

CUMMINS INC
Form 10-Q
April 30, 2009
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 29, 2009
Commission File Number 1-4949

CUMMINS INC.

(Exact name of registrant as specified in its charter)

Indiana	35 0257090
(State of Incorporation)	(IRS Employer Identification No.)
500 Jackson Street	
Box 3005	
Columbus, Indiana 47202-3005	
(Address of principal executive offices)	

Telephone (812) 377-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files).

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Edgar Filing: CUMMINS INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of March 29, 2009, there were 201,816,557 shares of common stock outstanding with a par value of \$2.50 per share.

Website Access to Company's Reports

Cummins maintains an internet website at www.cummins.com. Investors can obtain copies of our filings from this website free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to the Securities and Exchange Commission.

CUMMINS INC. AND SUBSIDIARIES

TABLE OF CONTENTS

QUARTERLY REPORT ON FORM 10-Q

	Page
 PART I. FINANCIAL INFORMATION	
ITEM 1. Condensed Financial Statements (Unaudited)	3
Condensed Consolidated Statements of Income for the three months ended March 29, 2009 and March 30, 2008	3
Condensed Consolidated Balance Sheets at March 29, 2009 and December 31, 2008	4
Condensed Consolidated Statements of Cash Flows for the three months ended March 29, 2009 and March 30, 2008	5
Condensed Consolidated Statements of Changes in Equity for the three months ended March 29, 2009 and March 30, 2008	6
Notes to Condensed Consolidated Financial Statements	7
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	35
ITEM 4. Controls and Procedures	35
 PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	36
ITEM 1A. Risk Factors Relating to Our Business	36
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	42
ITEM 6. Exhibits	42
Signatures	43

PART I. FINANCIAL INFORMATION**ITEM 1. Condensed Financial Statements****CUMMINS INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

In millions (except per share amounts)	Three months ended	
	March 29, 2009	March 30, 2008
NET SALES (a)	\$ 2,439	\$ 3,474
Cost of sales	1,994	2,767
GROSS MARGIN	445	707
OPERATING EXPENSES AND INCOME		
Selling, general and administrative expenses	300	351
Research, development and engineering expenses	85	103
Equity, royalty and interest income from investees (Note 5)	33	67
Restructuring charges (Note 6)	66	—
Other operating income (expense), net	2	(1)
OPERATING INCOME	29	319
Interest income	2	6
Interest expense	7	11
Other (expense) income, net	(3)	(10)
INCOME BEFORE INCOME TAXES	21	304
Income tax expense	7	102
NET INCOME	14	202
Less: net income attributable to noncontrolling interests	7	12
NET INCOME ATTRIBUTABLE TO CUMMINS INC.	\$ 7	\$ 190
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.		
Basic	\$ 0.04	\$ 0.97
Diluted	\$ 0.04	\$ 0.97

WEIGHTED AVERAGE SHARES OUTSTANDING

Basic	196.8	195.1
Dilutive effect of stock compensation awards	0.2	1.3
Diluted	197.0	196.4

**CASH DIVIDENDS DECLARED PER COMMON
SHARE**

\$ 0.175 \$ 0.125

(a) Includes sales to nonconsolidated equity investees of \$429 million and \$512 million for the three months ended March 29, 2009 and March 30, 2008, respectively.

The accompanying notes are an integral part of the condensed consolidated financial statements.

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

In millions (except par value)	March 29, 2009	December 31, 2008	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 353	\$ 426	
Marketable securities	65	77	
Accounts and notes receivable, net			
Trade and other	1,538	1,551	
Nonconsolidated equity investees	191	231	
Inventories (Note 7)	1,738	1,783	
Deferred income taxes	353	347	
Prepaid expenses and other current assets	196	298	
Total current assets	4,434	4,713	
Long-term assets			
Property, plant and equipment	4,574	4,539	
Accumulated depreciation	(2,741)	(2,698)	
Property, plant and equipment, net	1,833	1,841	
Investments and advances related to equity method investees	526	588	
Goodwill and other intangible assets, net	607	585	
Deferred income taxes	507	491	
Other assets	271	301	
Total assets	\$ 8,178	\$ 8,519	
LIABILITIES			
Current liabilities			
Current portion of long-term debt and loans payable	\$ 76	\$ 69	
Accounts payable (principally trade)	912	1,009	
Current portion of accrued product warranty (Note 8)	382	434	
Accrued compensation, benefits and retirement costs	251	364	
Other accrued expenses	660	763	
Total current liabilities	2,281	2,639	
Long-term liabilities			
Long-term debt	651	629	
Pensions	590	574	
Postretirement benefits other than pensions	448	452	13
Other liabilities and deferred revenue	781	745	
Total liabilities	4,751	5,039	
Commitments and contingencies (Note 9)	—	—	
EQUITY			
Cummins Inc. shareholders' equity			
Common stock, \$2.50 par value, 500 shares authorized, 222.1 and 221.7 shares issued	1,790	1,793	

