

CUMMINS INC
Form 8-K
November 01, 2016
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: November 1, 2016

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 Identification No.)
Incorporation)

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 November 1, 2016, 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 2016, which is furnished herewith as Exhibit 99.

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 November 1, 2016

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: November 1, 2016

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 | |
|---|--------------------|--------------------|
| | October 2016 | September 27, 2015 |
| NET SALES | \$4,187 | \$ 4,620 |
| Cost of sales | 3,108 | 3,412 |
| GROSS MARGIN | 1,079 | 1,208 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses | 513 | 530 |
| Research, development and engineering expenses | 157 | 197 |
| Equity, royalty and interest income from investees | 74 | 78 |
| Loss contingency | 99 | — |
| Other operating expense, net | — | (2) |
| OPERATING INCOME | 384 | 557 |
| Interest income | 6 | 9 |
| Interest expense | 16 | 16 |
| Other income, net | 8 | 11 |
| INCOME BEFORE INCOME TAXES | 382 | 561 |
| Income tax expense | 82 | 169 |
| CONSOLIDATED NET INCOME | 300 | 392 |
| Less: Net income attributable to noncontrolling interests | 11 | 12 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$289 | \$ 380 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | |
| Basic | \$1.72 | \$ 2.15 |
| Diluted | \$1.72 | \$ 2.14 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 167.8 | 177.0 |
| Diluted | 168.2 | 177.4 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$1.025 | \$ 0.975 |

(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 INCOME
 (Unaudited) (a)

| In millions, except per share amounts | Nine months ended | |
|---|-------------------|--------------------|
| | October 2, 2016 | September 27, 2015 |
| NET SALES | \$13,006 | \$ 14,344 |
| Cost of sales | 9,674 | 10,609 |
| GROSS MARGIN | 3,332 | 3,735 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses | 1,527 | 1,584 |
| Research, development and engineering expenses | 478 | 558 |
| Equity, royalty and interest income from investees | 234 | 240 |
| Loss contingency | 138 | — |
| Other operating expense, net | (2) | (5) |
| OPERATING INCOME | 1,421 | 1,828 |
| Interest income | 18 | 20 |
| Interest expense | 51 | 47 |
| Other income, net | 34 | 12 |
| INCOME BEFORE INCOME TAXES | 1,422 | 1,813 |
| Income tax expense | 362 | 521 |
| CONSOLIDATED NET INCOME | 1,060 | 1,292 |
| Less: Net income attributable to noncontrolling interests | 44 | 54 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$1,016 | \$ 1,238 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | |
| Basic | \$5.99 | \$ 6.92 |
| Diluted | \$5.99 | \$ 6.90 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 169.5 | 178.9 |
| Diluted | 169.7 | 179.3 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$2.975 | \$ 2.535 |

(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 BALANCE SHEETS
(Unaudited) (a)

| In millions, except par value | October 2, 2016 | December 31, 2015 |
|--|--------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,251 | \$ 1,711 |
| Marketable securities | 250 | 100 |
| Total cash, cash equivalents and marketable securities | 1,501 | 1,811 |
| Accounts and notes receivable, net | 2,873 | 2,820 |
| Inventories | 2,820 | 2,707 |
| Prepaid expenses and other current assets | 600 | 609 |
| Total current assets | 7,794 | 7,947 |
| Long-term assets | | |
| Property, plant and equipment | 7,460 | 7,322 |
| Accumulated depreciation | (3,783) | (3,577) |
| Property, plant and equipment, net | 3,677 | 3,745 |
| Investments and advances related to equity method investees | 1,077 | 975 |
| Goodwill | 482 | 482 |
| Other intangible assets, net | 319 | 328 |
| Pension assets | 773 | 735 |
| Other assets | 1,014 | 922 |
| Total assets | \$ 15,136 | \$ 15,134 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable (principally trade) | \$ 1,781 | \$ 1,706 |
| Loans payable | 48 | 24 |
| Commercial paper | 273 | — |
| Accrued compensation, benefits and retirement costs | 393 | 409 |
| Current portion of accrued product warranty | 333 | 359 |
| Current portion of deferred revenue | 460 | 403 |
| Other accrued expenses | 985 | 863 |
| Current maturities of long-term debt | 35 | 39 |
| Total current liabilities | 4,308 | 3,803 |
| Long-term liabilities | | |
| Long-term debt | 1,593 | 1,576 |
| Postretirement benefits other than pensions | 326 | 349 |
| Pensions | 301 | 298 |
| Other liabilities and deferred revenue | 1,344 | 1,358 |
| Total liabilities | \$ 7,872 | \$ 7,384 |
| EQUITY | | |
| Cummins Inc. shareholders' equity | | |
| Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.4 shares issued | \$ 2,209 | \$ 2,178 |
| Retained earnings | 10,833 | 10,322 |
| Treasury stock, at cost, 54.1 and 47.2 shares | (4,468) | (3,735) |
| Common stock held by employee benefits trust, at cost, 0.7 and 0.9 shares | (8) | (11) |

