

CUMMINS INC  
Form 8-K  
February 06, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

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

Date of Report: February 6, 2014

CUMMINS INC.  
(Exact name of registrant as specified in its charter)  
Indiana 1-4949 35-0257090  
(State or other Jurisdiction of (Commission File Number) (I.R.S. Employer  
Incorporation) 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.

On February 6, 2014, Cummins Inc. (“Cummins,” “the Company,” “the registrant,” “we,” “our,” or “us”) issued the attached press release reporting its financial results for the fourth quarter and full year of 2013, which is furnished herewith as Exhibit 99. The information furnished pursuant to this Item 2.02, including Exhibit 99, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Exchange Act.

Item 9.01. Financial Statements and Exhibits.

(d)The following exhibit is furnished pursuant to Item 2.02 herewith:  
99-Press Release dated February 6, 2014

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 6, 2014

CUMMINS INC.  
/s/ Marsha L. Hunt  
Marsha L. Hunt  
Vice President - Corporate Controller  
(Principal Accounting Officer)

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

| In millions, except per share amounts                       | Three months ended   |                       |                      |
|---|----------------------|-----------------------|----------------------|
|   | December 31,<br>2013 | September 29,<br>2013 | December 31,<br>2012 |
| NET SALES   | \$4,588              | \$4,266               | \$4,292              |
| Cost of sales   | 3,424                | 3,157                 | 3,234                |
| GROSS MARGIN  | 1,164                | 1,109                 | 1,058                |
| OPERATING EXPENSES AND INCOME                               |                      |                       |                      |
| Selling, general and administrative expenses                | 500                  | 492                   | 482                  |
| Research, development and engineering expenses              | 181                  | 173                   | 174                  |
| Equity, royalty and interest income from investees (Note 1) | 80                   | 91                    | 82                   |
| Other operating expense, net                                | (10)                 | (11)                  | (19)                 |
| OPERATING INCOME  | 553                  | 524                   | 465                  |
| Interest income   | 6                    | 6                     | 5                    |
| Interest expense  | 19                   | 8                     | 7                    |
| Other income, net   | 7                    | 6                     | 10                   |
| INCOME BEFORE INCOME TAXES                                  | 547                  | 528                   | 473                  |
| Income tax expense (Note 2)                                 | 86                   | 154                   | 75                   |
| CONSOLIDATED NET INCOME                                     | 461                  | 374                   | 398                  |
| Less: Net income attributable to noncontrolling interests   | 29                   | 19                    | 29                   |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC.                     | \$432                | \$355                 | \$369                |
| EARNINGS PER COMMON SHARE<br>ATTRIBUTABLE TO CUMMINS INC.   |                      |                       |                      |
| Basic   | \$2.33               | \$1.91                | \$1.96               |
| Diluted   | \$2.32               | \$1.90                | \$1.95               |
| WEIGHTED AVERAGE SHARES OUTSTANDING                         |                      |                       |                      |
| Basic   | 185.7                | 186.0                 | 188.4                |
| Diluted   | 186.3                | 186.5                 | 188.8                |
| CASH DIVIDENDS DECLARED PER COMMON<br>SHARE                 |                      |                       |                      |
|   | \$0.625              | \$0.625               | \$0.50               |

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



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

| In millions, except per share amounts                       | Years ended December 31, |          |
|---|--------------------------|----------|
|   | 2013                     | 2012     |
| NET SALES   | \$17,301                 | \$17,334 |
| Cost of sales   | 12,918                   | 12,826   |
| GROSS MARGIN  | 4,383                    | 4,508    |
| OPERATING EXPENSES AND INCOME                               |                          |          |
| Selling, general and administrative expenses                | 1,920                    | 1,900    |
| Research, development and engineering expenses              | 713                      | 728      |
| Equity, royalty and interest income from investees (Note 1) | 361                      | 384      |
| Gain on sale of businesses                                  | —                        | 6        |
| Other operating expense, net                                | (10)                     | (16)     |
| OPERATING INCOME  | 2,101                    | 2,254    |
| Interest income   | 27                       | 25       |
| Interest expense  | 41                       | 32       |
| Other income, net   | 32                       | 24       |
| INCOME BEFORE INCOME TAXES                                  | 2,119                    | 2,271    |
| Income tax expense (Note 2)                                 | 531                      | 533      |
| CONSOLIDATED NET INCOME                                     | 1,588                    | 1,738    |
| Less: Net income attributable to noncontrolling interests   | 105                      | 93       |
| NET INCOME ATTRIBUTABLE TO CUMMINS INC.                     | \$1,483                  | \$1,645  |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CUMMINS INC.      |                          |          |
| Basic   | \$7.93                   | \$8.69   |
| Diluted   | \$7.91                   | \$8.67   |
| WEIGHTED AVERAGE SHARES OUTSTANDING                         |                          |          |
| Basic   | 187.0                    | 189.3    |
| Diluted   | 187.4                    | 189.7    |
| CASH DIVIDENDS DECLARED PER COMMON SHARE                    | \$2.25                   | \$1.80   |

