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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 July 1, 2012

Commission File Number 1-4949

CUMMINS INC.
(Exact name of registrant as specified in its charter)

Indiana	**35-0257090**
(State of Incorporation)	(IRS Employer Identification No.)

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

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

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

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

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

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

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

As of July 1, 2012, there were 190,410,156 shares of common stock outstanding with a par value of $2.50 per share.

Website Access to Company's Reports

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

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

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

In millions, except per share amounts	Three months ended July 1, 2012	Three months ended June 26, 2011	Six months ended July 1, 2012	Six months ended June 26, 2011
NET SALES (a)	**$ 4,452**	$ 4,641	**$ 8,924**	$ 8,501
Cost of sales	**3,242**	3,438	**6,516**	6,341
GROSS MARGIN	**1,210**	1,203	**2,408**	2,160
OPERATING EXPENSES AND INCOME				
Selling, general and administrative expenses	**487**	463	**962**	852
Research, development and engineering expenses	**187**	157	**368**	286
Equity, royalty and interest income from investees (Note 5)	**104**	117	**208**	213
Gain on sale of businesses (Note 3)	**6**	68	**6**	68
Other operating income (expense), net	**2**	—	**4**	(6)
OPERATING INCOME	**648**	768	**1,296**	1,297
Interest income	**7**	10	**15**	16
Interest expense	**8**	13	**16**	23
Other income (expense), net	**14**	(3)	**16**	(6)
INCOME BEFORE INCOME TAXES	**661**	762	**1,311**	1,284
Income tax expense	**166**	225	**341**	382
CONSOLIDATED NET INCOME	**495**	537	**970**	902
Less: Net income attributable to noncontrolling interests	**26**	32	**46**	54
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	$ **469**	$ 505	**$ 924**	$ 848
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.				
Basic	**$ 2.47**	$ 2.61	**$ 4.86**	$ 4.36
Diluted	**$ 2.47**	$ 2.60	**$ 4.85**	$ 4.34
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	**189.8**	193.8	**190.1**	194.6
Dilutive effect of stock compensation awards	**0.3**	0.6	**0.4**	0.6

Diluted		**190.1**		194.4		**190.5**		195.2
CASH DIVIDENDS DECLARED PER COMMON SHARE	**$**	**0.40**	$	0.2625	**$**	**0.80**	$	0.525

(a) Includes sales to nonconsolidated equity investees of $622 million and $1,291 million and $635 million and $1,234 million for the three and six months ended July 1, 2012 and June 26, 2011, respectively.

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

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

	Three months ended				Six months ended			
In millions	**July 1, 2012**		**June 26, 2011**		**July 1, 2012**		**June 26, 2011**	
CONSOLIDATED NET INCOME	**$**	**495**	$	537	**$**	**970**	$	902
Other comprehensive income (loss), net of tax								
Foreign currency translation adjustments		**(159)**		—		**(53)**		54
Unrealized gain (loss) on derivatives		**(8)**		(12)		**11**		(12)
Change in pension and other postretirement defined benefit plans		**10**		7		**21**		33
Unrealized gain (loss) on marketable securities		**—**		—		**(1)**		—
Total other comprehensive income (loss), net of tax		**(157)**		(5)		**(22)**		75
COMPREHENSIVE INCOME		**338**		532		**948**		977
Less: Comprehensive income attributable to noncontrolling interest		**2**		30		**32**		54
COMPREHENSIVE INCOME ATTRIBUTABLE TO CUMMINS INC.	**$**	**336**	$	502	**$**	**916**	$	923

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

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

In millions, except par value	**July 1, 2012**		**December 31, 2011**	
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**1,145**	$	1,484
Marketable securities (Note 6)		**261**		277
Total cash, cash equivalents and marketable securities		**1,406**		1,761
Accounts and notes receivable, net				
Trade and other		**2,331**		2,252
Nonconsolidated equity investees		**289**		274
Inventories (Note 8)		**2,581**		2,141
Prepaid expenses and other current assets		**639**		663
Total current assets		**7,246**		7,091
Long-term assets				
Property, plant and equipment		**5,475**		5,245
Accumulated depreciation		**(3,051)**		(2,957)
Property, plant and equipment, net		**2,424**		2,288
Investments and advances related to equity method investees		**890**		838
Goodwill		**345**		339
Other intangible assets, net		**268**		227
Other assets		**996**		885
Total assets	**$**	**12,169**	$	11,668
LIABILITIES				
Current liabilities				
Loans payable	**$**	**58**	$	28
Accounts payable (principally trade)		**1,634**		1,546
Current maturities of long-term debt (Note 10)		**83**		97
Current portion of accrued product warranty (Note 9)		**407**		422
Accrued compensation, benefits and retirement costs		**340**		511
Deferred revenue		**208**		208
Taxes payable (including taxes on income)		**258**		282
Other accrued expenses		**582**		563
Total current liabilities		**3,570**		3,657
Long-term liabilities				
Long-term debt (Note 10)		**653**		658
Pensions		**118**		205
Postretirement benefits other than pensions		**425**		432
Other liabilities and deferred revenue		**966**		885
Total liabilities		**5,732**		5,837

Commitments and contingencies (Note 12)	—	—
EQUITY		
Cummins Inc. shareholders' equity		
Common stock, $2.50 par value, 500 shares authorized, 222.4 and 222.2 shares issued	**2,036**	2,001
Retained earnings	**6,810**	6,038
Treasury stock, at cost, 32.0 and 30.2 shares	**(1,777)**	(1,587)
Common stock held by employee benefits trust, at cost, 1.6 and 1.8 shares	**(20)**	(22)
Accumulated other comprehensive loss		
Defined benefit postretirement plans	**(703)**	(724)
Other	**(243)**	(214)
Total accumulated other comprehensive loss	**(946)**	(938)
Total Cummins Inc. shareholders' equity	**6,103**	5,492
Noncontrolling interests	**334**	339
Total equity	**6,437**	5,831
Total liabilities and equity	**$ 12,169**	$ 11,668

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

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

	Six months ended	
In millions	**July 1, 2012**	**June 26, 2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	**$ 970**	$ 902
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	**171**	159
Gain on sale of businesses (Note 3)	**(6)**	(68)
Deferred income taxes	**(39)**	87
Equity in income of investees, net of dividends	**(25)**	2
Pension contributions in excess of expense (Note 4)	**(52)**	(47)
Other post-retirement benefits payments in excess of expense (Note 4)	**(7)**	(10)
Stock-based compensation expense	**21**	18
Excess tax benefits on stock-based awards	**(11)**	(4)
Translation and hedging activities	**7**	(6)
Changes in current assets and liabilities, net of acquisitions and divestitures:		
Accounts and notes receivable	**(116)**	(513)
Inventories	**(439)**	(290)
Other current assets	**(47)**	11
Accounts payable	**61**	307
Accrued expenses	**(173)**	169
Changes in other liabilities and deferred revenue	**103**	58
Other, net	**(21)**	(31)
Net cash provided by operating activities	**397**	744
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(266)**	(215)
Investments in internal use software	**(40)**	(22)
Investments in and advances to equity investees	**(40)**	(20)
Proceeds from sale of business, net of cash sold (Note 3)	**—**	111
Acquisition of businesses, net of cash acquired (Note 3)	**(12)**	—
Investments in marketable securities—acquisitions (Note 6)	**(276)**	(361)
Investments in marketable securities—liquidations (Note 6)	**280**	343
Cash flows from derivatives not designated as hedges	**1**	6
Other, net	**3**	7
Net cash used in investing activities	**(350)**	(151)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	**46**	60
Payments on borrowings and capital lease obligations	**(75)**	(94)
Net borrowings under short-term credit agreements	**3**	11
Distributions to noncontrolling interests	**(32)**	(26)
Dividend payments on common stock	**(152)**	(102)
Repurchases of common stock	**(196)**	(373)
Excess tax benefits on stock-based awards	**11**	4
Other, net	**9**	7
Net cash used in financing activities	**(386)**	(513)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**—**	8
Net increase (decrease) in cash and cash equivalents	**(339)**	88
Cash and cash equivalents at beginning of year	**1,484**	1,023
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 1,145**	$ 1,111

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

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

In millions	Common Stock	Additional paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Common Stock Held in Trust	Total Cummins Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
BALANCE AT DECEMBER 31, 2010	$ 554	$ 1,380	$ 4,445	$ (720)	$ (964)	$ (25)	$ 4,670	$ 326	$ 4,996
Net income			848				848	54	902
Other comprehensive income (loss)				75			75	—	75
Issuance of shares	1	7					8	—	8
Employee benefits trust activity		16				2	18	—	18
Acquisition of shares					(373)		(373)	—	(373)
Cash dividends on common stock			(102)				(102)	—	(102)
Distribution to noncontrolling interests							—	(26)	(26)
Stock option exercises		1			4		5	—	5
Other shareholder transactions		9					9	5	14
BALANCE AT JUNE 26, 2011	$ 555	$ 1,413	$ 5,191	$ (645)	$ (1,333)	$ (23)	$ 5,158	$ 359	$ 5,517
BALANCE AT DECEMBER 31, 2011	$ 555	$ 1,446	$ 6,038	$ (938)	$ (1,587)	$ (22)	$ 5,492	$ 339	$ 5,831
Net income			**924**				**924**	**46**	**970**
Other comprehensive income (loss)				**(8)**			**(8)**	**(14)**	**(22)**
Issuance of shares	**1**	**3**					**4**	**—**	**4**
Employee benefits trust activity		**17**				**2**	**19**	**—**	**19**
Acquisition of shares					**(196)**		**(196)**	**—**	**(196)**
Cash dividends on common stock			**(152)**				**(152)**	**—**	**(152)**
Distribution to noncontrolling interests							**—**	**(52)**	**(52)**
Stock option exercises					**6**		**6**	**—**	**6**
Other shareholder transactions		**14**					**14**	**15**	**29**
BALANCE AT JULY 1, 2012	**$ 556**	**$ 1,480**	**$ 6,810**	**$ (946)** (1)	**$ (1,777)**	**$ (20)**	**$ 6,103**	**$ 334**	**$ 6,437**

(1) Comprised of defined benefit postretirement plans of $(703) million, foreign currency translation adjustments of $(237) million, unrealized loss on derivatives of $(9) million and an unrealized gain on marketable securities of $3 million.

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") is a leading global power provider that designs, manufactures, distributes and services diesel and natural gas engines, engine-related component products, including emission solutions, filtration, fuel systems and air handling systems, and power generation products, including electric power generation systems and related products. We were founded in 1919 as one of the first manufacturers of diesel engines and are headquartered in the United States (U.S.) in Columbus, Indiana. We sell our products to original equipment manufacturers (OEMs), distributors and other customers worldwide. We serve our customers through a network of more than 600 company-owned and independent distributor locations and approximately 6,500 dealer locations in more than 190 countries and territories.

NOTE 2. BASIS OF PRESENTATION

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

Our reporting period usually ends on the Sunday closest to the last day of the quarterly calendar period. The second quarters of 2012 and 2011 ended on July 1, and June 26, respectively. The interim periods for both 2012 and 2011 contain 13 weeks, while the six month periods contained 26 weeks and 25 weeks, respectively. Our fiscal year ends on December 31, regardless of the day of the week on which December 31 falls.

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

In preparing our *Condensed Consolidated Financial Statements*, we evaluated subsequent events through the date our quarterly report was filed with the SEC.

The weighted-average diluted common shares outstanding exclude the anti-dilutive effect of certain stock options since such options had an exercise price in excess of the monthly average market value of our common stock. The options excluded from diluted earnings per share for the three and six month periods ended July 1, 2012, and June 26, 2011, were as follows:

	Three months ended		Six months ended	
	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011
Options excluded	**439,328**	140,277	**332,802**	80,858

You should read these interim condensed financial statements in conjunction with the *Consolidated Financial Statements* included in our Annual Report on Form 10-K for the year ended December 31, 2011. Our interim period financial results for the three and six month interim periods presented are not necessarily indicative of results to be expected for any other interim period or for the entire year. The year-end *Condensed Consolidated Balance Sheet* data was derived from audited financial statements, but does not include all disclosures required by GAAP.

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NOTE 3. DIVESTITURES AND ACQUISITIONS

Divestitures

In the second quarter of 2011, we sold certain assets and liabilities of our exhaust business which manufactures exhaust products and select components for emission systems for a variety of applications not core to our other product offerings. This business was historically included in our Components segment. The sales price was $123 million. We recognized a gain of $68 million ($37 million after-tax), which included a goodwill allocation of $19 million. In the second quarter of 2012, we recorded an additional $6 million gain ($4 million after-tax) related to final purchase price adjustments for our 2011 divestitures. The gains have been excluded from segment results as they were not considered in our evaluation of operating results for the three and six months ended July 1, 2012 and June 26, 2011.

Sales for this business were $62 million, $171 million and $126 million in 2011 (through closing), 2010 and 2009, respectively. Operating results for this business were approximately $9 million, $22 million and $11 million in 2011 (through closing), 2010 and 2009, respectively.

Pending Acquisitions

In April 2012, we reached an agreement to acquire the doser technology and business assets from Hilite Germany GmbH (Hilite) in a cash transaction. Dosers are products that enable compliance with emission standards in certain aftertreatment systems and complement our current product offerings. The transaction was approved by German regulators in June, closed on July 18, 2012, and will be reflected in our consolidated financial statements in the third quarter of 2012. The purchase price was approximately $176 million and is summarized below. There is no contingent consideration associated with this transaction. During the first six months of 2012 we expensed approximately $4 million of acquisition related costs.

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

Intangible assets by asset class, including weighted average amortization life, are expected to be as follows:

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

We are in the process of finalizing certain aspects of the purchase price allocation. The purchase price is expected to be allocated as follows:

In millions	
Inventory	$ 5
Fixed assets	5
Intangible assets	83
Goodwill	91
Liabilities	(8)
Total purchase price	$ 176

Net sales for Hilite were $77 million for the 12 months ended December 31, 2011.

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In July 2012, we acquired an additional 45 percent interest in Cummins Central Power from the former principal for consideration of approximately $17 million (subject to final adjustments), which will be reflected in our consolidated financial statements in the third quarter of 2012. The acquisition was accounted for as a business combination, with the results of the acquired entity to be included in the Distribution operating segment in the third quarter of 2012. We estimate that the transaction will include a $7 million gain, as we are required to re-measure our pre-existing 35 percent ownership interest in Cummins Central Power to fair value in accordance with GAAP.

