

CUMMINS INC
Form 8-K
October 28, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

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

Date of Report: October 28, 2014

CUMMINS INC.
(Exact name of registrant as specified in its charter)
Indiana 1-4949 35-0257090
(State or other Jurisdiction of (Commission File Number) (I.R.S. Employer
Incorporation) Identification No.)

500 Jackson Street
P. O. Box 3005
Columbus, IN 47202-3005
(Principal Executive Office) (Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On October 28, 2014, Cummins Inc. (“Cummins,” “the Company,” “the registrant,” “we,” “our,” or “us”) issued the attached press release reporting its financial results for the third quarter of 2014, which is furnished herewith as Exhibit 99.

This Current Report on Form 8-K includes supplemental unaudited historical "Cost of sales" and "Selling, general and administrative expenses" information.

The information furnished pursuant to this Item 2.02, including Exhibit 99, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Exchange Act.

Item 9.01. Financial Statements and Exhibits.

(d) The following exhibit is furnished pursuant to Item 2.02 herewith:
99-Press Release dated October 28, 2014

SIGNATURE

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 hereunto duly authorized.

Date: October 28, 2014

CUMMINS INC.
/s/ Marsha L. Hunt
Marsha L. Hunt
Vice President - Corporate Controller
(Principal Accounting Officer)

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

| In millions, except per share amounts | Three months ended | | September 29, 2013 |
|---|-----------------------|------------------|-----------------------|
| | September 28, 2014 | June 29, 2014 | |
| NET SALES | \$4,890 | \$4,835 | \$4,266 |
| Cost of sales ^(b) | 3,606 | 3,630 | 3,185 |
| GROSS MARGIN | 1,284 | 1,205 | 1,081 |
| OPERATING EXPENSES AND INCOME | | | |
| Selling, general and administrative expenses ^(b) | 529 | 513 | 464 |
| Research, development and engineering expenses | 198 | 179 | 173 |
| Equity, royalty and interest income from investees (Note 1) | 99 | 105 | 91 |
| Other operating income (expense), net | 3 | (6) | (11) |
| OPERATING INCOME | 659 | 612 | 524 |
| Interest income | 6 | 6 | 6 |
| Interest expense | 15 | 15 | 8 |
| Other income, net | 19 | 39 | 6 |
| INCOME BEFORE INCOME TAXES | 669 | 642 | 528 |
| Income tax expense (Note 2) | 230 | 170 | 154 |
| CONSOLIDATED NET INCOME | 439 | 472 | 374 |
| Less: Net income attributable to noncontrolling interests | 16 | 26 | 19 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$423 | \$446 | \$355 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | | |
| Basic | \$2.32 | \$2.44 | \$1.91 |
| Diluted | \$2.32 | \$2.43 | \$1.90 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | |
| Basic | 182.2 | 182.8 | 186.0 |
| Diluted | 182.7 | 183.2 | 186.5 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$0.78 | \$0.625 | \$0.625 |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

(b) We revised the classification of certain amounts for "Cost of sales" and "Selling, general and administrative expenses." See supplemental schedules for additional information.

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

| In millions, except per share amounts | Nine months ended | |
|---|-----------------------|-----------------------|
| | September 28, 2014 | September 29, 2013 |
| NET SALES | \$14,131 | \$12,713 |
| Cost of sales ^(b) | 10,543 | 9,570 |
| GROSS MARGIN | 3,588 | 3,143 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses ^(b) | 1,527 | 1,344 |
| Research, development and engineering expenses | 567 | 532 |
| Equity, royalty and interest income from investees (Note 1) | 294 | 281 |
| Other operating income (expense), net | (4 |) — |
| OPERATING INCOME | 1,784 | 1,548 |
| Interest income | 17 | 21 |
| Interest expense | 47 | 22 |
| Other income, net | 68 | 25 |
| INCOME BEFORE INCOME TAXES | 1,822 | 1,572 |
| Income tax expense (Note 2) | 553 | 445 |
| CONSOLIDATED NET INCOME | 1,269 | 1,127 |
| Less: Net income attributable to noncontrolling interests | 62 | 76 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$1,207 | \$1,051 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | |
| Basic | \$6.59 | \$5.61 |
| Diluted | \$6.58 | \$5.60 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 183.1 | 187.4 |
| Diluted | 183.5 | 187.8 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$2.03 | \$1.625 |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

(b) We revised the classification of certain amounts for "Cost of sales" and "Selling, general and administrative expenses." See supplemental schedules for additional information.

