

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**

Edgar Filing: CUMMINS INC - Form 8-K

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	December 31, 2007
	in millions (except par value)	
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	2007
	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

Edgar Filing: CUMMINS INC - Form 8-K

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, 2008	September 28, 2008	December 31, 2007	December 31, 2008	December 31, 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, 2008	September 28, 2008	December 31, 2007	December 31, 2008	December 31, 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

Net income as a percentage of net sales 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 INVESTEES**

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.