natural disasters, or acts of war or terrorism. In particular, if the COVID-19 pandemic continues and results in extended periods of travel, commercial and other restrictions, we could continue to incur global supply disruptions. Any extended delay in receiving critical supplies could impair our ability to deliver products to our customers and have a material adverse effect on our results of operations, financial condition and cash flows.

We face the challenge of accurately aligning our capacity with our demand.

Our markets are cyclical in nature and we face periods when demand fluctuates significantly higher or lower than our normal operating levels, including COVID-19 related shut-downs. Accurately forecasting our expected volumes and appropriately adjusting our capacity are important factors in determining our results of operations and cash flows. We manage our capacity by adjusting our manufacturing workforce, capital expenditures and purchases from suppliers. In periods of weak demand we may face under-utilized capacity and un-recovered overhead costs, while in periods of strong demand we may experience unplanned costs and could fail to meet customer demand. We cannot guarantee that we will be able to adequately adjust our manufacturing capacity in response to significant changes in customer demand, which could harm our business. In addition, the COVID-19 pandemic and related reductions in demand forced certain of our customer's facilities around the world to close or partially shut down operations, inhibiting our ability to forecast demand and caused related closures and partial shut-downs of certain of our manufacturing facilities. If we overestimate our demand and overbuild our capacity, we may have significantly underutilized assets and we may experience reduced margins. If we do not accurately align our manufacturing capabilities with demand it could have a material adverse effect on our results of operations, financial condition and cash flows.

Financial distress, particularly related to the COVID-19 pandemic, or a change-in-control of one of our large truck OEM customers could have a material adverse impact on our results of operations, financial condition and cash flows.

We recognize significant sales of engines and components to a few large on-highway truck OEM customers in North America which have been an integral part of our positive business results for several years. If one of our large truck OEM customers experiences financial distress due to the COVID-19 pandemic, bankruptcy or a change-in-control, such circumstance could likely lead to significant reductions in our sales volumes, commercial disputes, receivable collection issues, and other negative consequences that could have a material adverse impact on our results of operations, financial condition and cash flows.

We are conducting a formal internal review of our emission certification process and compliance with emission standards with respect to our pick-up truck applications and are working with the EPA and CARB, as well as the Department of Justice (DOJ) and SEC, to address their questions about these applications. The results of this formal review and regulatory and government

agency processes, or the discovery of any noncompliance issues, could have a material adverse impact on our results of operations and cash flows.

We previously announced that we are conducting a formal internal review of our emissions certification process and compliance with emission standards with respect to all of our pick-up truck applications, following conversations with the EPA and CARB regarding certification of our engines for model year 2019 RAM 2500 and 3500 trucks. During conversations with the EPA and CARB about the effectiveness of our pick-up truck applications, the regulators raised concerns that certain aspects of our emissions systems may reduce the effectiveness of our emissions control systems and thereby act as defeat devices. As a result, our internal review focuses, in part, on the regulators' concerns. We are working closely with the regulators to enhance our emissions systems to improve the effectiveness of all of our pick-up truck applications and to fully address the regulators' requirements. Based on discussions with the regulators, we have developed a new calibration for the engines in model year 2019 RAM 2500 and 3500 trucks that has been included in all engines shipped since September 2019. During our discussions, the regulators have asked us to look at other model years and other engines, though the primary focus of our review has been the model year 2019 RAM. We will continue to work together closely with the relevant regulators to develop and implement recommendations for improvement as part of our ongoing commitment to compliance. We are also fully cooperating with the DOJ's and the SEC's information requests and inquiries.

Due to the continuing nature of the formal review, our ongoing cooperation with the regulators and other government agencies, and the presence of many unknown facts and circumstances, we are not yet able to estimate the financial impact of these matters. It is possible that the consequences of any remediation plans resulting from our formal review and these regulatory and agency processes could have a material adverse impact on our results of operations and cash flows in the periods in which these emissions certification issues are addressed.

Our products are subject to extensive statutory and regulatory requirements that can significantly increase our costs and, along with increased scrutiny from regulatory agencies and unpredictability in the adoption, implementation and enforcement of increasingly stringent emission standards by multiple jurisdictions around the world, could have a material adverse impact on our results of operations, financial condition and cash flows.

Our engines are subject to extensive statutory and regulatory requirements governing emissions and noise, including standards imposed by the EPA, the EU, state regulatory agencies (such as the CARB) and other regulatory agencies around the world. Regulatory agencies are making certification and compliance with emissions and noise standards more stringent and subjecting diesel engine products to an increasing level of scrutiny. The discovery of noncompliance issues could have a material adverse impact on our results of operations, financial condition and cash flows.

