

CUMMINS INC
Form 8-K
February 20, 2013

**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 20, 2013

CUMMINS INC.

(Exact name of registrant as specified in its charter)

Indiana

(State or other Jurisdiction of
Incorporation)

1-4949

(Commission File Number)

35-0257090

(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**

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)

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- 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.

Cummins Inc. and its consolidated subsidiaries are hereinafter sometimes referred to as we, our, us or the Company.

The Company's fourth quarter and full year 2012 net income attributable to Cummins Inc. and diluted per share results are now each \$12 million and \$0.07 lower than reported on February 6, 2013. A \$20 million, net adjustment is reflected in Other operating income (expense), net on the *Condensed Consolidated Statements of Income* and in Accrued expenses on the *Condensed Consolidated Balance Sheets*. The adjustment did not impact the results of the Company's operating segments or the *Condensed Consolidated Statements of Cash Flows*. In addition, income tax expense decreased \$8 million for both periods. These adjustments have been incorporated into our fourth quarter and full year results and will be reflected in our 2012 Form 10-K, which we will file later today. For more information, a copy of the revised financial statements is attached hereto as Exhibit 99 and is furnished herewith.

Item 9.01. Financial Statements and Exhibits.

(d) The following exhibit is furnished herewith:

99-Press Release dated February 20, 2013

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 20, 2013

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, 2012 | September 30, 2012 | December 31, 2011 |
| In millions, except per share amounts | | | |
| NET SALES | \$ 4,292 | \$ 4,118 | \$ 4,921 |
| Cost of sales | 3,234 | 3,076 | 3,680 |
| GROSS MARGIN | 1,058 | 1,042 | 1,241 |
| OPERATING EXPENSES AND INCOME | | | |
| Selling, general and administrative expenses | 482 | 456 | 496 |
| Research, development and engineering expenses | 174 | 186 | 179 |
| Equity, royalty and interest income from investees (Note 1) | 82 | 94 | 101 |
| Gain on sale of businesses | - | - | 53 |
| Other operating income (expense), net | (19) | (1) | 25 |
| OPERATING INCOME | 465 | 493 | 745 |
| Interest income | 5 | 5 | 9 |
| Interest expense | 7 | 9 | 10 |
| Other income (expense), net | 10 | (2) | 14 |
| INCOME BEFORE INCOME TAXES | 473 | 487 | 758 |
| Income tax expense (Note 3) | 75 | 117 | 186 |
| CONSOLIDATED NET INCOME | 398 | 370 | 572 |
| Less: Net income attributable to noncontrolling interests | 29 | 18 | 24 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$ 369 | \$ 352 | \$ 548 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | | |
| Basic | \$ 1.96 | \$ 1.87 | \$ 2.87 |
| Diluted | \$ 1.95 | \$ 1.86 | \$ 2.86 |
| WEIGHTED AVERAGE SHARES OUTSANDING | | | |
| Basic | 188.4 | 188.6 | 190.9 |
| Diluted | 188.8 | 189.0 | 191.5 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$ 0.50 | \$ 0.50 | \$ 0.40 |

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

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

| In millions, except per share amounts | For the years ended | |
|---------------------------------------------------------------|------------------------------|------------------------------|
| | December 31, 2012 | December 31, 2011 |
| NET SALES | \$ 17,334 | \$ 18,048 |
| Cost of sales | 12,826 | 13,459 |
| GROSS MARGIN | 4,508 | 4,589 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses | 1,900 | 1,837 |
| Research, development and engineering expenses | 728 | 629 |
| Equity, royalty and interest income from investees (Note 1) | 384 | 416 |
| Gain on sale of businesses | 6 | 121 |
| Other operating income, net | (16) | 21 |
| OPERATING INCOME | 2,254 | 2,681 |
| Interest income | 25 | 34 |
| Interest expense | 32 | 44 |
| Other income, net | 24 | - |
| INCOME BEFORE INCOME TAXES | 2,271 | 2,671 |
| Income tax expense (Note 3) | 533 | 725 |
| CONSOLIDATED NET INCOME | 1,738 | 1,946 |
| Less: Net income attributable to noncontrolling interests | 93 | 98 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$ 1,645 | \$ 1,848 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | |
| Basic | \$ 8.69 | \$ 9.58 |
| Diluted | \$ 8.67 | \$ 9.55 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 189.3 | 193.0 |
| Diluted | 189.7 | 193.6 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$ 1.80 | \$ 1.325 |

