

CUMMINS INC
Form 8-K
February 02, 2012

**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 2, 2012

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.

On February 2, 2012, Cummins Inc. issued a press release regarding its release of fourth quarter and full year 2011 results.

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 2, 2012, Cummins Inc. (Cummins, the Company, the registrant, we, our, or, us) issued the attached release reporting its financial results for the fourth quarter and full year of 2011. 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 2, 2012

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 2, 2012

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, 2011 | September 25, 2011 | December 31, 2010 |
| In millions, except per share amounts | | | |
| NET SALES | \$ 4,921 | \$ 4,626 | \$ 4,139 |
| Cost of sales | 3,680 | 3,438 | 3,155 |
| GROSS MARGIN | 1,241 | 1,188 | 984 |
| OPERATING EXPENSES AND INCOME | | | |
| Selling, general and administrative expenses | 496 | 489 | 423 |
| Research, development and engineering expenses | 179 | 164 | 123 |
| Equity, royalty and interest income from investees (Note 1) | 101 | 102 | 90 |
| Gain on sale of businesses (Note 2) | 53 | - | - |
| Other operating (expense) income, net (Note 3) | 25 | 2 | (3) |
| OPERATING INCOME | 745 | 639 | 525 |
| Interest income | 9 | 9 | 7 |
| Interest expense | 10 | 11 | 11 |
| Other income (expense), net | 14 | (8) | 9 |
| INCOME BEFORE INCOME TAXES | 758 | 629 | 530 |
| Income tax expense (Note 4) | 186 | 157 | 139 |
| CONSOLIDATED NET INCOME | 572 | 472 | 391 |
| Less: Net income attributable to noncontrolling interests | 24 | 20 | 29 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$ 548 | \$ 452 | \$ 362 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | | |
| Basic | \$ 2.87 | \$ 2.35 | \$ 1.85 |
| Diluted | \$ 2.86 | \$ 2.35 | \$ 1.84 |
| WEIGHTED AVERAGE SHARES OUTSANDING | | | |
| Basic | 190.9 | 192.1 | 195.8 |
| Diluted | 191.5 | 192.7 | 196.4 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$ 0.40 | \$ 0.40 | \$ 0.2625 |

(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, 2011 | December 31, 2010 |
| NET SALES | \$ 18,048 | \$ 13,226 |
| Cost of sales | 13,459 | 10,058 |
| GROSS MARGIN | 4,589 | 3,168 |
| OPERATING EXPENSES AND INCOME | | |
| Selling, general and administrative expenses | 1,837 | 1,487 |
| Research, development and engineering expenses | 629 | 414 |
| Equity, royalty and interest income from investees (Note 1) | 416 | 351 |
| Gain on sale of businesses (Note 2) | 121 | - |
| Other operating (expense) income, net (Note 3) | 21 | (16) |
| OPERATING INCOME | 2,681 | 1,602 |
| Interest income | 34 | 21 |
| Interest expense | 44 | 40 |
| Other income (expense), net | - | 34 |
| INCOME BEFORE INCOME TAXES | 2,671 | 1,617 |
| Income tax expense (Note 4) | 725 | 477 |
| CONSOLIDATED NET INCOME | 1,946 | 1,140 |
| Less: Net income attributable to noncontrolling interests | 98 | 100 |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC. | \$ 1,848 | \$ 1,040 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC. | | |
| Basic | \$ 9.58 | \$ 5.29 |
| Diluted | \$ 9.55 | \$ 5.28 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 193.0 | 196.7 |
| Diluted | 193.6 | 197.1 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$ 1.325 | \$ 0.875 |

