

CUMMINS INC
Form 8-K
February 25, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

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

Date of Report: February 25, 2009

CUMMINS INC.

(Exact name of registrant as specified in its charter)

Indiana

1-4949

35-0257090

(State or other Jurisdiction of
Incorporation)

(Commission File Number)

(I.R.S. Employer 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**

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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 February 25, 2009, Cummins Inc. issued a press release regarding its February 3, 2009, release of fourth quarter and full year 2008 results.

The Company's fourth quarter and full-year 2008 per diluted share results are now \$0.23 and \$0.24 lower, respectively, than was reported on February 3, 2009. In February, analysis of recent warranty payments indicated that a revision to our initial warranty liability estimate is appropriate. The change in income reflects an \$82 million increase in warranty liability, offset by a \$9 million reduction in variable and incentive compensation as a result of this change. These adjustments are reflected in cost of sales and selling, general and administrative expenses, respectively, on the *Condensed Consolidated Statements of Income* and in accrued expenses on the *Condensed Consolidated Balance Sheets*. The total decrease to compensation accruals is \$9 million. In addition, income tax expense decreased \$27 million as a result of the adjustments above. These adjustments have been incorporated into our fourth-quarter and full year results and will be reflected in our 2008 Form 10-K which will be filed no later than March 2, 2009. For more information, a copy of the revised financial statements is attached hereto as Exhibit 99 and is furnished herewith.

Item 7.01. Regulation FD Disclosure

The following information is furnished pursuant to Item 2.02, "Results of Operations and Financial Condition" and Item 7.01, "Regulation FD Disclosure."

On February 25, 2009, Cummins Inc. (Cummins, the Company, our, or we) issued the attached press release report its revised fourth quarter and full year financial results for 2008. A copy of Cummins' press release is attached hereto as Exhibit 99 and hereby incorporated by reference.

Item 9.01. Financial Statements and Exhibits.

(d) The following exhibit is furnished herewith:

99-Press Release dated February 25, 2009

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: February 25, 2009

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)**

| | Three months ended | | |
|---|---|---------------------------|--------------------------|
| | December 31, 2008 | September 28, 2008 | December 31, 2007 |
| | in millions (except per share amounts) | | |
| NET SALES | \$ 3,288 | \$ 3,693 | \$ 3,516 |
| Cost of sales | 2,754 | 2,873 | 2,834 |
| GROSS MARGIN | 534 | 820 | 682 |
| OPERATING EXPENSES AND INCOME | | | |
| Selling, general and administrative expenses | 341 | 388 | 359 |
| Research, development and engineering expenses | 102 | 113 | 93 |
| Equity, royalty and interest income from investees (Note 1) | 51 | 66 | 59 |
| Restructuring charges (Note 2) | 37 | | |
| Other operating (expense) income, net | (3 |) (2 |) 13 |
| OPERATING INCOME | 102 | 383 | 302 |
| Interest income | 4 | 4 | 9 |
| Interest expense | 9 | 10 | 14 |
| Other (expense) income, net (Note 3) | (50 |) (7 |) 13 |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | 47 | 370 | 310 |
| Income tax (benefit) expense (Note 4) | (12 |) 123 | 97 |
| Minority interests in income of consolidated subsidiaries | 16 | 18 | 15 |
| NET INCOME | \$ 43 | \$ 229 | \$ 198 |
| EARNINGS PER COMMON SHARE | | | |
| Basic | \$ 0.22 | \$ 1.18 | \$ 1.01 |
| Diluted | \$ 0.22 | \$ 1.17 | \$ 1.00 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | |
| Basic | 194.7 | 194.9 | 195.7 |
| Diluted | 196.6 | 196.5 | 197.5 |
| Cash dividends declared per share | \$ 0.175 | \$ 0.175 | \$ 0.125 |