Developing engines and components to meet more stringent and changing regulatory requirements, with different implementation timelines and emission requirements, makes developing engines efficiently for multiple markets complicated and could result in substantial additional costs that may be difficult to recover in certain markets. While we have met previous deadlines, our ability to comply with existing and future regulatory standards will be essential for us to maintain our competitive advantage in the engine markets we serve. The successful development and introduction of new and enhanced products in order to comply with new regulatory requirements are subject to other risks, such as delays in product development, cost over-runs and unanticipated technical and manufacturing difficulties.

In addition to these risks, the nature and timing of government implementation and enforcement of increasingly stringent emission standards in our worldwide markets are unpredictable and subject to change. Any delays in implementation or enforcement could result in a loss of our competitive advantage and could have a material adverse impact on our results of operations, financial condition and cash flows.

The COVID-19 pandemic created disruptions and turmoil in global credit and financial markets and ongoing impacts could have a material adverse effect on our results of operations, financial condition and cash flows.

The COVID-19 pandemic created disruptions and turmoil in the global credit and financial markets and made it more difficult and costly for us to access capital on favorable terms to meet our liquidity needs. The disruptions to the global credit and financial markets could also have material negative impacts on business operations and financial positions of our customers and suppliers, which may negatively impact our orders, sales and supply chain. If the impacts of the COVID-19 pandemic on global credit and financial markets continue, or worsen, it could negatively impact our business, along with the financial condition of our customers and suppliers, and it could have a material adverse impact on our results of operations, financial condition and cash flows.

Government actions to stabilize credit markets and financial institutions or other industries may not be effective.

The U.S. government recently enacted legislation, and created several programs, to help preserve and stabilize credit markets and financial institutions and restore liquidity, including the Emergency Economic Stabilization Act of 2008, the Federal Reserve's Commercial Paper Funding Facility (CPFF) and Money Market Investor Funding Facility and the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program. There is no assurance that these programs will have beneficial effects

in the credit markets or on general economic conditions, will address credit or liquidity issues of companies that participate in the programs or will reduce volatility or uncertainty in the financial markets. The failure of these programs to have their intended effects could have a material adverse effect on the financial markets and economies in general, which in turn could have a material adverse effect on our financial condition and cash flows. To the extent that we participate in these programs or other programs, there is no assurance that we will continue to be eligible or qualify to participate or that such programs will remain available for sufficient periods of time or on acceptable terms to benefit us, and the expiration of such programs could have unintended material adverse effects on us. Further, as a condition to participating in any such program, we may need to accept terms and limitations that could adversely affect us in other ways.

Our products are subject to recall for performance or safety-related issues.

Our products are subject to recall for performance or safety-related issues. Product recalls subject us to reputational risk, loss of current and future customers, reduced revenue and product recall costs. Product recall costs are incurred when we decide, either voluntarily or involuntarily, to recall a product through a formal campaign to solicit the return of specific products due to known or suspected performance or safety issues. Any significant product recalls could have material adverse effects on our results of operations, financial condition and cash flows. See Note 10, "PRODUCT WARRANTY LIABILITY" to the *Condensed Consolidated Financial Statements* for additional information.

The development of new technologies may materially reduce the demand for our current products and services.

We are investing in new products and technologies, including electrified powertrains, hydrogen generation and fuel cells, for planned introduction into certain existing and new markets. Given the early stages of development of some of these new products and technologies, there can be no guarantee of the future market acceptance and investment returns with respect to these planned products. The increased adoption of electrified powertrains in some market segments could result in lower demand for current diesel or natural gas engines and components and, over time, reduce the demand for related parts and service revenues from diesel or natural gas powertrains. Furthermore, it is possible that we may not be successful in developing segment-leading electrified powertrains and some of our existing customers could choose to develop their own electrified or alternate fuel powertrains, or source from other manufacturers, and any of these factors could have a material adverse impact on our results of operations, financial condition and cash flows.

We operate our business on a global basis and policy changes affecting international trade could adversely impact the demand for our products and our competitive position.

We manufacture, sell and service products globally and rely upon a global supply chain to deliver the raw materials, components, systems and parts that we need to manufacture and service our products. Changes in government policies on foreign trade and investment can affect the demand for our products and services, cause non-U.S. customers to shift preferences toward domestically manufactured or branded products and impact the competitive position of our products or prevent us from being able to sell products in certain countries. Our business benefits from free trade agreements, such as the new United States-Mexico-Canada Agreement and the U.S. trade relationship with China, Brazil and France and efforts to withdraw from, or substantially modify such agreements or arrangements, in addition to the implementation of more restrictive trade policies, such as more detailed inspections, higher tariffs (including, but not limited to, additional tariffs on the import of steel or aluminum), import or export licensing requirements, exchange controls or new barriers to entry, could adversely impact our production costs, customer demand and our relationships with customers and suppliers. Any of these consequences could have a material adverse effect on our results of operations, financial condition and cash flows.

