

CUMMINS INC  
Form 8-K  
April 28, 2006

**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: April 28 , 2006**

**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)
  - 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))
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**Item 2.02. Results of Operations and Financial Condition.**

**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 April 28, 2006, Cummins Inc. (the "Company" or "we") issued the attached press release reporting its financial results for the first quarter of 2006 and revising its financial guidance for full-year 2006. A copy of Cummins' press release is attached hereto as Exhibit 99 and hereby incorporated by reference.

**Item 9.01. Financial Statements and Exhibits.**

(c) The following exhibit is furnished herewith:

99-Press Release dated April 28, 2006

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: April 28, 2006

Cummins Inc.

**/s/ Marsha L. Hunt**

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Marsha L. Hunt  
Vice President - Corporate Controller  
(Principal Accounting Officer)

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

| Three months ended |           |              |
|--------------------|-----------|--------------|
| April 2,           | March 27, | December 31, |

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|   | 2006                       | 2005     | 2005     |
|---|----------------------------|----------|----------|
|   | Millions                   |          |          |
|   | (except per share amounts) |          |          |
| <b>Net sales</b>  | \$ 2,678                   | \$ 2,208 | \$ 2,753 |
| Cost of sales   | 2,079                      | 1,752    | 2,134    |
| <b>Gross margin</b>   | 599                        | 456      | 619      |
| <b>Operating expenses and income</b>                        |                            |          |          |
| Selling and administrative expenses                         | 301                        | 259      | 313      |
| Research and engineering expenses                           | 82                         | 63       | 71       |
| Investee equity, royalty and other income                   | (31)                       | (34)     | (28)     |
| Other operating income, net                                 | (1)                        | ---      | (1)      |
| <b>Operating earnings</b>                                   | 248                        | 168      | 264      |
| Interest income   | (9)                        | (5)      | (9)      |
| Interest expense  | 27                         | 28       | 26       |
| Other expenses, net   | 2                          | 10       | 4        |
| <b>Earnings before income taxes and minority interests</b>  | 228                        | 135      | 243      |
| Provision for income taxes                                  | 85                         | 34       | 63       |
| Minority interests in earnings of consolidated subsidiaries | 8                          | 4        | 13       |
| <b>Net earnings</b>   | \$ 135                     | \$ 97    | \$ 167   |
| <b>Earnings per share</b>                                   |                            |          |          |
| Basic   | \$ 3.04                    | \$ 2.20  | \$ 3.75  |
| Diluted   | \$ 2.70                    | \$ 1.96  | \$ 3.31  |
| Cash dividends declared per share                           | \$ 0.30                    | \$ 0.30  | \$ 0.30  |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America. Certain reclassifications have been made to 2005 amounts to conform to the 2006 presentation.