| | | |
|---|-----------|-----------|
| Accumulated other comprehensive loss | (1,632) | (1,348) |
| Total Cummins Inc. shareholders' equity | 6,934 | 7,406 |
| Noncontrolling interests | 330 | 344 |
| Total equity | \$ 7,264 | \$ 7,750 |
| Total liabilities and equity | \$ 15,136 | \$ 15,134 |

(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 | | |
|---|-------------------|--------------------|---|
| | October 2016 | September 27, 2015 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Consolidated net income | \$1,060 | \$ 1,292 | |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities | | | |
| Restructuring payments | (53) |) — | |
| Loss contingency | 138 | — | |
| Depreciation and amortization | 391 | 383 | |
| Gain on fair value adjustment for consolidated investees | — | (17) |) |
| Deferred income taxes | 60 | (120) |) |
| Equity in income of investees, net of dividends | (94) |) (68) |) |
| Pension contributions in excess of expense | (92) |) (119) |) |
| Other post-retirement benefits payments in excess of expense | (16) |) (18) |) |
| Stock-based compensation expense | 28 | 24 | |
| Translation and hedging activities | (39) |) 22 | |
| Changes in current assets and liabilities, net of acquisitions | | | |
| Accounts and notes receivable | (112) |) (163) |) |
| Inventories | (150) |) (179) |) |
| Other current assets | 138 | 133 | |
| Accounts payable | 97 | (52) |) |
| Accrued expenses | (279) |) (153) |) |
| Changes in other liabilities and deferred revenue | 188 | 219 | |
| Other, net | 45 | (53) |) |
| Net cash provided by operating activities | 1,310 | 1,131 | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditures | (312) |) (393) |) |
| Investments in internal use software | (42) |) (38) |) |
| Investments in and advances to equity investees | (29) |) (9) |) |
| Acquisitions of businesses, net of cash acquired | (1) |) (102) |) |
| Investments in marketable securities—acquisitions | (447) |) (175) |) |
| Investments in marketable securities—liquidations | 291 | 228 | |
| Cash flows from derivatives not designated as hedges | (64) |) 17 | |
| Other, net | 14 | (5) |) |
| Net cash used in investing activities | (590) |) (477) |) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | 111 | 24 | |
| Net borrowings of commercial paper | 273 | — | |
| Payments on borrowings and capital lease obligations | (156) |) (64) |) |
| Net borrowings (payments) under short-term credit agreements | 25 | (38) |) |
| Distributions to noncontrolling interests | (42) |) (35) |) |
| Dividend payments on common stock | (505) |) (452) |) |
| Repurchases of common stock | (745) |) (650) |) |
| Other, net | (2) |) — | |

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| | | |
|--|----------|----------|
| Net cash used in financing activities | (1,041) | (1,215) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (139) | (52) |
| Net decrease in cash and cash equivalents | (460) | (613) |
| Cash and cash equivalents at beginning of year | 1,711 | 2,301 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$1,251 | \$ 1,688 |

(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)

As previously announced, beginning with the second quarter of 2016, we realigned certain of our reportable segments to be consistent with changes to our organizational structure and how the Chief Operating Decision Maker monitors the performance of our segments. We reorganized our business to combine our Power Generation segment and our high horsepower engine business to create the new Power Systems segment. Our reportable operating segments consist of Engine, Distribution, Components and Power Systems. We began to report results for our new reporting structure in the second quarter of 2016 and also reflected this change for historical periods.