A slowdown in infrastructure development and/or depressed commodity prices could adversely affect our business.

Infrastructure development and strong commodity prices have been significant drivers of our historical growth, but as the pace of investment in infrastructure slowed in recent years (especially in China and Brazil), commodity prices were significantly lower and demand for our products in off-highway markets was weak. Weakness in commodity prices, including any negative impacts on commodity prices such as oil, gas and coal, adversely impacted mining industry participants' demand for vehicles and equipment that contain our engines and other products over the past several years. Continued deterioration in infrastructure and commodities markets, including the impacts from COVID-19, could adversely affect our customers' demand for vehicles and equipment and, as a result, could adversely affect our business.

The U.K.'s exit from the European Union (EU) could materially and adversely impact our results of operations, financial condition and cash flows.

On January 31, 2020, the U.K. exited from the EU (BREXIT). Additionally, the results of the U.K.'s BREXIT has caused, and may continue to cause, volatility in global stock markets, currency exchange rate fluctuations and global economic uncertainty. Although it is unknown what the terms of the U.K.'s future relationship with the EU will be, it is possible that there will be higher tariffs or greater restrictions on imports and exports between the U.K. and the EU and increased regulatory complexities. The effects of BREXIT will

depend on any agreements the U.K. makes to retain access to EU markets either during a transitional period or on a permanent basis. These measures could potentially disrupt our supply chain, including delays of imports and exports, limited access to human capital within some of the target markets and jurisdictions in which we operate and adverse changes to tax benefits or liabilities in these or other jurisdictions. In addition, BREXIT could lead to legal uncertainty and potentially divergent national laws and regulations, including with respect to emissions and similar certifications granted to us by the EU, as the U.K. determines which EU laws to replace or replicate. Any of these effects of BREXIT, among others, could have a material adverse impact on our results of operations, financial condition and cash flows.

We may be adversely impacted by work stoppages and other labor matters.

At December 31, 2019, we employed approximately 61,615 persons worldwide. Approximately 19,048 of our employees worldwide were represented by various unions under collective bargaining agreements that expire between 2020 and 2024. While we have no reason to believe that we will be materially impacted by work stoppages or other labor matters, there can be no assurance that future issues with our labor unions will be resolved favorably or that we will not encounter future strikes, work stoppages, or other types of conflicts with labor unions or our employees. Any of these consequences may have an adverse effect on us or may limit our flexibility in dealing with our workforce. In addition, many of our customers and suppliers have unionized work forces. Work stoppages or slowdowns experienced by us, our customers or suppliers, including any work stoppages or slowdowns related to the COVID-19 pandemic, could result in slowdowns or closures that would have a material adverse effect on our results of operations, financial condition and cash flow.

We rely on our executive leadership team and other key personnel.

We depend on the skills, institutional knowledge, working relationships, and continued services and contributions of key personnel, including our executive leadership team. In addition, our ability to achieve our operating and strategic goals depends on our ability to identify, hire, train and retain qualified individuals. We compete with other companies both within and outside of our industry for talented personnel and we may lose key personnel or fail to attract, train and retain other talented personnel. Any such loss or failure could have material adverse effects on our results of operations, financial condition and cash flows.

In particular, our continued success will depend in part on our ability to retain the talents and dedication of key employees. If key employees terminate their employment or become ill as a result of the COVID-19 pandemic or otherwise, our business activities may be adversely affected and our management team's attention may be diverted. In addition, we may not be able to locate suitable replacements for any key employees who leave.

Lower-than-anticipated market acceptance of our new or existing products or services, including reductions in demand for diesel engines, could have a material adverse impact on our results of operations, financial condition and cash flows.

Although we conduct market research before launching new or refreshed engines and introducing new services, many factors both within and outside our control affect the success of new or existing products and services in the marketplace. Offering engines and services that customers desire and value can mitigate the risks of increasing price competition and declining demand, but products and services that are perceived to be less than desirable (whether in terms of price, quality, overall value, fuel efficiency or other attributes) can exacerbate these risks. With increased consumer interconnectedness through the internet, social media and other media, mere allegations relating to poor quality, safety, fuel efficiency, corporate responsibility or other key attributes can negatively impact our reputation or market acceptance of our products or services, even if such allegations prove to be inaccurate or unfounded.

Our truck manufacturers and OEM customers may discontinue outsourcing their engine supply needs.

