# 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 June 27, 2010**

**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 x No o

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 x No o

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 x | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company o |

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

As of June 27, 2010, there were 198,786,534 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.

Table of Contents

**CUMMINS INC. AND SUBSIDIARIES**

**TABLE OF CONTENTS**

**QUARTERLY REPORT ON FORM 10-Q**


| | | Page |
|---|---|---|
| | **PART I. FINANCIAL INFORMATION** | |
| ITEM 1. | Condensed Consolidated Financial Statements (Unaudited) | 3 |
| | Condensed Consolidated Statements of Income for the three and six months ended June 27, 2010, and June 28, 2009 | 3 |
| | Condensed Consolidated Balance Sheets at June 27, 2010, and December 31, 2009 | 4 |
| | Condensed Consolidated Statements of Cash Flows for the six months ended June 27, 2010, and June 28, 2009 | 5 |
| | Condensed Consolidated Statements of Changes in Equity for the six months ended June 27, 2010, and June 28, 2009 | 6 |
| | Notes to Condensed Consolidated Financial Statements | 7 |
| ITEM 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 24 |
| ITEM 3. | Quantitative and Qualitative Disclosures About Market Risk | 43 |
| ITEM 4. | Controls and Procedures | 43 |
| | **PART II. OTHER INFORMATION** | |
| ITEM 1. | Legal Proceedings | 44 |
| ITEM 1A. | Risk Factors | 44 |
| ITEM 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 45 |
| ITEM 4. | Submission of Matters to a Vote of Security Holders | 45 |
| ITEM 6. | Exhibits | 46 |
| | Signatures | 47 |

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 June 27, 2010 | Three months ended June 28, 2009 | Six months ended June 27, 2010 | Six months ended June 28, 2009 |
|---|---|---|---|---|
| **NET SALES** (a) | **$ 3,208** | $ 2,431 | **$ 5,686** | $ 4,870 |
| Cost of sales | **2,455** | 1,983 | **4,332** | 3,977 |
| **GROSS MARGIN** | **753** | 448 | **1,354** | 893 |
| | | | | |
| **OPERATING EXPENSES AND INCOME** | | | | |
| Selling, general and administrative expenses | **354** | 287 | **689** | 587 |
| Research, development and engineering expenses | **96** | 79 | **188** | 164 |
| Equity, royalty and interest income from investees (Note 4) | **97** | 57 | **173** | 90 |
| Restructuring charges (Note 13) | | 7 | | 73 |
| Other operating (expense) income, net | **(4)** | (11) | **(8)** | (9) |
| **OPERATING INCOME** | **396** | 121 | **642** | 150 |
| | | | | |
| Interest income | **5** | 1 | **8** | 3 |
| Interest expense | **9** | 10 | **18** | 17 |
| Other (expense) income, net | | (13) | **17** | (16) |
| **INCOME BEFORE INCOME TAXES** | **392** | 99 | **649** | 120 |
| | | | | |
| Income tax expense | **122** | 29 | **209** | 36 |
| **CONSOLIDATED NET INCOME** | **270** | 70 | **440** | 84 |
| | | | | |
| Less: net income attributable to noncontrolling interests | **24** | 14 | **45** | 21 |
| **NET INCOME ATTRIBUTABLE TO CUMMINS INC.** | **$ 246** | $ 56 | **$ 395** | $ 63 |
| | | | | |
| **EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.** | | | | |
| Basic | **$ 1.25** | $ 0.28 | **$ 2.00** | $ 0.32 |
| Diluted | **$ 1.25** | $ 0.28 | **$ 2.00** | $ 0.32 |
| | | | | |
| **WEIGHTED AVERAGE SHARES OUTSTANDING** | | | | |
| Basic | **196.9** | 197.1 | **197.6** | 197.0 |
| Dilutive effect of stock compensation awards | **0.4** | 0.3 | **0.3** | 0.2 |
| Diluted | **197.3** | 197.4 | **197.9** | 197.2 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **CASH DIVIDENDS DECLARED PER COMMON SHARE** | **$** | **0.175** | $ | 0.175 | **$** | **0.35** | $ | 0.35 |

(a) Includes sales to nonconsolidated equity investees of $516 million and $944 million and $422 million and $851 million for the three and six months ended June 27, 2010 and June 28, 2009, respectively.