NOTE 4. PENSION AND OTHER POSTRETIREMENT BENEFITS

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

	Three months ended		Six months ended	
In millions	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011

Defined benefit pension and other postretirement plans				
Voluntary pension	**$ 35**	$ 35	**$ 73**	$ 70
Mandatory pension	**6**	5	**11**	11
Defined benefit pension contributions	**41**	40	**84**	81
Other postretirement plans	**8**	9	**17**	18
Total defined benefit plans	**$ 49**	$ 49	**$ 101**	$ 99
Defined contribution pension plans	**$ 17**	$ 13	**$ 44**	$ 37

We made $84 million of pension contributions in the six months ended July 1, 2012, and we anticipate making an additional $46 million of contributions during the remainder of 2012. We paid $17 million of claims and premiums for other postretirement benefits in the six months ended July 1, 2012; payments for the remainder of 2012 are expected to be $34 million. The $130 million of contributions for the full year include voluntary contributions of approximately $109 million. These contributions and payments may be made from trusts or company funds either to increase pension assets or to make direct benefit payments to plan participants.

The components of net periodic pension and other postretirement benefit cost under our plans consisted of the following:

	Pension					
	U.S. Plans		Non-U.S. Plans		Other Postretirement Benefits	
	Three months ended					
In millions	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011
Service cost	**$ 15**	$ 13	**$ 5**	$ 5	**$ —**	$ —
Interest cost	**26**	27	**15**	15	**5**	6
Expected return on plan assets	**(39)**	(38)	**(21)**	(19)	**—**	—
Amortization of prior service (credit) cost	**—**	—	**—**	1	**(1)**	(2)
Recognized net actuarial loss	**11**	10	**4**	3	**1**	—
Net periodic benefit cost	**$ 13**	$ 12	**$ 3**	$ 5	**$ 5**	$ 4

	Pension					
	U.S. Plans		Non-U.S. Plans		Other Postretirement Benefits	
	Six months ended					
In millions	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011
Service cost	**$ 29**	$ 26	**$ 11**	$ 10	**$ —**	$ —
Interest cost	**52**	54	**29**	30	**10**	12
Expected return on plan assets	**(78)**	(76)	**(41)**	(37)	**—**	—
Amortization of prior service (credit) cost	**—**	—	**—**	1	**(2)**	(4)
Recognized net actuarial loss	**23**	20	**7**	6	**2**	—
Net periodic benefit cost	**$ 26**	$ 24	**$ 6**	$ 10	**$ 10**	$ 8

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NOTE 5. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEES

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

	Three months ended		Six months ended	
In millions	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011
Distribution Entities				
North American distributors	**$ 38**	$ 35	**$ 78**	$ 65
Komatsu Cummins Chile, Ltda.	**6**	6	**11**	10
All other distributors	**2**	1	**3**	2
Manufacturing Entities				
Chongqing Cummins Engine Company, Ltd.	**17**	19	**35**	31
Dongfeng Cummins Engine Company, Ltd.	**17**	26	**33**	49
Cummins Westport, Inc.	**4**	3	**9**	4
Shanghai Fleetguard Filter Co., Ltd.	**4**	4	**7**	8
Tata Cummins, Ltd.	**3**	3	**7**	7
Beijing Foton Cummins Engine Co., Ltd.	**2**	(1)	**—**	(3)
Valvoline Cummins, Ltd.	**2**	2	**4**	4
Komatsu manufacturing alliances	**1**	(1)	**—**	1
All other manufacturers	**(1)**	6	**—**	12
Cummins share of net income	**$ 95**	$ 103	**$ 187**	$ 190
Royalty and interest income	**9**	14	**21**	23
Equity, royalty and interest income from investees	**$ 104**	$ 117	**$ 208**	$ 213

NOTE 6. MARKETABLE SECURITIES

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

	July 1, 2012			December 31, 2011		
In millions	Cost	Gross unrealized gains/(losses)	Estimated fair value	Cost	Gross unrealized gains/(losses)	Estimated fair value
Available-for-sale						
Debt mutual funds	**$ 146**	**$ 2**	**$ 148**	$ 115	$ 2	$ 117
Bank debentures	**53**	**—**	**53**	82	—	82
Certificates of deposit	**48**	**—**	**48**	66	—	66
Government debt securities-non-U.S.	**3**	**—**	**3**	3	—	3
Corporate debt securities	**2**	**—**	**2**	2	—	2

Equity securities and other	—	7	7	—	7	7
Total marketable securities	**$ 252**	**$ 9**	**$ 261**	$ 268	$ 9	$ 277

At July 1, 2012, the fair value of available-for-sale investments in debt securities by contractual maturity was as follows:

Maturity date **In millions**	**Fair value**
1 year or less	$ 32
1-5 years	25
5-10 years	1
Total	$ 58

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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The following table summarizes our financial instruments recorded at fair value in our *Condensed Consolidated Balance Sheets* at July 1, 2012:

In millions	**Fair Value Measurements Using** **Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Available-for-sale debt securities				
Debt mutual funds	$ 80	$ 68	$ —	$ 148
Bank debentures	—	53	—	53
Certificates of deposit	—	48	—	48
Government debt securities-non-U.S.	—	3	—	3
Corporate debt securities	—	2	—	2
Available-for-sale equity securities				
Financial services industry	7	—	—	7
Derivative assets				
Interest rate contracts	—	87	—	87
Total assets	$ 87	$ 261	$ —	$ 348
Derivative liabilities				
Commodity swap contracts	—	12	—	12
Foreign currency forward contracts	—	2	—	2
Total liabilities	$ —	$ 14	$ —	$ 14

The following table summarizes our financial instruments recorded at fair value in our *Condensed Consolidated Balance Sheets* at December 31, 2011:

In millions	**Fair Value Measurements Using** **Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Available-for-sale debt securities				
Debt mutual funds	$ 53	$ 64	$ —	$ 117
Bank debentures	—	82	—	82
Certificates of deposit	—	66	—	66
Government debt securities-non-U.S.	—	3	—	3
Corporate debt securities	—	2	—	2
Available-for-sale equity securities				
Financial services industry	7	—	—	7
Derivative assets				
Interest rate contracts	—	82	—	82
Total assets	$ 60	$ 299	$ —	$ 359
Derivative liabilities				
Commodity swap contracts	—	22	—	22
Foreign currency forward contracts	—	8	—	8
Total liabilities	$ —	$ 30	$ —	$ 30

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

Debt mutual funds — Assets in level 2 consist of exchange traded mutual funds that lack sufficient trading volume to be classified at level 1. The fair value measure for these investments is the daily net asset value published on a regulated governmental website. Daily quoted prices are available from the issuing brokerage and are used on a test basis to corroborate this level 2 input.

Bank debentures and Certificates of deposit — These investments provide us with a fixed rate of return and generally range in maturity from six months to three years. The counter-parties to these investments are reputable financial institutions with investment grade credit ratings. Since these instruments are not tradable and must be settled directly by Cummins with the respective financial institution, our fair value measure is the financial institutions' month-end statement.

Government debt securities-non-U.S. and Corporate debt securities— The fair value measure for these securities are broker quotes received from reputable firms. These securities are infrequently traded on a national stock exchange and these values are used on a test basis to corroborate our level 2 input measure.

Foreign currency forward contracts — The fair value measure for these contracts are determined based on forward foreign exchange rates received from third-party pricing services. These rates are based upon market transactions and are periodically corroborated by comparing to third-party broker quotes.

Commodity swap contracts — The fair value measure for these contracts are current spot market data adjusted for the appropriate current forward curves provided by external financial institutions. The current spot price is the most significant component of this valuation and is based upon market transactions. We use third-party pricing services for the spot price component of this valuation which is periodically corroborated by market data from broker quotes.

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

Fair Value of Other Financial Instruments

Based on borrowing rates currently available to us for bank loans with similar terms and average maturities, considering our risk premium, the fair value and carrying value of total debt, including current maturities, at July 1, 2012 and December 31, 2011, are set forth in the table below. The carrying values of all other receivables and liabilities approximated fair values (derived from level 2 inputs).

In millions	July 1, 2012	December 31, 2011
Fair value of total debt	**$ 951**	$ 901
Carrying value of total debt	**794**	783

NOTE 8. INVENTORIES

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

In millions	July 1, 2012	December 31, 2011
Finished products	**$ 1,502**	$ 1,220
Work-in-process and raw materials	**1,190**	1,019
Inventories at FIFO cost	**2,692**	2,239
Excess of FIFO over LIFO	**(111)**	(98)
Total inventories	**$ 2,581**	$ 2,141

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NOTE 9. PRODUCT WARRANTY LIABILITY

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

	Six months ended	
In millions	July 1, 2012	June 26, 2011
Balance, beginning of year	**$ 1,014**	$ 980
Provision for warranties issued	**227**	219
Deferred revenue on extended warranty contracts sold	**98**	50
Payments	**(196)**	(188)
Amortization of deferred revenue on extended warranty contracts	**(51)**	(46)
Changes in estimates for pre-existing warranties	**(27)**	7
Foreign currency translation	**(3)**	3
Balance, end of period	**$ 1,062**	$ 1,025

Warranty related deferred revenue, supplier recovery receivables and the long-term portion of the warranty liability on our July 1, 2012, balance sheet were as follows:

In millions	July 1, 2012	Balance Sheet Location
Deferred revenue related to extended coverage programs		
Current portion	$ 102	Deferred revenue
Long-term portion	258	Other liabilities and deferred revenue
Total	$ 360	
Receivables related to estimated supplier recoveries		
Current portion	$ 7	Trade and other receivables
Long-term portion	6	Other assets
Total	$ 13	

Long-term portion of warranty liability	$ 295	Other liabilities and deferred revenue

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NOTE 10. DEBT

A summary of long-term debt was as follows:

In millions	July 1, 2012	December 31, 2011
Long-term debt		
Export financing loan, 4.5%, due 2012	**$ 7**	$ 31
Export financing loan, 4.5%, due 2013	**44**	44
Debentures, 6.75%, due 2027	**58**	58
Debentures, 7.125%, due 2028	**250**	250
Debentures, 5.65%, due 2098 (effective interest rate 7.48%)	**165**	165
Other	**95**	90
	619	638
Unamortized discount	**(35)**	(36)
Fair value adjustments due to hedge on indebtedness	**87**	82
Capital leases	**65**	71
Total long-term debt	**736**	755
Less: Current maturities of long-term debt	**(83)**	(97)
Long-term debt	**$ 653**	$ 658

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

	Required Principal Payments				
In millions	2012	2013	2014	2015	2016
Payment	$ 71	$ 50	$ 31	$ 16	$ 15

NOTE 11. DERIVATIVES

We are exposed to financial risk resulting from volatility in foreign exchange rates, commodity prices and interest rates. This risk is closely monitored and managed through the use of financial derivative instruments including foreign currency forward contracts, commodity swap contracts and interest rate swaps. As stated in our policies and procedures, financial derivatives are used expressly for hedging purposes, and under no circumstances are they used for speculative purposes. When material, we adjust the value of our derivative contracts for counter-party or our credit risk.

Foreign Exchange Rates

As a result of our international business presence, we are exposed to foreign currency exchange risks. We transact business in foreign currencies and, as a result, our income experiences some volatility related to movements in foreign currency exchange rates. To help manage our exposure to exchange rate volatility, we use foreign exchange forward contracts on a regular basis to hedge forecasted intercompany and third-party sales and purchases denominated in non-functional currencies. Our internal policy allows for managing anticipated foreign currency cash flows for up to one year. These foreign currency forward contracts are designated and qualify as foreign currency cash flow hedges under GAAP. The effective portion of the unrealized gain or loss on the forward contract is deferred and reported as a component of "Accumulated other comprehensive loss" (AOCL). When the hedged forecasted transaction (sale or purchase) occurs, the unrealized gain or loss is reclassified into income in the same line item associated with the hedged transaction in the same period or periods during which the hedged transaction affects income. The ineffective portion of the hedge, unrealized gain or loss, if any, is recognized in current income during the period of change. As of July 1, 2012, the amount we expect to reclassify from AOCL to income over the next year is an unrealized net loss of $2 million. For the six month periods ended July 1, 2012 and June 26, 2011, there were no circumstances that would have resulted in the discontinuance of a foreign currency cash flow hedge.

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

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The table below summarizes our outstanding foreign currency forward contracts. Only the U.S. dollar forward contracts are designated and qualify for hedge accounting as of each period presented below. The currencies in this table represent 96 percent and 98 percent of the notional amounts of contracts outstanding as of July 1, 2012 and December 31, 2011, respectively.

	Notional amount in millions	
Currency denomination	July 1, 2012	December 31, 2011
United States Dollar (USD)	**167**	181
British Pound Sterling (GBP)	**271**	347
Euro (EUR)	**18**	47
Singapore Dollar (SGD)	**9**	20
Indian Rupee (INR)	**1,815**	1,701
Japanese Yen (JPY)	**2,207**	3,348
Canadian Dollar (CAD)	**57**	39
	47,667	36,833
South Korea Won (KRW)		
Chinese Renmimbi (CNY)	**62**	61

Commodity Price Risk

We are exposed to fluctuations in commodity prices due to contractual agreements with component suppliers. In order to protect ourselves against future price volatility and, consequently, fluctuations in gross margins, we periodically enter into commodity swap contracts with designated banks to fix the cost of certain raw material purchases with the objective of minimizing changes in inventory cost due to market price fluctuations. Certain commodity swap contracts are derivative contracts that are designated as cash flow hedges under GAAP. We also have commodity swap contracts that represent an economic hedge, however do not qualify for hedge accounting and are marked to market through earnings. For those contracts that qualify for hedge accounting, the effective portion of the unrealized gain or loss is deferred and reported as a component of AOCL. When the hedged forecasted transaction (purchase) occurs, the unrealized gain or loss is reclassified into income in the same line item associated with the hedged transaction in the same period or periods during which the hedged transaction affects income. The ineffective portion of the hedge, if any, is recognized in current income in the period in which the ineffectiveness occurs. As of July 1, 2012, we expect to reclassify an unrealized net loss of $5 million from AOCL to income over the next year. Our internal policy allows for managing these cash flow hedges for up to three years.

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

Dollars in millions	July 1, 2012			December 31, 2011		
Commodity	Notional Amount	Quantity		Notional Amount	Quantity	
Copper	**$ 67**	**8,191**	**metric tons** (1)	$ 78	9,220	metric tons (1)
Platinum	**81**	**51,150**	**troy ounces** (2)	84	50,750	troy ounces (2)
Palladium	**8**	**11,952**	**troy ounces** (2)	5	7,141	troy ounces (2)

(1)A metric ton is a measurement of mass equal to 1,000 kilograms.
(2)A troy ounce is a measurement of mass equal to approximately 31 grams.