Retained earnings	3,260		3,288
Treasury stock, at cost, 20.3 and 20.4 shares	(714)	)	(715)
Common stock held by employee benefits trust, at cost, 4.8 and 5.1 shares	(58)	)	(61)
Unearned compensation	(3)	)	(5)
Accumulated other comprehensive loss			
Defined benefit postretirement plans	(801)	)	(798)
Other	(251)	)	(268)
Total accumulated other comprehensive loss	(1,052)	)	(1,066)
Total Cummins Inc. shareholders' equity	3,223		3,234
Noncontrolling interests	204		246
Total equity	3,427		3,480
Total liabilities and equity	\$ 8,178		\$ 8,519

The accompanying notes are an integral part of the condensed consolidated financial statements.

CUMMINS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In millions	Three months ended	
	March 29, 2009	March 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 14	\$ 202
Adjustments to reconcile net income to net cash provided by operating activities:		
Restructuring charges, net of cash payments (Note 6)	48	
Depreciation and amortization	76	75
Deferred income taxes	(21)	(7)
Equity in income of investees, net of dividends	52	(39)
Pension expense, net of pension contributions (Note 4)	15	1
Other post-retirement benefits expense, net of cash payments	(8)	(6)
Stock-based compensation expense	6	8
Excess tax (benefits) deficiencies on stock-based awards	3	(10)
Translation and hedging activities	19	6
Changes in current assets and liabilities, net of acquisitions and dispositions:		
Accounts and notes receivable	49	(193)
Inventories	44	(165)
Other current assets	9	(5)
Accounts payable	(103)	164
Accrued expenses	(173)	(23)
Changes in long-term liabilities	36	25
Other, net	10	4
Net cash provided by operating activities	76	37
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(64)	(90)

Edgar Filing: CUMMINS INC - Form 10-Q

Investments in internal use software	(11)	)	(14))
Proceeds from disposals of property, plant and equipment	6		1	
Investments in and advances (to) from equity investees	5		(20))
Acquisition of businesses, net of cash acquired	(2)	)	(29))
Investments in marketable securities—acquisitions	(69)	)	(60))
Investments in marketable securities—liquidations	78		69	
Cash flows from derivatives not designated as hedges	(33)	)	(12))
Other, net			3	
Net cash used in investing activities	(90)	)	(152))
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings	7		42	
Payments on borrowings and capital lease obligations	(19)	)	(47))
Net borrowings under short-term credit agreements	4		14	
Distributions to noncontrolling interests	(9)	)	(6))
Dividend payments on common stock	(35)	)	(25))
Repurchases of common stock			(11))
Excess tax benefits (deficiencies) on stock-based awards	(3)	)	10	
Other, net	2		1	
Net cash used in financing activities	(53)	)	(22))
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
	(6)	)	6	
Net decrease in cash and cash equivalents	(73)	)	(131))
Cash and cash equivalents at beginning of year	426		577	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 353		\$ 446	

The accompanying notes are an integral part of the condensed consolidated financial statements.

CUMMINS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	Common Stock		Additional paid-in Capital		Retained Earnings		Accumulated Other Comprehensive Loss		Treasury Stock		Common Stock Held in Trust		Unearned Compensation		Total Cummins Inc. Shareholders' Equity	Noncontrolling Interests		Rolling Equity
In millions	Stock		Capital		Earnings		Loss		Stock		Trust		Compensation		Equity	Interests		Equity
BALANCE AT DECEMBER 31, 2007	\$ 551		\$ 1,168		\$ 2,660		\$ (286)		\$ (593)		\$ (79)		\$ (11)		\$ 3,410	\$ 292		\$ 3,702
Comprehensive income:																		
Net income					190										190	12		202
Other comprehensive income (loss):																		
Unrealized gain on derivatives							20								20			20
Foreign currency translation adjustments							19								19	(3)		16
Change in pensions and other postretirement defined benefit plans							7								7			7
Total comprehensive income															236	9		245
Effect of changing pension plan measurement date pursuant to SFAS No. 158					(5)		(2)								(7)			(7)
Issuance of shares	3		2						1						6	2		8
Acquisition of shares									(11)						(11)			(11)