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

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

| In millions, except par value | December 31, | December 31, |
|--------------------------------------------------------------------------------------|---------------------|---------------------|
| | 2012 | 2011 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,369 | \$ 1,484 |
| Marketable securities | 247 | 277 |
| Total cash, cash equivalents and marketable securities | 1,616 | 1,761 |
| Accounts and notes receivable, net | 2,475 | 2,526 |
| Inventories | 2,221 | 2,141 |
| Prepaid expenses and other current assets | 855 | 663 |
| Total current assets | 7,167 | 7,091 |
| Long-term assets | | |
| Property, plant and equipment, net | 2,724 | 2,288 |
| Investments and advances related to equity method investees | 897 | 838 |
| Goodwill and other intangibles, net | 814 | 566 |
| Other assets | 946 | 885 |
| Total assets | \$ 12,548 | \$ 11,668 |
| LIABILITIES | | |
| Current liabilities | | |
| Loans payable | \$ 16 | \$ 28 |
| Accounts payable (principally trade) | 1,339 | 1,546 |
| Accrued expenses | 1,781 | 2,083 |
| Total current liabilities | 3,136 | 3,657 |
| Long-term liabilities | | |
| Long-term debt | 698 | 658 |
| Other liabilities | 1,740 | 1,522 |
| Total liabilities | 5,574 | 5,837 |
| EQUITY | | |
| Cummins Inc. shareholders' equity | | |
| Common stock, \$2.50 par value, 500 shares authorized, 222.4 and 222.2 shares issued | 2,058 | 2,001 |
| Retained earnings | 7,343 | 6,038 |
| Treasury stock, at cost, 32.6 and 30.2 shares | (1,830) | (1,587) |
| Common stock held by employee benefits trust, at cost, 1.5 and 1.8 shares | (18) | (22) |
| Accumulated other comprehensive loss | (950) | (938) |
| Total Cummins Inc. shareholders' equity | 6,603 | 5,492 |
| Noncontrolling interests | 371 | 339 |
| Total equity | 6,974 | 5,831 |
| Total liabilities and equity | \$ 12,548 | \$ 11,668 |

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

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

| In millions | For the years ended | |
|---------------------------------------------------------------------|----------------------------|---------------------|
| | December 31, | December 31, |
| | 2012 | 2011 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 1,532 | \$ 2,073 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (690) | (622) |
| Investments in internal use software | (87) | (60) |
| Proceeds from disposals of property, plant and equipment | 11 | 8 |
| Investments in and advances to equity investees | (70) | (81) |
| Acquisition of businesses, net of cash acquired | (215) | - |
| Proceeds from sale of businesses, net of cash sold | 10 | 199 |
| Investments in marketable securities-acquisitions | (561) | (729) |
| Investments in marketable securities-liquidations | 585 | 750 |
| Proceeds from sale of equity investment | 23 | - |
| Cash flows from derivatives not designated as hedges | 12 | (18) |
| Other, net | - | 1 |
| Net cash used in investing activities | (982) | (552) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 64 | 127 |
| Payments on borrowings and capital lease obligations | (145) | (237) |
| Net borrowings under short-term credit agreements | 11 | 6 |
| Distributions to noncontrolling interests | (62) | (56) |
| Dividend payments on common stock | (340) | (255) |
| Repurchases of common stock | (256) | (629) |
| Excess tax benefits on stock-based awards | 14 | 5 |
| Other, net | 20 | 14 |
| Net cash used in financing activities | (694) | (1,025) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 29 | (35) |
| Net increase (decrease) in cash and cash equivalents | (115) | 461 |
| Cash and cash equivalents at beginning of year | 1,484 | 1,023 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 1,369 | \$ 1,484 |