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

| In millions, except par value | September 28, 2014 | December 31, 2013 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$2,328 | \$2,699 |
| Marketable securities | 53 | 150 |
| Total cash, cash equivalents and marketable securities | 2,381 | 2,849 |
| Accounts and notes receivable, net | 3,059 | 2,649 |
| Inventories | 2,833 | 2,381 |
| Prepaid expenses and other current assets | 795 | 760 |
| Total current assets | 9,068 | 8,639 |
| Long-term assets | | |
| Property, plant and equipment | 6,899 | 6,410 |
| Accumulated depreciation | (3,435 |) (3,254 |
| Property, plant and equipment, net | 3,464 | 3,156 |
| Investments and advances related to equity method investees | 981 | 931 |
| Goodwill | 465 | 461 |
| Other intangible assets, net | 346 | 357 |
| Prepaid pensions | 701 | 514 |
| Other assets | 619 | 670 |
| Total assets | \$15,644 | \$14,728 |
| LIABILITIES | | |
| Current liabilities | | |
| Loans payable | \$78 | \$17 |
| Accounts payable (principally trade) | 1,930 | 1,557 |
| Current maturities of long-term debt | 27 | 51 |
| Current portion of accrued product warranty | 351 | 360 |
| Accrued compensation, benefits and retirement costs | 507 | 433 |
| Deferred revenue | 328 | 285 |
| Taxes payable (including taxes on income) | 134 | 99 |
| Other accrued expenses | 683 | 566 |
| Total current liabilities | 4,038 | 3,368 |
| Long-term liabilities | | |
| Long-term debt | 1,584 | 1,672 |
| Pensions | 234 | 232 |
| Postretirement benefits other than pensions | 333 | 356 |
| Other liabilities and deferred revenue | 1,358 | 1,230 |
| Total liabilities | 7,547 | 6,858 |
| EQUITY | | |
| Cummins Inc. shareholders' equity | | |
| Common stock, \$2.50 par value, 500 shares authorized, 222.3 and 222.3 shares issued | 2,125 | 2,099 |
| Retained earnings | 9,243 | 8,406 |
| Treasury stock, at cost, 39.6 and 35.6 shares | (2,779 |) (2,195 |

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| | | | |
|---|----------|----------|---|
| Common stock held by employee benefits trust, at cost, 1.1 and 1.3 shares | (14 |) (16 |) |
| Accumulated other comprehensive loss | | | |
| Defined benefit postretirement plans | (583 |) (611 |) |
| Other | (244 |) (173 |) |
| Total accumulated other comprehensive loss | (827 |) (784 |) |
| Total Cummins Inc. shareholders' equity | 7,748 | 7,510 | |
| Noncontrolling interests | 349 | 360 | |
| Total equity | 8,097 | 7,870 | |
| Total liabilities and equity | \$15,644 | \$14,728 | |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

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

| In millions | Nine months ended | |
|---|-----------------------|-----------------------|
| | September 28, 2014 | September 29, 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income | \$ 1,269 | \$ 1,127 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities | | |
| Depreciation and amortization | 330 | 305 |
| Gain on fair value adjustment for consolidated investees | (38 |) (12 |
| Deferred income taxes | (37 |) 78 |
| Equity in income of investees, net of dividends | (103 |) (98 |
| Pension contributions in excess of expense | (154 |) (96 |
| Other post-retirement benefits payments in excess of expense | (22 |) (20 |
| Stock-based compensation expense | 27 | 29 |
| Excess tax benefits on stock-based awards | (5 |) (13 |
| Translation and hedging activities | (19 |) 26 |
| Changes in current assets and liabilities, net of acquisitions | | |
| Accounts and notes receivable | (236 |) (216 |
| Inventories | (302 |) (206 |
| Other current assets | (6 |) 182 |
| Accounts payable | 316 | 252 |
| Accrued expenses | 162 | (146 |
| Changes in other liabilities and deferred revenue | 184 | 147 |
| Other, net | 22 | (6 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,388 | 1,333 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (409 |) (417 |
| Investments in internal use software | (40 |) (43 |
| Investments in and advances to equity investees | (39 |) (12 |
| Acquisitions of businesses, net of cash acquired | (266 |) (145 |
| Investments in marketable securities—acquisitions | (213 |) (360 |
| Investments in marketable securities—liquidations | 316 | 433 |
| Cash flows from derivatives not designated as hedges | — | (15 |
| Other, net | 11 | 14 |
| Net cash used in investing activities | (640 |) (545 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 39 | 987 |
| Payments on borrowings and capital lease obligations | (72 |) (62 |
| Net (payments) borrowings under short-term credit agreements | (41 |) 34 |
| Distributions to noncontrolling interests | (52 |) (53 |
| Dividend payments on common stock | (370 |) (305 |
| Repurchases of common stock | (605 |) (289 |
| Excess tax benefits on stock-based awards | 5 | 13 |

