

CUMMINS INC
Form 10-Q
October 31, 2006

**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 October 1, 2006
Commission File Number 1-4949**

CUMMINS INC.

(Exact name of registrant as specified in its charter)

Indiana
(State of Incorporation)

35 0257090
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 October 1, 2006, there were 52,460,308 shares of common stock outstanding with a par value of \$2.50 per share.

CUMMINS INC. AND CONSOLIDATED SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

CUMMINS INC. AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

| | Three months ended | | Nine months ended | |
|--|----------------------------|--------------------|-------------------|--------------------|
| | October 1, 2006 | September 25, 2005 | October 1, 2006 | September 25, 2005 |
| | Millions | | | |
| | (except per share amounts) | | | |
| Net sales (includes related party sales of \$401, \$320, \$1,159 and \$864, respectively) | \$ 2,809 | \$ 2,467 | \$ 8,329 | \$ 7,165 |
| Cost of sales (includes related party purchases of \$83, \$53, \$204 and \$144, respectively) | 2,155 | 1,906 | 6,404 | 5,598 |
| Gross margin | 654 | 561 | 1,925 | 1,567 |
| Operating expenses and income | | | | |
| Selling and administrative expenses | 328 | 286 | 949 | 832 |
| Research and engineering expenses | 81 | 71 | 243 | 207 |
| Investee equity, royalty and other income (Note 2) | (37) | (31) | (105) | (103) |
| Other operating expense, net | 4 | 3 | 3 | — |
| Operating earnings | 278 | 232 | 835 | 631 |
| Interest income | (14) | (6) | (33) | (15) |
| Interest expense | 23 | 27 | 76 | 83 |
| Other (income) expense, net | (4) | (2) | (8) | 8 |
| Earnings before income taxes and minority interests | 273 | 213 | 800 | 555 |
| Provision for income taxes | 92 | 61 | 244 | 153 |
| Minority interests in earnings of consolidated subsidiaries | 10 | 7 | 30 | 19 |
| Net earnings | \$ 171 | \$ 145 | \$ 526 | \$ 383 |
| Earnings per share (Note 12) | | | | |
| Basic | \$ 3.40 | \$ 3.27 | \$ 11.24 | \$ 8.68 |
| Diluted | \$ 3.37 | \$ 2.90 | \$ 10.46 | \$ 7.70 |
| Cash dividends declared per share | \$ 0.36 | \$ 0.30 | \$ 0.96 | \$ 0.90 |

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

CUMMINS INC. AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | October 1, 2006 | December 31, 2005 |
|---|--------------------------------|----------------------|
| | Millions (except par value) | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,027 | \$ 779 |
| Marketable securities | 82 | 61 |
| Receivables, net | 1,561 | 1,314 |
| Receivables from related parties | 128 | 109 |
| Inventories (Note 3) | 1,405 | 1,174 |
| Deferred income taxes | 313 | 363 |
| Prepaid expenses and other current assets | 146 | 116 |
| Total current assets | 4,662 | 3,916 |
| Long-term assets | | |
| Property, plant and equipment, net of accumulated depreciation of \$2,515 and \$2,384 | 1,545 | 1,557 |
| Investments in and advances to equity investees | 331 | 278 |
| Goodwill (Note 5) | 359 | 358 |
| Other intangible assets, net (Note 5) | 113 | 100 |
| Deferred income taxes | 400 | 500 |
| Other assets | 169 | 176 |
| Total assets | \$ 7,579 | \$ 6,885 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Short-term borrowings (Note 6) | \$ 248 | \$ 154 |
| Accounts payable | 1,061 | 904 |
| Other accrued expenses | 1,300 | 1,160 |
| Total current liabilities | 2,609 | 2,218 |
| Long-term liabilities | | |
| Long-term debt | 813 | 1,213 |
| Pensions | 263 | 396 |
| Postretirement benefits other than pensions | 528 | 554 |
| Other liabilities and deferred revenue | 455 | 415 |
| Total liabilities | 4,668 | |