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

CUMMINS INC. AND SUBSIDIARIES

SEGMENT INFORMATION

(Unaudited)

| In millions | Engine | Power Components | Generation | Distribution | Non-segment Items ⁽¹⁾ | Total |
|-----------------------------------------------------------------------------|----------|---------------------|------------|--------------|-------------------------------------|----------|
| Three months ended December 31, 2012 | | | | | | |
| External sales | \$ 2,177 | \$ 662 | \$ 549 | \$ 904 | \$ - | \$ 4,292 |
| Intersegment sales | 329 | 277 | 216 | 3 | (825) | - |
| Total sales | 2,506 | 939 | 765 | 907 | (825) | 4,292 |
| Depreciation and amortization ⁽²⁾ | 50 | 23 | 13 | 11 | - | 97 |
| Research, development and engineering expenses | 92 | 60 | 20 | 2 | - | 174 |
| Equity, royalty and interest income from investees | 27 | 6 | 8 | 41 | - | 82 |
| Interest income | 2 | - | 2 | 1 | - | 5 |
| Segment EBIT | 252 | 78 | 42 | 84 | 24 | 480 |
| Add back restructuring charges ⁽³⁾ | 20 | 6 | 12 | 14 | - | 52 |
| Segment EBIT excluding restructuring charges | 272 | 84 | 54 | 98 | 24 | 532 |
| Segment EBIT as a percentage of total sales | 10.1% | 8.3% | 5.5% | 9.3% | | 11.2% |
| Segment EBIT excluding restructuring charges as a percentage of total sales | 10.9% | 8.9% | 7.1% | 10.8% | | 12.4% |
| Three months ended September 30, 2012 | | | | | | |
| External sales | \$ 2,131 | \$ 663 | \$ 526 | \$ 798 | \$ - | \$ 4,118 |
| Intersegment sales | 396 | 275 | 288 | 3 | (962) | - |
| Total sales | 2,527 | 938 | 814 | 801 | (962) | 4,118 |
| Depreciation and amortization ⁽²⁾ | 48 | 21 | 12 | 8 | - | 89 |
| Research, development and engineering expenses | 115 | 51 | 19 | 1 | - | 186 |
| Equity, royalty and interest income from investees | 25 | 7 | 12 | 50 | - | 94 |
| Interest income | 2 | 1 | 2 | - | - | 5 |
| Segment EBIT | 239 | 89 | 73 | 99 | (4) | 496 |
| Segment EBIT as a percentage of total sales | 9.5% | 9.5% | 9.0% | 12.4% | | 12.0% |

Three months ended December 31, 2011

| | | | | | | |
|----------------------------------------------------|----------|--------|--------|--------|-------|----------|
| External sales | \$ 2,628 | \$ 781 | \$ 682 | \$ 830 | \$ - | \$ 4,921 |
| Intersegment sales | 433 | 311 | 238 | 4 | (986) | - |
| Total sales | 3,061 | 1,092 | 920 | 834 | (986) | 4,921 |
| Depreciation and amortization ⁽²⁾ | 46 | 18 | 10 | 8 | - | 82 |
| Research, development and engineering expenses | 112 | 49 | 17 | 1 | - | 179 |
| Equity, royalty and interest income from investees | 40 | 7 | 10 | 44 | - | 101 |
| Interest income | 4 | 2 | 2 | 1 | - | 9 |
| Segment EBIT | 368 | 132 | 87 | 87 | 94 | 768 |
| Segment EBIT as a percentage of total sales | 12.0% | 12.1% | 9.5% | 10.4% | | 15.6% |

- (1) Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. The three months ended December 31, 2012 includes a \$20 million reserve (\$12 million after-tax) related to legal matters. There were no significant unallocated corporate expenses for the three months ended September 30, 2012. The three months ended December 31, 2011 includes a \$53 million gain (\$33 million after-tax) recorded for the sale of certain assets and liabilities of our light-duty filtration business from the Components segment and a \$38 million gain (\$24 million after-tax) related to flood damage recoveries from the insurance settlement regarding a June 2008 flood in Southern Indiana. The gains have been excluded from segment results as they were not considered in our evaluation of operating results for the corresponding periods. There were no other significant unallocated corporate expenses.
- (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."
- (3) See Note 2, "RESTRUCTURING CHARGES," for more details.

