

CUMMINS INC  
Form 10-Q  
October 31, 2012  
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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 September 30, 2012**

**Commission File Number 1-4949**

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**CUMMINS INC.**

(Exact name of registrant as specified in its charter)

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**Indiana**  
(State of Incorporation)

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

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

**Telephone (812) 377-5000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of September 30, 2012, there were 190,065,999 shares of common stock outstanding with a par value of \$2.50 per share.

**Website Access to Company's Reports**

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



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**CUMMINS INC. AND SUBSIDIARIES**

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements****CUMMINS INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

In millions, except per share amounts	Three months ended		Nine months ended	
	September 30, 2012	September 25, 2011	September 30, 2012	September 25, 2011
<b>NET SALES</b> (a)	\$ 4,118	\$ 4,626	\$ 13,042	\$ 13,127
Cost of sales	3,076	3,438	9,592	9,779
<b>GROSS MARGIN</b>	<b>1,042</b>	<b>1,188</b>	<b>3,450</b>	<b>3,348</b>
<b>OPERATING EXPENSES AND INCOME</b>				
Selling, general and administrative expenses	456	489	1,418	1,341
Research, development and engineering expenses	186	164	554	450
Equity, royalty and interest income from investees (Note 5)	94	102	302	315
Gain on sale of businesses (Note 3)			6	68
Other operating income (expense), net	(1)	2	3	(4)
<b>OPERATING INCOME</b>	<b>493</b>	<b>639</b>	<b>1,789</b>	<b>1,936</b>
Interest income	5	9	20	25
Interest expense	9	11	25	34
Other income (expense), net	(2)	(8)	14	(14)
<b>INCOME BEFORE INCOME TAXES</b>	<b>487</b>	<b>629</b>	<b>1,798</b>	<b>1,913</b>
Income tax expense (Note 7)	117	157	458	539
<b>CONSOLIDATED NET INCOME</b>	<b>370</b>	<b>472</b>	<b>1,340</b>	<b>1,374</b>
Less: Net income attributable to noncontrolling interests	18	20	64	74
<b>NET INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 352</b>	<b>\$ 452</b>	<b>\$ 1,276</b>	<b>\$ 1,300</b>
<b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.</b>				
Basic	\$ 1.87	\$ 2.35	\$ 6.73	\$ 6.71
Diluted	\$ 1.86	\$ 2.35	\$ 6.72	\$ 6.69
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>				
Basic	188.6	192.1	189.6	193.8
Dilutive effect of stock compensation awards	0.4	0.6	0.4	0.6
Diluted	189.0	192.7	190.0	194.4
	\$ 0.50	\$ 0.40	\$ 1.30	\$ 0.925

**CASH DIVIDENDS DECLARED PER COMMON  
SHARE**

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(a) Includes sales to nonconsolidated equity investees of \$579 million and \$1,870 million and \$640 million and \$1,874 million for the three and nine months ended September 30, 2012 and September 25, 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)

In millions	Three months ended		Nine months ended	
	September 30, 2012	September 25, 2011	September 30, 2012	September 25, 2011
<b>CONSOLIDATED NET INCOME</b>	\$ 370	\$ 472	\$ 1,340	\$ 1,374
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	131	(177)	78	(123)
Unrealized gain (loss) on derivatives (Note 13)	13	(19)	24	(31)
Change in pension and other postretirement defined benefit plans	9	7	30	40
Unrealized gain (loss) on marketable securities (Note 6)	2	1	1	1
Total other comprehensive income (loss), net of tax	155	(188)	133	(113)
<b>COMPREHENSIVE INCOME</b>	<b>525</b>	<b>284</b>	<b>1,473</b>	<b>1,261</b>
Less: Comprehensive income (loss) attributable to noncontrolling interest	35	(2)	67	52
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO CUMMINS INC.</b>	<b>\$ 490</b>	<b>\$ 286</b>	<b>\$ 1,406</b>	<b>\$ 1,209</b>