Several of our engine customers, including PACCAR, Volvo, Navistar, Chrysler, Daimler, Dongfeng and Tata, are truck manufacturers or OEMs that manufacture engines for some of their own vehicles. Despite their own engine manufacturing abilities, these customers have historically chosen to outsource certain types of engine production to us due to the quality of our engine products, our emission compliance capabilities, our systems integration, their customers' preferences, their desire for cost reductions, their desire for eliminating production risks and their desire to maintain company focus. However, there can be no assurance that these customers will continue to outsource, or outsource as much of, their engine production in the future. In addition, increased levels of OEM vertical integration could result from a number of factors, such as shifts in our customers' business strategies, acquisition by a customer of another engine manufacturer, the inability of third-party suppliers to meet product specifications and the emergence of low-cost production opportunities in foreign countries. Any significant reduction in the level of engine production outsourcing from our truck manufacturer or OEM customers could have a material adverse effect on our results of operations, financial condition and cash flows.

Our plan to reposition our portfolio of product offerings through exploration of strategic acquisitions and divestitures may expose us to additional costs and risks.

Part of our strategic plan is to improve our revenue growth, gross margins and earnings by exploring the repositioning of our portfolio of product line offerings through the pursuit of potential strategic acquisitions and/or divestitures to provide future strategic, financial and operational benefits and improve shareholder value. There can be no assurance that we will be able to identify suitable candidates or consummate these transactions on favorable terms. The successful identification and completion of any strategic transaction depends on a number of factors that are not entirely within our control, including the availability of suitable candidates and our ability to negotiate terms acceptable to all parties involved, conclude satisfactory agreements and obtain all necessary regulatory approvals. Accordingly, we may not be able to successfully negotiate and complete specific transactions. The exploration, negotiation and consummation of strategic transactions may involve significant expenditures by us, which may adversely affect our results of operations at the time such expenses are incurred, and may divert management's attention from our existing business. Strategic transactions also may have adverse effects on our existing business relationships with suppliers and customers.

If required, the financing for strategic acquisitions could result in an increase in our indebtedness, dilute the interests of our shareholders or both. Any acquisition may not be accretive to us for a significant period of time following the completion of such acquisition. Also, our ability to effectively integrate any potential acquisition into our existing business and culture may not be successful, which could jeopardize future financial and operational performance for the combined businesses. In addition, if an acquisition results in any additional goodwill or increase in other intangible assets on our balance sheet and subsequently becomes impaired, we would be required to record a non-cash impairment charge, which could result in a material adverse effect on our financial condition.

Similarly, any strategic divestiture of a product line or business may reduce our revenue and earnings, reduce the diversity of our business, result in substantial costs and expenses and cause disruption to our employees, customers, vendors and communities in which we operate.

Our information technology systems and our products are exposed to potential security breaches or other disruptions which may adversely impact our competitive position, reputation, results of operations, financial condition and cash flows.

We rely on the capacity, reliability and security of our information technology systems and data security infrastructure in connection with various aspects of our business activities. We also rely on our ability to expand and continually update these systems and related infrastructure in response to the changing needs of our business. As we implement new systems, they may not perform as expected. We face the challenge of supporting our older systems and implementing necessary upgrades. In addition, some of these systems are managed by third-party service providers and are not under our direct control. If we experience a problem with an important information technology system, including during system upgrades and/or new system implementations, the resulting disruptions could have an adverse effect on our business and reputation. As customers adopt and rely on cloud-based digital technologies and services we offer, any disruption of the confidentiality, integrity or availability of those services could have an adverse effect on our business and reputation.

The data handled by our information technology systems is vulnerable to security threats. Our operations routinely involve receiving, storing, processing and transmitting sensitive information pertaining to our business, customers, dealers, suppliers, employees and other sensitive matters. While we continually work to safeguard our systems and mitigate potential risks, there is no assurance that these actions will be sufficient to prevent information technology security threats, such as security breaches, computer malware, computer viruses and other "cyber attacks," which are increasing in both frequency and sophistication, along with power outages or hardware failures. These threats could result in unauthorized public disclosures of information, create financial liability, subject us to legal or regulatory sanctions, disrupt our ability to conduct our business, result in the loss of intellectual property or damage our reputation with customers, dealers, suppliers and other stakeholders. As a result of the COVID-19 pandemic and resulting government actions to restrict movement, a large percentage of our salaried employees are working remotely. This remote working environment may pose a heightened risk for security breaches or other disruptions of our information technology systems.

In addition, our products, including our engines, contain interconnected and increasingly complex systems that control various processes and these systems are potentially subject to "cyber attacks" and disruption. The impact of a significant information technology event on either of our information technology systems or our products could have a material adverse effect on our competitive position, reputation, results of operations, financial condition and cash flows.