We allocate certain common costs and expenses, primarily corporate functions, among segments. These include certain costs and expenses of shared services, such as information technology, human resources, legal, finance and supply chain management. In addition to the reorganization noted above, we reevaluated the allocation of these costs, considering the new segment structure created in April 2016 and adjusted our allocation methodology accordingly. The revised methodology, which is based on a combination of relative segment sales and relative service usage levels, is effective for the periods beginning after January 1, 2016 and resulted in the revision of our segment operating results, including segment earnings before interest, income taxes and noncontrolling interests (EBIT), for all four segments for the first quarter of 2016 with a greater share of costs allocated to the Distribution and Components segments than in previous years. Prior periods were not revised for the new allocation methodology. These changes had no impact on our consolidated results.

| In millions | Engine | Distribution | Components | Power Systems | Non-segment Items ⁽¹⁾ | Total |
|--|----------|--------------|------------|---------------|----------------------------------|----------|
| Three months ended October 2, 2016 | | | | | | |
| External sales | \$ 1,357 | \$ 1,497 | \$ 824 | \$ 509 | \$ — | \$ 4,187 |
| Intersegment sales | 502 | 7 | 319 | 347 | (1,175) | — |
| Total sales | 1,859 | 1,504 | 1,143 | 856 | (1,175) | 4,187 |
| Depreciation and amortization ⁽²⁾ | 42 | 28 | 32 | 29 | — | 131 |
| Research, development and engineering expenses | 56 | 3 | 54 | 44 | — | 157 |
| Equity, royalty and interest income from investees | 38 | 19 | 9 | 8 | — | 74 |
| Loss contingency | 99 | — | — | — | — | 99 |
| Interest income | 3 | 1 | 1 | 1 | — | 6 |
| Segment EBIT | 89 | 96 | 148 | 59 | 6 | 398 |
| Segment EBIT as a percentage of total sales | 4.8 | % 6.4 | % 12.9 | % 6.9 | % | 9.5 % |
| Three months ended September 27, 2015 | | | | | | |
| External sales | \$ 1,627 | \$ 1,543 | \$ 891 | \$ 559 | \$ — | \$ 4,620 |
| Intersegment sales | 475 | 8 | 349 | 423 | (1,255) | — |
| Total sales | 2,102 | 1,551 | 1,240 | 982 | (1,255) | 4,620 |
| Depreciation and amortization ⁽²⁾ | 47 | 26 | 28 | 27 | — | 128 |
| Research, development and engineering expenses | 73 | 2 | 65 | 57 | — | 197 |
| Equity, royalty and interest income from investees | 33 | 19 | 9 | 17 | — | 78 |
| Interest income | 6 | 1 | 1 | 1 | — | 9 |
| Segment EBIT | 217 | 123 | 156 | 74 | 7 | 577 |
| Segment EBIT as a percentage of total sales | 10.3 | % 7.9 | % 12.6 | % 7.5 | % | 12.5 % |

Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses.

- (1) There were no significant unallocated corporate expenses for the three months ended October 2, 2016 and September 27, 2015.
- (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."