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

|  | April 2,<br>2006               | December<br>31,<br>2005 |
|--|--------------------------------|-------------------------|
|  | Millions<br>(except par value) |                         |
| <b>ASSETS</b>  |                                |                         |
| Current assets   |                                |                         |
| Cash and cash equivalents  | \$ 676                         | \$ 779                  |
| Marketable securities  | 58                             | 61                      |
| Receivables, net   | 1,620                          | 1,423                   |
| Inventories  | 1,251                          | 1,174                   |
| Deferred income taxes  | 365                            | 363                     |
| Prepaid expenses and other current assets  | 118                            | 116                     |
| <b>Total current assets</b>  | <b>4,088</b>                   | <b>3,916</b>            |
| Long-term assets   |                                |                         |
| Property, plant and equipment, net   | 1,535                          | 1,557                   |
| Investments in and advances to equity investees                                    | 287                            | 278                     |
| Goodwill   | 358                            | 358                     |
| Other intangible assets, net   | 105                            | 100                     |
| Deferred income taxes  | 449                            | 500                     |
| Other assets   | 175                            | 176                     |
| <b>Total assets</b>  | <b>\$ 6,997</b>                | <b>\$ 6,885</b>         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                |                         |
| Current liabilities  |                                |                         |
| Short-term borrowings  | \$ 162                         | \$ 154                  |
| Accounts payable   | 1,014                          | 904                     |
| Other accrued expenses   | 1,080                          | 1,160                   |
| <b>Total current liabilities</b>   | <b>2,256</b>                   | <b>2,218</b>            |
| Long-term liabilities  |                                |                         |
| Long-term debt   | 1,164                          | 1,213                   |
| Pensions   | 386                            | 396                     |
| Postretirement benefits other than pensions  | 550                            | 554                     |
| Other liabilities and deferred revenue   | 428                            | 415                     |
| <b>Total liabilities</b>   | <b>4,784</b>                   | <b>4,796</b>            |
| Minority interests   |                                |                         |
|  | 235                            | 225                     |
| Shareholders' equity   |                                |                         |
| Common stock, \$2.50 par value, 150 shares authorized, 48.7 and 48.5 shares issued | 122                            | 121                     |
| Additional contributed capital   | 1,205                          | 1,201                   |
| Retained earnings  | 1,480                          | 1,360                   |
| Accumulated other comprehensive loss   |                                |                         |
| Minimum pension liability adjustment   | (523)                          | (523)                   |
| Foreign currency translation adjustments   | (75)                           | (84)                    |
| Unrealized gain on marketable securities   | 2                              | 3                       |
| Unrealized gain on derivatives   | 8                              | 1                       |
| <b>Total accumulated other comprehensive loss</b>                                  | <b>(588)</b>                   | <b>(603)</b>            |
| Common stock in treasury, at cost, 2.2 and 2.0 shares                              | (132)                          | (101)                   |
| Common stock held in trust for employee benefit plans, 2.0 and 2.0 shares          | (95)                           | (97)                    |
| Unearned compensation  | (14)                           | (17)                    |
| <b>Total shareholders' equity</b>  | <b>1,978</b>                   | <b>1,864</b>            |
| <b>Total liabilities and shareholders' equity</b>                                  | <b>\$ 6,997</b>                | <b>\$ 6,885</b>         |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America. Certain reclassifications have been made to 2005 amounts to conform to the 2006 presentation.

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

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | April 2,<br>2006   | March 27,<br>2005 |
|   | Millions           |                   |
| <b>Net cash provided by (used in) operating activities</b>          | \$ 18              | \$ (62)           |
| <b>Cash flows from investing activities</b>                         |                    |                   |
| Capital expenditures  | (52)               | (31)              |
| Investments in marketable securities-acquisitions                   | (38)               | (26)              |
| Investments in marketable securities-liquidations                   | 42                 | 39                |
| Other, net  | 10                 | ---               |
| <b>Net cash used in investing activities</b>                        | (38)               | (18)              |
| <b>Cash flows from financing activities</b>                         |                    |                   |
| Proceeds from borrowings  | 19                 | 25                |
| Payments on borrowings and capital lease obligations                | (64)               | (294)             |
| Dividend payments on common stock                                   | (14)               | (14)              |
| Proceeds from issuing common stock                                  | 4                  | 7                 |
| Repurchases of common stock   | (36)               | ---               |
| Other, net  | 7                  | 8                 |
| <b>Net cash used in financing activities</b>                        | (84)               | (268)             |
| <b>Effect of exchange rate changes on cash and cash equivalents</b> | 1                  | (2)               |
| <b>Net decrease in cash and cash equivalents</b>                    | (103)              | (350)             |
| Cash and cash equivalents at beginning of year                      | 779                | 611               |
| <b>Cash and cash equivalents at end of period</b>                   | \$ 676             | \$ 261            |

(a) Prepared on an unaudited basis in accordance with accounting principles generally accepted in the United States of America. Certain reclassifications have been made to the 2005 amounts to conform to 2006 presentation.