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| | | | |
|--|---------|---------|---|
| Other, net | (3 |) 19 | |
| Net cash (used in) provided by financing activities | (1,099 |) 344 | |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (20 |) (2 |) |
| Net (decrease) increase in cash and cash equivalents | (371 |) 1,130 | |
| Cash and cash equivalents at beginning of year | 2,699 | 1,369 | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$2,328 | \$2,499 | |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America.

CUMMINS INC. AND SUBSIDIARIES
 SEGMENT INFORMATION
 (Unaudited)

| In millions | Engine | Components | Power Generation | Distribution | Non-segment Items ⁽¹⁾ | Total |
|---|---------|------------|---------------------|--------------|-------------------------------------|---------|
| Three months ended September 28, 2014 | | | | | | |
| External sales | \$2,181 | \$946 | \$481 | \$1,282 | \$— | \$4,890 |
| Intersegment sales | 635 | 341 | 273 | 10 | (1,259) | — |
| Total sales | 2,816 | 1,287 | 754 | 1,292 | (1,259) | 4,890 |
| Depreciation and amortization ⁽²⁾ | 50 | 27 | 13 | 22 | — | 112 |
| Research, development and engineering expenses | 114 | 64 | 18 | 2 | — | 198 |
| Equity, royalty and interest income from investees | 40 | 9 | 13 | 37 | — | 99 |
| Interest income | 3 | 1 | 1 | 1 | — | 6 |
| Segment EBIT | 330 | 172 | 60 | 131 | ⁽³⁾ (9) | 684 |
| Segment EBIT as a percentage of total sales | 11.7 | % 13.4 | % 8.0 | % 10.1 | % | 14.0 % |
| Three months ended June 29, 2014 | | | | | | |
| External sales | \$2,178 | \$953 | \$475 | \$1,229 | \$— | \$4,835 |
| Intersegment sales | 566 | 327 | 268 | 9 | (1,170) | — |
| Total sales | 2,744 | 1,280 | 743 | 1,238 | (1,170) | 4,835 |
| Depreciation and amortization ⁽²⁾ | 52 | 26 | 13 | 20 | — | 111 |
| Research, development and engineering expenses | 105 | 53 | 18 | 3 | — | 179 |
| Equity, royalty and interest income from investees | 45 | 9 | 9 | 42 | — | 105 |
| Interest income | 4 | 1 | 1 | — | — | 6 |
| Segment EBIT | 311 | 185 | 61 | 126 | ⁽³⁾ (26) | 657 |
| Segment EBIT as a percentage of total sales | 11.3 | % 14.5 | % 8.2 | % 10.2 | % | 13.6 % |
| Three months ended September 29, 2013 | | | | | | |
| External sales | \$2,045 | \$784 | \$499 | \$938 | \$— | \$4,266 |
| Intersegment sales | 447 | 288 | 213 | 6 | (954) | — |
| Total sales | 2,492 | 1,072 | 712 | 944 | (954) | 4,266 |
| Depreciation and amortization ⁽²⁾ | 53 | 24 | 13 | 15 | — | 105 |
| Research, development and engineering expenses | 103 | 51 | 18 | 1 | — | 173 |
| Equity, royalty and interest income from investees | 31 | 5 | 13 | 42 | — | 91 |
| Interest income | 4 | 1 | 1 | — | — | 6 |
| Segment EBIT | 272 | 132 | 45 | 86 | 1 | 536 |

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| | | | | | | | | | | | |
|---|------|---|------|---|-----|---|-----|---|--|------|---|
| Segment EBIT as a percentage of total sales | 10.9 | % | 12.3 | % | 6.3 | % | 9.1 | % | | 12.6 | % |
|---|------|---|------|---|-----|---|-----|---|--|------|---|

Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. There were no (1) significant unallocated corporate expenses for the three months ended September 28, 2014, June 29, 2014 and September 29, 2013.

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

(3) Distribution segment EBIT for the three months ended September 28, 2014 and June 29, 2014 included gains of \$18 million and \$14 million on the fair value adjustments resulting from the acquisitions of controlling interests in North American distributors in each period, respectively.