*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	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,033	\$ 1,484
Marketable securities (Note 6)	239	277
Total cash, cash equivalents and marketable securities	1,272	1,761
Accounts and notes receivable, net		
Trade and other	2,266	2,252
Nonconsolidated equity investees	237	274
Inventories (Note 9)	2,570	2,141
Prepaid expenses and other current assets	770	663
Total current assets	7,115	7,091
Long-term assets		
Property, plant and equipment	5,691	5,245
Accumulated depreciation	(3,134)	(2,957)
Property, plant and equipment, net	2,557	2,288
Investments and advances related to equity method investees	962	838
Goodwill (Note 10)	443	339
Other intangible assets, net (Note 10)	365	227
Other assets	972	885
Total assets	\$ 12,414	\$ 11,668
<b>LIABILITIES</b>		
Current liabilities		
Loans payable	\$ 54	\$ 28
Accounts payable (principally trade)	1,460	1,546
Current maturities of long-term debt (Note 12)	77	97
Current portion of accrued product warranty (Note 11)	406	422
Accrued compensation, benefits and retirement costs	388	511
Deferred revenue	208	208
Taxes payable (including taxes on income)	172	282
Other accrued expenses	544	563
Total current liabilities	3,309	3,657
Long-term liabilities		
Long-term debt (Note 12)	670	658
Postretirement benefits other than pensions	417	432
Other liabilities and deferred revenue	1,184	1,090
Total liabilities	5,580	5,837
Commitments and contingencies (Note 14)		
<b>EQUITY</b>		
Cummins Inc. shareholders' equity		
Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.2 shares issued	2,046	2,001
Retained earnings	7,068	6,038
Treasury stock, at cost, 32.3 and 30.2 shares	(1,809)	(1,587)
Common stock held by employee benefits trust, at cost, 1.6 and 1.8 shares	(19)	(22)

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Accumulated other comprehensive loss			
Defined benefit postretirement plans	(694)		(724)
Other	(114)		(214)
Total accumulated other comprehensive loss	(808)		(938)
Total Cummins Inc. shareholders' equity	6,478		5,492
Noncontrolling interests	356		339
Total equity	6,834		5,831
Total liabilities and equity	\$	12,414	\$ 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)

In millions	Nine months ended	
	September 30, 2012	September 25, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 1,340	\$ 1,374
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	262	243
Gain on sale of businesses (Note 3)	(6)	(68)
Gain on fair value adjustment for consolidated investee (Note 3)	(7)	
Deferred income taxes	91	148
Equity in income of investees, net of dividends	(51)	7
Pension contributions in excess of expense (Note 4)	(74)	(71)
Other post-retirement benefits payments in excess of expense (Note 4)	(16)	(10)
Stock-based compensation expense	29	28
Excess tax benefits on stock-based awards	(12)	(4)
Translation and hedging activities	16	(14)
Changes in current assets and liabilities, net of acquisitions and divestitures:		
Accounts and notes receivable	66	(469)
Inventories	(367)	(367)
Other current assets	(54)	(5)
Accounts payable	(145)	317
Accrued expenses	(398)	173
Changes in other liabilities and deferred revenue	154	93
Other, net	(41)	(7)
Net cash provided by operating activities	787	1,368
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(424)	(377)
Investments in internal use software	(62)	(31)
Investments in and advances to equity investees	(92)	(104)
Proceeds from sale of business, net of cash sold (Note 3)	10	111
Acquisition of businesses, net of cash acquired (Note 3)	(215)	
Investments in marketable securities acquisitions (Note 6)	(433)	(538)
Investments in marketable securities liquidations (Note 6)	475	572
Cash flows from derivatives not designated as hedges	13	4
Other, net	9	7
Net cash used in investing activities	(719)	(356)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	64	96
Payments on borrowings and capital lease obligations	(120)	(174)
Net borrowings under short-term credit agreements	5	(5)
Distributions to noncontrolling interests	(50)	(50)
Dividend payments on common stock	(246)	(178)
Repurchases of common stock	(231)	(546)
Excess tax benefits on stock-based awards	12	4
Other, net	16	13
Net cash used in financing activities	(550)	(840)

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<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>31</b>	<b>(30)</b>
Net increase (decrease) in cash and cash equivalents	<b>(451)</b>	142
Cash and cash equivalents at beginning of year	<b>1,484</b>	1,023
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 1,033</b>	<b>\$ 1,165</b>

*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 CHANGES IN EQUITY

(Unaudited)