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CUMMINS INC. AND CONSOLIDATED SUBSIDIARIES  
SEGMENT INFORMATION  
(Unaudited)

|   | Engine   | Power<br>Generation | Components | Distribution | Eliminations | Total    |
|---|----------|---------------------|------------|--------------|--------------|----------|
| Millions                                    |          |                     |            |              |              |          |
| <b>Three months ended April 2, 2006</b>     |          |                     |            |              |              |          |
| Net sales                                   | \$ 1,821 | \$ 536              | \$ 555     | \$ 317       | \$ (551)     | \$ 2,678 |
| Investee equity, royalty and other income   | 17       | 3                   | 2          | 9            | ---          | 31       |
| Segment EBIT                                | 179      | 45                  | 31         | 31           | (31)         | 255      |
| Net assets                                  | 1,526    | 752                 | 965        | 366          | ---          | 3,609    |
| <b>Three months ended March 27, 2005</b>    |          |                     |            |              |              |          |
| Net sales                                   | \$ 1,480 | \$ 427              | \$ 473     | \$ 253       | \$ (425)     | \$ 2,208 |
| Investee equity, royalty and other income   | 25       | 1                   | 2          | 6            | --           | 34       |
| Segment EBIT                                | 117      | 15                  | 23         | 20           | (12)         | 163      |
| Net assets                                  | 1,166    | 595                 | 938        | 295          | ---          | 2,994    |
| <b>Three months ended December 31, 2005</b> |          |                     |            |              |              |          |
| Net sales                                   | \$ 1,838 | \$ 575              | \$ 535     | \$ 346       | \$ (541)     | \$ 2,753 |
| Investee equity, royalty and other income   | 13       | 3                   | 1          | 11           | ---          | 28       |
| Segment EBIT                                | 156      | 49                  | 24         | 33           | 7            | 269      |
| Net assets                                  | 1,518    | 718                 | 944        | 299          | ---          | 3,479    |

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

|   | Three Months Ended |                   |                      |
|---|--------------------|-------------------|----------------------|
|   | April 2,<br>2006   | March 27,<br>2005 | December 31,<br>2005 |
| Millions  |                    |                   |                      |
| Segment EBIT  | \$ 255             | \$ 163            | \$ 269               |
| Less:   |                    |                   |                      |
| Interest expense                                    | 27                 | 28                | 26                   |
| Earnings before income taxes and minority interests | \$ 228             | \$ 135            | \$ 243               |

|  | April 2,<br>2006 | March 27,<br>2005 | December 31,<br>2005 |
|--|------------------|-------------------|----------------------|
| Millions   |                  |                   |                      |
| Net assets for operating segments                  | \$ 3,609         | \$ 2,994          | \$ 3,479             |
| Liabilities deducted in arriving at net assets     | 3,385            | 3,252             | 3,354                |
| Minimum pension liability excluded from net assets | (837)            | (826)             | (837)                |
| Deferred tax assets not allocated to segments      | 814              | 978               | 863                  |
| Debt-related costs not allocated to segments       | 26               | 27                | 26                   |
| Total assets                                       | \$ 6,997         | \$ 6,425          | \$ 6,885             |

Certain reclassifications have been made to 2005 amounts to conform to the 2006 presentation.

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

Earnings before interest, taxes and minority interests (EBIT)

We define EBIT as earnings before interest expense, provision for income taxes and minority interests in earnings 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 earnings, for each of the applicable periods:

|   | Three Months Ended |                   |                      |
|---|--------------------|-------------------|----------------------|
|   | April 2,<br>2006   | March 27,<br>2005 | December 31,<br>2005 |
|   | Millions           |                   |                      |
| Earnings before interest, income taxes and minority interests | \$ 255             | \$ 163            | \$ 269               |
| <i>EBIT as a percentage of net sales</i>                      | 9.5%               | 7.4%              | 9.8%                 |
| Less:   |                    |                   |                      |
| Interest expense  | 27                 | 28                | 26                   |
| Provision for income taxes                                    | 85                 | 34                | 63                   |
| Minority interests in earnings of consolidated subsidiaries   | 8                  | 4                 | 13                   |
| Net earnings  | \$ 135             | \$ 97             | \$ 167               |
| <i>Net earnings as a percentage of net sales</i>              | 5.0%               | 4.4 %             | 6.1 %                |

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 CONSOLIDATED SUBSIDIARIES  
SELECTED FOOTNOTE DATA  
(Unaudited)