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

Table of Contents

**CUMMINS INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

| In millions, except par value | June 27, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 924** | $ 930 |
| Marketable securities | **269** | 190 |
| Accounts and notes receivable, net | | |
| Trade and other | **1,783** | 1,730 |
| Nonconsolidated equity investees | **269** | 274 |
| Inventories (Note 6) | **1,652** | 1,341 |
| Deferred income taxes | **312** | 295 |
| Prepaid expenses and other current assets | **236** | 243 |
| Total current assets | **5,445** | 5,003 |
| Long-term assets | | |
| Property, plant and equipment | **4,705** | 4,765 |
| Accumulated depreciation | **(2,867)** | (2,879) |
| Property, plant and equipment, net | **1,838** | 1,886 |
| Investments and advances related to equity method investees | **622** | 574 |
| Goodwill | **363** | 364 |
| Other intangible assets, net | **225** | 228 |
| Deferred income taxes | **377** | 436 |
| Other assets | **340** | 325 |
| Total assets | **$ 9,210** | $ 8,816 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Loans payable | **$ 87** | $ 37 |
| Accounts payable (principally trade) | **1,213** | 957 |
| Current portion of accrued product warranty (Note 7) | **407** | 426 |
| Accrued compensation, benefits and retirement costs | **346** | 366 |
| Deferred revenue | **142** | 128 |
| Other accrued expenses | **612** | 518 |
| Total current liabilities | **2,807** | 2,432 |
| Long-term liabilities | | |
| Long-term debt | **669** | 637 |
| Pensions | **370** | 514 |
| Postretirement benefits other than pensions | **461** | 453 |
| Other liabilities and deferred revenue | **743** | 760 |
| Total liabilities | **5,050** | 4,796 |
| Commitments and contingencies (Note 8) | | |
| **EQUITY** | | |
| Cummins Inc. shareholders equity | | |
| Common stock, $2.50 par value, 500 shares authorized, 221.9 and 222.0 shares issued | **1,868** | 1,860 |
| Retained earnings | **3,900** | 3,575 |
| Treasury stock, at cost, 23.1 and 20.7 shares | **(890)** | (731) |
| Common stock held by employee benefits trust, at cost, 2.9 and 3.0 shares | **(35)** | (36) |
| Accumulated other comprehensive loss | | |
| Defined benefit postretirement plans | **(786)** | (788) |
| Other | **(174)** | (107) |

| | | | | |
|---|---|---|---|---|
| Total accumulated other comprehensive loss | | **(960)** | | (895) |
| Total Cummins Inc. shareholders equity | | **3,883** | | 3,773 |
| Noncontrolling interests | | **277** | | 247 |
| Total equity | | **4,160** | | 4,020 |
| Total liabilities and equity | **$** | **9,210** | $ | 8,816 |

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

Table of Contents

**CUMMINS INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| In millions | Six months ended June 27, 2010 | Six months ended June 28, 2009 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Consolidated net income | $ 440 | $ 84 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| Restructuring charges, net of cash payments | | 20 |
| Depreciation and amortization | 161 | 154 |
| Gain on fair value adjustment for consolidated investee (Note 14) | (12) | |
| Deferred income taxes | 43 | 20 |
| Equity in income of investees, net of dividends | (49) | 60 |
| Pension expense, net of pension contributions | (116) | (15) |
| Other post-retirement benefits expense, net of cash payments | (7) | (16) |
| Stock-based compensation expense | 11 | 12 |
| Translation and hedging activities | 3 | 51 |
| Changes in current assets and liabilities, net of acquisitions and divestitures: | | |
| Accounts and notes receivable | (57) | 86 |
| Inventories | (301) | 282 |
| Other current assets | 1 | 22 |
| Accounts payable | 239 | (253) |
| Accrued expenses | (14) | (242) |
| Changes in long-term liabilities | 66 | 73 |
| Other, net | 19 | (17) |
| Net cash provided by operating activities | 427 | 321 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Capital expenditures | (91) | (139) |
| Investments in internal use software | (22) | (19) |
| Proceeds from disposals of property, plant and equipment | 42 | 7 |
| Investments in and advances (to) from equity investees | (1) | 1 |
| Acquisition of businesses, net of cash acquired (Note 14) | (71) | (2) |
| Investments in marketable securities acquisitions | (358) | (69) |
| Investments in marketable securities liquidations | 278 | 133 |
| Cash flows from derivatives not designated as hedges | (18) | (21) |
| Other, net | (2) | |
| Net cash used in investing activities | (243) | (109) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from borrowings | 85 | 10 |
| Payments on borrowings and capital lease obligations | (37) | (44) |
| Net borrowings under short-term credit agreements | (1) | (5) |
| Distributions to noncontrolling interests | (4) | (10) |
| Dividend payments on common stock | (70) | (71) |
| Repurchases of common stock | (162) | |
| Other, net | 16 | 1 |
| Net cash used in financing activities | (173) | (119) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | (17) | 15 |
| Net (decrease) increase in cash and cash equivalents | (6) | 108 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents at beginning of year | | **930** | | 426 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **$** | **924** | $ | 534 |