CUMMINS INC. AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)

| In millions | Engine | Distribution | Components | Power Systems | Non-segment Items ⁽¹⁾ | Total |
|--|---------|--------------|------------|---------------|----------------------------------|----------|
| Nine months ended October 2, 2016 | | | | | | |
| External sales | \$4,350 | \$ 4,493 | \$ 2,654 | \$1,509 | \$ — | \$13,006 |
| Intersegment sales | 1,487 | 18 | 1,005 | 1,076 | (3,586) | — |
| Total sales | 5,837 | 4,511 | 3,659 | 2,585 | (3,586) | 13,006 |
| Depreciation and amortization ⁽²⁾ | 121 | 86 | 95 | 87 | — | 389 |
| Research, development and engineering expenses | 166 | 10 | 161 | 141 | — | 478 |
| Equity, royalty and interest income from investees | 120 | 56 | 29 | 29 | — | 234 |
| Loss contingency | 138 | — | — | — | — | 138 |
| Interest income | 8 | 3 | 3 | 4 | — | 18 |
| Segment EBIT | 492 | 270 | 501 | 195 | 15 | 1,473 |
| Segment EBIT as a percentage of total sales | 8.4 | % 6.0 | % 13.7 | % 7.5 | % | 11.3 % |
| Nine months ended September 27, 2015 | | | | | | |
| External sales | \$5,150 | \$ 4,499 | \$ 2,839 | \$1,856 | \$ — | \$14,344 |
| Intersegment sales | 1,422 | 23 | 1,097 | 1,225 | (3,767) | — |
| Total sales | 6,572 | 4,522 | 3,936 | 3,081 | (3,767) | 14,344 |
| Depreciation and amortization ⁽²⁾ | 140 | 78 | 82 | 81 | — | 381 |
| Research, development and engineering expenses | 195 | 8 | 183 | 172 | — | 558 |
| Equity, royalty and interest income from investees | 107 | 60 | 26 | 47 | — | 240 |
| Interest income | 10 | 3 | 3 | 4 | — | 20 |
| Segment EBIT | 695 | 324 | 574 | 302 | (35) | 1,860 |
| Segment EBIT as a percentage of total sales | 10.6 | % 7.2 | % 14.6 | % 9.8 | % | 13.0 % |

Includes intersegment sales, intersegment profit in inventory eliminations and unallocated corporate expenses.

(1) There were no significant unallocated corporate expenses for the nine months ended October 2, 2016 and September 27, 2015.

(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 was \$2 million for the nine months ended October 2, 2016 and September 27, 2015.

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

| In millions | Three months ended | | Nine months ended | |
|------------------------|--------------------|--------------------|-------------------|--------------------|
| | October 2, 2016 | September 27, 2015 | October 2, 2016 | September 27, 2015 |
| Total segment EBIT | \$ 398 | \$ 577 | \$1,473 | \$ 1,860 |
| Less: Interest expense | 16 | 16 | 51 | 47 |

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| | | | | |
|----------------------------|--------|--------|---------|----------|
| Income before income taxes | \$ 382 | \$ 561 | \$1,422 | \$ 1,813 |
|----------------------------|--------|--------|---------|----------|

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CUMMINS INC. AND SUBSIDIARIES
 SELECT FOOTNOTE DATA
 (Unaudited)

EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEES

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 | |
|--|--------------------|--------------------|-------------------|--------------------|
| | October 2, 2016 | September 27, 2015 | October 2, 2016 | September 27, 2015 |
| Distribution entities | | | | |
| Komatsu Cummins Chile, Ltda. | \$ 8 | \$ 8 | \$26 | \$ 23 |
| North American distributors | 7 | 9 | 18 | 27 |
| All other distributors | 1 | 1 | 2 | 2 |
| Manufacturing entities | | | | |
| Beijing Foton Cummins Engine Co., Ltd. | 19 | 18 | 59 | 47 |
| Chongqing Cummins Engine Company, Ltd. | 11 | 9 | 28 | 32 |
| Dongfeng Cummins Engine Company, Ltd. | 10 | 11 | 32 | 40 |
| All other manufacturers | 8 | 13 | 40 | 41 |
| Cummins share of net income | 64 | 69 | 205 | 212 |
| Royalty and interest income | 10 | 9 | 29 | 28 |
| Equity, royalty and interest income from investees | \$ 74 | \$ 78 | \$234 | \$ 240 |

LOSS CONTINGENCY

In the fourth quarter of 2015, we disclosed the request by one customer to participate in the design and bear the financial cost of a field campaign (Campaign) associated with quality issues in certain third party aftertreatment systems causing some of our inter-related engines to fail in-use emission testing. We established a reserve in the fourth quarter of 2015. In the second quarter of 2016, we recoded an additional accrual of \$39 million based upon the Campaign design at the time. Additional in-use emission testing performed in the third quarter of 2016 has indicated that the Campaign should be expanded to include a larger population of vehicles. Our third quarter results include an additional accrual of \$99 million to reflect the higher estimated cost of the expanded Campaign. We have not reached a cost sharing agreement with our customer related to this matter and our final cost could differ from what we have recorded.