**NOTE 1. EARNINGS PER SHARE**

The following is a reconciliation of net earnings and weighted-average common shares outstanding for purposes of calculating basic and diluted net earnings per share:

|  | Three months ended         |                   |                         |
|--|----------------------------|-------------------|-------------------------|
|  | April 2,<br>2006           | March 27,<br>2005 | December<br>31,<br>2005 |
|  | Millions                   |                   |                         |
|  | (except per share amounts) |                   |                         |
| Net earnings for basic EPS   | \$ 134.6                   | \$ 96.6           | \$ 166.8                |
| Interest on junior convertible subordinated debentures, net of tax | 3.2                        | 3.2               | 3.2                     |
| Net earnings for diluted EPS                                       | \$ 137.8                   | \$ 99.8           | \$ 170.0                |
| <b>Weighted-average common shares outstanding:</b>                 |                            |                   |                         |
| Basic  | 44.3                       | 43.9              | 44.5                    |
| Dilutive effect of stock compensation awards                       | 0.4                        | 0.6               | 0.5                     |
| Dilutive effect of junior convertible subordinated debentures      | 6.3                        | 6.3               | 6.3                     |
| Diluted  | 51.0                       | 50.8              | 51.3                    |
| <b>Earnings per share:</b>   |                            |                   |                         |
| Basic  | \$ 3.04                    | \$ 2.20           | \$ 3.75                 |
| Diluted  | \$ 2.70                    | \$ 1.96           | \$ 3.31                 |

**NOTE 2. INVESTEE EQUITY, ROYALTY AND OTHER INCOME**

Investee equity, royalty and other income included in our *Condensed Consolidated Statements of Earnings* for the interim reporting periods was as follows:

|   | Three months ended |                   |                         |
|---|--------------------|-------------------|-------------------------|
|   | April 2,<br>2006   | March 27,<br>2005 | December<br>31,<br>2005 |
|   | Millions           |                   |                         |
| Dongfeng Cummins Engine Company, Ltd      | \$ 5               | \$ 15             | \$ 3                    |
| North American distributors               | 9                  | 6                 | 10                      |
| Cummins Mercuriser                        | 1                  | 2                 | 2                       |
| Chongqing Cummins                         | 3                  | 2                 | 2                       |
| Tata Cummins                              | 3                  | 1                 | 2                       |
| Fleetguard Shanghai                       | 1                  | 1                 | 1                       |
| All others                                | 4                  | 1                 | 4                       |
| Cummins share of net earnings             | 26                 | 28                | 24                      |
| Royalty and other income                  | 5                  | 6                 | 4                       |
| Investee equity, royalty and other income | \$ 31              | \$ 34             | \$ 28                   |

**NOTE 3. PROVISION FOR INCOME TAXES**



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Our income tax provision for the three months ended April 2, 2006, was increased due to a tax bill passed in Indiana during March 2006 that will have the effect of lowering our effective tax rate in Indiana over time. As a result, our first quarter tax provision includes a \$12 million charge to adjust deferred tax assets to their ultimate expected realizable value based upon this action. Absent this charge, our effective tax rate was 32 percent for the quarter. If Congress passes a tax bill in 2006 that includes provisions to extend the research tax credits, we believe such action will reduce our effective tax rate to 31 percent for the year.

### NOTE 4. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense included in operating activities of the *Condensed Consolidated Statements of Cash Flows* was as follows:

|                               | Three months ended |                   |
|-------------------------------|--------------------|-------------------|
|                               | April 2,<br>2006   | March 27,<br>2005 |
|                               | Millions           |                   |
| Depreciation and amortization | \$ 74              | \$ 72             |

**News Release**

Mark Land

Director - Public Relations

(317) 610-2456  
(812) 350-9678 (mobile)

**For Immediate Release**

April 28, 2006

**Cummins reports strong first-quarter earnings; increases profit guidance for full year**

COLUMBUS, IND. - Cummins Inc. (NYSE: CMI) today reported strong first-quarter earnings of \$135 million, or \$2.70 per diluted share, powered by sales growth across most of its markets and product lines, and continued gross margin strength. Sales for the quarter totaled \$2.68 billion.

Based on its first-quarter performance and its forecast for the remainder of the year, Cummins also is increasing its 2006 full-year guidance today. The Company now expects to earn between \$12.40 and \$12.60 a share in 2006, up from its original guidance of \$11.90 - \$12.10 a share. The Company expects to earn between \$3.35 and \$3.45 a share in the second quarter.