We may experience difficulties and delays or unexpected costs in completing our cost reduction actions and announced restructuring initiatives, including achieving any anticipated savings and other benefits of these initiatives.

During the fourth quarter of 2019 and continuing into 2020 we are undertaking cost reduction actions and announced restructuring initiatives to respond to the slowdown in our global markets. As we implement these initiatives, we may not realize anticipated savings or other benefits from one or more of the initiatives in the amounts or within the time periods we expect. Other events or

circumstances, such as implementation difficulties and delays or unexpected costs, may occur which could result in us not realizing our targeted cost reductions. We are also subject to the risks of negative publicity and business disruption in connection with our restructuring and other cost reduction initiatives. If we are unable to realize the expected savings or benefits from these initiatives, certain aspects of our business may be adversely affected. If we experience any of these circumstances or otherwise fail to realize the anticipated savings or benefits from our restructuring and cost reduction initiatives, our results of operations could be materially and adversely affected.

We may fail to realize all of the expected enhanced revenue, earnings and cash flow from our investment in the Eaton Cummins Automated Transmission Technologies joint venture.

Our ability to realize all of the expected enhanced revenue, earnings, and cash flow from our 2017 investment in the Eaton Cummins Automated Transmission Technologies joint venture will depend, in substantial part, on our ability to successfully launch the automated transmission products in North America and China and achieve our projected market penetration in those regions. While we believe we will ultimately achieve these objectives, it is possible that we will be unable to achieve all of the goals within our anticipated time frame or in the anticipated amounts. If we are not able to successfully complete our automated transmission strategy, the anticipated enhanced revenue, earnings, and cash flows resulting from this joint venture may not be realized fully or may take longer to realize than expected.

As part of the purchase accounting associated with the formation of the joint venture, significant goodwill and intangible asset balances were recorded on the consolidated balance sheet. If cash flows from the joint venture fall short of our anticipated amounts, these assets could be subject to non-cash impairment charges, negatively impacting our earnings.

We are exposed to political, economic and other risks that arise from operating a multinational business.

Our business is subject to the political, economic and other risks that are inherent in operating in numerous countries. These risks include:

- public health crises, including the spread of a contagious disease, such as COVID-19, and other catastrophic events;
- the difficulty of enforcing agreements and collecting receivables through foreign legal systems;
- trade protection measures and import or export licensing requirements;
- the imposition of taxes on foreign income and tax rates in certain foreign countries that exceed those in the U.S.;
- the imposition of tariffs, exchange controls or other restrictions;
- difficulty in staffing and managing widespread operations and the application of foreign labor regulations;
- required compliance with a variety of foreign laws and regulations; and
- changes in general economic and political conditions in countries where we operate, particularly in emerging markets.

As we continue to operate our business globally, our success will depend, in part, on our ability to anticipate and effectively manage these and other related risks. There can be no assurance that the consequences of these and other factors relating to our multinational operations will not have a material adverse effect upon us.

We face significant competition in the markets we serve.

The markets in which we operate are highly competitive. We compete worldwide with a number of other manufacturers and distributors that produce and sell similar products. We primarily compete in the market with diesel engines and related diesel products; however, new technologies continue to be developed for gasoline, natural gas, electrification and other technologies and we will continue to face new competition from these expanding technologies. Our products primarily compete on the basis of price, performance, fuel economy, emissions compliance, speed of delivery, quality and customer support. We also face competitors in some emerging markets who have established local practices and long standing relationships with participants in these markets. There can be no assurance that our products will be able to compete successfully with the products of other companies and in other markets.

Increasing global competition among our customers may affect our existing customer relationships and restrict our ability to benefit from some of our customers' growth.

As our customers in emerging markets continue to grow in size and scope, they are increasingly seeking to export their products to other countries. This has meant greater demand for our advanced engine technologies to help these customers meet the more stringent emissions requirements of developed markets, as well as greater demand for access to our distribution systems for purposes of equipment servicing. As these emerging market customers enter into, and begin to compete in more developed markets, they may

increasingly begin to compete with our existing customers in these markets. Our further aid to emerging market customers could adversely affect our relationships with developed market customers. In addition, to the extent the competition does not correspond to overall growth in demand, we may see little or no benefit from this type of expansion by our emerging market customers.

We are subject to foreign currency exchange rate and other related risks.

We conduct operations in many areas of the world involving transactions denominated in a variety of currencies. We are subject to foreign currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. In addition, since our financial statements are denominated in U.S. dollars, changes in foreign currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our results of operations, financial condition and cash flows. The U.S. dollar strengthened in recent years resulting in material unfavorable impacts on our revenues in those years. If the U.S. dollar continues strengthening against other currencies, we will experience additional volatility in our financial statements.