In millions	Common Stock	Additional paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Common Stock Held in Trust	Total Cummins Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
<b>BALANCE AT DECEMBER 31, 2010</b>	\$ 554	\$ 1,380	\$ 4,445	\$ (720)	\$ (964)	\$ (25)	\$ 4,670	\$ 326	\$ 4,996
Net income			1,300				1,300	74	1,374
Other comprehensive income (loss)				(91)			(91)	(22)	(113)
Issuance of shares	1	12					13		13
Employee benefits trust activity		21				3	24		24
Acquisition of shares					(546)		(546)		(546)
Cash dividends on common stock			(178)				(178)		(178)
Distribution to noncontrolling interests								(52)	(52)
Stock option exercises					5		5		5
Other shareholder transactions		14					14	7	21
<b>BALANCE AT SEPTEMBER 25, 2011</b>	\$ 555	\$ 1,427	\$ 5,567	\$ (811)	\$ (1,505)	\$ (22)	\$ 5,211	\$ 333	\$ 5,544
<b>BALANCE AT DECEMBER 31, 2011</b>	\$ 555	\$ 1,446	\$ 6,038	\$ (938)	\$ (1,587)	\$ (22)	\$ 5,492	\$ 339	\$ 5,831
Net income			1,276				1,276	64	1,340
Other comprehensive income (loss)				130			130	3	133
Issuance of shares	1	5					6		6
Employee benefits trust activity		22				3	25		25
Acquisition of shares					(231)		(231)		(231)
Cash dividends on common stock			(246)				(246)		(246)
Distribution to noncontrolling interests								(71)	(71)
Stock option exercises					9		9		9
Other shareholder transactions		17					17	21	38
<b>BALANCE AT SEPTEMBER 30, 2012</b>	\$ 556	\$ 1,490	\$ 7,068	\$ (808)(1)	\$ (1,809)	\$ (19)	\$ 6,478	\$ 356	\$ 6,834

(1) Comprised of defined benefit postretirement plans of \$(694) million, foreign currency translation adjustments of \$(122) million, unrealized gain on derivatives of \$4 million and an unrealized gain on marketable securities of \$4 million.

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

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**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 third quarters of 2012 and 2011 ended on September 30, and September 25, respectively. The interim periods for both 2012 and 2011 contain 13 weeks, while the nine month periods contained 39 weeks and 38 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.

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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 nine month periods ended September 30, 2012, and September 25, 2011, were as follows:

	Three months ended		Nine months ended	
	September 30, 2012	September 25, 2011	September 30, 2012	September 25, 2011
Options excluded	<b>599,637</b>	285,937	<b>412,318</b>	142,750

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



Table of Contents**NOTE 3. ACQUISITIONS AND DIVESTITURES****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 and closed on July 18, 2012. The purchase price was \$176 million and is summarized below. There was no contingent consideration associated with this transaction. During the first nine months of 2012 we expensed approximately \$4 million of acquisition related costs.

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

Intangible assets by asset class, including weighted average amortization life, are 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

The purchase price was 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 \$20 million. The acquisition was accounted for as a business combination, with the results of the acquired entity included in the Distribution operating segment in the third quarter of 2012. Distribution segment results also included a \$7 million gain, as we were required to re-measure our pre-existing 35 percent ownership interest in Cummins Central Power to fair value in accordance with GAAP. Net sales for Cummins Central Power were \$209 million for the 12 months ended December 31, 2011.

### **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 nine months ended September 30, 2012 and September 25, 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.

Table of Contents**NOTE 4. PENSION AND OTHER POSTRETIREMENT BENEFITS**

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

In millions	Three months ended		Nine months ended	
	September 30, 2012	September 25, 2011	September 30, 2012	September 25, 2011
Defined benefit pension and other postretirement plans				
Voluntary pension	\$ 34	\$ 36	\$ 107	\$ 106
Mandatory pension	4	5	15	16
Defined benefit pension contributions	38	41	122	122
Other postretirement plans	14	4	31	22
Total defined benefit plans	\$ 52	\$ 45	\$ 153	\$ 144
Defined contribution pension plans	\$ 15	\$ 20	\$ 59	\$ 57

We made \$122 million of pension contributions in the nine months ended September 30, 2012, and we anticipate making an additional \$8 million of contributions during the remainder of 2012. We paid \$31 million of claims and premiums for other postretirement benefits in the nine months ended September 30, 2012; payments for the remainder of 2012 are expected to be \$20 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:

In millions	Pension						Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans					
	September 30, 2012	September 25, 2011	Three months ended		September 30, 2012	September 25, 2011	September 30, 2012	September 25, 2011
Service cost	\$ 15	\$ 13	\$ 5	\$ 5	\$ 6	\$ 6		
Interest cost	25	27	15	15	6	6		
Expected return on plan assets	(40)	(38)	(20)	(19)				
Amortization of prior service (credit) cost				1	(1)	(2)		
Recognized net actuarial loss	12	10	4	3				
Net periodic benefit cost	\$ 12	\$ 12	\$ 4	\$ 5	\$ 5	\$ 4		