"As we have been saying for some time, we're confident 2006 will be an even better year than our record 2005 and these results indicate that we are on our way to achieving our goals," said Cummins Chairman and Chief Executive Officer Tim Solso. "Our first-quarter performance reflects considerable strength along the breadth of our product line and in markets around the world.

"We have become a less cyclical, more diversified company, and as our operating performance continues to improve and we strengthen our balance sheet, we are increasingly well-positioned for the future."

In the first quarter, Indiana passed a tax bill that will, over time, lower Cummins' effective tax rate in the state. As a result, however, Cummins' first-quarter results include a one-time charge of approximately \$12 million, or 23 cents a share, for adjustments required as a consequence of this legislation.

The Company's first-quarter performance was significantly stronger than the same period in 2005. For the first quarter, net income rose 39 percent from \$97 million, or \$1.96 per diluted share, during the first quarter of 2005. Revenues increased 21 percent, from \$2.21 billion a year ago.

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Earnings Before Interest and Taxes (EBIT) rose 56 percent to \$255 million, from \$163 million in the first quarter of 2005. EBIT as a percentage of sales was 9.5 percent, compared to 7.4 percent a year ago. Gross margins for the quarter also improved from the same period a year ago, increasing to 22.4 percent from 20.7 percent.

The Company's Engine segment enjoyed its most profitable quarter ever, while the Power Generation and Distribution segments posted strong sales and earnings during the quarter. The Company's fourth business segment - Components - began to see improvement in earnings while continuing to invest in technologies critical to the Company's future success.

### **First-quarter details**

#### **Engine Segment**

Segment EBIT of \$179 million was a record and a 53 percent increase from the first quarter of 2005. Segment EBIT as a percentage of sales was 9.8 percent, compared to 7.9 percent during the first quarter of 2005.

Engine sales rose 23 percent to \$1.82 billion, led by stronger-than-expected volumes across nearly all markets. Global heavy-duty truck engine shipments rose 22 percent from the same period in 2005, while bus shipments increased 35 percent, construction shipments increased 29 percent and global light-duty automotive shipments rose 36 percent.

#### **Power Generation Segment**

Power Generation sales of \$536 million were 26 percent higher than during the first quarter of 2005, while Segment EBIT tripled to \$45 million, or 8.4 percent of sales, in the quarter.

Commercial generator sales, which represent more than half of the segment's total sales, rose 32 percent from the same period last year led by strong growth in North America and the Middle East. Consumer generator sales rose 14 percent, while Power Electronics sales increased 53 percent compared to the same period a year ago.

#### **Distribution Segment**

Distribution Segment sales of \$317 million were 25 percent higher than during the first quarter 2005, while Segment EBIT rose 55 percent to \$31 million, or 9.8 percent of sales. Quarterly sales and Segment EBIT were the second-highest ever, trailing only the fourth quarter of 2005.

Sales increased across all product lines, led by a 27 percent increase in sales of Power Generation products and a 20 percent rise in parts sales. From a geographic perspective, sales were particularly strong in the Middle East and Europe. Profits at the Company's joint venture distributors in all regions also improved.

#### **Components Segment**

Sales in the Company's Components Segments - made up of the Company's filtration, turbocharger, fuel systems and exhaust aftertreatment businesses - increased 17 percent to \$555 million, while Segment EBIT rose 35 percent to \$31 million, or 5.6 percent of sales.

The Filtration business benefited from strong aftermarket sales and sales to original equipment makers in North and Latin America. The Segment saw higher return on sales, despite continued investment in research and engineering to develop new products for 2007 and beyond.

#### **Presentation of Non-GAAP Financial Information**

EBIT is a non-GAAP financial 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.

**Webcast information** Cummins management will host a teleconference to discuss these results today at 10 a.m. EDT. This teleconference will be webcast and available on the Investor Relations section of the Cummins website at [www.cummins.com](http://www.cummins.com).

#### **About Cummins Inc.**

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 more than 160 countries through its network of 550 Company-owned and independent distributor facilities and more than 5,000 dealer locations. Cummins reported net income of \$550 million on sales of \$9.9 billion in 2005. Press releases can be found on the Web at [www.cummins.com](http://www.cummins.com).

Information provided and statements on the webcast and in this release that are 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

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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