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

Table of Contents

**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 | Unearned Compensation | Total Cummins Inc. Shareholders Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE AT DECEMBER 31, 2008** | $ 554 | $ 1,239 | $ 3,288 | $ (1,066) | $ (715) | $ (61) | $ (5) | $ 3,234 | $ 246 | $ 3,480 |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | 63 | | | | | 63 | 21 | 84 |
| Other comprehensive income (loss) (Note 11) | | | | 135 | | | | 135 | 6 | 141 |
| Total comprehensive income | | | | | | | | 198 | 27 | 225 |
| Issuance of shares | 1 | 2 | | | | | | 3 | | 3 |
| Cash dividends on common stock | | | (71) | | | | | (71) | | (71) |
| Distribution to noncontrolling interests | | | | | | | | | (15) | (15) |
| Stock option exercises | | (1) | | | 1 | | | | | |
| Conversion to capital lease | | | | | | | | | (35) | (35) |
| Other shareholder transactions | | 1 | | | | 3 | 4 | 8 | | 8 |
| **BALANCE AT JUNE 28, 2009** | $ 555 | $ 1,241 | $ 3,280 | $ (931) | $ (714) | $ (58) | $ (1) | $ 3,372 | $ 223 | $ 3,595 |
| | | | | | | | | | | |
| **BALANCE AT DECEMBER 31, 2009** | $ 555 | $ 1,306 | $ 3,575 | $ (895) | $ (731) | $ (36) | $ (1) | $ 3,773 | $ 247 | $ 4,020 |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | **395** | | | | | **395** | **45** | **440** |
| Other comprehensive income (loss) (Note 11) | | | | **(65)** | | | | **(65)** | | **(65)** |
| Total comprehensive income | | | | | | | | **330** | **45** | **375** |
| Issuance of shares | | **3** | | | | | | **3** | | **3** |
| Employee benefits trust activity | | **9** | | | | **1** | | **10** | | **10** |
| Acquisition of shares | | | | | **(162)** | | | **(162)** | | **(162)** |
| Cash dividends on common stock | | | **(70)** | | | | | **(70)** | | **(70)** |
| Distribution to noncontrolling interests | | | | | | | | | **(4)** | **(4)** |
| Stock option exercises | | | | | **3** | | | **3** | | **3** |
| Deconsolidation of variable interest entity (Note 3) | | | | | | | | | **(11)** | **(11)** |
| Other shareholder transactions | | **(5)** | | | | | **1** | **(4)** | | **(4)** |
| **BALANCE AT JUNE 27, 2010** | **$ 555** | **$ 1,313** | **$ 3,900** | **$ (960)(1)** | **$ (890)** | **$ (35)** | **$** | **$ 3,883** | **$ 277** | **$ 4,160** |

(1) Comprised of defined benefit postretirement plans of $(786) million, foreign currency translation adjustments of $(178) million, unrealized gain on marketable securities of $3 million and unrealized gain on derivatives of $1 million.

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

Table of Contents

**CUMMINS INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## NOTE 1. NATURE OF OPERATIONS

Cummins Inc. ( Cummins, the Company, we, our, or us ) is a leading global power provider that designs, manufactures, distributes and servic diesel and natural gas engines, electric power generation systems and engine-related component products, including filtration and emissions solutions, fuel systems, controls and air handling systems. We were founded in 1919 as one of the first manufacturers of diesel engines and are headquartered 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 500 company-owned and independent distributor locations and approximately 5,200 dealer locations in more than 190 countries and territories.