CUMMINS INC. AND SUBSIDIARIES

SEGMENT INFORMATION

(Unaudited)

| In millions | Engine | Power Components | Generation | Distribution | Non-segment Items ⁽¹⁾ | Total |
|-----------------------------------------------------------------------------|----------|---------------------|------------|--------------|-------------------------------------|-----------|
| For the year ended December 31, 2012 | | | | | | |
| External sales | \$ 9,101 | \$ 2,809 | \$ 2,163 | \$ 3,261 | \$ - | \$ 17,334 |
| Intersegment sales | 1,632 | 1,203 | 1,105 | 16 | (3,956) | - |
| Total sales | 10,733 | 4,012 | 3,268 | 3,277 | (3,956) | 17,334 |
| Depreciation and amortization ⁽²⁾ | 192 | 82 | 47 | 34 | - | 355 |
| Research, development and engineering expenses | 433 | 213 | 76 | 6 | - | 728 |
| Equity, royalty and interest income from investees | 127 | 29 | 40 | 188 | - | 384 |
| Interest income | 11 | 3 | 9 | 2 | - | 25 |
| Segment EBIT | 1,248 | 426 | 285 | 369 | (25) | 2,303 |
| Add back restructuring charges ⁽³⁾ | 20 | 6 | 12 | 14 | - | 52 |
| Segment EBIT excluding restructuring charges | 1,268 | 432 | 297 | 383 | (25) | 2,355 |
| Segment EBIT as a percentage of total sales | 11.6% | 10.6% | 8.7% | 11.3% | | 13.3% |
| Segment EBIT excluding restructuring charges as a percentage of total sales | 11.8% | 10.8% | 9.1% | 11.7% | | 13.6% |
| For the year ended December 31, 2011 | | | | | | |
| External sales | \$ 9,649 | \$ 2,886 | \$ 2,492 | \$ 3,021 | \$ - | \$ 18,048 |
| Intersegment sales | 1,658 | 1,177 | 1,006 | 23 | (3,864) | - |
| Total sales | 11,307 | 4,063 | 3,498 | 3,044 | (3,864) | 18,048 |
| Depreciation and amortization ⁽²⁾ | 181 | 73 | 42 | 25 | - | 321 |
| Research, development and engineering expenses | 397 | 175 | 54 | 3 | - | 629 |
| Equity, royalty and interest income from investees | 166 | 31 | 47 | 172 | - | 416 |
| Interest income | 18 | 5 | 8 | 3 | - | 34 |
| Segment EBIT | 1,384 | 470 | 373 | 386 | 102 | 2,715 |
| Segment EBIT as a percentage of total sales | 12.2% | 11.6% | 10.7% | 12.7% | | 15.0% |

- (1) Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. The year ended December 31, 2012 includes a \$6 million gain (\$4 million after-tax) related to adjustments from our 2011 divestitures and a \$20 million reserve (\$12 million after-tax) related to legal matters. The year ended December 31, 2011, includes a \$121 million gain (\$70 million after-tax) related to the sale of certain assets and liabilities of our exhaust business and light-duty filtration business, both from the Components segment, and a \$38 million gain (\$24 million after-tax) related to flood damage recoveries from the insurance settlement regarding a June 2008 flood in Southern Indiana. The gains have been excluded from segment results as they were not considered in our evaluation of operating results for the corresponding periods. There were no other significant unallocated corporate expenses.
- (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."
- (3) See Note 2, "RESTRUCTURING CHARGES," for more details.

CUMMINS INC. AND SUBSIDIARIES

RECONCILIATION OF SEGMENT INFORMATION

(Unaudited)

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 | | December 31, 2011 | For the years ended | |
|----------------------------------------------|-------------------------|--------------------------|-------------------------|-------------------------|-------------------------|
| | December 31, 2012 | September 30, 2012 | | December 31, 2012 | December 31, 2011 |
| Segment EBIT excluding restructuring charges | \$ 532 | \$ 496 | \$ 768 | \$ 2,355 | \$ 2,715 |
| Add: Restructuring charges | (52) | - | - | (52) | - |
| Segment EBIT | 480 | 496 | 768 | 2,303 | 2,715 |
| Less: Interest expense | 7 | 9 | 10 | 32 | 44 |
| Income before income taxes | \$ 473 | \$ 487 | \$ 758 | \$ 2,271 | \$ 2,671 |

CUMMINS INC. AND SUBSIDIARIES**SELECTED FOOTNOTE DATA****(Unaudited)****NOTE 1. EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEEES**