Interest Rate Risk

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

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

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In millions	Three months ended				Six months ended			
	July 1, 2012		June 26, 2011		July 1, 2012		June 26, 2011	
Income Statement Classification	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings
Interest expense	**$ 17**	**$ (17)**	$ 18	$ (18)	**$ 5**	**$ (5)**	$ 10	$ (10)

Cash Flow Hedging

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

In millions	Location of Gain/(Loss) Reclassified into Income (Effective Portion)	Three months ended				Six months ended			
Derivatives in Cash Flow Hedging Relationships		Amount of Gain/(Loss) Recognized in AOCL on Derivative (Effective Portion)		Amount of Gain/(Loss) Reclassified from AOCL into Income (Effective Portion)		Amount of Gain/(Loss) Recognized in AOCL on Derivative (Effective Portion)		Amount of Gain/(Loss) Reclassified from AOCL into Income (Effective Portion)	
		July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011
Foreign currency forward contracts	Net sales	**$ (5)**	$ 1	**$ —**	$ 3	**$ 3**	$ 5	**$ (2)**	$ 4
Commodity swap contracts	Cost of sales	**(10)**	(7)	**(2)**	8	**3**	(5)	**(5)**	14
Total		**$ (15)**	$ (6)	**$ (2)**	$ 11	**$ 6**	$ —	**$ (7)**	$ 18

Derivatives Not Designated as Hedging Instruments

The following table summarizes the effect on our *Condensed Consolidated Statements of Income* for derivative instruments that are not classified as hedges for the three and six month interim reporting periods presented below.

In millions		Three months ended		Six months ended	
		Amount of Gain/(Loss) Recognized in Income on Derivatives		Amount of Gain/(Loss) Recognized in Income on Derivatives	
Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivatives	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011
Foreign currency forward contracts	Cost of sales	**$ —**	$ 1	**$ (3)**	$ (3)
Foreign currency forward contracts	Other income (expense), net	**(9)**	(10)	**5**	(5)
Commodity swap contracts	Cost of sales	**(6)**	—	**(1)**	—

Fair Value Amount and Location of Derivative Instruments

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

	Derivative Assets		
	Fair Value		
In millions	July 1, 2012	December 31, 2011	Balance Sheet Location

		July 1, 2012	December 31, 2011	Balance Sheet Location
Derivatives designated as hedging instruments				
Interest rate contract		**$ 87**	$ 82	Other assets
Total derivative assets		**$ 87**	$ 82	

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In millions	Derivative Liabilities: Fair Value: July 1, 2012	December 31, 2011	Balance Sheet Location
Derivatives designated as hedging instruments			
Commodity swap contracts	**$ 8**	$ 16	Other accrued expenses
Foreign currency forward contracts	**2**	7	Other accrued expenses
Total derivatives designated as hedging instruments	**10**	23	
Derivatives not designated as hedging instruments			
Commodity swap contracts	**4**	6	Other accrued expenses
Foreign currency forward contracts	**—**	1	Other accrued expenses
Total derivatives not designated as hedging instruments	**4**	7	
Total derivative liabilities	**$ 14**	$ 30	

NOTE 12. COMMITMENTS AND CONTINGENCIES

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

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

U.S. Distributor Commitments

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

Other Guarantees and Commitments

In addition to the matters discussed above, from time to time we periodically enter into other guarantee arrangements, including guarantees of non-U.S. distributor financing, residual value guarantees on equipment leased under operating leases and other miscellaneous guarantees of third-party obligations. As of July 1, 2012, the maximum potential loss related to these other guarantees is summarized as follows (where the guarantee is in a foreign currency the amount below represents the amount in U.S. dollars at current exchange rates):

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In millions	
Cummins Olayan Energy Limited debt guarantee	$ 15
Xi'an Cummins Engine Company Limited debt guarantee	11
Residual value guarantees	2
Other debt guarantees	3
Maximum potential loss	$ 31

The amount of liabilities related to the above guarantees was $12 million.

We have arrangements with certain suppliers that require us to purchase minimum volumes or be subject to monetary penalties. The penalty amounts are less than our purchase commitments and essentially allow the supplier to recover their tooling costs in most instances. As of July 1, 2012, if we were to stop purchasing from each of these suppliers, the aggregate amount of the penalty would be approximately $33 million, of which $32 million relates to a contract with an engine parts supplier that extends to 2013. We do not currently anticipate paying any penalties under these contracts. In addition, we also have a "take or pay" contract with an emission solutions business supplier requiring us to purchase approximately $73 million annually from 2012 to 2018. These arrangements enable us to secure critical components.

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 $73 million at July 1, 2012.

Indemnifications

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

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

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

Joint Venture Commitments

As of July 1, 2012, we have committed to invest an additional $46 million into existing joint ventures, of which $38 million is expected to be funded in 2012.

NOTE 13. OPERATING SEGMENTS

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

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

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

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

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

In millions	Engine	Components	Power Generation	Distribution	Non-segment Items(1)	Total
Three months ended July 1, 2012						
External sales	**$ 2,381**	**$ 710**	**$ 572**	**$ 789**	**$ —**	**$ 4,452**
Intersegment sales	**460**	**326**	**337**	**5**	**(1,128)**	**—**
Total sales	**2,841**	**1,036**	**909**	**794**	**(1,128)**	**4,452**
Depreciation and amortization(2)	**47**	**19**	**11**	**8**	**—**	**85**
Research, development and engineering expenses	**115**	**51**	**19**	**2**	**—**	**187**
Equity, royalty and interest income from investees	**37**	**8**	**10**	**49**	**—**	**104**
Interest income	**3**	**1**	**3**	**—**	**—**	**7**
Segment EBIT	**376**	**116**	**94**	**92**	**(9)**	**669**
Three months ended June 26, 2011						
External sales	$ 2,476	$ 741	$ 649	$ 775	$ —	$ 4,641
Intersegment sales	424	291	260	10	(985)	—
Total sales	2,900	1,032	909	785	(985)	4,641
Depreciation and amortization(2)	44	18	11	5	—	78
Research, development and engineering expenses	102	43	12	—	—	157
Equity, royalty and interest income from investees	49	9	13	46	—	117
Interest income	6	1	3	—	—	10
Segment EBIT	377	120	105	106	67	775
Six months ended July 1, 2012						
External sales	**$ 4,793**	**$ 1,484**	**$ 1,088**	**$ 1,559**	**$ —**	**$ 8,924**
Intersegment sales	**907**	**651**	**601**	**10**	**(2,169)**	**—**
Total sales	**5,700**	**2,135**	**1,689**	**1,569**	**(2,169)**	**8,924**

Depreciation and amortization(2)	**94**	**38**	**22**	**15**	**—**	**169**
Research, development and engineering expenses	**226**	**102**	**37**	**3**	**—**	**368**
Equity, royalty and interest income from investees	**75**	**16**	**20**	**97**	**—**	**208**
Interest income	**7**	**2**	**5**	**1**	**—**	**15**
Segment EBIT	**757**	**259**	**170**	**186**	**(45)**	**1,327**
Six months ended June 26, 2011						
External sales	$ 4,482	$ 1,401	$ 1,206	$ 1,412	$ —	$ 8,501
Intersegment sales	809	555	498	15	(1,877)	—
Total sales	5,291	1,956	1,704	1,427	(1,877)	8,501
Depreciation and amortization(2)	89	36	21	11	—	157
Research, development and engineering expenses	182	80	23	1	—	286
Equity, royalty and interest income from investees	91	17	21	84	—	213
Interest income	9	2	4	1	—	16
Segment EBIT	667	225	194	195	26	1,307

(1) Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. The three and six months ended July 1, 2012, include a $6 million gain ($4 million after-tax) related to adjustments from our 2011 divestitures. The three and six months ended June 26, 2011, include a $68 million gain ($37 million after-tax) related to the sale of certain assets and liabilities of our exhaust business from the Components segment. The gains have been excluded from segment results as they were not considered in our evaluation of operating results for the three and six months ended July 1, 2012 and June 26, 2011. There were no other significant unallocated corporate expenses for the three and six months ended July 1, 2012 and June 26, 2011.

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

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

	Three months ended		Six months ended	
In millions	**July 1, 2012**	**June 26, 2011**	**July 1, 2012**	**June 26, 2011**
Segment EBIT	**$ 669**	$ 775	**$ 1,327**	$ 1,307
Less				
Interest expense	**8**	13	**16**	23
Income before income taxes	**$ 661**	$ 762	**$ 1,311**	$ 1,284

NOTE 14. RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Recently Adopted

In June 2011, the Financial Accounting Standards Board (FASB) amended its rules regarding the presentation of comprehensive income. The objective of this amendment is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Specifically, this amendment requires that all non-owner changes in shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, the standard also requires disclosure of the location of reclassification adjustments between other comprehensive income and net income on the face of the financial statements. The new rules became effective for us beginning January 1, 2012. In December 2011, the FASB deferred certain aspects of this standard beyond the current effective date, specifically the provisions dealing with reclassification adjustments. Because the standard only impacts the display of comprehensive income and does not impact what is included in comprehensive income, the standard did not have a significant impact on our *Condensed Consolidated Financial Statements*.

In May 2011, the FASB amended its standards related to fair value measurements and disclosures. The objective of the amendment is to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. Primarily this amendment changed the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements in addition to clarifying the Board's intent about the application of existing fair value measurement requirements. The new standard also requires additional disclosures related to fair value measurements categorized within Level 3 of the fair value hierarchy and requires disclosure of the categorization in the hierarchy for items which are not recorded at fair value but fair value is required to be disclosed. The new rules were effective for us beginning January 1, 2012. As of July 1, 2012, we had no fair value measurements categorized within Level 3. The only impact for us is the disclosure of the categorization in the fair value hierarchy for those items where fair value is only disclosed (primarily our debt obligations). Our disclosure related to the new standard is included in Note 7, "FAIR VALUE OF FINANCIAL INSTRUMENTS," to the *Condensed Consolidated Financial Statements.*

Accounting Pronouncements Issued But Not Yet Effective

In December 2011, the FASB amended its standards related to offsetting assets and liabilities. This amendment requires entities to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. This information will enable users of the financial statements to understand the effect of those arrangements on its financial position. The new rules will become effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. It is also required that the new disclosures are applied retrospectively for all comparative periods presented. We do not believe this amendment will have a significant impact on our *Consolidated Financial Statements*; however we are currently evaluating the potential impacts to our footnote disclosures.

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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:

- general economic, business and financing conditions, including emerging markets;
- a slowdown in infrastructure development;
- increasingly stringent environmental laws and regulations;
- unpredictability in the adoption, implementation and enforcement of emission standards around the world;
- the actions of joint ventures and other investees that we do not directly control;
- changes in the outsourcing practices of significant customers;
- any significant problems in our new engine platforms;
- currency exchange rate changes;
- supply shortages and supplier financial risk;
- variability in material and commodity costs;
- product recalls and liability claims;
- competitor pricing activity;
- increasing global competition among our customers;
- global political and economic conditions;
- changes in taxation;
- the price and availability of energy;
- increasing our capacity and production at the appropriate pace;
- the development of new technologies;
- obtaining customers for our new light-duty diesel engine platform;
- new governmental actions, legislation and regulations;
- the performance of our pension plan assets;
- labor relations;
- changes in accounting standards;
- our sales mix of products;
- protection and validity of our patent and other intellectual property rights;
- technological implementation and cost/financial risks in our increasing use of large, multi-year contracts;

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- the cyclical nature of some of our markets;
- the outcome of pending and future litigation and governmental proceedings;
- continued availability of financing, financial instruments and financial resources in the amounts, at the times and on the terms required to support our future business and
- other risk factors described in our Form 10-K, Part 1, Item IA under the caption "Risk Factors."

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

ORGANIZATION OF INFORMATION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") was prepared to provide the reader with a view and perspective of our business through the eyes of management and should be read in conjunction with our *Consolidated Financial Statements* and accompanying *Notes to Consolidated Financial Statements* in the "Financial Statements" section of our 2011 Form 10-K. Our MD&A is presented in the following sections:

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

EXECUTIVE SUMMARY AND FINANCIAL HIGHLIGHTS

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

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

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

In the first six months of 2012, we experienced growth in several end markets in North America, especially the North American on-highway markets. Demand for heavy-duty on-highway products in North America increased 53 percent in the first six months of 2012 as compared to the same period in 2011. In addition, medium-duty truck and bus shipments in North America increased 24 percent in the first six months of 2012 compared to the same period in 2011. North American light-duty on-highway demand improved with an increase in shipments to Chrysler of 25 percent in the first six months of 2012 compared to the same period in 2011. Demand in certain emerging markets including Brazil and China has declined in 2012. The on-highway medium-duty truck market in Brazil declined as the result of the 2011 pre-buy ahead of the new 2012 emission requirements, and the off-highway construction markets in China have continued to deteriorate. The governments of China and India have controlled inflation through tight monetary policies in the form of rising interest rates and tightening access to credit, although both countries have begun easing these policies in response to reduced inflationary concerns. Easing monetary policies could enhance our end markets, however, there likely would be a delay between when these policies are implemented and when our end markets respond. The European economy remains an uncertainty with continued volatility in the Euro countries. Although we do not have any significant direct exposure to European sovereign debt, we generated approximately nine percent of our net sales from Euro zone countries in 2011 and approximately eight percent in the first six months of 2012.

The following tables contain sales and earnings before interest expense, income taxes and noncontrolling interests (EBIT) results by operating segment for the three and six months ended July 1, 2012 and June 26, 2011. Refer to the section titled "Operating Segment Results" for a more detailed discussion of net sales and EBIT by operating segment, including the reconciliation of segment EBIT to income before taxes.

Operating Segments

	Three months ended							
	July 1, 2012			June 26, 2011			Percent change 2012 vs. 2011	
In millions	Sales	Percent of Total	EBIT	Sales	Percent of Total	EBIT	Sales	EBIT
Engine	**$ 2,841**	**64%**	**$ 376**	$ 2,900	62%	$ 377	(2)%	—
Components	**1,036**	**23%**	**116**	1,032	22%	120	—	(3)%
Power Generation	**909**	**20%**	**94**	909	20%	105	—	(10)%

Distribution	**794**	**18%**	**92**	785	17%	106	1%	(13)%
Intersegment eliminations	**(1,128)**	**(25)%**	**—**	(985)	(21)%	—	15%	—
Non-segment	**—**	**—**	**(9)**	—	—	67	—	NM
Total	**$ 4,452**	**100%**	**$ 669**	$ 4,641	100%	$ 775	(4)%	(14)%

"NM" - not meaningful information.

Net income attributable to Cummins was $469 million, or $2.47 per diluted share, on sales of $4.5 billion for the three month interim reporting period ended July 1, 2012, versus the comparable prior year period with net income attributable to Cummins of $505 million, or $2.60 per diluted share, on sales of $4.6 billion. The decrease in income was driven by the following:

- the 2011 gain on the disposition of certain assets and liabilities of our exhaust business;
- lower volumes, particularly in the international construction and medium-duty truck markets, which were offset by improved gross margin as a percentage of sales;
- higher research, development and engineering expenses;
- higher selling, general and administrative expenses and
- lower equity, royalty and interest income from investees.