(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, |
|--|---------------------|---------------------|
| | 2011 | 2010 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,484 | \$ 1,023 |
| Marketable securities | 277 | 339 |
| Total cash, cash equivalents and marketable securities | 1,761 | 1,362 |
| Accounts and notes receivable, net | 2,526 | 2,243 |
| Inventories | 2,141 | 1,977 |
| Deferred income taxes | 268 | 314 |
| Prepaid expenses and other current assets | 395 | 393 |
| Total current assets | 7,091 | 6,289 |
| Long-term assets | | |
| Property, plant and equipment, net | 2,288 | 2,041 |
| Investments and advances related to equity method investees | 838 | 734 |
| Goodwill and other intangibles, net | 566 | 589 |
| Other assets | 885 | 749 |
| Total assets | \$ 11,668 | \$ 10,402 |
| LIABILITIES | | |
| Current liabilities | | |
| Loans payable | \$ 28 | \$ 82 |
| Accounts payable (principally trade) | 1,546 | 1,362 |
| Accrued expenses | 2,083 | 1,816 |
| Total current liabilities | 3,657 | 3,260 |
| Long-term liabilities | | |
| Long-term debt | 658 | 709 |
| Other liabilities | 1,522 | 1,437 |
| Total liabilities | 5,837 | 5,406 |
| EQUITY | | |
| Cummins Inc. shareholders' equity | | |
| Common stock, \$2.50 par value, 500 shares authorized, 222.2 and 221.8 shares issued | 2,001 | 1,934 |
| Retained earnings | 6,038 | 4,445 |
| Treasury stock, at cost, 30.2 and 24.0 shares | (1,587) | (964) |
| Common stock held by employee benefits trust, at cost, 1.8 and 2.1 shares | (22) | (25) |
| Accumulated other comprehensive loss | (938) | (720) |
| Total Cummins Inc. shareholders' equity | 5,492 | 4,670 |
| Noncontrolling interests | 339 | 326 |
| Total equity | 5,831 | 4,996 |
| Total liabilities and equity | \$ 11,668 | \$ 10,402 |

(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, |
| | 2011 | 2010 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 2,073 | \$ 1,006 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (622) | (364) |
| Investments in internal use software | (60) | (43) |
| Proceeds from disposals of property, plant and equipment | 8 | 55 |
| Investments in and advances to equity investees | (81) | (2) |
| Proceeds from sale of businesses, net of cash sold | 199 | - |
| Acquisition of business, net of cash acquired | - | (104) |
| Investments in marketable securities-acquisitions | (729) | (823) |
| Investments in marketable securities-liquidations | 750 | 690 |
| Purchases of other investments | - | (62) |
| Cash flows from derivatives not designated as hedges | (18) | 2 |
| Other, net | 1 | - |
| Net cash used in investing activities | (552) | (651) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 127 | 214 |
| Payments on borrowings and capital lease obligations | (237) | (143) |
| Net borrowings (payments) under short-term credit agreements | 6 | 9 |
| Distributions to noncontrolling interests | (56) | (28) |
| Dividend payments on common stock | (255) | (172) |
| Proceeds from sale of common stock held by employee benefit trust | - | 58 |
| Repurchases of common stock | (629) | (241) |
| Excess tax benefits (deficiencies) on stock-based awards | 5 | 10 |
| Other, net | 14 | 26 |
| Net cash used in financing activities | (1,025) | (267) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (35) | 5 |
| Net increase (decrease) in cash and cash equivalents | 461 | 93 |
| Cash and cash equivalents at beginning of year | 1,023 | 930 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 1,484 | \$ 1,023 |