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

| In millions | Three months ended | | | For the years ended | |
|----------------------------------------------------|----------------------------------|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | December 31, 2012 | September 30, 2012 | December 31, 2011 | December 31, 2012 | December 31, 2011 |
| Distribution Entities | | | | | |
| North American distributors | \$ 32 | \$ 37 | \$ 34 | \$ 147 | \$ 134 |
| Komatsu Cummins Chile, Ltda. | 6 | 9 | 6 | 26 | 22 |
| All other distributors | 1 | - | 1 | 4 | 4 |
| Manufacturing Entities | | | | | |
| Chongqing Cummins Engine Company, Ltd. | 12 | 14 | 17 | 61 | 68 |
| Dongfeng Cummins Engine Company, Ltd. | 10 | 9 | 16 | 52 | 80 |
| Tata Cummins, Ltd. | 4 | - | 5 | 11 | 14 |
| Cummins Westport, Inc. | 3 | 2 | 6 | 14 | 14 |
| Shanghai Fleetguard Filter Co., Ltd. | 3 | 3 | 3 | 13 | 15 |
| Valvoline Cummins, Ltd. | 2 | 2 | 1 | 8 | 7 |
| Beijing Foton Cummins Engine Co., Ltd. | 2 | 3 | (2) | 5 | (7) |
| Komatsu manufacturing alliances | (2) | (1) | 2 | (3) | 3 |
| All other manufacturers | 2 | 7 | 2 | 9 | 21 |
| Cummins share of net income | 75 | 85 | 91 | 347 | 375 |
| Royalty and interest income | 7 | 9 | 10 | 37 | 41 |
| Equity, royalty and interest income from investees | \$ 82 | \$ 94 | \$ 101 | \$ 384 | \$ 416 |

NOTE 2. RESTRUCTURING CHARGES

We have executed restructuring actions primarily in the form of involuntary separation programs in the fourth quarter of 2012. These actions were in response to deterioration in our U.S. businesses and most key markets around the world in the second half of 2012, as well as a reduction in orders in most U.S. and global markets for 2013. We reduced our worldwide professional workforce by approximately 650 employees, or 3 percent. We also reduced our hourly workforce by approximately 650 employees. During 2012, we incurred a pre-tax charge related to the professional and hourly workforce reductions of approximately \$49 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.

We incurred a \$1 million charge for lease terminations and a \$2 million charge for asset impairments and other non-cash charges. During 2012, we recorded restructuring and other charges of \$52 million (\$35 million after-tax). These restructuring actions included:

| In millions | Year ended December 31, 2012 |
|---------------------------------|-------------------------------------------------|
| Workforce reductions | \$ 49 |
| Exit activities | 1 |
| Other | 2 |
| Restructuring and other charges | \$ 52 |

If the 2012 restructuring actions are successfully implemented, we expect the annualized savings from the professional actions to be approximately \$39 million.

At December 31, 2012, of the approximately 1,300 employees to be affected by this plan, 1,130 had been terminated.

Restructuring charges were included in each segment in our operating results.

The table below summarizes where the restructuring costs are located in our *Condensed Consolidated Statements of Income* for the year ended December 31, 2012.

| In millions | Year ended December 31, 2012 |
|------------------------------------------------|-----------------------------------------|
| Cost of sales | \$ 29 |
| Selling, general and administrative expenses | 20 |
| Research, development and engineering expenses | 3 |
| Restructuring and other charges | \$ 52 |

NOTE 3. INCOME TAXES

Our income tax rates are generally less than the 35 percent U.S. income tax rate primarily because of lower taxes on foreign earnings and research tax credits. Our effective tax rate for the fourth quarter and full year of 2012 was 16.1 percent and 23.5 percent, respectively. The tax rate for the fourth quarter and full year includes one-time tax items that total a benefit of \$39 million (\$0.21 per diluted share) and \$55 million (\$0.29 per diluted share), respectively. The one-time tax items for the fourth quarter and full year related primarily to benefits resulting from transactions entered into and elections made with respect to our U.K. operations. Our effective tax rate for the fourth quarter and full year of 2011 was 24.5 percent and 27.1 percent, respectively. Excluding the gain on sale of certain assets and liabilities of the businesses and the flood insurance recovery, our effective tax rate for the fourth quarter and full year of 2011 was 22.8 percent and 26.3 percent, respectively.