## NOTE 2. BASIS OF PRESENTATION

The unaudited *Condensed Consolidated Financial Statements* reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of operations, financial position and cash flows. All such adjustments are of a normal recurring nature. The *Condensed Consolidated Financial Statements* have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (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 ends on the Sunday closest to the last day of the quarterly calendar period. The second quarters of 2010 and 2009 ended on June 27, and June 28, respectively. The interim periods for both 2010 and 2009 contain 13 weeks. 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, restructuring costs, 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 Securities and Exchange Commission.

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 June 27, 2010, and June 28, 2009, were as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 27, 2010** | **June 28, 2009** | **June 27, 2010** | **June 28, 2009** |
| Options excluded | **6,685** | 99,167 | **13,527** | 75,671 |

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, 2009. 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 *Consolidated Balance Sheet* data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Table of Contents

**NOTE 3. RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**Accounting Pronouncements Recently Adopted**

In January 2010, the Financial Accounting Standards Board (FASB) amended its standards related to fair value measurements and disclosures, which are effective for interim and annual fiscal periods beginning after December 15, 2009, except for disclosures about certain Level 3 activity which will not become effective until interim and annual periods beginning after December 15, 2010. The new standard requires us to disclose transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers as well as activity in Level 3 fair value measurements. The new standard also requires a more detailed level of disaggregation of the assets and liabilities being measured as well as increased disclosures regarding inputs and valuation techniques of the fair value measurements. Our disclosures related to the new standard are included in Note 9.

In June 2009, the FASB amended its standards for accounting for transfers of financial assets, which was effective for interim and annual fiscal periods beginning after November 15, 2009. The new standard removes the concept of a qualifying special-purpose entity from GAAP. The new standard modifies the financial components approach used in previous standards and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized. The new standard also requires enhanced disclosure regarding transfers of financial interests and a transferor s continuing involvement with transferred assets. The new standard requires us to report any activity under our receivable sales program as secured borrowings. As of June 27, 2010, there were no outstanding amounts under our receivable sales program and there was no significant activity during the quarter.

In June 2009, the FASB amended its existing standards related to the consolidation of variable interest entities, which was effective for interim and annual fiscal periods beginning after November 15, 2009. The new standard requires entities to analyze whether their variable interests give it a controlling financial interest of a variable interest entity (VIE) and outlines what defines a primary beneficiary. The new standard amends GAAP by: (a) changing certain rules for determining whether an entity is a VIE; (b) replacing the quantitative approach previously required for determining the primary beneficiary with a more qualitative approach; and (c) requiring entities to continuously analyze whether they are the primary beneficiary of a VIE among other amendments. The new standard also requires enhanced disclosures regarding an entity s involvement in a VIE. The only significant impact of the adoption of this standard was to deconsolidate Cummins Komatsu Engine Corporation (CKEC) as of January 1, 2010 and to account for CKEC under GAAP accounting for equity method investees. The impact of the deconsolidation on our *Condensed Consolidated Statements of Income* was minimal as all sales were eliminated in consolidation in the past. The most significant impacts on our *Condensed Consolidated Balance Sheets* were to decrease current assets by $9 million, decrease long-term assets by $10 million, increase investments and advances related to equity method investees by $11 million and decrease noncontrolling interest by $11 million.

**Accounting Pronouncements Issued But Not Yet Effective**

In October 2009, the FASB amended its rules regarding the accounting for multiple element revenue arrangements. The objective of the amendment is to allow vendors to account for revenue for different deliverables separately as opposed to part of a combined unit when those deliverables are provided at different times. Specifically, this amendment addresses how to separate deliverables and simplifies the process of allocating revenue to the different deliverables when more than one deliverable exists. The new rules are effective for us beginning January 1, 2011. We are in the process of evaluating the impact that this amendment will have on our *Consolidated Financial Statements*.