(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 | Power Generation | Distribution | Non-segment Items ⁽¹⁾ | Total |
|---|----------|---------------------|---------------------|--------------|-------------------------------------|----------|
| 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 |
| Three months ended September 25, 2011 | | | | | | |
| External sales | \$ 2,539 | \$ 704 | \$ 604 | \$ 779 | \$ - | \$ 4,626 |
| Intersegment sales | 416 | 311 | 270 | 4 | (1,001) | - |
| Total sales | 2,955 | 1,015 | 874 | 783 | (1,001) | 4,626 |
| Depreciation and amortization ⁽²⁾ | 46 | 19 | 11 | 6 | - | 82 |
| Research, development and engineering expenses | 103 | 46 | 14 | 1 | - | 164 |
| Equity, royalty and interest income from investees | 35 | 7 | 16 | 44 | - | 102 |
| Interest income | 5 | 1 | 2 | 1 | - | 9 |
| Segment EBIT | 349 | 113 | 92 | 104 | (18) | 640 |
| Three months ended December 31, 2010 | | | | | | |
| External sales | \$ 2,099 | \$ 656 | \$ 690 | \$ 694 | \$ - | \$ 4,139 |
| Intersegment sales | 398 | 262 | 213 | 5 | (878) | - |
| Total sales | 2,497 | 918 | 903 | 699 | (878) | 4,139 |
| Depreciation and amortization ⁽²⁾ | 46 | 18 | 10 | 6 | - | 80 |
| Research, development and engineering expenses | 76 | 33 | 13 | 1 | - | 123 |
| | 37 | 6 | 8 | 39 | - | 90 |

Equity, royalty and interest
income from investees

| | | | | | | |
|-----------------|-----|----|----|----|----|-----|
| Interest income | 5 | 1 | 1 | - | - | 7 |
| Segment EBIT | 256 | 83 | 92 | 82 | 28 | 541 |

**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 |

**For the year ended
December 31, 2010**

| | | | | | | |
|---|----------|----------|----------|----------|---------|-----------|
| External sales | \$ 6,594 | \$ 2,171 | \$ 2,150 | \$ 2,311 | \$ - | \$ 13,226 |
| Intersegment sales | 1,294 | 875 | 769 | 13 | (2,951) | - |
| Total sales | 7,888 | 3,046 | 2,919 | 2,324 | (2,951) | 13,226 |
| Depreciation and amortization ⁽²⁾ | 171 | 79 | 41 | 25 | - | 316 |
| Research, development and engineering expenses | 263 | 114 | 36 | 1 | - | 414 |
| Equity, royalty and interest income from investees | 161 | 23 | 35 | 132 | - | 351 |
| Interest income | 12 | 2 | 5 | 2 | - | 21 |
| Segment EBIT | 809 | 278 | 299 | 297 | (26) | 1,657 |

- (1) Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. For the three months ended December 31, 2011 unallocated corporate expenses includes a \$53 million gain (\$33 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. There were no significant unallocated corporate expenses for the three months ended September 25, 2011 and the three months ended December 31, 2010. 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 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 by management in its evaluation of operating results for the year ended December 31, 2011. For the year ended December 31, 2010 unallocated corporate expenses included \$32 million in Brazil tax recoveries (\$21 million after-tax) and \$2 million in flood damage expenses. This tax recovery has been excluded from segment results as it was not considered by management in its evaluation of operating results for the year ended December 31, 2010.
- (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 Statements of Income* is shown in the table below:

| In millions | Three months ended | | | For the years ended | |
|----------------------------|------------------------------|-------------------------------|------------------------------|------------------------------|------------------------------|
| | December 31, 2011 | September 25, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 |
| Segment EBIT | \$ 768 | \$ 640 | \$ 541 | \$ 2,715 | \$ 1,657 |
| Less: | | | | | |
| Interest expense | 10 | 11 | 11 | 44 | 40 |
| Income before income taxes | \$ 758 | \$ 629 | \$ 530 | \$ 2,671 | \$ 1,617 |