A reconciliation of the U.S. federal income tax rate of 35 percent to the actual effective tax rate is as follows:

| | Years ended December 31, | | | |
|--------------------------------------------------------------------------------|---------------------------------|---|-------------|---|
| | 2012 | | 2011 | |
| U.S. federal statutory rate | 35.0 | % | 35.0 | % |
| State income tax, net of federal effect | 1.0 | | 0.4 | |
| Research tax credits | (0.4) | | (4.7) | |
| Differences in rates and taxability of foreign subsidiaries and joint ventures | (12.1) | | (4.6) | |
| Other, net | - | | 1.0 | |
| Effective tax rate | 23.5 | % | 27.1 | % |

On January 2, 2013, the American Taxpayer Relief Act of 2012 was enacted. This legislation retroactively extended the U.S. federal research credit for two years, from January 1, 2012 through December 31, 2013. We expect our 2013 effective tax rate, which will include an estimated 1 percent benefit for the 2013 research credit, to be 26 percent excluding any one-time tax items that may arise. Additionally, we anticipate that our first quarter 2013 results will include a one-time tax benefit of approximately \$28 million representing the net benefit attributable to the 2012 research credit.

NOTE 4. 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, 2012 and 2011, was \$361 million and \$325 million, respectively.

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 this is a useful measure of our operating performance for the period presented as it illustrates our operating performance without regard to special items including the gains related to restructuring charges, one-time income tax items, the sale of certain assets and liabilities and a flood insurance recovery. This measure is not in accordance with, or an alternative for, accounting principles generally accepted in the United States of America and may not be consistent with measures used by other companies. It should be considered supplemental data. The following table reconciles net income attributable to Cummins Inc. to net income attributable to Cummins Inc. excluding special items for the quarters ended December 31, 2012, September 30, 2012 and December 31, 2011 and for the years ended December 31, 2012 and December 31, 2011.

| In millions | Three months ended December 31, 2012 | | September 30, 2012 | | December 31, 2011 | |
|-----------------------------------------------------------------|------------------------------------------|----------------|--------------------|----------------|-------------------|----------------|
| | Net Income | Diluted EPS | Net Income | Diluted EPS | Net Income | Diluted EPS |
| Net income attributable to Cummins Inc. | \$ 369 | \$ 1.95 | \$ 352 | \$ 1.86 | \$ 548 | \$ 2.86 |
| Add | | | | | | |
| Restructuring charges | 35 | 0.19 | - | - | - | - |
| Less | | | | | | |
| One-time tax benefits ⁽¹⁾ | 39 | 0.21 | 16 | 0.08 | - | - |
| Gain on sale of business ⁽²⁾ | - | - | - | - | 33 | 0.17 |
| Flood insurance recovery ⁽³⁾ | - | - | - | - | 24 | 0.13 |
| Net income attributable to Cummins Inc. excluding special items | \$ 365 | \$ 1.93 | \$ 336 | \$ 1.78 | \$ 491 | \$ 2.56 |
| | | | | | | |
| In millions | For the years ended December 31, 2012 | | December 31, 2011 | | | |
| | Net Income | Diluted EPS | Net Income | Diluted EPS | | |
| Net income attributable to Cummins Inc. | \$ 1,645 | \$ 8.67 | \$ 1,848 | \$ 9.55 | | |
| Add | | | | | | |
| Restructuring charges | 35 | 0.18 | - | - | | |
| Less | | | | | | |
| One-time tax benefits ⁽¹⁾ | 55 | 0.29 | - | - | | |
| Gain on sale of business ⁽²⁾ | 4 | 0.02 | 70 | 0.36 | | |

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| | | | | |
|-----------------------------------------------------------------|----------|---------|----------|---------|
| Flood insurance recovery ⁽³⁾ | - | - | 24 | 0.12 |
| Net income attributable to Cummins Inc. excluding special items | \$ 1,621 | \$ 8.54 | \$ 1,754 | \$ 9.07 |

- (1) The one-time tax benefits for the three months ended December 31, 2012, and the year ended December 31, 2012, related primarily to benefits resulting from transactions entered into and elections made with respect to our U.K. operations. The three month period ended September 30, 2012, included a \$16 million one-time tax benefit for third quarter 2012, \$6 million of which related to a dividend distribution of accumulated foreign income earned in prior years. These one-time tax adjustments also included a one-time tax benefit of \$13 million for prior year tax return true-up adjustments and a one-time tax charge of \$3 million related to the third quarter enactment of U.K. tax law changes.
- (2) In the second and fourth quarter of 2011 we sold certain assets and liabilities of our exhaust business and our light-duty filtration business. In the second quarter of 2011 we recognized a gain on the sale of \$68 million (\$37 million after-tax). In the fourth quarter of 2011 we recognized a gain on the sale of \$53 million (\$33 million after-tax). In the second quarter of 2012 we recognized a \$6 million gain (\$4 million after-tax) related to adjustments from our 2011 divestitures.
- (3) In the fourth quarter of 2011 we recognized a gain of \$38 million (\$24 million after-tax) on a flood settlement with our insurance carriers to settle 2008 flood claims.