8

Table of Contents

**NOTE 4. 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:

| In millions | Three months ended June 27, 2010 | Three months ended June 28, 2009 | Six months ended June 27, 2010 | Six months ended June 28, 2009 |
|---|---|---|---|---|
| **Distribution Entities** | | | | |
| North American distributors | **$ 23** | $ 23 | **$ 46** | $ 49 |
| All other distributors | **4** | 4 | **8** | 7 |
| | | | | |
| **Manufacturing Entities** | | | | |
| Dongfeng Cummins Engine Company, Ltd. | **34** | 7 | **52** | 7 |
| Chongqing Cummins Engine Company, Ltd. | **13** | 12 | **23** | 20 |
| All other manufacturers | **15** | 7 | **29** | |
| Cummins share of net income | **89** | 53 | **158** | 83 |
| Royalty and interest income | **8** | 4 | **15** | 7 |
| Equity, royalty and interest income from investees | **$ 97** | $ 57 | **$ 173** | $ 90 |

**NOTE 5. PENSION AND OTHER POSTRETIREMENT BENEFITS**

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

| In millions | Three months ended June 27, 2010 | Three months ended June 28, 2009 | Six months ended June 27, 2010 | Six months ended June 28, 2009 |
|---|---|---|---|---|
| Defined benefit pension and other postretirement plans: | | | | |
| Voluntary pension | **$ 35** | $ 45 | **$ 95** | $ 45 |
| Mandatory pension | **5** | 7 | **56** | 14 |
| Defined benefit pension contributions | **40** | 52 | **151** | 59 |
| Other postretirement plans | **11** | 13 | **17** | 27 |
| Total defined benefit plans | **$ 51** | $ 65 | **$ 168** | $ 86 |
| Defined contribution pension plans | **$ 12** | $ 7 | **$ 23** | $ 23 |

We presently anticipate contributing approximately $175 million to our defined benefit pension plans in 2010 and paying approximately $53 million in claims and premiums for other postretirement benefits. The $175 million of contributions for the full year include voluntary contributions of approximately $108 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.

9

Table of Contents

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

| | Pension | | | | Other | |
|---|---|---|---|---|---|---|
| | U.S. Plans | | Non-U.S. Plans | | Postretirement Benefits | |
| | Three months ended | | | | | |
| **In millions** | **June 27, 2010** | **June 28, 2009** | **June 27, 2010** | **June 28, 2009** | **June 27, 2010** | **June 28, 2009** |
| Service cost | **$ 12** | $ 12 | **$ 4** | $ 4 | **$** | $ |
| Interest cost | **27** | 28 | **14** | 14 | **7** | 8 |
| Expected return on plan assets | **(37)** | (35) | **(17)** | (14) | | |
| Amortization of prior service (credit) cost | | (1) | | 1 | **(2)** | (2) |
| Recognized net actuarial loss | **9** | 7 | **5** | 5 | | |
| Other | | 1 | | | | |
| Net periodic benefit cost | **$ 11** | $ 12 | **$ 6** | $ 10 | **$ 5** | $ 6 |

| | Pension | | | | Other | |
|---|---|---|---|---|---|---|
| | U.S. Plans | | Non-U.S. Plans | | Postretirement Benefits | |
| | Six months ended | | | | | |
| **In millions** | **June 27, 2010** | **June 28, 2009** | **June 27, 2010** | **June 28, 2009** | **June 27, 2010** | **June 28, 2009** |
| Service cost | **$ 23** | $ 23 | **$ 9** | $ 8 | **$** | $ |
| Interest cost | **55** | 57 | **29** | 27 | **14** | 15 |
| Expected return on plan assets | **(74)** | (70) | **(35)** | (28) | | |
| Amortization of prior service (credit) cost | | (1) | **1** | 2 | **(4)** | (4) |
| Recognized net actuarial loss | **18** | 15 | **9** | 10 | | |
| Other | | 1 | | | | |
| Net periodic benefit cost | **$ 22** | $ 25 | **$ 13** | $ 19 | **$ 10** | $ 11 |

**NOTE 6. INVENTORIES**

Inventories included the following:

| **In millions** | **June 27, 2010** | **December 31, 2009** |
|---|---|---|
| Finished products | **$ 863** | $ 785 |
| Work-in-process and raw materials | **876** | 638 |
| Inventories at FIFO cost | **1,739** | 1,423 |
| Excess of FIFO over LIFO | **(87)** | (82) |
| Total inventories | **$ 1,652** | $ 1,341 |