(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)**

| | For the years ended | |
|---|---|---------------------|
| | December 31, | December 31, |
| | 2008 | 2007 |
| | in millions (except per share amounts) | |
| NET SALES | \$ 14,342 | \$ 13,048 |
| Cost of sales | 11,402 | 10,492 |
| GROSS MARGIN | 2,940 | 2,556 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses | 1,450 | 1,296 |
| Research, development and engineering expenses | 422 | 329 |
| Equity, royalty and interest income from investees (Note 1) | 253 | 205 |
| Restructuring charges (Note 2) | 37 | |
| Other operating (expense) income, net | (12) |) 22 |
| OPERATING INCOME | 1,272 | 1,158 |
| Interest income | 18 | 36 |
| Interest expense | 42 | 58 |
| Other (expense) income, net (Note 3) | (70) |) 33 |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | 1,178 | 1,169 |
| Income tax expense (Note 4) | 360 | 381 |
| Minority interests in income of consolidated subsidiaries | 63 | 49 |
| NET INCOME | \$ 755 | \$ 739 |
| EARNINGS PER COMMON SHARE | | |
| Basic | \$ 3.87 | \$ 3.72 |
| Diluted | \$ 3.84 | \$ 3.70 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 195.0 | 198.4 |
| Diluted | 196.5 | 199.9 |
| Cash dividends declared per share | \$ 0.60 | \$ 0.43 |

(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)**

| | December 31, 2008 in millions (except par value) | December 31, 2007 |
|--|---|------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 426 | \$ 577 |
| Marketable securities | 77 | 120 |
| Accounts and notes receivable, net | 1,782 | 1,998 |
| Inventories | 1,783 | 1,692 |
| Other current assets | 645 | 428 |
| Total current assets | 4,713 | 4,815 |
| Long-term assets | | |
| Property, plant and equipment, net | 1,841 | 1,645 |
| Investments and advances related to equity method investees | 588 | 514 |
| Goodwill and other intangible assets, net | 585 | 538 |
| Other assets | 792 | 683 |
| Total assets | \$ 8,519 | \$ 8,195 |
| LIABILITIES | | |
| Current liabilities | | |
| Current portion of long-term debt and loans payable | \$ 69 | \$ 119 |
| Accounts payable (principally trade) | 1,009 | 1,263 |
| Accrued expenses | 1,561 | 1,329 |
| Total current liabilities | 2,639 | 2,711 |
| Long-term liabilities | | |
| Long-term debt | 629 | 555 |
| Other liabilities | 1,771 | 1,227 |
| Total liabilities | 5,039 | 4,493 |
| MINORITY INTERESTS | 250 | 293 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$2.50 par value, 500 and 300 shares authorized, 221.7 and 220.4 shares issued | 1,793 | 1,719 |
| Retained earnings | 3,288 | 2,660 |
| Treasury stock, at cost, 20.4 and 18.2 shares | (715) | (593) |
| Common stock held by employee benefits trust, at cost, 5.1 and 6.5 shares | (61) | (79) |
| Unearned compensation | (5) | (11) |
| Accumulated other comprehensive loss | (1,070) | (287) |
| Total shareholders' equity | 3,230 | 3,409 |
| Total liabilities, minority interests and shareholders' equity | \$ 8,519 | \$ 8,195 |

(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)**

| | For the years ended | |
|---|----------------------------|---------------------|
| | December | December 31, |
| | 31, | 2007 |
| | 2008 | |
| | in millions | |
| NET CASH PROVIDED BY OPERATING ACTIVITIES (Note 5) | \$ 987 | \$ 810 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (543) | (353) |
| Investments in internal use software | (82) | (67) |
| Investments in and advances to equity investees | (89) | (66) |
| Acquisition of businesses, net of cash acquired | (142) | (20) |
| Proceeds from the sale of an equity investment | 64 | 35 |
| Investments in marketable securities acquisitions | (390) | (405) |
| Investments in marketable securities liquidations | 409 | 395 |
| Purchases of other investments | (62) | (57) |
| Other, net | (13) | 23 |
| Net cash used in investing activities | (848) | (515) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 76 | 15 |
| Payments on borrowings and capital lease obligations | (152) | (144) |
| Dividend payments on common stock | (122) | (89) |
| Proceeds from sale of common stock held by employee benefit trust | 63 | 13 |
| Repurchases of common stock | (128) | (335) |
| Other, net | 26 | (36) |
| Net cash used in financing activities | (237) | (576) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | |
| | (53) | 18 |
| Net decrease in cash and cash equivalents | (151) | (263) |
| Cash and cash equivalents at beginning of year | 577 | 840 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 426 | \$ 577 |