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, 2011 | September 25, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 |
| Distribution Entities | | | | | |
| North American distributors | \$ 34 | \$ 35 | \$ 29 | \$ 134 | \$ 101 |
| Komatsu Cummins Chile, Ltda | 6 | 6 | 5 | 22 | 16 |
| All other distributors | 1 | 1 | 1 | 4 | 3 |
| Manufacturing Entities | | | | | |
| Chongqing Cummins Engine Company, Ltd. | 17 | 20 | 11 | 68 | 46 |
| Dongfeng Cummins Engine Company, Ltd. | 16 | 15 | 23 | 80 | 99 |
| Cummins Westport, Inc. | 6 | 4 | 3 | 14 | 10 |
| Tata Cummins, Ltd. | 5 | 2 | 3 | 14 | 14 |
| Shanghai Fleetguard Filter Co., Ltd. | 3 | 4 | 3 | 15 | 12 |
| Komatsu manufacturing alliances | 2 | - | 4 | 3 | 11 |
| Valvoline Cummins, Ltd. | 1 | 2 | 1 | 7 | 8 |
| Beijing Foton Cummins Engine Co., Ltd. | (2) | (2) | (4) | (7) | (16) |
| Cummins MerCruiser Diesel Marine, LLC | (3) | - | (2) | (3) | (3) |
| All other manufacturers | 5 | 7 | 5 | 24 | 20 |
| Cummins share of net income | 91 | 94 | 82 | 375 | 321 |
| Royalty and interest income | 10 | 8 | 8 | 41 | 30 |
| Equity, royalty and interest income from investees | \$ 101 | \$ 102 | \$ 90 | \$ 416 | \$ 351 |

NOTE 2. SALE OF BUSINESSES

In the second quarter of 2011, we sold certain assets and liabilities of our exhaust business which manufactures exhaust products and select components for emission systems for a variety of applications not core to our other product offerings. This business was historically included in our Components segment. The sales price was \$123 million. We recognized a gain on the sale of \$68 million (\$37 million after-tax), which included an allocation of goodwill of \$19 million. The gain was excluded from segment results as it was not considered by management in its evaluation of operating results for the year ended December 31, 2011.

Sales for this business were \$62 million, \$171 million and \$126 million in 2011 (through closing), 2010 and 2009, respectively. EBIT for this business was approximately \$9 million, \$22 million and \$11 million in 2011 (through closing), 2010 and 2009, respectively.

During the fourth quarter of 2011, we sold certain assets and liabilities of our light-duty filtration business which manufactures light-duty automotive and industrial filtration solutions. The sales price was \$90 million and included a note receivable from the buyer of approximately \$1 million. There are no earnouts or other contingencies associated with the sales price. We recognized a gain on the sale of \$53 million (\$33 million after-tax), which included an allocation of goodwill of \$6 million. The gain was excluded from segment results as it was not considered by management in its evaluation of operating results for the year ended December 31, 2011.

Sales for this business were \$64 million, \$74 million and \$54 million in 2011 (through closing), 2010 and 2009, respectively. EBIT for this business was approximately \$13 million, \$9 million and \$2 million in 2011 (through closing), 2010 and 2009, respectively.

We will enter into supply and other agreements with the operations that will represent ongoing involvement and as such, the results of these operations will not be presented as discontinued operations.

CUMMINS INC. AND SUBSIDIARIES**SELECTED FOOTNOTE DATA****(Unaudited)****NOTE 3. FLOOD INSURANCE RECOVERY**

In June 2008, four of our sites in Southern Indiana, including our Technical Center, experienced extensive flood damage. In October 2011, we received \$40 million from our insurance carriers to settle all outstanding 2008 flood claims. As a result, we recognized a gain of approximately \$38 million (\$24 million after-tax), net of any remaining flood related expenses, in Other operating (expense) income, net in our *Condensed Consolidated Statements of Income*.