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

| In millions | Engine | Components | Power Generation | Distribution | Non-segment Items ⁽¹⁾ | Total |
|--|---------|------------|------------------|--------------|----------------------------------|----------|
| Nine months ended September 28, 2014 | | | | | | |
| External sales | \$6,449 | \$2,821 | \$1,408 | \$3,453 | \$— | \$14,131 |
| Intersegment sales | 1,674 | 976 | 728 | 27 | (3,405) | — |
| Total sales | 8,123 | 3,797 | 2,136 | 3,480 | (3,405) | 14,131 |
| Depreciation and amortization ⁽²⁾ | 153 | 79 | 38 | 58 | — | 328 |
| Research, development and engineering expenses | 335 | 170 | 55 | 7 | — | 567 |
| Equity, royalty and interest income from investees | 117 | 27 | 30 | 120 | — | 294 |
| Interest income | 9 | 3 | 3 | 2 | — | 17 |
| Segment EBIT | 910 | 524 | 146 | 333 | ⁽³⁾ (44) | 1,869 |
| Segment EBIT as a percentage of total sales | 11.2 | % 13.8 | % 6.8 | % 9.6 | % | 13.2 % |
| Nine months ended September 29, 2013 | | | | | | |
| External sales | \$6,139 | \$2,292 | \$1,621 | \$2,661 | \$— | \$12,713 |
| Intersegment sales | 1,312 | 915 | 651 | 15 | (2,893) | — |
| Total sales | 7,451 | 3,207 | 2,272 | 2,676 | (2,893) | 12,713 |
| Depreciation and amortization ⁽²⁾ | 156 | 71 | 37 | 40 | — | 304 |
| Research, development and engineering expenses | 310 | 165 | 53 | 4 | — | 532 |
| Equity, royalty and interest income from investees | 106 | 21 | 30 | 124 | — | 281 |
| Interest income | 13 | 2 | 5 | 1 | — | 21 |
| Segment EBIT | 806 | 387 | 172 | 281 | ⁽³⁾ (52) | 1,594 |
| Segment EBIT as a percentage of total sales | 10.8 | % 12.1 | % 7.6 | % 10.5 | % | 12.5 % |

⁽¹⁾ Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the nine months ended September 28, 2014 and September 29, 2013.

⁽²⁾ Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount and deferred costs included in the Condensed Consolidated Statements of Income as "Interest expense." The amortization of debt discount and deferred costs were \$2 million and \$8 million for the nine months ended September 28, 2014 and September 29, 2013, respectively.

⁽³⁾ Distribution segment EBIT for the nine months ended September 28, 2014 and September 29, 2013 included gains of \$38 million and \$12 million on the fair value adjustments resulting from the acquisitions of controlling interests in North American distributors in each period, respectively.

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

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| In millions | Three months ended | | Nine months ended | | |
|----------------------------|--------------------|---------------|--------------------|--------------------|--------------------|
| | September 28, 2014 | June 29, 2014 | September 29, 2013 | September 28, 2014 | September 29, 2013 |
| Total EBIT | \$684 | \$657 | \$536 | \$1,869 | \$1,594 |
| Less: Interest expense | 15 | 15 | 8 | 47 | 22 |
| Income before income taxes | \$669 | \$642 | \$528 | \$1,822 | \$1,572 |

CUMMINS INC. AND SUBSIDIARIES
 SELECTED FOOTNOTE DATA
 (Unaudited)

NOTE 1. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEEES

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

| In millions | Three months ended | | Nine months ended | | |
|--|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
| | September 28, 2014 | June 29, 2014 | September 29, 2013 | September 28, 2014 | September 29, 2013 |
| Distribution Entities | | | | | |
| North American distributors | \$27 | \$30 | \$34 | \$89 | \$98 |
| Komatsu Cummins Chile, Ltda. | 8 | 8 | 6 | 22 | 17 |
| All other distributors | — | 1 | 1 | 2 | 1 |
| Manufacturing Entities | | | | | |
| Dongfeng Cummins Engine Company, Ltd. | 15 | 22 | 13 | 51 | 45 |
| Chongqing Cummins Engine Company, Ltd. | 13 | 15 | 15 | 39 | 44 |
| Beijing Foton Cummins Engine Co., Ltd. (Light-duty) | 10 | 8 | 4 | 24 | 14 |
| Shanghai Fleetguard Filter Co., Ltd. | 3 | 3 | 4 | 9 | 11 |
| Tata Cummins, Ltd. | 2 | 2 | 1 | 6 | 4 |
| Cummins Westport, Inc. | 2 | — | 2 | 3 | 5 |
| Beijing Foton Cummins Engine Co., Ltd. (Heavy-duty) | (5 |) (7 |) (4 |) (18 |) (14 |
| All other manufacturers | 13 | 14 | 7 | 36 | 29 |
| Cummins share of net income | 88 | 96 | 83 | 263 | 254 |
| Royalty and interest income | 11 | 9 | 8 | 31 | 27 |
| Equity, royalty and interest income from investees | \$99 | \$105 | \$91 | \$294 | \$281 |