While we customarily enter into financial transactions that attempt to address these risks and many of our supply agreements with customers include foreign currency exchange rate adjustment provisions, there can be no assurance that foreign currency exchange rate fluctuations will not adversely affect our future results of operations and cash flows. In addition, while the use of currency hedging instruments may provide us with some protection from adverse fluctuations in foreign currency exchange rates, by utilizing these instruments we potentially forego the benefits that might result from favorable fluctuations in foreign currency exchange rates.

We also face risks arising from the imposition of foreign exchange controls and currency devaluations. Foreign exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries or businesses located in or conducted within a country imposing controls. Currency devaluations result in a diminished value of funds denominated in the currency of the country instituting the devaluation. See Management's Discussion and Analysis for additional information.

Our products are exposed to variability in material and commodity costs.

Our businesses establish prices with our customers in accordance with contractual time frames; however, the timing of material and commodity market price increases may prevent us from passing these additional costs on to our customers through timely pricing actions. Additionally, higher material and commodity costs around the world may offset our efforts to reduce our cost structure. While we customarily enter into financial transactions and contractual pricing adjustment provisions with our customers that attempt to address some of these risks (notably with respect to copper, platinum and palladium), there can be no assurance that commodity price fluctuations will not adversely affect our results of operations and cash flows. In addition, while the use of commodity price hedging instruments and contractual pricing adjustments may provide us with some protection from adverse fluctuations in commodity prices, by utilizing these instruments, we potentially forego the benefits that might result from favorable fluctuations in price. As a result, higher material and commodity costs, as well as hedging these commodity costs during periods of decreasing prices, could result in declining margins.

We derive significant earnings from investees that we do not directly control, with more than 50 percent of these earnings from our China-based investees.

For 2019, we recognized \$330 million of equity, royalty and interest income from investees, compared to \$394 million in 2018. Approximately half of our equity, royalty and interest income from investees is from four of our 50 percent owned joint ventures in China - Beijing Foton Cummins Engine Co., Ltd., Dongfeng Cummins Engine Company, Ltd., Chongqing Cummins Engine Company, Ltd. and Dongfeng Cummins Emission Solutions Co. Ltd. As a result, although a significant percentage of our net income is derived from these unconsolidated entities, we do not unilaterally control their management or their operations, which puts a substantial portion of our net income at risk from the actions or inactions of these entities. A significant reduction in the level of contribution by these entities to our net income would likely have a material adverse effect on our results of operations and cash flows.

Unanticipated changes in our effective tax rate, the adoption of new tax legislation or exposure to additional income tax liabilities could adversely affect our profitability.

We are subject to income taxes in the U.S. and numerous international jurisdictions. Our income tax provision and cash tax liability in the future could be adversely affected by changes in earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. The carrying value of deferred tax assets, which are predominantly in the U.S., is dependent on our ability to generate future taxable income in the U.S. We are also subject to ongoing tax audits. These audits can involve complex issues, which may require an extended period of time to resolve and can be highly judgmental. Tax authorities may disagree with certain tax reporting positions taken by us and, as a result, assess additional taxes against us. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. The amounts ultimately paid upon resolution of these or subsequent tax audits

could be materially different from the amounts previously included in our income tax provision and, therefore, could have a material impact on our tax provision.

Our global operations are subject to laws and regulations that impose significant compliance costs and create reputational and legal risk.

Due to the international scope of our operations, we are subject to a complex system of commercial and trade regulations around the world. Recent years have seen an increase in the development and enforcement of laws regarding trade compliance and anti-corruption, such as the U.S. Foreign Corrupt Practices Act and similar laws from other countries, as well as new regulatory requirements regarding data privacy, such as the European Union General Data Protection Regulation. Our numerous foreign subsidiaries, affiliates and joint venture partners are governed by laws, rules and business practices that differ from those of the U.S. The activities of these entities may not comply with U.S. laws or business practices or our Code of Business Conduct. Violations of these laws may result in severe criminal or civil sanctions, could disrupt our business and result in an adverse effect on our reputation, business and results of operations, financial condition and cash flows. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing laws might be administered or interpreted.

Our business is exposed to potential product liability claims.

We face an inherent business risk of exposure to product liability claims in the event that our products' failure to perform to specification results, or is alleged to result, in property damage, bodily injury and/or death. At any given time, we are subject to various and multiple product liability claims, any one of which, if decided adversely to us, may have a material adverse effect on our reported results of operation in the period in which our liability with respect to any such claim is recognized. While we maintain insurance coverage with respect to certain product liability claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against product liability claims. In addition, product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. Furthermore, even if we are successful in defending against a claim relating to our products, claims of this nature could cause our customers to lose confidence in our products and us.