**NOTE 7. 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. 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:

Table of Contents

| In millions | | Six months ended June 27, 2010 | | June 28, 2009 |
|---|---|---|---|---|
| Balance, beginning of period | $ | **989** | $ | 962 |
| Provision for warranties issued | | **157** | | 157 |
| Deferred revenue on extended warranty contracts sold | | **51** | | 53 |
| Payments | | **(206)** | | (242) |
| Amortization of deferred revenue on extended warranty contracts | | **(42)** | | (36) |
| Changes in estimates for pre-existing warranties | | **(20)** | | 53 |
| Foreign currency translation | | **(6)** | | 11 |
| Balance, end of period | $ | **923** | $ | 958 |

Warranty related deferred revenue, supplier recovery receivables and the long-term portion of the warranty liability on our June 27, 2010, balance sheet were as follows:

| In millions | | June 27, 2010 | Balance Sheet Location |
|---|---|---|---|
| Deferred revenue related to extended coverage programs: | | | |
| Current portion | $ | 84 | Deferred revenue |
| Long-term portion | | 186 | Other liabilities and deferred revenue |
| Total | $ | 270 | |
| | | | |
| Receivables related to estimated supplier recoveries: | | | |
| Current portion | $ | 6 | Trade and other receivables |
| Long-term portion | | 5 | Other assets |
| Total | $ | 11 | |
| | | | |
| Long-term portion of warranty liability | $ | 246 | Other liabilities and deferred revenue |

**NOTE 8. 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.

In June 2008, four of our sites in Southern Indiana, including our Technical Center, experienced extensive flood damage. We have submitted a claim for $227 million to our insurance carriers, which includes a claim for business interruption. As of June 27, 2010, we have received $92 million in recoveries from the insurance carriers. Our insurance carriers have disputed certain aspects of our claim and the parties have filed suit against each other. Although we believe that we are insured against the full amount of our claim, there is no assurance that we will be successful recovering the amounts we believe are due under the policies.

Table of Contents

**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. The 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.

**Residual Value Guarantees**

We have various residual value guarantees on equipment leased under operating leases. The total amount of these residual value guarantees at June 27, 2010, was $8 million.

**Other Guarantees and Commitments**

In addition to the guarantees discussed above, from time to time we enter into other guarantee arrangements, including guarantees of non-U.S. distributor financing and other miscellaneous guarantees of third-party obligations. As of June 27, 2010, the maximum potential loss related to these other guarantees is $92 million ($59 million of which relates to the Beijing Foton guarantee discussed below and $32 million relates to the Cummins Olayan Energy Limited guarantee discussed below).

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 June 27, 2010, if we were to stop purchasing from each of these suppliers, the amount of the penalty would be approximately $69 million, of which $62 million relates to a contract with an engine parts supplier that extends to 2013. This arrangement enables us to secure critical components. We do not currently anticipate paying any penalties under these contracts.

In July 2008, Beijing Foton Cummins Engine Company, a 50 percent owned entity accounted for under the equity method, entered into a line of credit agreement with a borrowing capacity of up to $176 million (at current exchange rates). The line will be used primarily to fund equipment purchases for a new manufacturing plant. As a part of this transaction, we guaranteed 50 percent of any outstanding borrowings up to a maximum guarantee of $88 million (at current exchange rates). As of June 27, 2010, outstanding borrowings under this agreement were $118 million and our guarantee was $59 million (at current exchange rates). We recorded a liability for the fair value of this guarantee. The amount of the liability was less than $1 million. The offset to this liability was an increase in our investment in the joint venture.

In February 2010, Cummins Olayan Energy Limited, a 49 percent owned entity accounted for under the equity method, executed a four-year $101 million (at current exchange rates) debt financing arrangement to acquire certain rental equipment assets. As a part of this transaction, we guaranteed 49 percent of the total outstanding loan amount or $49 million (at current exchange rates). As of June 27, 2010, outstanding borrowings under this agreement were $65 million and our guarantee was $32 million (at current exchange rates). We recorded a liability for the fair value of this guarantee. The amount of the liability was less than $1 million. The offset to this liability was an increase in our investment in the joint venture.

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 at June 27, 2010, were $74 million.

Table of Contents

**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 June 27, 2010, we have committed to invest an additional $2 million into existing joint ventures. It is expected that the additional $2 million will be funded in 2010.