These increases were partially offset by a lower effective tax rate.

Diluted earnings per share for the three months ended July 1, 2012 also benefited $0.02 from lower shares primarily due to the stock repurchase program.

Operating Segments

	Six months ended							
	July 1, 2012			**June 26, 2011**			**Percent change 2012 vs. 2011**	
In millions	**Sales**	**Percent of Total**	**EBIT**	**Sales**	**Percent of Total**	**EBIT**	**Sales**	**EBIT**
Engine	**$ 5,700**	**64%**	**$ 757**	$ 5,291	62%	$ 667	8%	13%
Components	**2,135**	**24%**	**259**	1,956	23%	225	9%	15%
Power Generation	**1,689**	**19%**	**170**	1,704	20%	194	(1)%	(12)%
Distribution	**1,569**	**17%**	**186**	1,427	17%	195	10%	(5)%
Intersegment eliminations	**(2,169)**	**(24)%**	**—**	(1,877)	(22)%	—	16%	—
Non-segment	**—**	**—**	**(45)**	—	—	26	—	NM
Total	**$ 8,924**	**100%**	**$ 1,327**	$ 8,501	100%	$ 1,307	5%	2%

Net income attributable to Cummins was $924 million, or $4.85 per diluted share, on sales of $8.9 billion for the six month interim reporting period ended July 1, 2012, versus the comparable prior year period with net income attributable to Cummins of $848 million, or $4.34 per diluted share, on sales of $8.5 billion. The increase in income was driven by the following:

- higher volumes, primarily in the North American on-highway markets;
- improved gross margins and
- a lower effective tax rate.

These increases were partially offset by the following:

- higher selling, general and administrative expenses;
- higher research, development and engineering expenses and
- the 2011 gain on the disposition of certain assets and liabilities of our exhaust business.

Diluted earnings per share for the six months ended July 1, 2012 also benefited $0.01 from lower shares primarily due to the stock repurchase program.

We generated $397 million of operating cash flows for the six months ended July 1, 2012, compared to $744 million for the six months ended June 26, 2011. Refer to the section titled "Operating Activities" in the "Liquidity and Capital Resources" section for a discussion of items impacting cash flows.

In February 2011, the Board of Directors authorized the acquisition of up to $1 billion of our common stock. We repurchased $196 million in the first six months of 2012. Our debt to capital ratio (total capital defined as debt plus equity) at July 1, 2012, was 11.0 percent, compared to 11.8 percent at December 31, 2011. In addition to the $1.4 billion in cash and marketable securities on hand, we have sufficient access to our revolver and accounts receivable program to meet currently anticipated growth and funding needs.

In July 2012, the Board of Directors authorized a dividend increase of 25 percent from $0.40 per share to $0.50 per share on a quarterly basis effective in the third quarter.

Our global pension plans, including our unfunded and non-qualified plans, were 98 percent funded at December 31, 2011. Our United States (U.S.) qualified plan, which represents approximately 60 percent of the worldwide pension obligation, was 103 percent funded and our United Kingdom (U.K.) plan was 106 percent funded. We expect to contribute $130 million to our global pension plans in 2012.

OUTLOOK

Near-Term

In the first six months of 2012, North American demand in heavy-, medium- and light-duty truck markets remained strong.

We expect the following challenges to our business that may reduce our earnings potential in the remainder of 2012:

- One of our Brazilian customers replaced our B6.7 engine with a proprietary engine in 2012, which should be partially offset by the 2012 launch of our ISF and 9 liter engines in new light-duty on-highway and medium-duty truck applications, respectively, with this same customer. The launch of these new engine applications could be negatively impacted by the weakening Brazilian economy.
- Our 2012 engine sales in Brazil could continue to be negatively impacted by pre-buy activity in 2011 ahead of the implementation of Euro V emission regulations.
- The weakening economy in Brazil could continue to have adverse impacts on our other businesses.
- In China demand in certain industrial markets could remain low through the remainder of the year.
- In India the Rupee could continue to depreciate in value, which would create additional pressure on earnings, while higher inflation could negatively impact sales, especially industrial sales in the remainder of 2012.
- Demand in certain European markets could continue to decline in 2012 due to economic uncertainty.
- Currency volatility could continue to put pressure on earnings in 2012.
- North American oil and gas markets could continue to decline through the remainder of the year.

We will continue to invest in new product development.

Long-Term

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

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

RESULTS OF OPERATIONS

In millions (except per share amounts)	Three months ended July 1, 2012	Three months ended June 26, 2011	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent	Six months ended July 1, 2012	Six months ended June 26, 2011	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent
Net Sales	**$ 4,452**	$ 4,641	$ (189)	(4)%	**$ 8,924**	$ 8,501	$ 423	5%
Cost of sales	**3,242**	3,438	196	6%	**6,516**	6,341	(175)	(3)%
Gross Margin	**1,210**	1,203	7	1%	**2,408**	2,160	248	11%
Operating Expenses and Income								
Selling, general and administrative expenses	**487**	463	(24)	(5)%	**962**	852	(110)	(13)%
Research, development and engineering expenses	**187**	157	(30)	(19)%	**368**	286	(82)	(29)%
Equity, royalty and interest income from investees	**104**	117	(13)	(11)%	**208**	213	(5)	(2)%
Gain on sale of businesses	**6**	68	(62)	(91)%	**6**	68	(62)	(91)%
Other operating income (expense), net	**2**	—	2	NM	**4**	(6)	10	NM
Operating Income	**648**	768	(120)	(16)%	**1,296**	1,297	(1)	—
Interest income	**7**	10	(3)	(30)%	**15**	16	(1)	(6)%
Interest expense	**8**	13	5	38%	**16**	23	7	30%
Other income (expense), net	**14**	(3)	17	NM	**16**	(6)	22	NM
Income before income taxes	**661**	762	(101)	(13)%	**1,311**	1,284	27	2%
Income tax expense	**166**	225	59	26%	**341**	382	41	11%
Consolidated Net Income	**495**	537	(42)	(8)%	**970**	902	68	8%
Less: Net income attributable to noncontrolling interests	**26**	32	6	19%	**46**	54	8	15%
Net income attributable to Cummins Inc.	**$ 469**	$ 505	$ (36)	(7)%	**$ 924**	$ 848	$ 76	9%
Diluted earnings per common share attributable to Cummins Inc.	**$ 2.47**	$ 2.60	$ (0.13)	(5)%	**$ 4.85**	$ 4.34	$ 0.51	12%

Percent of sales	Three months ended July 1, 2012	Three months ended June 26, 2011	Favorable/(Unfavorable) Percentage Points	Six months ended July 1, 2012	Six months ended June 26, 2011	Favorable/(Unfavorable) Percentage Points
Gross margin	27.2%	25.9%	1.3	27.0%	25.4%	1.6
Selling, general and administrative expenses	10.9%	10.0%	(0.9)	10.8%	10.0%	(0.8)
Research, development and engineering expenses	4.2%	3.4%	(0.8)	4.1%	3.4%	(0.7)

Net Sales

Net sales for the three months ended July 1, 2012, decreased versus the comparable period in 2011. The decrease in sales by segment was primarily driven by the following:

- Foreign currency fluctuations unfavorably impacted sales approximately three percent.

- Engine segment sales decreased by two percent for the three months ended due to lower volumes in international construction markets, primarily in China, and international medium-duty truck markets, especially in Brazil.

This decrease was partially offset by the following:

- Distribution segment sales increased by one percent for the three months ended due to increased demand in most product lines and geographic regions led by Asia Pacific and Africa, which were mostly offset by decreased demand in Europe and the Middle East.

- Components segment sales slightly increased due to higher demand in the emission solutions business, which were mostly offset by decreased demand in the filtration and turbo technologies businesses and $37 million of disposition sales in the second quarter of 2011.

- Power Generation segment sales remained flat versus the comparable period in 2011 with increased demand in power products and power systems being offset by lower demand in generator technologies and power solutions businesses.

Net sales for the six months ended July 1, 2012, increased versus the comparable period in 2011. The increase in sales by segment was primarily driven by the following:

- Engine segment sales increased by eight percent due to strong growth in the North American on-highway markets led by the heavy-duty business, which was partially offset by weakness in industrial demand, especially in international construction markets, and lower volumes in the international medium-duty truck market, primarily in Brazil.

- Components segment sales increased by nine percent due to higher demand in the emission solutions business.

- Distribution segment sales increased by 10 percent due to higher demand in most product lines and geographic regions led by Asia Pacific, North and Central America and Africa.

These increases were partially offset by the following:

- Foreign currency fluctuations unfavorably impacted sales approximately two percent.

- Power Generation segment sales decreased by one percent due to lower demand in the generator technologies and power solutions businesses, which were partially offset by growing demand in the power product business, especially in North America.

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

Sales to international markets based on location of customers for the three and six month periods ended July 1, 2012, were 50 percent of total net sales for both periods, compared with 57 percent of total net sales for both of the comparable periods in 2011.

Gross Margin

Gross margin was relatively flat for the three months ended July 1, 2012, versus the comparable period in 2011, as lower volumes were offset by favorable product mix, lower costs and improved price realization. Gross margin increased for the six months ended July 1, 2012, versus the comparable period in 2011, as favorable product mix, higher volumes, improved price realization, lower material costs and lower warranty costs were partially offset by unfavorable foreign currency fluctuations. The decrease in manufacturing costs was partially due to productivity improvements and cost reduction actions in our manufacturing plants.

Gross margin as a percentage of sales increased by 1.3 percentage points for the three months ended July 1, 2012, versus the comparable period in 2011, as lower volumes were more than offset by favorable product mix, improved price realization, lower warranty costs and lower material costs. The decrease in manufacturing costs was partially due to productivity improvements and cost reduction actions in our manufacturing plants. Gross margin as a percentage of sales increased by 1.6 percentage points for the six months ended July 1, 2012, versus the comparable period in 2011, as favorable product mix, higher volumes, improved price realization, lower material costs and lower warranty costs were partially offset by unfavorable foreign currency fluctuations.

The provision for warranties issued as a percent of sales for the three and six month periods ended July 1, 2012, were 2.3 percent for both periods in 2012 compared to 2.2 percent and 2.4 percent for the comparable periods in 2011. A more detailed discussion of margin by segment is presented in the "OPERATING SEGMENT RESULTS" section.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three and six month periods ended July 1, 2012, increased versus the comparable periods in 2011, primarily due to an increase of $4 million and $46 million, respectively, in compensation and related expenses and increased consulting of $17 million and $39 million, respectively. Higher compensation expense was primarily due to increased headcount to support our strategic growth initiatives and merit increases. Compensation and related expenses include salaries, fringe benefits and variable compensation.

Research, Development and Engineering Expenses

Research, development and engineering expenses for the three and six month periods ended July 1, 2012, increased versus the comparable periods in 2011, primarily due to an increase of $12 million and $37 million, respectively, in compensation and related expenses and increased consulting of $12 million and $25 million, respectively. Higher compensation expense was primarily due to increased headcount to support our strategic growth initiatives and merit increases. Compensation and related expenses include salaries, fringe benefits and variable compensation. Research activities continue to focus on development of new products to meet future emission standards around the world and improvements in fuel economy performance.

Equity, Royalty and Interest Income From Investees

Equity, royalty and interest income from investees for the three and six month periods ended July 1, 2012, decreased versus the comparable periods in 2011, primarily due to the following:

	Increase/(Decrease) July 1, 2012 vs. June 26, 2011	
In millions	Three months ended	Six months ended
Dongfeng Cummins Engine Company, Ltd. (DCEC)	$ (9)	$ (16)
Chongqing Cummins Engine Company, Ltd. (CCEC)	(2)	4
Beijing Foton Cummins Engine Co., Ltd.	3	3
North American distributors	3	13
Other equity income	(3)	(7)
Cummins share of net income	$ (8)	$ (3)
Royalty and interest income	(5)	(2)
Equity, royalty and interest income from investees	$ (13)	$ (5)

These overall decreases were primarily due to lower sales at DCEC due to weaker demand in the on-highway truck market in China, which was partially offset by strong growth in North America.

Gain on Sale of Businesses

In the second quarter of 2011, we sold certain assets and liabilities of our exhaust business which manufactures exhaust products and select components for emission systems for a variety of applications not core to our other product offerings. This business was historically included in our Components segment. The sales price was $123 million. We recognized a gain of $68 million ($37 million after-tax), which included a goodwill allocation of $19 million. In the second quarter of 2012, we recorded an additional $6 million gain ($4 million after-tax) related to final purchase price adjustments for our 2011 divestitures. The gains have been excluded from segment results as they were not considered in our evaluation of operating results for the three and six months ended July 1, 2012 and June 26, 2011.

Sales for this business were $62 million, $171 million and $126 million in 2011 (through closing), 2010 and 2009, respectively. Operating results for this business were approximately $9 million, $22 million and $11 million in 2011 (through closing), 2010 and 2009, respectively.

Other Operating Income (Expense), net

Other operating income (expense) was as follows:

	Three months ended		Six months ended	
In millions	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011
Royalty income	**$ 5**	$ 4	**$ 8**	$ 6
Legal judgment	**—**	—	**—**	(7)
Royalty expense	**(1)**	(1)	**(2)**	(1)
Amortization of intangible assets	**(2)**	(1)	**(3)**	(3)
Other income (expense), net	**—**	(2)	**1**	(1)
Total other operating income (expense), net	**$ 2**	$ —	**$ 4**	$ (6)

Interest Income

Interest income for the three and six month periods ended July 1, 2012, decreased versus the comparable periods in 2011, primarily due to lower average investment balances in 2012 compared to 2011.

Interest Expense

Interest expense for the three and six month periods ended July 1, 2012, decreased versus the comparable periods in 2011, primarily due to lower capitalized interest in 2011 and the termination of a capital lease in September of 2011.

Other Income (Expense), net

Other income (expense) was as follows:

	Three months ended		Six months ended	
In millions	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011
Change in cash surrender value of corporate owned life insurance	**$ 4**	$ 4	**$ 10**	$ 7
Foreign currency gains (losses), net	**3**	(7)	**(1)**	(14)
Gain (loss) on marketable securities, net	**3**	1	**3**	1
Dividend income	**2**	2	**3**	4
Bank charges	**(4)**	(4)	**(8)**	(8)
Other, net	**6**	1	**9**	4
Total other income (expense), net	**$ 14**	$ (3)	**$ 16**	$ (6)

Income Tax Expense

Our effective tax rate for the year is expected to approximate 26 percent, absent any discrete period activity. Our tax rate is generally less than the 35 percent U.S. income tax rate primarily due to lower tax rates on foreign income. The tax rates for the three and six month periods ended July 1, 2012, were 25.1 percent and 26.0 percent, respectively.