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

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

| In millions, except par value  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current assets   |                      |                      |
| Cash and cash equivalents  | \$2,699              | \$1,369              |
| Marketable securities  | 150                  | 247                  |
| Total cash, cash equivalents and marketable securities                               | 2,849                | 1,616                |
| Accounts and notes receivable, net   | 2,649                | 2,475                |
| Inventories  | 2,381                | 2,221                |
| Prepaid expenses and other current assets  | 760                  | 855                  |
| Total current assets   | 8,639                | 7,167                |
| Long-term assets   |                      |                      |
| Property, plant and equipment, net   | 3,156                | 2,724                |
| Investments and advances related to equity method investees                          | 931                  | 897                  |
| Goodwill and other intangibles, net  | 818                  | 814                  |
| Other assets   | 1,184                | 946                  |
| Total assets   | \$14,728             | \$12,548             |
| <b>LIABILITIES</b>   |                      |                      |
| Current liabilities  |                      |                      |
| Loans payable  | \$17                 | \$16                 |
| Accounts payable (principally trade)   | 1,557                | 1,339                |
| Accrued expenses   | 1,794                | 1,781                |
| Total current liabilities  | 3,368                | 3,136                |
| Long-term liabilities  |                      |                      |
| Long-term debt   | 1,672                | 698                  |
| Other liabilities  | 1,818                | 1,740                |
| Total liabilities  | 6,858                | 5,574                |
| <b>EQUITY</b>  |                      |                      |
| Cummins Inc. shareholders' equity  |                      |                      |
| Common stock, \$2.50 par value, 500 shares authorized, 222.3 and 222.4 shares issued | 2,099                | 2,058                |
| Retained earnings  | 8,406                | 7,343                |
| Treasury stock, at cost, 35.6 and 32.6 shares  | (2,195)              | (1,830)              |
| Common stock held by employee benefits trust, at cost, 1.3 and 1.5 shares            | (16)                 | (18)                 |
| Accumulated other comprehensive loss   | (784)                | (950)                |
| Total Cummins Inc. shareholders' equity  | 7,510                | 6,603                |
| Noncontrolling interests   | 360                  | 371                  |
| Total equity   | 7,870                | 6,974                |
| Total liabilities and equity   | \$14,728             | \$12,548             |

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



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

| In millions  | Years ended December 31, |         |
|--|--------------------------|---------|
|  | 2013                     | 2012    |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                    | \$2,089                  | \$1,532 |
| CASH FLOWS FROM INVESTING ACTIVITIES                         |                          |         |
| Capital expenditures   | (676                     | ) (690  |
| Investments in internal use software                         | (64                      | ) (87   |
| Investments in and advances to equity investees              | (42                      | ) (70   |
| Acquisition of businesses, net of cash acquired              | (147                     | ) (215  |
| Proceeds from sale of businesses, net of cash sold           | —                        | 10      |
| Investments in marketable securities—acquisitions            | (418                     | ) (561  |
| Investments in marketable securities—liquidations            | 525                      | 585     |
| Proceeds from sale of equity investment                      | —                        | 23      |
| Purchases of other investments                               | (40                      | ) —     |
| Cash flows from derivatives not designated as hedges         | 1                        | 12      |
| Other, net   | 15                       | 11      |
| Net cash used in investing activities                        | (846                     | ) (982  |
| CASH FLOWS FROM FINANCING ACTIVITIES                         |                          |         |
| Proceeds from borrowings                                     | 1,004                    | 64      |
| Payments on borrowings and capital lease obligations         | (90                      | ) (145  |
| Net borrowings under short-term credit agreements            | (3                       | ) 11    |
| Distributions to noncontrolling interests                    | (75                      | ) (62   |
| Dividend payments on common stock                            | (420                     | ) (340  |
| Repurchases of common stock                                  | (381                     | ) (256  |
| Excess tax benefits on stock-based awards                    | 13                       | 14      |
| Other, net   | 4                        | 20      |
| Net cash provided by (used in) financing activities          | 52                       | (694    |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 35                       | 29      |
| Net increase (decrease) in cash and cash equivalents         | 1,330                    | (115    |
| Cash and cash equivalents at beginning of year               | 1,369                    | 1,484   |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                   | \$2,699                  | \$1,369 |