Our operations are subject to increasingly stringent environmental laws and regulations.

Our plants and operations are subject to increasingly stringent environmental laws and regulations in all of the countries in which we operate, including laws and regulations governing air emission, discharges to water and the generation, handling, storage, transportation, treatment and disposal of waste materials. While we believe that we are in compliance in all material respects with these environmental laws and regulations, there can be no assurance that we will not be adversely impacted by costs, liabilities or claims with respect to existing or subsequently acquired operations, under either present laws and regulations or those that may be adopted or imposed in the future. We are also subject to laws requiring the cleanup of contaminated property. If a release of hazardous substances occurs at or from any of our current or former properties or at a landfill or another location where we have disposed of hazardous materials, we may be held liable for the contamination and the amount of such liability could be material.

Significant declines in future financial and stock market conditions, particularly those related to the global recession due to the COVID-19 pandemic, could diminish our pension plan asset performance and adversely impact our results of operations, financial condition and cash flow.

We sponsor both funded and unfunded domestic and foreign defined benefit pension and other retirement plans. Our pension cost and the required contributions to our pension plans are directly affected by the value of plan assets, the projected and actual rates of return on plan assets and the actuarial assumptions we use to measure our defined benefit pension plan obligations, including the discount rate at which future projected and accumulated pension obligations are discounted to a present value. We could experience increased pension cost due to a combination of factors, including the decreased investment performance of pension plan assets, decreases in the discount rate and changes in our assumptions relating to the expected return on plan assets.

Significant declines in current and future financial and stock market conditions related to the COVID-19 pandemic could cause material losses in our pension plan assets, which could result in increased pension cost in future years and adversely impact our results of operations, financial condition and cash flow. Depending upon the severity and length of market declines and government regulatory changes, we may be legally obligated to make pension payments in the U.S. and perhaps other countries and these contributions could be material.

Future bans or limitations on the use of diesel-powered vehicles or other applications could have a material adverse impact on our business over the long term.

In an effort to limit greenhouse gas emissions and combat climate change, multiple countries and cities have announced that they plan to implement a ban on the use in their cities or countries of diesel-powered products in the near or distant future. These countries

include China, India and Germany. In addition, California government officials have called for the state to phase out sales of diesel-powered certain vehicles by 2035. To the extent that these types of bans are actually implemented in the future on a broad basis, or in one or more of our key markets, our business over the long-term could experience material adverse impacts.

We are exposed to risks arising from the price and availability of energy.

The level of demand for our products and services is influenced in multiple ways by the price and availability of energy. High energy costs generally drive greater demand for better fuel economy in almost all countries in which we operate. Some of our engine products have been developed with a primary purpose of offering fuel economy improvements, and if energy costs decrease or increase less than expected, demand for these products may likewise decrease. The relative unavailability of electricity in some emerging market countries also influences demand for our electricity generating products, such as our diesel generators. If these countries add energy capacity by expanding their power grids at a rate equal to or faster than the growth in demand for energy, the demand for our generating products could also decrease or increase less than would otherwise be the case.

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

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

Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) ⁽²⁾
June 29 - August 2	—	\$ —	—	\$ 2,085
August 3 - August 30	—	—	—	2,085
August 31 - September 27	—	—	—	2,085
Total	—	—	—	—

⁽¹⁾ Shares purchased represent shares under the Board authorized share repurchase program.

⁽²⁾ Shares repurchased under our Key Employee Stock Investment Plan only occur in the event of a participant default, which cannot be predicted, and were excluded from this column.

In December 2019, the Board authorized the acquisition of up to \$2.0 billion of additional common stock upon completion of the 2018 repurchase plan. In October 2018, the Board authorized the acquisition of up to \$2.0 billion of additional common stock. During the three months ended September 27, 2020, we did not repurchase any common stock under the 2018 authorization. The dollar value remaining available for future purchases under the 2018 program at September 27, 2020, was \$85 million.

Our Key Employee Stock Investment Plan allows certain employees, other than officers, to purchase shares of common stock on an installment basis up to an established credit limit. We hold participants' shares as security for the loans and would, in effect, repurchase shares only if the participant defaulted in repayment of the loan. Effective May 1, 2020, we no longer repurchase shares of common stock associated with participants' sales. Shares are now sold as open-market transactions via a third-party broker.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