NOTE 2. INCOME TAXES

Our effective tax rate for the year is expected to approximate 29.5 percent, excluding any one-time items that may arise. The expected tax rate does not include the benefits of the research tax credit which expired December 31, 2013 and has not yet been renewed by Congress. Our tax rate is generally less than the 35 percent U.S. statutory income tax rate primarily due to lower tax rates on foreign income.

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

Our effective tax rate for the three month period ended June 29, 2014, was 26.5 percent. The tax rate included a \$2 million discrete tax benefit for the release of reserves for uncertain tax positions related to multiple state audit settlements.

Our effective tax rates for the three and nine month periods ended September 29, 2013, were 29.2 percent and 28.3 percent, respectively. These tax rates include a \$7 million discrete net tax expense for the third quarter tax adjustments: \$4 million expense attributable to prior year tax return true-up adjustments, \$1 million benefit related to release of prior year tax reserves and a discrete tax charge for \$4 million related to a third quarter enactment of U.K. tax law changes. In addition, the nine month tax rate includes a discrete tax benefit in the first quarter of 2013 of \$28 million attributable to the reinstatement of the research credit back to 2012, as well as a discrete tax expense in the first quarter of 2013 of \$17 million, which primarily relates to the write-off of a deferred tax asset deemed unrecoverable.

The increase in the three month effective tax rate from 2013 to 2014 is primarily due to unfavorable changes in the jurisdictional mix of pre-tax income and the 2014 unfavorable discrete tax items.

NOTE 3. ACQUISITION

Cummins Eastern Canada LP

On August 4, 2014, we acquired the remaining 50 percent interest in Cummins Eastern Canada LP (Eastern Canada) from the former distributor principal. The preliminary purchase consideration was \$62 million, which included \$22 million in cash and an additional \$32 million to eliminate outstanding debt. The remaining \$8 million will be paid in future periods. The intangible assets are primarily customer related, the majority of which will be amortized within one year subject to customary purchase price adjustments. The acquisition was accounted for as a business combination and the results of the acquired entity were included in the Distribution operating segment subsequent to the acquisition date. As a result of this transaction, third quarter 2014 Distribution segment results included an \$18 million gain, as we were required to re-measure our pre-existing 50 percent ownership interest in Eastern Canada to fair value. The transaction generated \$5 million of goodwill based on the preliminary purchase price allocation. Net sales for Eastern Canada were \$228 million for the year ended December 31, 2013. This amount is not fully incremental to our consolidated sales as the amount would be reduced by the elimination of sales to the previously unconsolidated entity.

CUMMINS INC. AND SUBSIDIARIES
 FINANCIAL MEASURES THAT SUPPLEMENT GAAP
 (unaudited)

Earnings before interest, taxes and noncontrolling interests

We define EBIT as earnings before interest expense, income tax expense and noncontrolling interests in income of consolidated subsidiaries (EBIT). We use EBIT to assess and measure the performance of our operating segments and also as a component in measuring our variable compensation programs. This measure is not in accordance with, or an alternative for, accounting principles generally accepted in the United States of America and may not be consistent with measures used by other companies. It should be considered supplemental data. Below is a reconciliation of EBIT to “Net income attributable to Cummins Inc.,” for each of the applicable periods:

| In millions | Three months ended | | Nine months ended | | | |
|--|--------------------|---------------|--------------------|--------------------|--------------------|---|
| | September 28, 2014 | June 29, 2014 | September 29, 2013 | September 28, 2014 | September 29, 2013 | |
| Earnings before interest expense and income taxes | \$684 | \$657 | \$536 | \$1,869 | \$1,594 | |
| EBIT as a percentage of net sales | 14.0 | % 13.6 | % 12.6 | % 13.2 | % 12.5 | % |
| Less | | | | | | |
| Interest expense | 15 | 15 | 8 | 47 | 22 | |
| Income tax expense | 230 | 170 | 154 | 553 | 445 | |
| Consolidated net income | 439 | 472 | 374 | 1,269 | 1,127 | |
| Less | | | | | | |
| Net income attributable to noncontrolling interests | 16 | 26 | 19 | 62 | 76 | |
| Net income attributable to Cummins Inc. | \$423 | \$446 | \$355 | \$1,207 | \$1,051 | |
| Net income attributable to Cummins Inc. as a percentage of net sales | 8.7 | % 9.2 | % 8.3 | % 8.5 | % 8.3 | % |