(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)**

| | Engine in millions | Power Generation | Components | Distribution | Non-segment items (1) | Total |
|--|-------------------------------|-----------------------------|-------------------|---------------------|----------------------------------|--------------|
| Three months ended December 31, 2008 | | | | | | |
| External sales | \$ 1,590 | \$ 675 | \$ 468 | \$ 555 | \$ | \$ 3,288 |
| Intersegment sales | 346 | 212 | 208 | 2 | (768) | |
| Total sales | 1,936 | 887 | 676 | 557 | (768) | 3,288 |
| Depreciation and amortization(2) | 47 | 10 | 16 | 8 | | 81 |
| Research, development and engineering expense | 71 | 10 | 21 | | | 102 |
| Equity, royalty and interest income from investees | 8 | 6 | 4 | 33 | | 51 |
| Restructuring charges | | | | | 37 | 37 |
| Interest income | 3 | | | 1 | | 4 |
| Segment EBIT | (40) | 75 | (6) | 64 | (37) | 56 |
| Three months ended September 28, 2008 | | | | | | |
| External sales | \$ 1,927 | \$ 653 | \$ 535 | \$ 578 | \$ | \$ 3,693 |
| Intersegment sales | 352 | 235 | 266 | 3 | (856) | |
| Total sales | 2,279 | 888 | 801 | 581 | (856) | 3,693 |
| Depreciation and amortization(2) | 43 | 9 | 16 | 6 | | 74 |
| Research, development and engineering expense | 75 | 11 | 27 | | | 113 |
| Equity, royalty and interest income from investees | 26 | 6 | 3 | 31 | | 66 |
| Interest income | 2 | 1 | 1 | | | 4 |
| Segment EBIT | 160 | 108 | 61 | 61 | (10) | 380 |
| Three months ended December 31, 2007 | | | | | | |
| External sales | \$ 1,862 | \$ 645 | \$ 542 | \$ 467 | \$ | \$ 3,516 |
| Intersegment sales | 293 | 195 | 235 | 1 | (724) | |
| Total sales | 2,155 | 840 | 777 | 468 | (724) | 3,516 |
| Depreciation and amortization(2) | 44 | 11 | 16 | 3 | | 74 |
| Research, development and engineering expense | 63 | 9 | 21 | | | 93 |
| Equity, royalty and interest income from investees | 26 | 5 | 3 | 25 | | 59 |
| Interest income | 6 | 2 | 1 | | | 9 |
| Segment EBIT | 120 | 86 | 47 | 56 | 15 | 324 |
| For the year ended December 31, 2008 | | | | | | |
| External sales | \$ 7,432 | \$ 2,601 | \$ 2,154 | \$ 2,155 | \$ | \$ 14,342 |
| Intersegment sales | 1,378 | 899 | 998 | 9 | (3,284) | |
| Total sales | 8,810 | 3,500 | 3,152 | 2,164 | (3,284) | 14,342 |
| Depreciation and amortization(2) | 180 | 41 | 65 | 25 | | 311 |
| Research, development and engineering expense | 286 | 41 | 95 | | | 422 |
| Equity, royalty and interest income from investees | 99 | 23 | 14 | 117 | | 253 |
| Restructuring charges | | | | | 37 | 37 |
| Interest income | 10 | 3 | 3 | 2 | | 18 |
| Segment EBIT | 535 | 376 | 169 | 242 | (102) | 1,220 |

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For the year ended December 31, 2007

| | | | | | | |
|--|----------|----------|----------|----------|----------|-----------|
| External sales | \$ 7,129 | \$ 2,375 | \$ 2,007 | \$ 1,537 | \$ | \$ 13,048 |
| Intersegment sales | 1,053 | 685 | 925 | 3 | (2,666) | |
| Total sales | 8,182 | 3,060 | 2,932 | 1,540 | (2,666) | 13,048 |
| Depreciation and amortization(2) | 176 | 42 | 59 | 11 | | 288 |
| Research, development and engineering expense | 222 | 34 | 73 | | | 329 |
| Equity, royalty and interest income from investees | 92 | 17 | 4 | 92 | | 205 |
| Interest income | 26 | 6 | 3 | 1 | | 36 |
| Segment EBIT | 589 | 334 | 153 | 187 | (36) | 1,227 |

(1) Includes intercompany eliminations and unallocated corporate expenses. For the three months ended and the year ended December 31, 2008, Non-segment includes a \$36 million decrease in cash surrender value in corporate owned life insurance (COLI).