In millions	Pension						Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans					
	September 30, 2012	September 25, 2011	Nine months ended		September 30, 2012	September 25, 2011	September 30, 2012	September 25, 2011

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Service cost	\$	<b>44</b>	\$	39	\$	<b>16</b>	\$	15	\$	
Interest cost		<b>77</b>		81		<b>44</b>		45		<b>16</b> 18
Expected return on plan assets		<b>(118)</b>		(114)		<b>(61)</b>		(56)		
Amortization of prior service (credit) cost								2		<b>(3)</b> (6)
Recognized net actuarial loss		<b>35</b>		30		<b>11</b>		9		<b>2</b>
Net periodic benefit cost	\$	<b>38</b>	\$	36	\$	<b>10</b>	\$	15	\$	<b>15</b> \$ 12

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

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

In millions	Three months ended		Nine months ended	
	September 30, 2012	September 25, 2011	September 30, 2012	September 25, 2011
<b>Distribution Entities</b>				
North American distributors	\$ 37	\$ 35	\$ 115	\$ 100
Komatsu Cummins Chile, Ltda.	9	6	20	16
All other distributors		1	3	3
<b>Manufacturing Entities</b>				
Chongqing Cummins Engine Company, Ltd.	14	20	49	51
Dongfeng Cummins Engine Company, Ltd.	9	15	42	64
Shanghai Fleetguard Filter Co., Ltd.	3	4	10	12
Beijing Foton Cummins Engine Co., Ltd.	3	(2)	3	(5)
Cummins Westport, Inc.	2	4	11	8
Valvoline Cummins, Ltd.	2	2	6	6
Tata Cummins, Ltd.		2	7	9
Komatsu manufacturing alliances	(1)		(1)	1
All other manufacturers	7	7	7	19
Cummins share of net income	85	94	272	284
Royalty and interest income	9	8	30	31
Equity, royalty and interest income from investees	\$ 94	\$ 102	\$ 302	\$ 315

**NOTE 6. MARKETABLE SECURITIES**

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

In millions	Cost	September 30, 2012		Cost	December 31, 2011	
		Gross unrealized gains/(losses)	Estimated fair value		Gross unrealized gains/(losses)	Estimated fair value
Available-for-sale						
Debt mutual funds	\$ 140	\$ 3	\$ 143	\$ 115	\$ 2	\$ 117
Bank debentures	50		50	82		82
Certificates of deposit	32		32	66		66
Government debt securities-non-U.S.	3		3	3		3
Corporate debt securities	2		2	2		2
Equity securities and other		9	9		7	7
	\$ 227	\$ 12	\$ 239	\$ 268	\$ 9	\$ 277

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Total marketable securities

At September 30, 2012, the fair value of available-for-sale investments in debt securities by contractual maturity was as follows:

<b>Maturity date</b>	<b>Fair value</b>	
<b>In millions</b>		
1 year or less	\$	29
1-5 years		25
5-10 years		1
Total	\$	55

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**NOTE 7. INCOME TAXES**

Our effective tax rate for the year is expected to approximate 26.5 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 nine month periods ended September 30, 2012, were 24.1 percent and 25.5 percent, respectively. These tax rates include a \$16 million tax benefit for third quarter discrete tax adjustments, \$6 million of which related to a dividend distribution of accumulated foreign income earned in prior years. These discrete tax adjustments also included a discrete tax benefit of \$13 million for prior year tax return true-up adjustments and a discrete tax charge of \$3 million related to the third quarter enactment of U.K. tax law changes.

The tax rates for the three and nine month periods ended September 25, 2011, were 25.0 percent and 28.2 percent, respectively, and included a net discrete income tax benefit of \$29 million (net of additional reserves for uncertain tax positions of \$39 million) related to prior year refund claims filed for additional research tax credits, additional foreign income and foreign tax credits, as well as other adjustments. This benefit also included discrete income tax charges of \$2 million for prior year tax return true-up adjustments and \$3 million related to the third quarter enactment of U.K. tax law changes in the three and nine month periods ended September 25, 2011. Additionally, the tax rate for the nine month period included a second quarter discrete income tax charge of \$4 million related to the enactment of state tax 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.

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