CUMMINS INC. AND SUBSIDIARIES

FINANCIAL MEASURES THAT SUPPLEMENT GAAP

(Unaudited)

Earnings before interest expense, income taxes, noncontrolling interests and restructuring charges

We define EBIT as earnings or loss before interest expense, income tax expense and noncontrolling interests in income of consolidated subsidiaries (EBIT). We use EBIT to assess and measure the performance of our operating segments and also as a component in measuring our variable compensation programs. Below is a reconciliation of EBIT and EBIT excluding restructuring and other charges, non-GAAP financial measures, to Net income attributable to Cummins Inc., for each of the applicable periods:

| In millions | Three months ended | | | For the years ended | |
|------------------------------------------------------------------------------------------------------|-------------------------|--------------------------|-------------------------|-------------------------|-------------------------|
| | December 31, 2012 | September 30, 2012 | December 31, 2011 | December 31, 2012 | December 31, 2011 |
| Earnings before interest expense, income taxes and special items | \$ 532 | \$ 496 | \$ 677 | \$ 2,349 | \$ 2,556 |
| <i>Earnings before interest expense, income taxes and special items as a percentage of net sales</i> | 12.4% | 12.0% | 13.8% | 13.6% | 14.2% |
| Less | | | | | |
| Restructuring charges | 52 | - | - | 52 | - |
| Add | | | | | |
| Gain on sale of businesses | - | - | 53 | 6 | 121 |
| Flood insurance recovery | - | - | 38 | - | 38 |
| Earnings before interest expense and income taxes | \$ 480 | \$ 496 | \$ 768 | \$ 2,303 | \$ 2,715 |
| <i>EBIT as a percentage of net sales</i> | 11.2% | 12.0% | 15.6% | 13.3% | 15.0% |
| Less | | | | | |
| Interest expense | 7 | 9 | 10 | 32 | 44 |
| Income tax expense | 75 | 117 | 186 | 533 | 725 |
| Consolidated net income | 398 | 370 | 572 | 1,738 | 1,946 |

| | | | | | |
|-----------------------------------------------------------------------------|---------------|--------|--------|-----------------|----------|
| Less | | | | | |
| Net income attributable to noncontrolling interests | 29 | 18 | 24 | 93 | 98 |
| Net income attributable to Cummins Inc. | \$ 369 | \$ 352 | \$ 548 | \$ 1,645 | \$ 1,848 |
| <i>Net income attributable to Cummins Inc. as a percentage of net sales</i> | 8.6% | 8.5% | 11.1% | 9.5% | 10.2% |

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

Engine segment net sales by market

2012

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------------|-----------|-----------|-----------|-----------------|------------|
| Heavy-duty truck | \$ 892 | \$ 807 | \$ 656 | \$ 609 | \$ 2,964 |
| Medium-duty truck and bus | 526 | 512 | 478 | 575 | 2,091 |
| Light-duty automotive and RV | 286 | 297 | 353 | 343 | 1,279 |
| Industrial | 861 | 859 | 766 | 747 | 3,233 |
| Stationary power | 294 | 366 | 274 | 232 | 1,166 |
| Total sales | \$ 2,859 | \$ 2,841 | \$ 2,527 | \$ 2,506 | \$ 10,733 |

2011

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------------|-----------|-----------|-----------|-----------|------------|
| Heavy-duty truck | \$ 485 | \$ 693 | \$ 748 | \$ 865 | \$ 2,791 |
| Medium-duty truck and bus | 474 | 608 | 640 | 598 | 2,320 |
| Light-duty automotive and RV | 296 | 310 | 271 | 299 | 1,176 |
| Industrial | 855 | 988 | 977 | 1,030 | 3,850 |
| Stationary power | 281 | 301 | 319 | 269 | 1,170 |
| Total sales | \$ 2,391 | \$ 2,900 | \$ 2,955 | \$ 3,061 | \$ 11,307 |

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

2012

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-----------------|-----------|-----------|-----------|----------------|------------|
| Mid-range | 109,000 | 110,000 | 113,000 | 108,500 | 440,500 |
| Heavy-duty | 36,000 | 33,000 | 26,000 | 24,100 | 119,100 |
| High horsepower | 5,500 | 5,800 | 4,600 | 3,900 | 19,800 |
| Total units | 150,500 | 148,800 | 143,600 | 136,500 | 579,400 |