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

CUMMINS INC. AND SUBSIDIARIES**RECONCILIATION OF SEGMENT INFORMATION****(Unaudited)**

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

| | Three months ended | | | For the years ended | |
|---|---------------------------|----------------------|---------------------|----------------------------|---------------------|
| | December 31, | September 28, | December 31, | December 31, | December 31, |
| | 2008 | 2008 | 2007 | 2008 | 2007 |
| | in millions | | | | |
| Segment EBIT | \$ 56 | \$ 380 | \$ 324 | \$ 1,220 | \$ 1,227 |
| Less: | | | | | |
| Interest expense | 9 | 10 | 14 | 42 | 58 |
| Income before income taxes and minority interests | \$ 47 | \$ 370 | \$ 310 | \$ 1,178 | \$ 1,169 |

FINANCIAL MEASURES THAT SUPPLEMENT GAAP**(Unaudited)****Earnings before interest, taxes and minority interests (EBIT)**

We define EBIT as earnings before interest expense, income tax expense and minority 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. Below is a reconciliation of EBIT, a non-GAAP financial measure, to our consolidated net income, for each of the applicable periods:

| | Three Months Ended | | | For the years ended | |
|---|---------------------------|----------------------|---------------------|----------------------------|---------------------|
| | December 31, | September 28, | December 31, | December 31, | December 31, |
| | 2008 | 2008 | 2007 | 2008 | 2007 |
| | in millions | | | | |
| Earnings before interest, income taxes and minority interests | \$56 | \$ 380 | \$ 324 | \$1,220 | \$ 1,227 |
| <i>EBIT as a percentage of net sales</i> | <i>1.7 %</i> | <i>10.3 %</i> | <i>9.2 %</i> | <i>8.5 %</i> | <i>9.4 %</i> |
| Less: | | | | | |
| Interest expense | 9 | 10 | 14 | 42 | 58 |
| Income tax expense | (12) | 123 | 97 | 360 | 381 |
| Minority interests in income of consolidated subsidiaries | 16 | 18 | 15 | 63 | 49 |
| Net income | \$43 | \$ 229 | \$ 198 | \$755 | \$ 739 |

| | | | | | | |
|--|-----|------|------|------|------|---|
| <i>Net income as a percentage of net sales</i> | 1.3 | %6.2 | %5.6 | %5.3 | %5.7 | % |
|--|-----|------|------|------|------|---|

We believe EBIT is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to financing methods, capital structure or income taxes. This measure is 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.

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* was as follows:

| | Three months ended | | | For the years ended | |
|--|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | December 31, 2008 | September 28, 2008 | December 31, 2007 | December 31, 2008 | December 31, 2007 |
| | in millions | | | | |
| North American distributors | \$ 28 | \$ 26 | \$ 24 | \$ 100 | \$ 83 |
| Dongfeng Cummins Engine Company, Ltd. | 5 | 16 | 12 | 55 | 41 |
| Chongqing Cummins Engine Company, Ltd. | 7 | 9 | 7 | 30 | 22 |
| Shanghai Fleetguard Filter Co. Ltd. | 1 | 2 | 2 | 8 | 6 |
| Tata Cummins Ltd. | | | 4 | 7 | 13 |
| Cummins MerCruiser Diesel Marine LLC | (2 |) (1 |) 2 | 3 | 11 |
| All others | 6 | 9 | 4 | 28 | 16 |
| Cummins share of net income | 45 | 61 | 55 | 231 | 192 |
| Royalty and interest income | 6 | 5 | 4 | 22 | 13 |
| Equity, royalty and interest income from investees | \$ 51 | \$ 66 | \$ 59 | \$ 253 | \$ 205 |