CUMMINS INC. AND SUBSIDIARIES
 SUPPLEMENTAL COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
 (Unaudited)

Supplemental Information

This Current Report on Form 8-K includes supplemental unaudited historical "Cost of sales" and "Selling, general and administrative expenses" information. We revised the classification of certain amounts for "Cost of sales" and "Selling, general and administrative expenses" for 2014, 2013 and 2012. In connection with the integration of recently acquired North American distributors and anticipating the future acquisition and integration of the entire North American channel, our Distribution segment has developed a framework against which Distribution management intends to measure the performance of the distribution channel. The segment EBIT (defined as earnings before interest expense, taxes and noncontrolling interests) performance measure is unchanged, however, certain activities that were previously classified in "Selling, general and administrative expenses" will be classified as "Cost of sales" to align with the new framework and allow for consistent treatment across the channel. We revised the expense presentation of our Condensed Consolidated Statements of Income for the periods presented below to follow the new cost framework. The net impact of this revision for the six months ended June 29, 2014 and years ended December 31, 2013 and 2012 were \$39 million, \$103 million and \$92 million, respectively. The revision had no impact on reported net income, cash flows or the balance sheet. We will begin to report comparative results under the new framework with the filing of our Quarterly Report for the quarter ending September 28, 2014.

| 2014 Revised In millions | Three months ended | | Six months ended |
|---|--------------------|------------------|------------------|
| | March 30, 2014 | June 29, 2014 | June 29, 2014 |
| NET SALES | \$4,406 | \$4,835 | \$9,241 |
| Cost of sales | 3,307 | 3,630 | 6,937 |
| GROSS MARGIN | 1,099 | 1,205 | 2,304 |
| OPERATING EXPENSES AND INCOME | | | |
| Selling, general and administrative expenses | 485 | 513 | 998 |
| Research, development and engineering expenses | 190 | 179 | 369 |
| Equity, royalty and interest income from investees | 90 | 105 | 195 |
| Other operating income (expense), net | (1 |) (6 |) (7 |
| OPERATING INCOME | 513 | 612 | 1,125 |
| Interest income | 5 | 6 | 11 |
| Interest expense | 17 | 15 | 32 |
| Other income (expense), net | 10 | 39 | 49 |
| INCOME BEFORE INCOME TAXES | 511 | 642 | 1,153 |
| Income tax expense | 153 | 170 | 323 |
| CONSOLIDATED NET INCOME | 358 | 472 | 830 |
| Less: Net income attributable to noncontrolling interests | 20 | 26 | 46 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$338 | \$446 | \$784 |

CUMMINS INC. AND SUBSIDIARIES
SUPPLEMENTAL COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
(Unaudited)

| 2013 and 2012 Revised In millions | Three months ended | | | | Years Ended | |
|--|--------------------|------------------|--------------------------|-------------------------|-------------------------|-------------------------|
| | March 31, 2013 | June 30, 2013 | September 29, 2013 | December 31, 2013 | December 31, 2013 | December 31, 2012 |
| NET SALES | \$3,922 | \$4,525 | \$4,266 | \$4,588 | \$17,301 | \$17,334 |
| Cost of sales | 2,988 | 3,397 | 3,185 | 3,451 | 13,021 | 12,918 |
| GROSS MARGIN | 934 | 1,128 | 1,081 | 1,137 | 4,280 | 4,416 |
| OPERATING EXPENSES AND INCOME | | | | | | |
| Selling, general and administrative expenses | 421 | 459 | 464 | 473 | 1,817 | 1,808 |
| Research, development and engineering expenses | 182 | 177 | 173 | 181 | 713 | 728 |
| Equity, royalty and interest income from investees | 82 | 108 | 91 | 80 | 361 | 384 |
| Other operating income (expense), net | 1 | 10 | (11 |) (10 |) (10 |) (10 |
| OPERATING INCOME | 414 | 610 | 524 | 553 | 2,101 | 2,254 |
| Interest income | 5 | 10 | 6 | 6 | 27 | 25 |
| Interest expense | 6 | 8 | 8 | 19 | 41 | 32 |
| Other income (expense), net | 18 | 1 | 6 | 7 | 32 | 24 |
| INCOME BEFORE INCOME TAXES | 431 | 613 | 528 | 547 | 2,119 | 2,271 |
| Income tax expense | 119 | 172 | 154 | 86 | 531 | 533 |
| CONSOLIDATED NET INCOME | 312 | 441 | 374 | 461 | 1,588 | 1,738 |
| Less: Net income attributable to noncontrolling interests | 30 | 27 | 19 | 29 | 105 | 93 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$282 | \$414 | \$355 | \$432 | \$1,483 | \$1,645 |