2011

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-----------------|-----------|-----------|-----------|-----------|------------|
| Mid-range | 109,400 | 131,300 | 130,600 | 138,100 | 509,400 |
| Heavy-duty | 20,000 | 29,900 | 31,100 | 35,300 | 116,300 |
| High horsepower | 4,900 | 5,700 | 5,600 | 5,400 | 21,600 |

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| | | | | | |
|-------------|---------|---------|---------|---------|---------|
| Total units | 134,300 | 166,900 | 167,300 | 178,800 | 647,300 |
|-------------|---------|---------|---------|---------|---------|

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

Component segment sales by business

| 2012 | | | | | |
|--------------------|-----------|-----------|-----------|-----------|------------|
| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
| Emission solutions | \$ 404 | \$ 349 | \$ 325 | \$ 337 | \$ 1,415 |
| Turbo technologies | 298 | 297 | 257 | 254 | 1,106 |
| Filtration | 270 | 266 | 260 | 252 | 1,048 |
| Fuel systems | 127 | 124 | 96 | 96 | 443 |
| Total sales | \$ 1,099 | \$ 1,036 | \$ 938 | \$ 939 | \$ 4,012 |

| 2011 | | | | | |
|--------------------|-----------|-----------|-----------|-----------|------------|
| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
| Emission solutions | \$ 273 | \$ 311 | \$ 306 | \$ 372 | \$ 1,262 |
| Turbo technologies | 297 | 314 | 298 | 314 | 1,223 |
| Filtration | 255 | 287 | 288 | 283 | 1,113 |
| Fuel systems | 99 | 120 | 123 | 123 | 465 |
| Total sales | \$ 924 | \$ 1,032 | \$ 1,015 | \$ 1,092 | \$ 4,063 |

In the first quarter of 2012, our Power Generation segment reorganized its operating structure to include the following businesses: power products, power systems, generator technologies and power solutions. Sales for our Power Generation segment by business (including 2011 reorganized balances) were as follows:

| 2012 | | | | | |
|------------------------|-----------|-----------|-----------|-----------|------------|
| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
| Power products | \$ 375 | \$ 459 | \$ 425 | \$ 395 | \$ 1,654 |
| Power systems | 188 | 217 | 174 | 178 | 757 |
| Generator technologies | 141 | 160 | 138 | 127 | 566 |
| Power solutions | 76 | 73 | 77 | 65 | 291 |
| Total sales | \$ 780 | \$ 909 | \$ 814 | \$ 765 | \$ 3,268 |

| 2011 | | | | | |
|--------------------|-----------|-----------|-----------|-----------|------------|
| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
| Power products | \$ 377 | \$ 415 | \$ 433 | \$ 411 | \$ 1,636 |
| Power systems | 189 | 210 | 188 | 228 | 815 |

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| | | | | | |
|------------------------|--------|--------|--------|--------|----------|
| Generator technologies | 154 | 189 | 166 | 164 | 673 |
| Power solutions | 75 | 95 | 87 | 117 | 374 |
| Total sales | \$ 795 | \$ 909 | \$ 874 | \$ 920 | \$ 3,498 |

Distribution segment sales by business

2012

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|----------------------|-----------|-----------|-----------|---------------|------------|
| Parts and filtration | \$ 288 | \$ 302 | \$ 326 | \$ 319 | \$ 1,235 |
| Power generation | 186 | 201 | 178 | 242 | 807 |
| Engines | 166 | 147 | 157 | 195 | 665 |
| Service | 135 | 144 | 140 | 151 | 570 |
| Total sales | \$ 775 | \$ 794 | \$ 801 | \$ 907 | \$ 3,277 |

2011

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|----------------------|-----------|-----------|-----------|-----------|------------|
| Parts and filtration | \$ 235 | \$ 271 | \$ 283 | \$ 296 | \$ 1,085 |
| Power generation | 145 | 195 | 191 | 191 | 722 |
| Engines | 140 | 186 | 171 | 206 | 703 |
| Service | 122 | 133 | 138 | 141 | 534 |
| Total sales | \$ 642 | \$ 785 | \$ 783 | \$ 834 | \$ 3,044 |