Edgar Filing: CUMMINS INC - Form 10-Q

Cash dividends on common stock			(25)						(25)		(25)	
Distribution to noncontrolling interests										(6)	(6)	
Stock option exercises		(1)							(1)		(1)	
Other shareholder transactions		3						3	6	10	16	
BALANCE AT MARCH 30, 2008	\$ 554	\$ 1,172	\$ 2,820	\$ (242)	\$ (603)	\$ (79)	\$ (8)	\$ 3,614	\$ 307	\$ 3,921		
BALANCE AT DECEMBER 31, 2008	\$ 554	\$ 1,239	\$ 3,288	\$ (1,066)	\$ (715)	\$ (61)	\$ (5)	\$ 3,234	\$ 246	\$ 3,480		
Comprehensive income:												
Net income			7					7	7	14		
Other comprehensive income (loss):												
Unrealized gain on derivatives				29				29		29		
Foreign currency translation adjustments				(12)				(12)	(5)	(17)		
Change in pensions and other postretirement defined benefit plans				(3)				(3)		(3)		
Total comprehensive income								21	2	23		
Issuance of shares	1							1		1		
Cash dividends on common stock			(35)					(35)		(35)		
Distribution to noncontrolling interests									(9)	(9)		
Stock option exercises		(1)			1							
Conversion to capital lease (Note 12)									(35)	(35)		
Other shareholder transactions		(3)				3	2	2		2		
	\$ 555	\$ 1,235	\$ 3,260	\$ (1,052)	(1)	\$ (714)	\$ (58)	\$ (3)	\$ 3,223	\$ 204	\$ 3,427	

**BALANCE AT
MARCH 29, 2009**

(1) Comprised of defined benefit postretirement plans of \$(801) million, foreign currency translation adjustments of \$(215) million, unrealized gain on marketable securities of \$2 million and unrealized loss on derivatives of \$(38) million.

The accompanying notes are an integral part of the condensed consolidated financial statements.

CUMMINS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. NATURE OF OPERATIONS

Cummins Inc. ("Cummins," "the Company," "the registrant," "we," "our," or "us") is a leading global power provider that designs, manufactures, distributes and services diesel and natural gas engines, electric power generation systems and engine-related component products, including filtration and emissions solutions, turbochargers, fuel systems, controls and air handling systems. We were founded in 1919 as one of the first manufacturers of diesel engines and are headquartered in Columbus, Indiana. We sell our products to Original Equipment Manufacturers (OEMs), distributors and other customers worldwide. We serve our customers through a network of more than 500 company-owned and independent distributor locations and approximately 5,200 dealer locations in more than 190 countries and territories.

NOTE 2. BASIS OF PRESENTATION

The unaudited *Condensed Consolidated Financial Statements* reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of operations, financial position and cash flows. All such adjustments are of a normal recurring nature. The *Condensed Consolidated Financial Statements* have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted as permitted by such rules and regulations. Certain reclassifications have been made to prior period amounts to conform to the presentation of the current period condensed financial statements.

Our reporting period ends on the Sunday closest to the last day of the quarterly calendar period. The first quarter of 2009 and 2008 ended on March 29, and March 30, respectively. The interim periods for both 2009 and 2008 contain 13 weeks. Our fiscal year ends on December 31, regardless of the day of the week on which December 31 falls.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts in the *Condensed Consolidated Financial Statements*. Significant estimates and assumptions in these *Condensed Consolidated Financial Statements* require the exercise of judgment and are used for, but not limited to, allowance for doubtful accounts, estimates of future cash flows and other assumptions associated with goodwill and long-lived asset impairment tests, useful lives for depreciation and amortization, warranty programs, determination of discount and other rate assumptions for pension and other postretirement benefit expenses, income taxes and deferred tax valuation allowances and contingencies. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

The weighted-average diluted common shares outstanding as of March 29, 2009, and March 30, 2008, excludes the effect of approximately 58,050 and 9,513 weighted-average shares of common stock, respectively, since such options had an exercise price in excess of the monthly average market value of our common stock during both three month periods.

You should read these interim condensed financial statements in conjunction with the *Consolidated Financial Statements* included in our Annual Report on Form 10-K for the year ended December 31, 2008. Our interim period financial results for the three-month interim periods presented are not necessarily indicative of results to be expected for any other interim

period or for the entire year. The year-end *Condensed Consolidated Balance Sheet* data was derived from audited financial statements, but does not include all disclosures required by GAAP.

NOTE 3. RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Recently Adopted

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, "Fair Value Measurements" (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of SFAS 157, effective January 1, 2008, did not have a material impact on our *Condensed Consolidated Financial Statements*. See Note 10 for further information regarding the adoption of this standard.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS 158). This statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. In addition, the measurement date (the date at which plan assets and the benefit obligation are measured) is required to be the company's fiscal year end. During 2006, we adopted the provisions (except for the measurement date change) of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)," which resulted in a \$94 million noncash charge to equity. We adopted the measurement date provisions of SFAS 158 effective January 1, 2008. The majority of our pension and postretirement plans previously used a November 30 measurement date. All plans are now measured at December 31, consistent with the company's fiscal year end. The noncash effect of the adoption of the measurement date provisions of SFAS 158 decreased shareholders' equity by approximately \$10 million (\$7 million after-tax) and increased long-term liabilities by approximately \$10 million. There was no effect on our results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" (SFAS 160), which is effective for fiscal years beginning after December 15, 2008. SFAS 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements" (ARB 51) and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the accounting for future ownership changes with respect to those subsidiaries. This standard defines a noncontrolling interest, previously called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 requires, among other items, that a noncontrolling interest be included in