CUMMINS INC. AND SUBSIDIARIES
 SUPPLEMENTAL COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
 (Unaudited)

The following schedule reflects the change in cost of sales, gross margin, gross margin percentage trend, selling, general and administrative expenses and the impact of the change on the trend for selling, general and administrative expenses and research, development and engineering expenses (SARS).

| In millions | 2012 FY | 2013 Q1 | Q2 | Q3 | Q4 | FY | 2014 Q1 | Q2 | Q2 YTD | |
|--|------------|------------|---------|---------|---------|----------|------------|---------|---------|---|
| REPORTED | | | | | | | | | | |
| NET SALES | \$17,334 | \$3,922 | \$4,525 | \$4,266 | \$4,588 | \$17,301 | \$4,406 | \$4,835 | \$9,241 | |
| Cost of sales | 12,826 | 2,965 | 3,372 | 3,157 | 3,424 | 12,918 | 3,290 | 3,608 | 6,898 | |
| GROSS MARGIN | 4,508 | 957 | 1,153 | 1,109 | 1,164 | 4,383 | 1,116 | 1,227 | 2,343 | |
| GROSS MARGIN % | 26.0 | % 24.4 | % 25.5 | % 26.0 | % 25.4 | % 25.3 | % 25.3 | % 25.4 | % 25.4 | % |
| Selling, general and administrative expenses | 1,900 | 444 | 484 | 492 | 500 | 1,920 | 502 | 535 | 1,037 | |
| Research, development and engineering expenses | 728 | 182 | 177 | 173 | 181 | 713 | 190 | 179 | 369 | |
| Total SARS | 2,628 | 626 | 661 | 665 | 681 | 2,633 | 692 | 714 | 1,406 | |
| SARS % | 15.2 | % 16.0 | % 14.6 | % 15.6 | % 14.8 | % 15.2 | % 15.7 | % 14.8 | % 15.2 | % |
| REVISED | | | | | | | | | | |
| NET SALES | \$17,334 | \$3,922 | \$4,525 | \$4,266 | \$4,588 | \$17,301 | \$4,406 | \$4,835 | \$9,241 | |
| Cost of sales | 12,918 | 2,988 | 3,397 | 3,185 | 3,451 | 13,021 | 3,307 | 3,630 | 6,937 | |
| GROSS MARGIN | 4,416 | 934 | 1,128 | 1,081 | 1,137 | 4,280 | 1,099 | 1,205 | 2,304 | |
| GROSS MARGIN % | 25.5 | % 23.8 | % 24.9 | % 25.3 | % 24.8 | % 24.7 | % 24.9 | % 24.9 | % 24.9 | % |
| Selling, general and administrative expenses | 1,808 | 421 | 459 | 464 | 473 | 1,817 | 485 | 513 | 998 | |
| Research, development and engineering expenses | 728 | 182 | 177 | 173 | 181 | 713 | 190 | 179 | 369 | |
| Total SARS | 2,536 | 603 | 636 | 637 | 654 | 2,530 | 675 | 692 | 1,367 | |
| SARS % | 14.6 | % 15.4 | % 14.1 | % 14.9 | % 14.3 | % 14.6 | % 15.3 | % 14.3 | % 14.8 | % |

CUMMINS INC. AND SUBSIDIARIES
BUSINESS UNIT SALES DATA
(Unaudited)

Engine segment net sales by market:

2014

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------------|---------|---------|---------|-----|---------|
| Heavy-duty truck | \$722 | \$796 | \$823 | \$— | \$2,341 |
| Medium-duty truck and bus | 601 | 646 | 631 | — | 1,878 |
| Light-duty automotive and RV | 361 | 336 | 354 | — | 1,051 |
| Industrial | 700 | 757 | 788 | — | 2,245 |
| Stationary power | 179 | 209 | 220 | — | 608 |
| Total sales | \$2,563 | \$2,744 | \$2,816 | \$— | \$8,123 |