The tax rates for the three and six month periods ended June 26, 2011, were 29.5 percent and 29.8 percent, respectively, and included a discrete tax charge of $4 million related to the enactment of state law changes in Indiana. The decrease in the 2012 effective tax rates versus the comparable periods in 2011 is due primarily to our assertion that income earned after 2011 by our China operations is permanently reinvested, as well as certain tax planning strategies implemented in our U.K. subsidiaries.

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 month period ended July 1, 2012, decreased versus the comparable period in 2011, primarily due to a decline of $4 million at Cummins India Ltd., a publicly traded company on various exchanges in India. Noncontrolling interests in income of consolidated subsidiaries for the six month period ended July 1, 2012, decreased versus the comparable period in 2011, primarily due to a decline of $3 million at Wuxi Cummins Turbo Technologies Co., Ltd. and $3 million at Cummins India Ltd.

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

Net income and diluted earnings per share attributable to Cummins Inc. for the three months ended July 1, 2012, decreased versus the comparable period in 2011, primarily due to the 2011 gain on the disposition of certain assets and liabilities of our exhaust business, lower volumes, particularly in the international construction and medium-duty truck markets, higher research, development and engineering expenses, higher selling, general and administrative expenses and lower equity, royalty and interest income from investees, which were partially offset by a lower effective tax rate. Diluted earnings per share benefited $0.02 per share for the three months ended July 1, 2012, from lower shares primarily due to the stock repurchase program.

Net income and diluted earnings per share attributable to Cummins Inc. for the six months ended July 1, 2012, increased versus the comparable period in 2011, primarily due to higher volumes, especially in the North American on-highway markets, improved gross margins and a lower effective tax rate. These increases were partially offset by higher selling, general and administrative expenses, higher research, development and engineering expenses and the 2011 gain on the disposition of certain assets and liabilities of our exhaust business. Diluted earnings per share benefited $0.01 per share for the six months ended July 1, 2012, from lower shares primarily due to the stock repurchase program.

OPERATING SEGMENT RESULTS

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

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

Engine Segment Results

Financial data for the Engine segment was as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	July 1, 2012	June 26, 2011	Amount	Percent	July 1, 2012	June 26, 2011	Amount	Percent
External sales	**$ 2,381**	$ 2,476	$ (95)	(4)%	**$ 4,793**	$ 4,482	$ 311	7%
Intersegment sales	**460**	424	36	8%	**907**	809	98	12%
Total sales	**2,841**	2,900	(59)	(2)%	**5,700**	5,291	409	8%
Depreciation and amortization	**47**	44	(3)	(7)%	**94**	89	(5)	(6)%
Research, development and engineering expenses	**115**	102	(13)	(13)%	**226**	182	(44)	(24)%
Equity, royalty and interest income from investees	**37**	49	(12)	(24)%	**75**	91	(16)	(18)%
Interest income	**3**	6	(3)	(50)%	**7**	9	(2)	(22)%
Segment EBIT	**376**	377	(1)	—	**757**	667	90	13%
			Percentage Points				Percentage Points	
Segment EBIT as a percentage of total sales	**13.2%**	13.0%		0.2	**13.3%**	12.6%		0.7

Engine segment net sales by market were as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	July 1, 2012	June 26, 2011	Amount	Percent	July 1, 2012	June 26, 2011	Amount	Percent
Heavy-duty truck	**$ 807**	$ 693	$ 114	16%	**$ 1,699**	$ 1,178	$ 521	44%
Medium-duty truck and bus	**512**	608	(96)	(16)%	**1,038**	1,082	(44)	(4)%
Light-duty auto and RV	**297**	310	(13)	(4)%	**583**	606	(23)	(4)%
Total on-highway	**1,616**	1,611	5	—	**3,320**	2,866	454	16%
Industrial	**859**	988	(129)	(13)%	**1,720**	1,843	(123)	(7)%
Stationary power	**366**	301	65	22%	**660**	582	78	13%
Total sales	**$ 2,841**	$ 2,900	$ (59)	(2)%	**$ 5,700**	$ 5,291	$ 409	8%

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

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
	July 1, 2012	June 26, 2011	Amount	Percent	July 1, 2012	June 26, 2011	Amount	Percent
Midrange	**110,000**	131,300	(21,300)	(16)%	**219,000**	240,700	(21,700)	(9)%
Heavy-duty	**33,000**	29,900	3,100	10%	**69,000**	49,900	19,100	38%
High-horsepower	**5,800**	5,700	100	2%	**11,300**	10,600	700	7%
Total unit shipments	**148,800**	166,900	(18,100)	(11)%	**299,300**	301,200	(1,900)	(1)%

Sales

Engine segment sales for the three month period ended July 1, 2012, decreased versus the comparable period in 2011. The following were the primary drivers:

- Foreign currency fluctuations unfavorably impacted sales.
- Industrial market sales decreased primarily due to a 50 percent decline in international construction engine shipments, especially in China, and a 32 percent decline in engine shipments in the North American oil and gas markets due to weakening natural gas prices, which were partially offset by a 23 percent increase in engine shipments in the North American construction market.
- Medium-duty truck and bus sales decreased primarily due to lower demand in the Brazilian truck market due to pre-buy activity in the second half of 2011 ahead of the implementation of Euro V emission regulations in the first quarter of 2012 and one of our customers replacing our B6.7 engine with a proprietary engine in 2012. The B6.7 engine replacement was partially offset by the 2012 launch of our ISF and 9 liter engines in new light-duty on-highway and medium-duty truck applications, respectively, with this same customer.

These decreases were partially offset by the following:

- Heavy-duty truck engine sales increased due to strong growth in North American on-highway markets primarily as a result of the replacement of aging fleets.
- Stationary power sales increased primarily due to higher demand in Power Generation's power products markets.

Total on-highway-related sales for the three month period ended July 1, 2012, were 57 percent of total engine segment sales, compared to 56 percent for the comparable period in 2011.

Engine segment sales for the six month period ended July 1, 2012, increased versus the comparable period in 2011. The following were the primary drivers:

- Heavy-duty truck engine sales increased due to strong growth in North American on-highway markets primarily as a result of the replacement of aging fleets.
- Stationary power sales increased primarily due to higher demand in Power Generation's power products markets.

These increases were partially offset by the following:

- Industrial market sales decreased primarily due to a 44 percent decline in international construction markets, especially in China, and a 16 percent decline in the North American oil and gas markets due to weakening natural gas prices, which were partially offset by a 35 percent increase in engine shipments in the North American construction market and a 12 percent increase in global mining engine markets due to increased coal and commodity demands.

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- Medium-duty truck and bus sales decreased primarily due to lower demand in the Brazilian truck market due to pre-buy activity in the second half of 2011 ahead of the implementation of Euro V emission regulations in the first quarter of 2012 and one of our customers replacing our B6.7 engine with a proprietary engine in 2012. The B6.7 engine replacement was partially offset by the 2012 launch of our ISF and 9 liter engines in new light-duty on-highway and medium-duty truck applications, respectively, with this same customer.
- Foreign currency fluctuations unfavorably impacted sales.

Total on-highway-related sales for the six month period ended July 1, 2012, were 58 percent of total engine segment sales, compared to 54 percent for the comparable period in 2011.

Segment EBIT

Engine segment EBIT for the three months ended July 1, 2012, was flat versus the comparable period in 2011. Higher research, development and engineering expenses, lower equity, royalty and interest income from investees and higher selling, general and administrative expenses were mostly offset by higher gross margins. Engine segment EBIT for the six months ended July 1, 2012, increased versus the comparable period in 2011, primarily due to higher gross margin, which was partially offset by higher selling, general and administrative expenses and research, development and engineering expenses and lower equity, royalty and interest income from investees. Changes in Engine segment EBIT and EBIT as a percentage of sales were as follows:

	Three months ended July 1, 2012 vs. June 26, 2011 Favorable/(Unfavorable) Change			Six months ended July 1, 2012 vs. June 26, 2011 Favorable/(Unfavorable) Change		
In millions	**Amount**	**Percent**	**Percentage point change as a percent of sales**	**Amount**	**Percent**	**Percentage point change as a percent of sales**
Gross margin	$ 20	3%	1.2	$ 181	16%	1.6
Selling, general and administrative expenses	(3)	(2)%	(0.2)	(44)	(12)%	(0.3)
Research, development and engineering expenses	(13)	(13)%	(0.5)	(44)	(24)%	(0.6)
Equity, royalty and interest income from investees	(12)	(24)%	(0.4)	(16)	(18)%	(0.4)

The increase in gross margin for the three month period ended July 1, 2012, versus the comparable period in 2011, was primarily due to improved product mix, price realization and product coverage, which were partially offset by lower volumes. The increases in selling, general and administrative expenses and research, development and engineering expenses were primarily due to product development spending. The decrease in equity, royalty and interest income from investees was primarily due to weaker demand for on-highway products at DCEC.

The increase in gross margin for the six month period ended July 1, 2012, versus the comparable period in 2011, was primarily due to product mix, price realization and improved product coverage, which were partially offset by higher commodity costs. The increases in selling, general and administrative expenses and research, development and engineering expenses were primarily due to product development spending. The decrease in equity, royalty and interest income from investees was primarily due to weaker demand for on-highway products at DCEC.

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Components Segment Results

Financial data for the Components segment was as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	July 1, 2012	June 26, 2011	Amount	Percent	July 1, 2012	June 26, 2011	Amount	Percent
External sales	**$ 710**	$ 741	$ (31)	(4)%	**$ 1,484**	$ 1,401	$ 83	6%
Intersegment sales	**326**	291	35	12%	**651**	555	96	17%
Total sales	**1,036**	1,032	4	—	**2,135**	1,956	179	9%
Depreciation and amortization	**19**	18	(1)	(6)%	**38**	36	(2)	(6)%
Research, development and engineering expenses	**51**	43	(8)	(19)%	**102**	80	(22)	(28)%
Equity, royalty and interest income from investees	**8**	9	(1)	(11)%	**16**	17	(1)	(6)%
Interest income	**1**	1	—	—	**2**	2	—	—
Segment EBIT	**116**	120	(4)	(3)%	**259**	225	34	15%
			Percentage Points				Percentage Points	
Segment EBIT as a percentage of total sales	**11.2%**	11.6%		(0.4)	**12.1%**	11.5%		0.6

Sales for our Components segment by business were as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	July 1, 2012	June 26, 2011	Amount	Percent	July 1, 2012	June 26, 2011	Amount	Percent
Emission solutions	**$ 349**	$ 311	$ 38	12%	**$ 753**	$ 584	$ 169	29%
Turbo technologies	**297**	314	(17)	(5)%	**595**	611	(16)	(3)%
Filtration	**266**	287	(21)	(7)%	**536**	542	(6)	(1)%
Fuel systems	**124**	120	4	3%	**251**	219	32	15%
Total sales	**$ 1,036**	$ 1,032	$ 4	—	**$ 2,135**	$ 1,956	$ 179	9%

Sales

Components segment sales for the three month period ended July 1, 2012, increased versus the comparable period in 2011. The following are the primary drivers:

- Emission solutions business sales increased primarily as the result of higher demand in the North American on-highway market and new sales in the Brazilian on-highway market driven by the new emission requirements effective January 1, 2012. These increases were partially offset by lower price realization, lower sales due to the disposition of certain assets and liabilities of our exhaust business in the second quarter of 2011 and unfavorable foreign currency fluctuations. Disposition related sales were $15 million in the second quarter of 2011.

This increase was partially offset by the following:

- Foreign currency fluctuations unfavorably impacted sales.

- Filtration business sales decreased primarily as a result of the disposition of certain assets and liabilities of our light-duty filtration business in the fourth quarter of 2011 and unfavorable foreign currency fluctuations. Disposition related sales were $22 million in the second quarter of 2011. The decreases were partially offset by increased aftermarket demand.

- Turbo technologies business sales decreased primarily due to a decline in OEM sales in China, Europe and India, unfavorable foreign currency fluctuations and reduced aftermarket demand, partially offset by higher OEM demand in North America.

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Components segment sales for the six month period ended July 1, 2012, increased versus the comparable period in 2011. The following are the primary drivers:

- Emission solutions business sales increased primarily due to higher demand in the North American on-highway market and new sales in the Brazilian on-highway market as the result of new emission requirements effective January 1, 2012, partially offset by lower sales due to the disposition of certain assets and liabilities of our exhaust business in the second quarter of 2011, lower price realization and unfavorable foreign currency fluctuations. Disposition related sales were $55 million in the first six months of 2011.

- Fuel systems business sales increased primarily due to improved demand in North American on-highway markets.

These increases were partially offset by the following:

- Turbo technologies business sales decreased primarily due to a decline in OEM sales in China and Europe and reduced aftermarket demand, partially offset by higher OEM demand in North America.

- Filtration business sales decreased primarily as a result of the disposition of certain assets and liabilities of our light-duty filtration business in the fourth quarter of 2011 and unfavorable foreign currency fluctuations. Disposition related sales were $46 million in the first six months of 2011. The decreases were mostly offset by increased aftermarket demand.

- Foreign currency fluctuations unfavorably impacted sales.

Segment EBIT

Components segment EBIT for the three months ended July 1, 2012, decreased versus the comparable period in 2011, primarily due to higher research, development and engineering expenses and higher selling, general and administrative expenses, partially offset by higher gross margin. Components segment EBIT for the six months ended

July 1, 2012, increased versus the comparable period in 2011, primarily due to higher gross margin, partially offset by higher research, development and engineering expenses and higher selling, general and administrative expenses. Changes in Components segment EBIT and EBIT as a percentage of sales were as follows:

	Three months ended July 1, 2012 vs. June 26, 2011 Favorable/(Unfavorable) Change			Six months ended July 1, 2012 vs. June 26, 2011 Favorable/(Unfavorable) Change		
In millions	**Amount**	**Percent**	**Percentage point change as a percent of sales**	**Amount**	**Percent**	**Percentage point change as a percent of sales**
Gross margin	$ 3	1%	0.2	$ 65	16%	1.2
Selling, general and administrative expenses	(4)	(6)%	(0.3)	(13)	(10)%	(0.1)
Research, development and engineering expenses	(8)	(19)%	(0.7)	(22)	(28)%	(0.7)
Equity, royalty and interest income from investees	(1)	(11)%	(0.1)	(1)	(6)%	(0.2)

The increase in gross margin for the three month period ended July 1, 2012, was primarily due to higher volumes, particularly in the emission solutions business, partially offset by lower price realization, unfavorable foreign currency fluctuations and the disposition of certain assets and liabilities of our exhaust business and our light-duty filtration business in 2011. The increases in research, development and engineering expenses and selling, general and administrative expenses were primarily due to new product development spending and increased headcount to support our strategic growth initiatives, as well as certain upfront costs related to the pending acquisition of Hilite Germany GmbH in the third quarter of 2012.