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

Net income and diluted earnings per share (EPS) attributable to Cummins Inc. excluding special items
 We believe these are useful measures of our operating performance for the periods presented as they illustrate our operating performance without regard to special items including tax adjustments. These measures are not in accordance with, or an alternative for, accounting principles generally accepted in the United States of America (GAAP) and may not be consistent with measures used by other companies. It should be considered supplemental data. The following table reconciles net income attributable to Cummins Inc. to net income attributable to Cummins Inc. excluding special items for the following periods:

| Three months ended | | | | |
|---|----------------|--------------------|----------------|--|
| October 2, 2016 | | September 27, 2015 | | |
| In Net millions | Diluted EPS | Net Income | Diluted EPS | |
| Net income attributable to Cummins Inc. | | | | |
| \$289 | \$ 1.72 | \$ 380 | \$ 2.14 | |
| Add Loss contingency, net (1) | | | | |
| \$50 | \$ 0.30 | — | — | |
| Net income attributable to Cummins Inc. excluding special items | | | | |
| \$339 | \$ 2.02 | \$ 380 | \$ 2.14 | |
| Nine months ended | | | | |
| October 2, 2016 | | September 27, 2015 | | |
| In Net millions | Diluted EPS | Net Income | Diluted EPS | |
| Net income attributable to Cummins Inc. | | | | |
| \$1,016 | \$ 5.99 | \$ 1,238 | \$ 6.90 | |
| Add Loss contingency, net | | | | |
| \$74 | \$ 0.44 | — | — | |

(1)

Less

| | | | |
|-------------|---|----|------|
| Tax benefit | — | 18 | 0.10 |
|-------------|---|----|------|

Net income attributable to

| | | | |
|--------------|---------|----------|---------|
| Cummins Inc. | \$ 6.43 | \$ 1,220 | \$ 6.80 |
|--------------|---------|----------|---------|

Inc. excluding special items

(1) The loss contingency is net of the favorable variable compensation impact.

Earnings before interest, income taxes and noncontrolling interests

We define EBIT as earnings before interest expense, income tax expense and noncontrolling interests in income of consolidated subsidiaries. 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, GAAP 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 | |
|--|--------------------|--------------------|-------------------|--------------------|
| | October 2, 2016 | September 27, 2015 | October 2, 2016 | September 27, 2015 |
| Earnings before interest expense and income taxes | \$398 | \$ 577 | \$1,473 | \$ 1,860 |
| EBIT as a percentage of net sales | 9.5 % | 12.5 % | 11.3 % | 13.0 % |
| Less | | | | |
| Interest expense | 16 | 16 | 51 | 47 |
| Income tax expense | 82 | 169 | 362 | 521 |
| Consolidated net income | 300 | 392 | 1,060 | 1,292 |
| Less | | | | |
| Net income attributable to noncontrolling interests | 11 | 12 | 44 | 54 |
| Net income attributable to Cummins Inc. | \$289 | \$ 380 | \$1,016 | \$ 1,238 |
| Net income attributable to Cummins Inc. as a percentage of net sales | 6.9 % | 8.2 % | 7.8 % | 8.6 % |

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

Engine Segment Sales by Market and Unit Shipments by Engine Classification

In the second quarter of 2016, in conjunction with the reorganization of our segments, our Engine segment reorganized its reporting structure as follows:

- Heavy-duty truck - We manufacture diesel engines that range from 310 to 600 horsepower serving global heavy-duty truck customers worldwide, primarily in North America.
- Medium-duty truck and bus - We manufacture diesel engines ranging from 200 to 450 horsepower serving medium-duty truck and bus customers worldwide, with key markets including North America, Latin America, Europe and Mexico. We also provide diesel and natural gas engines for school buses, transit buses and shuttle buses worldwide, with key markets including North America, Europe, Latin America and Asia, and diesel engines for Class A motor homes (RVs), primarily in North America.
- Light-duty automotive (Pickup and Light Commercial Vehicle (LCV)) - We manufacture 105 to 385 horsepower diesel engines, including engines for the pickup truck market for Chrysler and Nissan in North America, and LCV markets in Europe, Latin America and Asia.
- Off-highway - We provide diesel engines that range from 60 to 755 horsepower to key global markets including construction, mining, rail, defense, agriculture, marine, and oil and gas equipment and also to the power generation business for standby, mobile and distributed power generation solutions throughout the world.

Sales for our Engine segment by market were as follows:

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|---------------------------|---------|---------|---------|-----|---------|
| Heavy-duty truck | \$631 | \$622 | \$625 | \$— | \$1,878 |
| Medium-duty truck and bus | 549 | 600 | 517 | — | 1,666 |
| Light-duty automotive | 433 | 394 | 345 | — | 1,172 |
| Off-highway | 363 | 386 | 372 | — | 1,121 |
| Total sales | \$1,976 | \$2,002 | \$1,859 | \$— | \$5,837 |

2015

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|---------------------------|---------|---------|---------|---------|---------|
| Heavy-duty truck | \$757 | \$875 | \$784 | \$700 | \$3,116 |
| Medium-duty truck and bus | 608 | 674 | 585 | 640 | 2,507 |
| Light-duty automotive | 381 | 354 | 339 | 401 | 1,475 |
| Off-highway | 399 | 422 | 394 | 357 | 1,572 |
| Total sales | \$2,145 | \$2,325 | \$2,102 | \$2,098 | \$8,670 |

2014

| In millions | YTD |
|---------------------------|---------|
| Heavy-duty truck | \$3,072 |
| Medium-duty truck and bus | 2,431 |
| Light-duty automotive | 1,567 |
| Off-highway | 1,897 |
| Total sales | \$8,967 |

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

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

2016

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-------------|---------|---------|---------|----|---------|
| Heavy-duty | 19,700 | 20,700 | 20,100 | — | 60,500 |
| Medium-duty | 55,400 | 62,300 | 53,400 | — | 171,100 |
| Light-duty | 61,700 | 57,100 | 49,800 | — | 168,600 |
| Total units | 136,800 | 140,100 | 123,300 | — | 400,200 |

2015

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-------------|---------|---------|---------|---------|---------|
| Heavy-duty | 28,700 | 32,800 | 28,600 | 24,300 | 114,400 |
| Medium-duty | 61,200 | 66,600 | 59,600 | 59,700 | 247,100 |
| Light-duty | 51,200 | 53,400 | 47,800 | 56,900 | 209,300 |
| Total units | 141,100 | 152,800 | 136,000 | 140,900 | 570,800 |

2014

| Units | YTD |
|-------------|---------|
| Heavy-duty | 122,100 |
| Medium-duty | 266,800 |
| Light-duty | 204,400 |
| Total units | 593,300 |

Distribution Segment Sales by Product Line

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------|---------|---------|---------|-----|---------|
| Parts | \$648 | \$642 | \$643 | \$— | \$1,933 |
| Service | 299 | 297 | 299 | — | 895 |
| Power generation | 275 | 326 | 291 | — | 892 |
| Engines | 241 | 279 | 271 | — | 791 |
| Total sales | \$1,463 | \$1,544 | \$1,504 | \$— | \$4,511 |

2015

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------|---------|---------|---------|---------|---------|
| Parts | \$573 | \$598 | \$604 | \$648 | \$2,423 |
| Service | 284 | 307 | 301 | 330 | 1,222 |
| Power generation | 298 | 272 | 323 | 397 | 1,290 |
| Engines | 321 | 318 | 323 | 332 | 1,294 |
| Total sales | \$1,476 | \$1,495 | \$1,551 | \$1,707 | \$6,229 |