**NOTE 9. 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 2010.

Table of Contents

The following table summarizes our financial instruments recorded at fair value in our *Condensed Consolidated Balance Sheets* at June 27, 2010:

| In millions | Fair Value Measurements Using<br>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 | $ 153 | $ 21 | $ | $ 174 |
| Bank debentures | | 45 | | 45 |
| Certificates of deposit | | 37 | | 37 |
| Government debt securities-non-U.S. | | 3 | | 3 |
| Corporate debt securities | | 2 | | 2 |
| Total available-for-sale debt securities | 153 | 108 | | 261 |
| | | | | |
| Available-for-sale equity securities: | | | | |
| Financial services industry | 8 | | | 8 |
| Total available-for-sale equity securities | 8 | | | 8 |
| | | | | |
| Derivative assets: | | | | |
| Commodity swap contracts | | 8 | | 8 |
| Interest rate contracts | | 47 | | 47 |
| Total derivative assets | | 55 | | 55 |
| | | | | |
| Derivative liabilities: | | | | |
| Foreign currency forward contracts | | (5) | | (5) |
| Total derivative liabilities | | (5) | | (5) |
| | | | | |
| Total | $ 161 | $ 158 | $ | $ 319 |

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 one year. 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.

Table of Contents

**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 June 27, 2010 and December 31, 2009, was as follows:

| In millions | | June 27, 2010 | | December 31, 2009 |
|---|---|---|---|---|
| Fair value of total debt | $ | **777** | $ | 674 |
| Carrying value of total debt | | **778** | | 703 |

The carrying values of all other receivables and liabilities approximated fair values.

**NOTE 10. 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. The results and status of our hedging transactions are reported to senior management on a monthly and quarterly basis.

**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 June 27, 2010, we expect to reclassify an unrealized net loss of $3 million from AOCL to income over the next year. For the six month periods ended June 27, 2010 and June 28, 2009, 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.

Table of Contents

The table below summarizes our outstanding foreign currency forward contracts. The currencies in this table represent 95 percent of the notional amounts of contracts outstanding for each period as of June 27, 2010 and December 31, 2009.

| | Notional amount in millions | |
|---|---|---|
| **Currency denomination** | **June 27, 2010** | **December 31, 2009** |
| United States Dollar (USD) | **37** | 107 |
| British Pound Sterling (GBP) | **111** | 70 |
| Euro (EUR) | **40** | 12 |
| Singapore Dollar (SGD) | **14** | 15 |
| Indian Rupee (INR) | **1,603** | 616 |
| Japanese Yen (JPY) | **3,280** | 1,335 |
| Romanian Leu (RON) | | 44 |
| Canadian Dollar (CAD) | **20** | |
| Chinese Renmimbi (CNY) | **124** | 39 |

**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. The swap contracts are derivative contracts that are designated as cash flow hedges under GAAP. 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 June 27, 2010, we expect to reclassify an unrealized net gain of $4 million from AOCL to income over the next year. For the six month period ended June 27, 2010, there were no material circumstances that would have resulted in the discontinuance of a cash flow hedge. For the six month period ended June 28, 2009, we discontinued hedge accounting on certain contracts where the forecasted transactions were no longer probable. The amount reclassified to income as a result of this action was a loss of $2 million dollars for the six months ended June 28, 2009. 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:

| | Six months ended | | | |
|---|---|---|---|---|
| **Dollars in millions** | **June 27, 2010** | | **December 31, 2009** | |
| **Commodity** | **Notional Amount** | **Quantity** | **Notional Amount** | **Quantity** |
| Copper | **$ 52** | **7,964 metric tons(1)** | $ 77 | 11,372 metric tons(1) |
| Platinum | **13** | **12,589 troy ounces(2)** | 14 | 15,986 troy ounces(2) |
| Palladium | **1** | **2,280 troy ounces(2)** | 1 | 3,161 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% 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:

Table of Contents

| | Three months ended | | | | Six months ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 27, 2010 | | June 28, 2009 | | June 27, 2010 | | June 28, 2009 | |
| In millions<br>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 | $ 22 | $ (22) | $ (17) | $ 17 | **$ 22** | **$ (22)** | $ (46) | $ 46 |

**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 month interim reporting periods presented below. The table does not include amounts related to ineffectiveness as it was not material for the periods presented.

| | | Three months ended | | Six months ended | |
|---|---|---|---|---|---|
| In millions<br>Derivatives in | Location of Gain/(Loss) Reclassified into | 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) |