2013

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------------|---------|---------|---------|---------|----------|
| Heavy-duty truck | \$654 | \$723 | \$690 | \$638 | \$2,705 |
| Medium-duty truck and bus | 448 | 595 | 570 | 572 | 2,185 |
| Light-duty automotive and RV | 260 | 345 | 330 | 365 | 1,300 |
| Industrial | 714 | 762 | 709 | 811 | 2,996 |
| Stationary power | 227 | 231 | 193 | 176 | 827 |
| Total sales | \$2,303 | \$2,656 | \$2,492 | \$2,562 | \$10,013 |

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

2014

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-----------------|---------|---------|---------|----|---------|
| Midrange | 118,900 | 118,700 | 117,700 | — | 355,300 |
| Heavy-duty | 28,800 | 30,300 | 32,300 | — | 91,400 |
| High-horsepower | 3,400 | 3,900 | 3,900 | — | 11,200 |
| Total units | 151,100 | 152,900 | 153,900 | — | 457,900 |

2013

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-----------------|---------|---------|---------|---------|---------|
| Midrange | 94,600 | 121,900 | 113,800 | 115,700 | 446,000 |
| Heavy-duty | 24,900 | 28,300 | 26,500 | 25,700 | 105,400 |
| High-horsepower | 4,200 | 3,600 | 3,500 | 3,500 | 14,800 |
| Total units | 123,700 | 153,800 | 143,800 | 144,900 | 566,200 |

Component segment sales by business:

2014

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|--------------------|---------|---------|---------|-----|---------|
| Emission solutions | \$543 | \$582 | \$598 | \$— | \$1,723 |
| Turbo technologies | 313 | 307 | 297 | — | 917 |
| Filtration | 265 | 275 | 268 | — | 808 |
| Fuel systems | 109 | 116 | 124 | — | 349 |
| Total sales | \$1,230 | \$1,280 | \$1,287 | \$— | \$3,797 |

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2013

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|--------------------|---------|---------|---------|---------|---------|
| Emission solutions | \$400 | \$444 | \$458 | \$489 | \$1,791 |
| Turbo technologies | 266 | 294 | 263 | 292 | 1,115 |
| Filtration | 255 | 271 | 248 | 254 | 1,028 |
| Fuel systems | 97 | 108 | 103 | 100 | 408 |
| Total sales | \$1,018 | \$1,117 | \$1,072 | \$1,135 | \$4,342 |

CUMMINS INC. AND SUBSIDIARIES
 BUSINESS UNIT SALES DATA
 (Unaudited)

Power Generation segment sales by business:

2014

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|-----------------|-------|-------|-------|-----|---------|
| Power products | \$373 | \$445 | \$439 | \$— | \$1,257 |
| Power systems | 137 | 141 | 159 | — | 437 |
| Alternators | 105 | 126 | 115 | — | 346 |
| Power solutions | 24 | 31 | 41 | — | 96 |
| Total sales | \$639 | \$743 | \$754 | \$— | \$2,136 |

2013

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|-----------------|-------|-------|-------|-------|---------|
| Power products | \$409 | \$474 | \$421 | \$421 | \$1,725 |
| Power systems | 179 | 187 | 122 | 168 | 656 |
| Alternators | 126 | 125 | 126 | 119 | 496 |
| Power solutions | 32 | 28 | 43 | 51 | 154 |
| Total sales | \$746 | \$814 | \$712 | \$759 | \$3,031 |

Distribution segment sales by business:

2014

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|----------------------|-------|---------|---------|-----|---------|
| Parts and filtration | \$382 | \$461 | \$491 | \$— | \$1,334 |
| Power generation | 193 | 278 | 279 | — | 750 |
| Engines | 174 | 249 | 270 | — | 693 |
| Service | 201 | 250 | 252 | — | 703 |
| Total sales | \$950 | \$1,238 | \$1,292 | \$— | \$3,480 |

2013

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|----------------------|-------|-------|-------|---------|---------|
| Parts and filtration | \$322 | \$369 | \$377 | \$397 | \$1,465 |
| Power generation | 163 | 241 | 234 | 293 | 931 |
| Engines | 152 | 183 | 170 | 208 | 713 |
| Service | 141 | 161 | 163 | 175 | 640 |
| Total sales | \$778 | \$954 | \$944 | \$1,073 | \$3,749 |