The increase in gross margin for the six month period ended July 1, 2012, was primarily due to higher volumes, particularly in the emission solutions business, partially offset by the disposition of certain assets and liabilities of our exhaust business and our light-duty filtration business in 2011, lower price realization and unfavorable foreign currency fluctuations. The increases in research, development and engineering expenses and selling, general and administrative expenses were primarily due to new product development spending and increased headcount to support our strategic growth initiatives.

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Power Generation Segment Results

Financial data for the Power Generation segment was as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	**July 1, 2012**	**June 26, 2011**	**Amount**	**Percent**	**July 1, 2012**	**June 26, 2011**	**Amount**	**Percent**
External sales	**$ 572**	$ 649	$ (77)	(12)%	**$ 1,088**	$ 1,206	$ (118)	(10)%
Intersegment sales	**337**	260	77	30%	**601**	498	103	21%
Total sales	**909**	909	—	—	**1,689**	1,704	(15)	(1)%
Depreciation and amortization	**11**	11	—	—	**22**	21	(1)	(5)%
Research, development and engineering expenses	**19**	12	(7)	(58)%	**37**	23	(14)	(61)%
Equity, royalty and interest income from investees	**10**	13	(3)	(23)%	**20**	21	(1)	(5)%
Interest income	**3**	3	—	—	**5**	4	1	25%
Segment EBIT	**94**	105	(11)	(10)%	**170**	194	(24)	(12)%
			Percentage Points				**Percentage Points**	
Segment EBIT as a percentage of total sales	**10.3%**	11.6%		(1.3)	**10.1%**	11.4%		(1.3)

In the first quarter of 2012, our Power Generation segment reorganized its reporting structure to include the following businesses: power products, power systems, generator technologies and power solutions.

- Power products — Our power products business manufactures generators for commercial and consumer applications ranging from two kilowatts (kW) to one megawatt (MW) under the Cummins Power Generation and Cummins Onan brands.
- Power systems — Our power systems business manufactures and sells diesel fuel-based generator sets over one MW, paralleling systems and transfer switches for critical protection and distributed generation applications. We also offer integrated systems that consist of generator sets, power transfer and paralleling switchgear for applications such as data centers, health care facilities and waste water treatment plants.
- Generator technologies — Our generator technologies business designs, manufactures, sells and services A/C generator/alternator products internally as well as to other generator set assemblers. Our products are sold under the Stamford, AVK and Markon brands and range in output from 0.6 kilovolt-amperes (kVA) to 30,000 kVA.
- Power solutions — Our power solutions business provides gasoline fuel-based turnkey solutions for distributed generation and energy management applications in the range of 300-2000 kW products. The business also serves the oil and gas segment and a global rental account for diesel and gas generator sets.

Sales for our Power Generation segment by business (including 2011 reorganized balances) were as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	**July 1, 2012**	**June 26, 2011**	**Amount**	**Percent**	**July 1, 2012**	**June 26, 2011**	**Amount**	**Percent**
Power products	**$ 459**	$ 415	$ 44	11%	**$ 834**	$ 792	$ 42	5%
Power systems	**217**	210	7	3%	**405**	399	6	2%
Generator technologies	**160**	189	(29)	(15)%	**301**	343	(42)	(12)%
Power solutions	**73**	95	(22)	(23)%	**149**	170	(21)	(12)%
Total sales	**$ 909**	$ 909	$ —	—	**$ 1,689**	$ 1,704	$ (15)	(1)%

Sales

Power Generation segment sales for the three month period ended July 1, 2012, remained flat versus the comparable period in 2011. The following were the primary drivers:

- Power products sales increased in many regions, especially North America and the Middle East, which was partially offset by lower demand in Asia and Eastern

Europe and unfavorable foreign currency fluctuations.

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The increase was offset by the following:

- Foreign currency fluctuations unfavorably impacted sales.
- Generator technologies sales decreased primarily due to demand reductions in most regions, particularly Europe and China, and unfavorable foreign currency fluctuations, which was partially offset by higher volumes in the Middle East and India.
- Power solutions sales decreased primarily due to lower volumes in the U.K. and Russia, which was partially offset by higher volumes in North America.

Power Generation segment sales for the six month period ended July 1, 2012, decreased versus the comparable period in 2011. The following were the primary drivers:

- Generator technologies sales decreased primarily due to demand reductions in most regions, particularly Europe and Asia, and unfavorable foreign currency fluctuations.
- Power solutions sales decreased primarily due to lower volumes in the U.K., Africa and Russia, which was partially offset by higher volumes in North America.
- Foreign currency fluctuations unfavorably impacted sales.

These decreases were partially offset by the following:

- Power products sales increased in most regions, especially North America, which was partially offset by demand reductions in China, Eastern Europe, Latin America and the U.K. and unfavorable foreign currency fluctuations.

Segment EBIT

Power Generation segment EBIT for the three and six month periods ended July 1, 2012, decreased versus the comparable period in 2011, primarily due to higher selling, general and administrative expenses and higher research, development and engineering expenses. Changes in Power Generation segment EBIT and EBIT as a percentage of sales were as follows:

	Three months ended July 1, 2012 vs. June 26, 2011 Favorable/(Unfavorable) Change			Six months ended July 1, 2012 vs. June 26, 2011 Favorable/(Unfavorable) Change		
In millions	**Amount**	**Percent**	**Percentage point change as a percent of sales**	**Amount**	**Percent**	**Percentage point change as a percent of sales**
Gross margin	$ —	—	—	$ (3)	(1)%	—
Selling, general and administrative expenses	(8)	(11)%	(0.8)	(20)	(14)%	(1.3)
Research, development and engineering expenses	(7)	(58)%	(0.8)	(14)	(61)%	(0.9)
Equity, royalty and interest income from investees	(3)	(23)%	(0.3)	(1)	(5)%	—

Gross margin remained at the same levels in the three month periods ended July 1, 2012 and June 26, 2011. The improved price realization, increased productivity and reduction in managed expenses were offset by increased product coverage and higher material and commodity costs. The increases in selling, general and administrative expenses and research, development and engineering expenses for the three month period ended July 1, 2012, were primarily due to increased headcount to support our strategic growth initiatives and higher product development spending. Equity, royalty and interest income from investees decreased primarily due to lower profitability at Cummins Olayan and CCEC.

The decrease in gross margin for the six month period ended July 1, 2012, was due to higher material costs and increased product coverage, partially offset by improved price realization. The increases in selling, general and administrative expenses and research, development and engineering expenses were primarily due to increased headcount to support our strategic growth initiatives and higher product development spending.

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Distribution Segment Results

Financial data for the Distribution segment was as follows:

	Three months ended		Favorable/ (Unfavorable)		Six months ended		Favorable/ (Unfavorable)	
In millions	**July 1, 2012**	**June 26, 2011**	**Amount**	**Percent**	**July 1, 2012**	**June 26, 2011**	**Amount**	**Percent**
External sales	**$ 789**	$ 775	$ 14	2%	**$ 1,559**	$ 1,412	$ 147	10%
Intersegment sales	**5**	10	(5)	(50)%	**10**	15	(5)	(33)%
Total sales	**794**	785	9	1%	**1,569**	1,427	142	10%
Depreciation and amortization	**8**	5	(3)	(60)%	**15**	11	(4)	(36)%
Research, development and engineering expenses	**2**	—	(2)	NM	**3**	1	(2)	NM
Equity, royalty and interest income from investees	**49**	46	3	7%	**97**	84	13	15%
Interest income	**—**	—	—	—	**1**	1	—	—
Segment EBIT	**92**	106	(14)	(13)%	**186**	195	(9)	(5)%
			Percentage Points				**Percentage Points**	
Segment EBIT as a percentage of total sales	**11.6%**	13.5%		(1.9)	**11.9%**	13.7%		(1.8)

Sales for our Distribution segment by region were as follows:

In millions	Three months ended July 1, 2012	Three months ended June 26, 2011	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent	Six months ended July 1, 2012	Six months ended June 26, 2011	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent
Asia Pacific	**$ 326**	$ 302	$ 24	8%	**$ 635**	$ 543	$ 92	17%
Europe and Middle East	**200**	222	(22)	(10)%	**395**	397	(2)	(1)%
North & Central America	**188**	195	(7)	(4)%	**394**	368	26	7%
Africa	**46**	36	10	28%	**82**	65	17	26%
South America	**34**	30	4	13%	**63**	54	9	17%
Total sales	**$ 794**	$ 785	$ 9	1%	**$ 1,569**	$ 1,427	$ 142	10%

Sales for our Distribution segment by product were as follows:

In millions	Three months ended July 1, 2012	Three months ended June 26, 2011	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent	Six months ended July 1, 2012	Six months ended June 26, 2011	Favorable/(Unfavorable) Amount	Favorable/(Unfavorable) Percent
Parts and filtration	**$ 302**	$ 271	$ 31	11%	**$ 590**	$ 506	$ 84	17%
Power generation	**201**	195	6	3%	**387**	340	47	14%
Engines	**147**	186	(39)	(21)%	**313**	326	(13)	(4)%
Service	**144**	133	11	8%	**279**	255	24	9%
Total sales	**$ 794**	$ 785	$ 9	1%	**$ 1,569**	$ 1,427	$ 142	10%

Sales

Distribution segment sales for the three month period ended July 1, 2012, increased versus the comparable period in 2011. The following were the primary drivers:

· Parts and filtration product sales increased primarily due to higher demand in North and Central America and the Middle East.

· Service revenue increased primarily due to higher volumes in Africa due to the increasing engine population.

· Power generation product sales increased primarily due to growth in East Asia, Europe and Africa, which was partially offset by a reduction in nonrecurring project-related sales in the Middle East.

These increases were partially offset by the following:

· Foreign currency fluctuations unfavorably impacted sales.

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· Engine product sales decreased primarily due to a significant slowdown in the North American oil and gas markets.

Distribution segment sales for the six month period ended July 1, 2012, increased versus the comparable period in 2011. The following were the primary drivers:

· Parts and filtration product sales increased primarily due to higher demand in North and Central America and the Middle East and higher demand from mining customers in the South Pacific.

· Power generation product sales increased primarily due to growth in East Asia, improved demand across North and Central America and the South Pacific, which were partially offset by a reduction in nonrecurring project-related sales in the Middle East.

· Service revenue increased primarily due to higher volumes in Africa due to the increasing engine population and higher demand from mining customers in the South Pacific.

These increases were partially offset by the following:

· Engine product sales decreased primarily due to a significant slowdown in the North American oil and gas markets.

· Foreign currency fluctuations unfavorably impacted sales.

Segment EBIT

Distribution segment EBIT for the three months ended July 1, 2012, decreased versus the comparable period in 2011, primarily due to higher selling, general and administrative expenses, lower gross margin and unfavorable foreign currency impacts, partially offset by higher equity, royalty and interest income from investees. Distribution segment EBIT for the six months ended July 1, 2012, decreased versus the comparable period in 2011, primarily due higher selling, general and administrative expenses, partially offset by higher gross margin and higher equity, royalty and interest income from investees. Changes in Distribution segment EBIT and EBIT as a percentage of sales were as follows:

In millions	Three months ended July 1, 2012 vs. June 26, 2011 Favorable/(Unfavorable) Change: Amount	Percent	Percentage point change as a percent of sales	Six months ended July 1, 2012 vs. June 26, 2011 Favorable/(Unfavorable) Change: Amount	Percent	Percentage point change as a percent of sales
Gross margin	$ (2)	(1)%	(0.5)	$ 17	5%	(0.9)
Selling, general and administrative expenses	(10)	(9)%	(1.1)	(34)	(16)%	(0.8)
Research, development and engineering expenses	(2)	NM	(0.3)	(2)	NM	(0.1)
Equity, royalty and interest income from investees	3	7%	0.3	13	15%	0.3

The decrease in gross margin for the three month period ended July 1, 2012, was primarily due to unfavorable foreign currency impacts and unfavorable product mix, partially offset by higher volumes in most products. The increase in selling, general and administrative expenses was mainly due to increased headcount to support our strategic growth initiatives. The increase in equity, royalty and interest income from investees was primarily due to increased income from North American distributors.

The increase in gross margin for the six month period ended July 1, 2012, was primarily due to higher volumes in most products, partially offset by unfavorable foreign currency impacts and unfavorable product mix. The increase in selling, general and administrative expenses was mainly due to increased headcount to support our strategic growth initiatives. The increase in equity, royalty and interest income from investees was primarily due to increased income from North American distributors.

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Reconciliation of Segment EBIT to Income Before Income Taxes

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

	Three months ended		Six months ended	
In millions	July 1, 2012	June 26, 2011	July 1, 2012	June 26, 2011
Total segment EBIT	**$ 678**	$ 708	**$ 1,372**	$ 1,281
Non-segment EBIT (1)	**(9)**	67	**(45)**	26
Total EBIT	**$ 669**	$ 775	**$ 1,327**	$ 1,307
Less				
Interest expense	**8**	13	**16**	23
Income before income taxes	**$ 661**	$ 762	**$ 1,311**	$ 1,284

(1) Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. The three and six months ended July 1, 2012, include a $6 million gain ($4 million after-tax) related to adjustments from our 2011 divestitures. The three and six months ended June 26, 2011, include a $68 million gain ($37 million after-tax) related to the sale of certain assets and liabilities of our exhaust business from the Components segment. The gains have been excluded from segment results as they were not considered in our evaluation of operating results for the three and six months ended July 1, 2012 and June 26, 2011. There were no other significant unallocated corporate expenses for the three and six months ended July 1, 2012 and June 26, 2011.

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LIQUIDITY AND CAPITAL RESOURCES

Management's Assessment of Liquidity

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

We assess our liquidity in terms of our ability to generate adequate cash to fund our operating, investing and financing activities. We generate significant ongoing cash flow, which has been used, in part, to fund capital expenditures, pay dividends on our common stock, fund repurchases of common stock and acquisitions. Cash provided by operations is our principal source of liquidity. As of July 1, 2012, other sources of liquidity include:

- cash and cash equivalents of $1.1 billion, of which approximately 15 percent is located in the U.S. and 85 percent is located primarily in the U.K., China, Singapore, India and Brazil,
- marketable securities of $261 million, which are located primarily in India and Brazil and the majority of which could be liquidated into cash within a few days,
- revolving credit facility with $1.2 billion available, net of outstanding letters of credit,
- international and other domestic credit facilities with $282 million available and
- our accounts receivable sales program with $228 million available, based on eligible receivables.

We believe our liquidity provides us with the financial flexibility needed to fund working capital, capital expenditures, projected pension obligations, dividend payments, common stock repurchases, acquisitions and debt service obligations.