NOTE 4. 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 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. The tax rate for the fourth quarter and full year includes discrete tax items that total a benefit of \$56 million (\$0.29 per share) and \$85 million (\$0.44 per share), respectively. The discrete tax items for the fourth quarter and full year related primarily to additional research credits claimed on amended tax returns for prior periods, the settlement of uncertain tax positions and restructuring of our foreign operations. Our effective tax rate for the fourth quarter and full year of 2010 was 26.2 percent and 29.5 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, | | | |
|--|---------------------------------|---|-------------|---|
| | 2011 | | 2010 | |
| U.S. federal statutory rate | 35.0 | % | 35.0 | % |
| State income tax, net of federal effect | 0.4 | | 0.6 | |
| Research tax credits | (4.7) | | (1.3) | |
| Differences in rates and taxability of foreign subsidiaries and joint ventures | (4.6) | | (4.7) | |
| Other, net | 1.0 | | (0.1) | |

| | | | | |
|--------------------|------|---|------|---|
| Effective tax rate | 27.1 | % | 29.5 | % |
|--------------------|------|---|------|---|

We expect our 2012 effective tax rate to be 29 percent excluding any discrete items that may arise. The research tax credit expired December 31, 2011 and has not yet been renewed by Congress. If the research credit is reinstated, we would anticipate the 2012 effective tax rate to be 28 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, 2011 and 2010, was \$325 million and \$320 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 the sale of certain assets and liabilities of our exhaust business and our filtration business and 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 quarter and year ended December 31, 2011.

| In millions | Three months ended December 31, 2011 | | Year ended December 31, 2011 | |
|---|---|------------------------|---|------------------------|
| | Net Income | Diluted EPS | Net Income | Diluted EPS |
| Net income attributable to Cummins Inc. | \$ 548 | \$ 2.86 | \$ 1,848 | \$ 9.55 |
| Subtract: | | | | |
| Gain on sale of businesses ⁽¹⁾ | 33 | 0.17 | 70 | 0.36 |
| Flood insurance recovery ⁽¹⁾ | 24 | 0.13 | 24 | 0.12 |
| Net income attributable to Cummins Inc. excluding special items | \$ 491 | \$ 2.56 | \$ 1,754 | \$ 9.07 |

(1) The gains have been excluded from operating results as they were not considered by management in its evaluation of performance for the year ended December 31, 2011.

CUMMINS INC. AND SUBSIDIARIES

FINANCIAL MEASURES THAT SUPPLEMENT GAAP

(Unaudited)

Earnings before interest expense, income taxes and noncontrolling interests.

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, a non-GAAP financial measure, to Net income attributable to Cummins Inc., for each of the applicable periods.

| In millions | Three months ended | | | For the years ended | |
|--|---------------------------|------------------|-----------------|----------------------------|-----------------|
| | December | September | December | December | December |
| | 31, | 25, | 31, | 31, | 31, |
| | 2011 | 2011 | 2010 | 2011 | 2010 |
| Earnings before interest expense, income taxes and special items | \$ 677 | \$ 640 | \$ 541 | \$ 2,556 | \$ 1,657 |
| <i>Earnings before interest expense, income taxes and special items as a percentage of net sales</i> | 13.8% | 13.8% | 13.1% | 14.2% | 12.5% |
| Add: | | | | | |
| Gain on sale of businesses | 53 | - | - | 121 | - |
| Flood insurance recovery | 38 | - | - | 38 | - |
| Earnings before interest expense and income taxes | \$ 768 | \$ 640 | \$ 541 | \$ 2,715 | \$ 1,657 |
| <i>EBIT as a percentage of net sales</i> | 15.6% | 13.8% | 13.1% | 15.0% | 12.5% |
| Less: | | | | | |
| Interest expense | 10 | 11 | 11 | 44 | 40 |
| Income tax expense | 186 | 157 | 139 | 725 | 477 |
| Consolidated net income | 572 | 472 | 391 | 1,946 | 1,140 |
| Less: | | | | | |
| Net income attributable to noncontrolling interests | 24 | 20 | 29 | 98 | 100 |
| Net income attributable to Cummins Inc. | \$ 548 | \$ 452 | \$ 362 | \$ 1,848 | \$ 1,040 |

| | | | | | |
|---|--------------|------|------|--------------|------|
| <i>Net income attributable to Cummins Inc. as a percentage of net sales</i> | 11.1% | 9.8% | 8.7% | 10.2% | 7.9% |
|---|--------------|------|------|--------------|------|