NOTE 2. RESTRUCTURING CHARGES

We have executed restructuring actions primarily in the form of voluntary and involuntary separation programs in the fourth quarter of 2008. These actions were in response to the continued deterioration we saw in our U.S. businesses and most key markets around the world in the second half of 2008, as well as a reduction in orders in most U.S. and global markets for 2009. We reduced our worldwide professional workforce by approximately 650 employees. We offered a voluntary retirement package to certain active professional employees in the United States based on a clearly defined set of criteria. We also took involuntary actions which included certain hourly employees. The compensation packages contained salary and continuation of benefits, including health care, life insurance and outplacement services. The voluntary retirement package was accepted by approximately 150 employees. The remaining reductions of approximately 500 employees were involuntary. The expenses recorded during the year ended December 31, 2008 included severance costs related to both voluntary and involuntary terminations. During 2008, we incurred total pretax expenses related to the restructuring initiative of approximately \$37 million.

Employee termination and severance costs were recorded based on approved plans developed by the businesses and corporate management which specified positions to be eliminated, benefits to be paid under existing severance plans or statutory requirements and the expected timetable for completion of the plan. Estimates of restructuring were made based on information available at the time charges were recorded. Due to the inherent uncertainty involved, actual amounts paid for such activities may differ from amounts initially recorded and we may need to revise previous estimates.

CUMMINS INC. AND SUBSIDIARIES**SELECTED FOOTNOTE DATA****(Unaudited)****NOTE 3. OTHER (EXPENSE) INCOME**

Other (expense) income included the following:

| | Three months ended | | | For the years ended | |
|--|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | December 31, 2008 | September 28, 2008 | December 31, 2007 | December 31, 2008 | December 31, 2007 |
| | in millions | | | | |
| Other (expense) income: | | | | | |
| Change in cash surrender value of corporate owned life insurance | \$ (36) | \$ | \$ | \$ (36) | \$ |
| Foreign currency (losses) gains | (23) | (10) | 12 | (46) | 28 |
| Other, net | 9 | 3 | 1 | 12 | 5 |
| Total other (expense) income, net | \$ (50) | \$ (7) | \$ 13 | \$ (70) | \$ 33 |

NOTE 4. INCOME TAXES

Our effective benefit rate in the fourth quarter of 2008 was 25.5 percent compared to an effective tax rate of 31.3 percent for 2007. The change is primarily due to greater foreign earnings in 2008, which are subject to lower tax rates. The fourth quarter effective benefit rate also includes a \$10 million (0.8 percent) reduction due to the legislative reinstatement of the U.S. research tax credit. The full-year 2008 effective tax rate was 30.6 percent and we expect our full-year 2009 effective tax rate to be sustained at approximately 31 percent.

NOTE 5. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense included in operating activities of the *Condensed Consolidated Statements of Cash Flows* for the years ended December 31, 2008 and 2007 was \$314 million and \$290 million, respectively.

About Cummins

Cummins Inc., a global power leader, is a corporation of complementary business units that design, manufacture, distribute and service engines and related technologies, including fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems. Headquartered in Columbus, Indiana, (USA) Cummins serves customers in approximately 190 countries and territories through a network of more than 500 company-owned and independent distributor locations and approximately 5,200 dealer locations. Cummins reported net income of \$755 million on sales of \$14.34 billion in 2008. Press releases can be found on the Web at www.cummins.com.

Presentation of Non-GAAP Financial Information

EBIT is a non-GAAP measure used in this release. EBIT is defined and reconciled to what management believes to be the most comparable GAAP measure in a schedule attached to this release. Cummins presents this information as it believes it is useful to understanding the Company's operating performance, and because EBIT is a measure used internally to assess the performance of the operating units.

Forward-looking disclosure statement

Information provided in this release that is not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the company's expectations, hopes, beliefs and intentions on strategies regarding the future. It is important to note that the company's actual future results could differ materially from those projected in such forward-looking statements because of a number of factors, including, but not limited to, general economic, business and financing conditions, labor relations, governmental action, competitor pricing activity, expense volatility and other risks detailed from time to time in Cummins Securities and Exchange Commission filings.