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

**CUMMINS INC.
EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
4.1	Third Supplemental Indenture, dated as of August 24, 2020, between Cummins Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed by Cummins Inc. with the Securities and Exchange Commission on August 24, 2020 (File No. 001-04949)).
4.2	Fourth Supplemental Indenture, dated as of August 24, 2020, between Cummins Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K filed by Cummins Inc. with the Securities and Exchange Commission on August 24, 2020 (File No. 001-04949)).
4.3	Fifth Supplemental Indenture, dated as of August 24, 2020, between Cummins Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K filed by Cummins Inc. with the Securities and Exchange Commission on August 24, 2020 (File No. 001-04949)).
10.1	Amendment No. 1 to Supplemental Life Insurance and Deferred Income Plan, effective as of July 14, 2020.
10.2	Second Amended and Restated 364-Day Credit Agreement, dated as of August 19, 2020, by and among Cummins Inc., the subsidiary borrowers referred to therein, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Cummins Inc. with the Securities and Exchange Commission on August 25, 2020 (File No.001-04949)).
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*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed with this quarterly report on Form 10-Q are the following documents formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Net Income for the three and nine months ended September 27, 2020 and September 29, 2019, (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 27, 2020 and September 29, 2019, (iii) the Condensed Consolidated Balance Sheets at September 27, 2020 and December 31, 2019, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 27, 2020 and September 29, 2019, (v) the Condensed Consolidated Statements of Changes in Equity for the three and nine months ended September 27, 2020 and September 29, 2019 and (vi) Notes to Condensed Consolidated Financial Statements.

**AMENDMENT NO. 1
TO
Supplemental Life Insurance and Deferred Income Plan
(APPROVED JULY 14, 2020)**

1. A new final sentence is added to the definition of “Covered Compensation” in Section 2.01 of the SERP as follows:

In calculating Covered Compensation with respect to any portion of an Executive’s Supplemental Life Annuity that accrues on or after January 1, 2021, the short-term bonus earnings shall be reduced by any amounts that the Executive is required to repay, or that the Company otherwise has recovered or is seeking to recover, under the Company’s Executive Incentive Compensation Recoupment Policy or any successor or similar compensation recovery or recoupment policy.

2. A new definition of “Section 16 Officer” is added to Section 2.01 of the SERP as follows:

“Section 16 Officer” means any “officer,” as defined in Rule 16a-1(f) of the Exchange Act, of the Company.

3. Article VII of the SERP is amended and restated in its entirety to read as follows:

**ARTICLE VII
VESTED BENEFITS AND FORFEITURE**

Section 7.01 Vesting Service and Percentage. An Executive’s interest in his Supplemental Life Annuity shall become Vested in accordance with the following Schedule:

<u>Years of Vesting Service</u>	<u>Vested Percentage</u>
Fewer than 5	0
5	25
6	40
7	55
8	70
9	85
10 or more	100

Section 7.02 Forfeiture.

(a) Notwithstanding anything to the contrary herein, any portion of a Section 16 Officer’s Supplemental Life Annuity that has accrued on or after January 1, 2021 shall be subject to reduction or forfeiture, as determined by the Administrator in its discretion, if the Section 16 Officer Terminates Employment for Cause (as defined below) or if the Administrator determines in its discretion following a Section 16 Officer’s Termination of Employment that such Section 16 Officer’s employment could have been terminated

for Cause had all of the relevant facts been known to the Administrator at the time of the Section 16 Officer's Termination of Employment.

(b) "Cause" for a Termination of Employment shall be deemed to exist if there is a good faith finding by the Administrator that a Section 16 Officer has (1) refused to perform the lawful employment duties related to his or her position or as from time to time assigned to him or her (other than due to disability); (2) violated in any material respect the Company's published rules, regulations, or policies, as in effect from time to time, or committed any other willful, intentional or grossly negligent act, in each case having the effect of materially injuring the interest, business or reputation of the Company; (3) committed an act constituting a felony or misdemeanor involving fraud, theft or dishonesty; (4) misappropriated or embezzled any property of the Company (whether or not an act constituting a felony or misdemeanor); or (5) breached any material provision of any confidentiality or non-competition agreement with the Company.

(c) Any reduction or forfeiture under this Section 7.02 shall be determined and calculated by the Administrator in its sole and absolute discretion. The Administrator may, subject to any limitations imposed by applicable law, effect the reduction or forfeiture by any means it deems appropriate, including (without limitation) reducing the amount of future payments or cancelling future payments.

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 period 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 period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2020

/s/ N. THOMAS LINEBARGER

N. Thomas Linebarger

Chairman and Chief Executive Officer

Certification

I, Mark A. Smith, 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 period 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 period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2020

/s/ MARK A. SMITH

Mark A. Smith

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, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of such officer's knowledge:

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

October 27, 2020

/s/ N. THOMAS LINEBARGER

N. Thomas Linebarger

Chairman and Chief Executive Officer

October 27, 2020

/s/ MARK A. SMITH

Mark A. Smith

Vice President and Chief Financial Officer