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

Engine segment net sales by market

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 |

2010

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|------------------------------|-----------|-----------|-----------|-----------|------------|
| Heavy-duty truck | \$ 252 | \$ 340 | \$ 395 | \$ 516 | \$ 1,503 |
| Medium-duty truck and bus | 217 | 352 | 430 | 436 | 1,435 |
| Light-duty automotive and RV | 207 | 296 | 239 | 280 | 1,022 |
| Industrial | 577 | 656 | 700 | 956 | 2,889 |
| Stationary power | 170 | 255 | 305 | 309 | 1,039 |
| Total sales | \$ 1,423 | \$ 1,899 | \$ 2,069 | \$ 2,497 | \$ 7,888 |

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

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

2010

| Units | Q1 | Q2 | Q3 | Q4 | YTD |
|-----------------|-----------|-----------|-----------|-----------|------------|
| Mid-range | 69,100 | 90,500 | 93,500 | 115,800 | 368,900 |
| Heavy-duty | 8,700 | 14,500 | 15,200 | 22,800 | 61,200 |
| High horsepower | 3,400 | 4,800 | 4,900 | 5,400 | 18,500 |

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| | | | | | |
|-------------|--------|---------|---------|---------|---------|
| Total units | 81,200 | 109,800 | 113,600 | 144,000 | 448,600 |
|-------------|--------|---------|---------|---------|---------|

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

Component segment sales by business

| 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 |

| 2010 | | | | | |
|--------------------|-----------|-----------|-----------|-----------|------------|
| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
| Emission solutions | \$ 137 | \$ 170 | \$ 192 | \$ 251 | \$ 750 |
| Turbo technologies | 200 | 226 | 239 | 283 | 948 |
| Filtration | 228 | 250 | 248 | 285 | 1,011 |
| Fuel systems | 65 | 83 | 90 | 99 | 337 |
| Total sales | \$ 630 | \$ 729 | \$ 769 | \$ 918 | \$ 3,046 |

Power generation segment sales by business

| 2011 | | | | | |
|------------------------|-----------|-----------|-----------|-----------|------------|
| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
| Commercial products | \$ 505 | \$ 568 | \$ 579 | \$ 578 | \$ 2,230 |
| Generator technologies | 153 | 190 | 166 | 164 | 673 |
| Commercial projects | 55 | 58 | 46 | 84 | 243 |
| Consumer | 50 | 53 | 48 | 49 | 200 |
| Power electronics | 32 | 40 | 35 | 45 | 152 |
| Total sales | \$ 795 | \$ 909 | \$ 874 | \$ 920 | \$ 3,498 |

| 2010 | | | | | |
|------------------------|-----------|-----------|-----------|-----------|------------|
| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
| Commercial products | \$ 307 | \$ 436 | \$ 519 | \$ 569 | \$ 1,831 |
| Generator technologies | 107 | 135 | 140 | 167 | 549 |
| Commercial projects | 33 | 57 | 49 | 83 | 222 |

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| | | | | | |
|-------------------|--------|--------|--------|--------|----------|
| Consumer | 43 | 49 | 49 | 45 | 186 |
| Power electronics | 27 | 31 | 34 | 39 | 131 |
| Total sales | \$ 517 | \$ 708 | \$ 791 | \$ 903 | \$ 2,919 |

Distribution segment sales by business

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 |

2010

| In millions | Q1 | Q2 | Q3 | Q4 | YTD |
|----------------------|-----------|-----------|-----------|-----------|------------|
| Parts and filtration | \$ 193 | \$ 221 | \$ 220 | \$ 248 | \$ 882 |
| Power generation | 99 | 135 | 125 | 157 | 516 |
| Engines | 83 | 109 | 112 | 162 | 466 |
| Service | 101 | 111 | 116 | 132 | 460 |
| Total sales | \$ 476 | \$ 576 | \$ 573 | \$ 699 | \$ 2,324 |