A significant portion of our cash flows is generated outside the U.S. As of July 1, 2012, the total of cash, cash equivalents and marketable securities held by foreign subsidiaries was $1.2 billion, the vast majority of which was located in the U.K., China, India, Brazil and Singapore. The geographic location of our cash and marketable securities aligns well with our business growth strategy. We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. As a result, we do not anticipate any local liquidity restrictions to preclude us from funding our expansion or operating needs with local resources. If these foreign cash balances were repatriated to the U.S. we could be required to accrue and pay U.S. taxes for earnings primarily from our U.K. domiciled subsidiaries, as we have asserted that these earnings are permanently reinvested outside of the U.S. At present we do not foresee a need to repatriate any earnings from these subsidiaries in the near future. However, we do anticipate repatriating available cash from foreign subsidiaries to help fund U.S. cash needs as they arise, and we have transferred and will continue to transfer cash from these subsidiaries to the U.S. and to other international subsidiaries when it is cost effective to do so. Our 2012 and subsequent earnings from our China operations are considered permanently reinvested while earnings generated prior to 2012, for which U.S. deferred tax liabilities have been recorded, are expected to be repatriated in future years.

The purchase price for our pending acquisitions in the third quarter of 2012 is approximately $195 million. We expect to fund these acquisitions primarily with cash from operations.

We continuously monitor our pension assets and believe that we have limited exposure to the European debt crisis. No sovereign debt instruments of crisis countries are held in the trusts, while any equities are held with large well-diversified multinational firms or are de minimis amounts in large index funds. In addition, we rebalanced our asset portfolios in the U.S. and the U.K. in 2010 with equities representing a smaller segment of the total portfolios and we continue to rebalance as necessary to maintain our target range. Our pension plans have not experienced any significant impact on liquidity or counterparty exposure due to the volatility in the credit markets.

Working Capital Summary

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

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In millions		July 1, 2012		December 31, 2011		Change
Cash and cash equivalents	$	**1,145**	$	1,484	$	(339)
Marketable securities		**261**		277		(16)
Accounts and notes receivable		**2,620**		2,526		94
Inventories		**2,581**		2,141		440
Other current assets		**639**		663		(24)
Current assets		**7,246**		7,091		155
Accounts and loans payable		**1,692**		1,574		118
Current portion of accrued product warranty		**407**		422		(15)
Accrued compensation, benefits and retirement costs		**340**		511		(171)
Taxes payable (including taxes on income)		**258**		282		(24)
Other accrued expenses		**873**		868		5
Current liabilities		**3,570**		3,657		(87)
Working capital	**$**	**3,676**	$	3,434		
Current ratio		**2.03**		1.94		
Days' sales in receivables		**53**		48		
Inventory turnover		**5.4**		6.3		

Current assets increased two percent compared to December 31, 2011, primarily due to an increase in inventory levels as a result of the decline in demand occurring more quickly than anticipated and an increase in accounts receivable, which were partially offset by a decrease in cash and cash equivalents.

Current liabilities decreased two percent compared to December 31, 2011, primarily due to a decrease in accrued compensation, benefits and retirement costs due to variable compensation payouts, which were partially offset by higher accounts and loans payable.

Cash Flows

Cash and cash equivalents decreased $ 339 million during the six month period ended July 1, 2012, compared to an $88 million increase in cash and cash equivalents during the comparable period in 2011. The change in cash and cash equivalents was as follows:

Operating Activities

	Six months ended					
In millions		July 1, 2012		June 26, 2011		Change
Consolidated net income	**$**	**970**	$	902	$	68
Depreciation and amortization		**171**		159		12
Gain on sale of businesses		**(6)**		(68)		62
Deferred income taxes		**(39)**		87		(126)
Equity in income of investees, net of dividends		**(25)**		2		(27)
Pension contributions in excess of expense		**(52)**		(47)		(5)
Other post-retirement benefits payments in excess of expense		**(7)**		(10)		3
Stock-based compensation expense		**21**		18		3
Excess tax benefits on stock-based awards		**(11)**		(4)		(7)
Translation and hedging activities		**7**		(6)		13
Changes in current assets and liabilities, net of acquisitions and divestitures:						
Accounts and notes receivable		**(116)**		(513)		397
Inventories		**(439)**		(290)		(149)
Other current assets		**(47)**		11		(58)
Accounts payable		**61**		307		(246)
Accrued expenses		**(173)**		169		(342)
Changes in other liabilities and deferred revenue		**103**		58		45
Other, net		**(21)**		(31)		10
Net cash provided by operating activities	**$**	**397**	$	744	$	(347)

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Net cash provided by operating activities decreased for the six months ended July 1, 2012, versus the comparable period in 2011, primarily due to unfavorable working capital fluctuations and lower deferred income taxes, which were partially offset by higher consolidated net income including the 2011 non-cash gain on disposition of certain assets and liabilities of our exhaust business. During the first six months of 2012, the net increase in working capital assets resulted in a cash outflow of $714 million compared to a cash outflow of $316 million during the first six months of 2011. This change of $398 million was primarily driven by lower accrued expenses and a smaller increase in accounts payable than the comparable period, which were partially offset by a smaller increase in accounts and notes receivable.

Pensions

The funded status of our pension plans is dependent upon a variety of variables and assumptions including return on invested assets, market interest rates and levels of voluntary contributions to the plans. The return for our U.S. plan was above seven percent for the six months ended July 1, 2012, while our U.K. plan return declined from the rate achieved in the first quarter to approximately two percent for the six month period, which was the result of a deterioration in the financial markets in Europe**.** Approximately 89 percent of our pension plan assets are invested in highly liquid investments such as equity and fixed income securities. The remaining 11 percent of our plan assets are invested in less liquid, but market valued investments, including real estate and private equity. We made $84 million of pension contributions in the six months ended July 1, 2012, and we anticipate making total contributions of approximately $130 million to our pension plans in 2012. Expected contributions to our defined benefit pension plans in 2012 will meet or exceed the current funding requirements. Claims and premiums for other postretirement benefits are expected to approximate $51 million, net of reimbursements, in 2012. The $84 million of pension contributions in the six months ended July 1, 2012, included voluntary contributions of $73 million. These contributions and payments include payments from our funds either to increase pension plan assets or to make direct payments to plan participants.

Investing Activities

Six months ended

In millions	July 1, 2012	June 26, 2011	Change
Capital expenditures	**$ (266)**	$ (215)	$ (51)
Investments in internal use software	**(40)**	(22)	(18)
Investments in and advances to equity investees	**(40)**	(20)	(20)
Proceeds from sale of business, net of cash sold	**—**	111	(111)
Acquisition of businesses, net of cash acquired	**(12)**	—	(12)
Investments in marketable securities—acquisitions	**(276)**	(361)	85
Investments in marketable securities—liquidations	**280**	343	(63)
Cash flows from derivatives not designated as hedges	**1**	6	(5)
Other, net	**3**	7	(4)
Net cash used in investing activities	**$ (350)**	$ (151)	$ (199)

Net cash used in investing activities increased for the six months ended July 1, 2012, versus the comparable period in 2011, primarily due to proceeds from the 2011 disposition of certain assets and liabilities of our exhaust business, which did not repeat in 2012, and increased capital expenditures.

Capital expenditures for the six month period ended July 1, 2012, were $266 million compared to $215 million in the comparable period in 2011. We continue to invest in new product lines and targeted capacity expansions, and we plan to spend approximately $750 million to $800 million in 2012. Approximately one-half of our capital expenditures will be invested outside of the U.S.

We expect total cash investments for acquisitions, including acquisition activity completed during the first six months, to be approximately $205 million by the end of the third quarter of 2012.

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Financing Activities

	Six months ended		
In millions	July 1, 2012	June 26, 2011	Change
Proceeds from borrowings	**$ 46**	$ 60	$ (14)
Payments on borrowings and capital lease obligations	**(75)**	(94)	19
Net borrowings under short-term credit agreements	**3**	11	(8)
Distributions to noncontrolling interests	**(32)**	(26)	(6)
Dividend payments on common stock	**(152)**	(102)	(50)
Repurchases of common stock	**(196)**	(373)	177
Excess tax benefits on stock-based awards	**11**	4	7
Other, net	**9**	7	2
Net cash used in financing activities	**$ (386)**	$ (513)	$ 127

Net cash used in financing activities decreased for the six months ended July 1, 2012, versus the comparable period in 2011, primarily due to significantly lower repurchases of common stock, which was partially offset by higher dividend payments.

In July 2012, the Board of Directors authorized a dividend increase of 25 percent from $0.40 per share to $0.50 per share on a quarterly basis effective in the third quarter.

Our total debt was $794 million as of July 1, 2012, compared with $783 million as of December 31, 2011. Total debt as a percent of our total capital, including total long-term debt, was 11.0 percent at July 1, 2012, compared with 11.8 percent at December 31, 2011.

In February 2011, the Board of Directors approved a new share repurchase program and authorized the acquisition of up to $1 billion of our common stock. In 2012, we made the following quarterly purchases under this plan:

In millions (except per share amounts) For each quarter ended	Shares Purchased	Average Cost Per Share	Total Cost of Repurchases	Remaining Authorized Capacity
April 1	0.1	$ 114.97	$ 8	$ 474
July 1	1.8	104.00	188	286
Total	1.9	104.43	$ 196	286

Credit Ratings

A number of our contractual obligations and financing agreements, such as our revolving credit facility have restrictive covenants and/or pricing modifications that may be triggered in the event of downward revisions to our corporate credit rating. There were no downgrades of our credit ratings in the second quarter of 2012 that have impacted these covenants or pricing modifications.

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

Credit Rating Agency	Senior L-T Debt Rating	Outlook
Moody's Investors Service, Inc.	Baa1	Positive
Standard & Poor's Rating Services	A	Stable
Fitch Ratings	A-	Positive

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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 2011 Form 10-K which discusses accounting policies that we have selected from acceptable alternatives.

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

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

A discussion of all other critical accounting estimates may be found in the "Management's Discussion and Analysis" section of our 2011 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 six months of 2012.

RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

A discussion of quantitative and qualitative disclosures about market risk may be found in Item 7A of our 2011 Form 10-K. There have been no material changes in this information since the filing of our 2011 Form 10-K. Further information regarding financial instruments and risk management is discussed in Note 11, "DERIVATIVES," in the *Notes to the Condensed Consolidated Financial Statements.*

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended July 1, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

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

ITEM 1A. Risk Factors

In addition to other information set forth in this report, you should consider other risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K or the "CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION" in this Quarterly report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently judge to be immaterial also may materially adversely affect our business, financial condition or operating results.

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

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

Issuer Purchases of Equity Securities		
	(c) Total Number of	(d) Maximum

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Plans or Programs	Number of Shares that May Yet Be Purchased Under the Plans or Programs(2)
April 2 - May 6, 2012	145,418	$ 114.37	145,418	125,231
May 7 - June 3, 2012	1,378,957	105.78	1,378,357	132,763
June 4 - July 1, 2012	281,715	89.87	278,319	134,540
Total	1,806,090	103.99	1,802,094	

(1) Shares purchased represent shares under the 2011 Board of Directors authorized $1 billion repurchase program and our Key Employee Stock Investment Plan established in 1969 (there is no maximum repurchase limitation in this plan).
(2) These values reflect the sum of shares held in loan status under our Key Employee Stock Investment Plan. The repurchase program authorized by the Board of Directors does not limit the number of shares that may be purchased and was excluded from this column.

In February 2011, the Board of Directors approved a new share repurchase program and authorized the acquisition of up to $1 billion of our common stock. As of July 1, 2012, we have $ 286 million available for purchase under this authorization.

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During the three month period ended July 1, 2012, we repurchased 3,996 shares from employees in connection with the Key Employee Stock Investment Plan which allows certain employees, other than officers, to purchase shares of common stock on an installment basis up to an established credit limit. Loans are issued for five-year terms at a fixed interest rate established at the date of purchase and may be refinanced after its initial five-year period for an additional five-year period. Participants must hold shares for a minimum of six months from date of purchase and after shares are sold must wait six months before another share purchase may be made. We hold participants' shares as security for the loans and would, in effect repurchase shares if the participant defaulted in repayment of the loan. There is no maximum amount of shares that we may purchase under this plan.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

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

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SIGNATURES

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

Cummins Inc.
Date: August 1, 2012

By: /s/ PATRICK J. WARD	By: /s/ MARSHA L. HUNT
Patrick J. Ward	Marsha L. Hunt
Vice President and Chief Financial Officer	*Vice President-Corporate Controller*
(Principal Financial Officer)	*(Principal Accounting Officer)*

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CUMMINS INC.
EXHIBIT INDEX

Exhibit No.	Description of Exhibit
3(b)	By-laws, as amended and restated effective as of May 8, 2012 (filed herewith).
10(a)#	Cummins Inc. 2012 Omnibus Incentive Plan (incorporated by reference to Annex A to the Company's definitive proxy statement filed with the Securities and Exchange Commission on Schedule 14A on March 27, 2012 (File No. 001-04949).
10(b)#	Cummins Inc. Employee Stock Purchase Plan, as amended (incorporated by reference to Annex B to the Company's definitive proxy statement filed with the Securities and Exchange Commission on Schedule 14A on March 27, 2012 (File No. 001-04949).
12	Calculation of Ratio of Earnings to Fixed Charges.
31(a)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

A management contract or compensatory plan or arrangement.

Exhibit 3(b)

BY-LAWS
OF
CUMMINS INC.

(Effective as of May 8, 2012)

ARTICLE I
MEETINGS OF SHAREHOLDERS

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

Section 1.2. Special Meetings.