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

Component Segment Sales by Business

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|--------------------|---------|---------|---------|-----|---------|
| Emission solutions | \$607 | \$624 | \$540 | \$— | \$1,771 |
| Turbo technologies | 265 | 276 | 241 | — | 782 |
| Filtration | 252 | 262 | 244 | — | 758 |
| Fuel systems | 113 | 117 | 118 | — | 348 |
| Total sales | \$1,237 | \$1,279 | \$1,143 | \$— | \$3,659 |

2015

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|--------------------|---------|---------|---------|---------|---------|
| Emission solutions | \$613 | \$679 | \$607 | \$600 | \$2,499 |
| Turbo technologies | 301 | 307 | 266 | 267 | 1,141 |
| Filtration | 255 | 266 | 240 | 249 | 1,010 |
| Fuel systems | 130 | 145 | 127 | 120 | 522 |
| Total sales | \$1,299 | \$1,397 | \$1,240 | \$1,236 | \$5,172 |

Power Systems Segment Sales by Product Line and Unit Shipments by Engine Classification

In the second quarter of 2016, in conjunction with the reorganization of our segments, our Power Systems segment reorganized its reporting structure into the following product lines:

Power generation - We design, manufacture, sell and support generators ranging from 2 kilowatts to 3.5 megawatts, as well as paralleling systems and transfer switches, for applications such as residential, commercial, industrial, data centers, health care, telecommunications and waste water treatment plants. We also provide turnkey solutions for distributed generation and energy management applications using natural gas or biogas as a fuel. We also serves global rental accounts for diesel and gas generator sets.

Industrial - We design, manufacture, sell and support diesel and natural gas high-horsepower engines up to 5,500 horsepower for a wide variety of equipment in the mining, rail, defense, oil and gas, and commercial marine applications throughout the world. Across these markets, we have major customers in North America, Europe, Middle East, Africa, China, Korea, Japan, Latin America, India, Russia, Southeast Asia, South Pacific and Mexico.

Generator technologies - We design, manufacture, sell and support A/C generator/alternator products for internal consumption and for external generator set assemblers. Our products are sold under the Stamford, AVK and Markon brands and range in output from 3 kilovolt-amperes (kVA) to 12,000 kVA.

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

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

2016

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------|-------|-------|-------|-----|---------|
| Power generation | \$520 | \$597 | \$545 | \$— | \$1,662 |
| Industrial | 215 | 240 | 233 | — | 688 |
| Generator technologies | 73 | 84 | 78 | — | 235 |
| Total sales | \$808 | \$921 | \$856 | \$— | \$2,585 |

2015

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------|---------|---------|-------|-------|---------|
| Power generation | \$624 | \$710 | \$621 | \$615 | \$2,570 |
| Industrial | 280 | 295 | 275 | 287 | 1,137 |
| Generator technologies | 98 | 92 | 86 | 84 | 360 |
| Total sales | \$1,002 | \$1,097 | \$982 | \$986 | \$4,067 |

2014

| In millions | YTD |
|------------------------|---------|
| Power generation | \$2,633 |
| Industrial | 1,331 |
| Generator technologies | 450 |
| Total sales | \$4,414 |

High-horsepower unit shipments by engine classification were as follows:

2016

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------|-------|-------|-------|----|-------|
| Power generation | 1,800 | 2,200 | 2,000 | — | 6,000 |
| Industrial | 1,000 | 1,100 | 1,000 | — | 3,100 |
| Total units | 2,800 | 3,300 | 3,000 | — | 9,100 |

2015

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------|-------|-------|-------|-------|--------|
| Power generation | 2,200 | 2,500 | 2,000 | 1,900 | 8,600 |
| Industrial | 1,300 | 1,200 | 1,200 | 1,500 | 5,200 |
| Total units | 3,500 | 3,700 | 3,200 | 3,400 | 13,800 |

2014

| Units | YTD |
|------------------|--------|
| Power generation | 8,700 |
| Industrial | 6,100 |
| Total units | 14,800 |