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

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

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

(ii) For purposes of this Section 1.2(b) and for determining the Requisite Percentage, Net Long Shares shall be limited to the number of shares owned by any Eligible Holder or Requesting Beneficial Owner that constitute such person's net long position as defined in Rule 14e-4 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), provided that for purposes of applying such definition,

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

(iii) A Special Meeting Request must be delivered by hand or by registered U.S. mail, postage prepaid, return receipt requested, or courier service, postage prepaid, to the attention of the Secretary at the principal executive offices of the Corporation. A Special Meeting Request shall be valid only if it (A) is signed and dated by each Eligible Holder submitting the Special Meeting Request and by each of the Requesting Beneficial Owners, if any, on whose behalf the Special Meeting Request is being made (each such Eligible Holder and Requesting Beneficial Owner, a "Requesting Shareholder"), and (B) includes (1) a statement of the specific purpose(s) of the special meeting and the matters proposed to be acted on by shareholders at the special meeting, the text of any proposal or business (including the text of any resolutions proposed for consideration by shareholders, and, in the event that such business includes a proposal to amend the By-Laws or the Articles of Incorporation of the Corporation, the text of the proposed amendment), the reasons for conducting such business at the special meeting, and any material interest in such business of each Requesting Shareholder; (2) in the case of any director nominations proposed to be presented at the special meeting, the information required by Section 2.11(b), including with respect to each Requesting Shareholder; (3) in the case of any matter (other than a director nomination) proposed to be conducted at the special meeting, the information required by Section 1.3(c), including with respect to each Requesting Shareholder; (4) a representation that each Requesting Shareholder, or one or more representatives of each such shareholder, intends to appear in person or by proxy at the special meeting to present the proposal(s) or business to be brought before the special meeting; (5) a representation as to whether the Requesting Shareholders intend, or are part of a group that intends, to solicit proxies with respect to the proposals or business to be presented at the special meeting; (6) an agreement by the Requesting Shareholders to notify the Corporation within 10 days in the event of any decrease in the number of Net Long Shares held by the Requesting Shareholders following the delivery of such Special Meeting Request and prior to the special meeting and an acknowledgement that any such decrease shall be deemed to be a revocation of

such Special Meeting Request to the extent such reduction decreases the number of Net Long Shares held by the Requesting Shareholders below the Requisite Percentage; and (7) documentary evidence that the Requesting Shareholders own the Requisite Percentage as of the date on which the Special Meeting Request is delivered to the Secretary; provided, however, that if the Eligible Holders submitting the Special Meeting Request are not the beneficial owners of the shares representing the Requisite Percentage, then to be valid, the Special Meeting Request must also include documentary evidence (or, if not simultaneously provided with the Special Meeting Request, such documentary evidence must be delivered to the Secretary within 10 days after the date on which the Special Meeting Request is delivered to the Secretary) that the Requesting Beneficial Owners on whose behalf the Special Meeting Request is made beneficially own the Requisite Percentage as of the date on which such Special Meeting Request is delivered to the Secretary. In addition, each Requesting Shareholder shall promptly provide any other information reasonably requested by the Corporation.

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

(v) A Special Meeting Request shall not be valid, and a special meeting requested by shareholders shall not be held, if (A) the Special Meeting Request does not comply with this Section 1.2(b); (B) the Special Meeting Request relates to an item of business that is not a proper subject for shareholder action under applicable law; (C) the Special Meeting Request is delivered during the period commencing ninety (90) days prior to the first anniversary of the date of the immediately preceding annual meeting of shareholders and ending on the date of the next annual meeting; (D) an identical or substantially similar item (as determined by the Board of Directors or a designated committee, in its discretion, a "Similar Item"), other than the election or removal of director(s), was presented at an annual or special meeting of shareholders held not more than 12 months before the Special Meeting Request is delivered; (E) the Special Meeting Request relates to the election or removal of director(s) and the election or removal of director(s) was presented at an annual or special meeting of shareholders held not more than ninety (90) days before the Special Meeting Request is delivered; (F) a Similar Item, including the election or removal of director(s), is (or is intended to be) included in the Corporation's notice of meeting as an item of business to be brought before an annual or special meeting of shareholders that has been called but not yet held or that is called for a date within ninety (90) days of the receipt by the Corporation of a Special Meeting Request; (G) the Special Meeting Request was made in a manner that involved a violation of Regulation 14A under the Exchange Act or other applicable law; or (H) any Requesting Shareholder shall have violated the reporting requirements of Section 13 of the Exchange Act. The Board of Directors (or a designated committee thereof) shall determine, in its discretion, whether all requirements set forth in this

Section 1.2(b) have been satisfied and such determination shall be binding on the Corporation and its shareholders, including the Requesting Shareholders.

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

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

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

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

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

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

(b) For business (other than nominations for the election of Directors) to be properly brought before an annual meeting by a shareholder, the shareholder must have given written notification thereof, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than ninety (90) days in advance of the Originally Scheduled Date (as defined in Section 1.3(g) of these By-Laws) of such meeting (provided, however, that if the Originally Scheduled Date of such meeting is earlier than the first anniversary of the date set forth in the Corporation's first mailed definitive proxy materials for

the prior year's annual meeting (the "Anniversary Date"), such written notification may be so given and received not later than the close of business on the 10th day following the date of the first public disclosure, which may include any public filing by the Corporation with the Securities and Exchange Commission, of the Originally Scheduled Date of such meeting).

(c) Any notification by a shareholder under Section 1.3(b) of these By-Laws shall set forth as to each matter the shareholder proposes to bring before the meeting (i) a brief description of the business described to be brought before the meeting, the reasons for conducting such business at the meeting; (ii) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business and of any beneficial owner or owners, if any, on whose behalf the business is being proposed; (iii) a representation that the shareholder is a holder of record of shares of stock of the Corporation entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to propose such business; (iv) the class and number of shares of stock of the Corporation that are owned beneficially and of record by such shareholder or beneficial owner or owners and a representation that such shareholder will notify the Corporation in writing of the class and number of such shares owned of record and beneficially as of the record date for the meeting within five (5) business days following the later of the record date or the date the record date is first publicly disclosed; (v) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the Corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Corporation or otherwise (a "Derivative Instrument") directly or indirectly owned beneficially by such shareholder or beneficial owner and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Corporation; (vi) any proxy, contract, arrangement , understanding or relationship pursuant to which such shareholder or beneficial owner has a right to vote any shares of any security of the Corporation; (vii) any short interest in any security of the Corporation (for purposes of this Section 1.3(c)(vii), a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security); (viii) any rights to dividends on the shares of the Corporation owned beneficially by such shareholder or beneficial owner that are separated or separable from the underlying shares of the Corporation; (ix) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such shareholder or beneficial owner is a general partner or, directly or indirectly, beneficially owns an interest in a general partner; (x) any performance-related fees (other than an asset-based fee) that such shareholder or beneficial owner is entitled to based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such shareholder's or beneficial owner's immediate family sharing the same household (which information shall be supplemented by such shareholder or beneficial owner not later than five (5) business days after the later of the record date or the date the record date is disclosed to disclose such ownership as of the record date); (xi) any other information relating to such shareholder and beneficial owner, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder; (xii) any material interest of the shareholder in such business, (xiii) a representation whether the proposing shareholder intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the outstanding shares of the Corporation's stock required to approve the proposal and/or otherwise to solicit proxies from shareholders in support of the proposal and (xiv) a description of all agreements, arrangements and understandings between such shareholder and beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and a representation that such shareholder will notify the Corporation in writing of any such agreements, arrangements or understandings in effect as of the record date within five (5) business days following the later of the record date or the date notice of the record date is first publicly disclosed. For purposes of these By-Laws, the information required by items (iv) through (xi) of the preceding sentence shall be referred to as the "Required Disclosures."

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

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

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

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

Section 1.4. Notices.

(a) A written notice (as the term "written" is defined in Section 7.8 of these By-Laws) stating (i) the date, time and place of any meeting of the shareholders, (ii) the means of remote communications, if any, by which shareholders and proxy holders may be deemed to

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

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

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

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

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

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

Section 1.7. Vote Required to Take Action.

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

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

(i) Each Director to be elected by shareholders shall be elected by the vote of a plurality of the votes cast with respect to that Director's election at any meeting for the election of Directors at which a quorum is present; provided, however, that a nominee who is elected but receives more votes "against" than "for" election (with "abstentions" and "broker nonvotes" not counted as a vote cast either "for" or "against" that Director's election) shall serve as a Director for a term that ends on the date that is the earlier of (A) ninety (90) days after the date on which the voting results are determined and (B) the date on which an individual is selected by the board of directors to fill the office held by the Director pursuant to this Section 1.7 and Section 2.2 of these By-Laws. Subject to paragraph (iii) below, a nominee who is elected but receives more votes against than for election shall not serve as a director beyond the ninety (90) day period described in clause (A).

(ii) Notwithstanding the foregoing, at any meeting of shareholders for which the Secretary of the Corporation receives a notice that a shareholder has nominated a person for election as Director in compliance with Section 2.11 of these By-Laws or applicable requirements of the Securities and Exchange Commission, shareholders shall not be permitted to vote "against" a nominee for Director.

(iii) The Board of Directors may select a qualified individual to fill the office held by a Director who received more votes against than for election, allow a vacancy to continue on the Board of Directors following the end of such Director's term or decrease the size of the Board of Directors to eliminate such vacancy. The Board of Directors shall take such action in its sole discretion and based upon the recommendation of the Governance and Nominating Committee, or such other committee designated by

the Board of Directors pursuant to these By-Laws, and the committee in making its recommendation and the Board of Directors in making its decision each may consider any factors and other information that it considers appropriate and relevant. If the Board of Directors elects to fill a vacancy pursuant to this Section 1.7(b)(iii), it may choose any individual it deems qualified in its sole discretion, including the Director who received more votes against than for election.

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

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

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

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

correspond to the name of a shareholder, then the Corporation, if acting in good faith, may accept the vote, consent, waiver or proxy appointment and give it effect as the act of the shareholder if any of the following apply:

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

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

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

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

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

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

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

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

transfer book, or a duplicate thereof, kept in this state, shall be the only evidence as to who are the shareholders entitled to examine such list or the stock ledger or transfer book or to vote at any meeting of the shareholders.

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

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

ARTICLE II
DIRECTORS

Section 2.1. Number, Qualification and Terms.

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

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

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

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

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

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

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

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

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

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

Section 2.9. Resignation. A Director may resign at any time by delivering written notice to the Chairman of the Board, the Secretary of the Corporation, the Board of Directors, or

such other officer as the Board of Directors may designate, and such resignation shall become effective upon such delivery unless the notice specifies a later effective date.

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

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

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

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

respective affiliates and associates, or any other person or persons (naming such person or persons), on the other hand; and (x) the written consent of each nominee to serve as a Director of the Corporation if so elected.

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

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

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

ARTICLE III
COMMITTEES OF THE BOARD OF DIRECTORS

Section 3.1. General.

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

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

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

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

Section 3.2. Executive Committee.

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

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

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

ARTICLE IV
OFFICERS

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

Section 4.2. Duties and Functions.

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

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

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

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

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

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

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

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

ARTICLE V
SHARES

Section 5.1. Certificates for Shares. Shares in the Corporation may be issued in book-entry form or evidenced by certificates. However, every holder of shares in the Corporation shall be entitled upon request to have a certificate evidencing the shares owned by the shareholder, signed in the name of the Corporation by the Chairman of the Board, the President or a Vice President and the Secretary, certifying the number of shares owned by the shareholder in the Corporation. The signatures of the Chairman of the Board, the President, Vice President, and the Secretary, the signature of the transfer agent and registrar, and the Seal of the Corporation may be facsimiles. In case any officer or employee who shall have signed, or whose facsimile signature or signatures shall have been used on, any certificate shall cease to be an officer or employee of the Corporation before the certificate shall have been issued and delivered by the Corporation, the certificate may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed the certificate or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or employee of the Corporation; and the issuance and delivery by the Corporation of any such certificate shall constitute an adoption thereof. Every certificate shall state on its face (or in the case of book-entry shares, the statements evidencing ownership of such shares shall state) the name of the Corporation and that it is organized under the laws of the State of Indiana, the name of the person to whom it is issued, and the number and class of shares and the designation of the series, if any, the certificate represents, and shall state conspicuously on its front or back that the Corporation will furnish the shareholder, upon written request and without charge, a summary of the designations, relative rights, preferences and limitations applicable to each class and the variations in rights, preferences and limitations determined for each series (and the authority of the Board of Directors to determine variations for future series). Every certificate (or book-entry statement) shall state whether such shares have been fully paid and are nonassessable. If any such shares are not fully paid, the certificate (or book-entry statement) shall be legibly stamped to indicate the percentum which has been paid up, and as further payments are made thereon, the certificate shall be stamped (or book-entry statement updated) accordingly. Subject to the foregoing provisions, certificates representing shares in the Corporation shall be in such form as shall be approved by the Board of Directors. There shall be entered upon the stock books of the Corporation at the time of the issuance or transfer of each share the number of the certificates representing such share (if any), the name of the person owning the shares represented thereby, the class of such share and the date of the issuance or transfer thereof.

Section 5.2. Transfer of Shares; Holder of Record.

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

(b) The Corporation and its transfer agents and registrars, shall be entitled to treat the holder of record of any share or shares as the holder in fact and absolute owner thereof for all purposes, and accordingly shall not be bound to recognize any legal, equitable or other claim to or interest in such share or shares on the part of any other person whether or not it or

they shall have express or other notice thereof, except as otherwise expressly provided by the statutes of the State of Indiana. Shareholders shall notify the Corporation in writing of any changes in their addresses from time to time.

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

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

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

ARTICLE VI
INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

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

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

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

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

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

ARTICLE VII
MISCELLANEOUS

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

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

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

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

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

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

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

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

Section 7.9. Electronic Transmission. When used in these By-Laws, the terms “written” and “in writing” shall include any “electronic transmission” as defined in Section 23-1-20-8.5 of the Indiana Business Corporation Law, including without limitation any telegram, cablegram, facsimile transmission and communication by electronic mail.

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

EXHIBIT 12

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

In millions	Six months ended July 1, 2012	Six months ended June 26, 2011
Earnings		
Earnings before income taxes and noncontrolling interests	**$ 1,311**	$ 1,284
Add		
Fixed charges	**50**	53
Amortization of capitalized interest	**1**	1
Distributed income of equity investees	**158**	187
Less		
Equity in earnings of investees	**187**	190
Capitalized interest	**4**	1
Earnings before fixed charges	**$ 1,329**	$ 1,334
Fixed charges		
Interest expense	**$ 16**	$ 23
Capitalized interest	**4**	1
Amortization of debt discount	**1**	1
Interest portion of rental expense (1)	**29**	28
Total fixed charges	**$ 50**	$ 53
Ratio of earnings to fixed charges	**26.6**	25.2

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

EXHIBIT 31(a)

Certification

I, N. Thomas Linebarger, certify that:

1. I have reviewed this report on Form 10-Q of Cummins Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the periods in which the report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 1, 2012

/s/ N. THOMAS LINEBARGER
N. Thomas Linebarger
Chairman and Chief Executive Officer

EXHIBIT 31 (b)

Certification

I, Patrick J. Ward, certify that:

1. I have reviewed this report on Form 10-Q of Cummins Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the periods in which the report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 1, 2012

/s/ PATRICK J. WARD
Patrick J. Ward
Vice President and Chief Financial Officer

EXHIBIT 32

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 July 1, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, N. Thomas Linebarger, Chairman and Chief Executive Officer of the Company, and Patrick J. Ward, Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 1, 2012	/s/ N. THOMAS LINEBARGER N. Thomas Linebarger *Chairman and Chief Executive Officer*
August 1, 2012	/s/ PATRICK J. WARD Patrick J. Ward *Vice President and Chief Financial Officer*