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



CUMMINS INC. AND SUBSIDIARIES  
 SEGMENT INFORMATION  
 (Unaudited)

| In millions  | Engine  | Components | Power<br>Generation | Distribution | Non-segment<br>Items <sup>(1)</sup> | Total   |
|--|---------|------------|---------------------|--------------|-------------------------------------|---------|
| Three months ended December 31, 2013               |         |            |                     |              |                                     |         |
| External sales                                     | \$2,131 | \$ 859     | \$ 533              | \$ 1,065     | \$ —                                | \$4,588 |
| Intersegment sales                                 | 431     | 276        | 226                 | 8            | (941 )                              | —       |
| Total sales  | 2,562   | 1,135      | 759                 | 1,073        | (941 )                              | 4,588   |
| Depreciation and amortization <sup>(2)</sup>       | 49      | 25         | 13                  | 14           | —                                   | 101     |
| Research, development and engineering expenses     | 106     | 53         | 20                  | 2            | —                                   | 181     |
| Equity, royalty and interest income from investees | 30      | 7          | 2                   | 41           | —                                   | 80      |
| Interest income                                    | 3       | 1          | 1                   | 1            | —                                   | 6       |
| Segment EBIT                                       | 235     | 140        | 46                  | 107          | 38                                  | 566     |
| Segment EBIT as a percentage of total sales        | 9.2     | % 12.3     | % 6.1               | % 10.0       | %                                   | 12.3 %  |
| Three months ended September 29, 2013              |         |            |                     |              |                                     |         |
| External sales                                     | \$2,045 | \$ 784     | \$ 499              | \$ 938       | \$ —                                | \$4,266 |
| Intersegment sales                                 | 447     | 288        | 213                 | 6            | (954 )                              | —       |
| Total sales  | 2,492   | 1,072      | 712                 | 944          | (954 )                              | 4,266   |
| Depreciation and amortization <sup>(2)</sup>       | 53      | 24         | 13                  | 15           | —                                   | 105     |
| Research, development and engineering expenses     | 103     | 51         | 18                  | 1            | —                                   | 173     |
| Equity, royalty and interest income from investees | 31      | 5          | 13                  | 42           | —                                   | 91      |
| Interest income                                    | 4       | 1          | 1                   | —            | —                                   | 6       |
| Segment EBIT                                       | 272     | 132        | 45                  | 86           | 1                                   | 536     |
| Segment EBIT as a percentage of total sales        | 10.9    | % 12.3     | % 6.3               | % 9.1        | %                                   | 12.6 %  |
| 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 <sup>(2)</sup>       | 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                     | 20      | 6          | 12                  | 14           | —                                   | 52      |
|  | 272     | 84         | 54                  | 98           | 24                                  | 532     |

Segment EBIT excluding restructuring charges

|   |      |   |     |   |     |   |      |   |  |      |   |
|---|------|---|-----|---|-----|---|------|---|--|------|---|
| 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 sales | 10.9 | % | 8.9 | % | 7.1 | % | 10.8 | % |  | 12.4 | % |

- Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the three months ended December 31, 2013 and September 29, (1) 2013. The three months ended December 31, 2012, included a \$20 million charge (\$12 million after-tax) related to legal matters. The charge was excluded from segment results as it was not considered in our evaluation of operating results for the corresponding period. 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."
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CUMMINS INC. AND SUBSIDIARIES  
SEGMENT INFORMATION  
(Unaudited)

| In millions   | Engine  | Components | Power Generation | Distribution | Non-segment Items <sup>(1)</sup> | Total    |
|---|---------|------------|------------------|--------------|----------------------------------|----------|
| Year ended December 31, 2013  |         |            |                  |              |                                  |          |
| External sales  | \$8,270 | \$ 3,151   | \$ 2,154         | \$ 3,726     | \$ —                             | \$17,301 |
| Intersegment sales  | 1,743   | 1,191      | 877              | 23           | (3,834 )                         | —        |
| Total sales   | 10,013  | 4,342      | 3,031            | 3,749        | (3,834 )                         | 17,301   |
| Depreciation and amortization <sup>(2)</sup>                          | 205     | 96         | 50               | 54           | —                                | 405      |
| Research, development and engineering expenses                        | 416     | 218        | 73               | 6            | —                                | 713      |
| Equity, royalty and interest income from investees                    | 136     | 28         | 32               | 165          | —                                | 361      |
| Interest income   | 16      | 3          | 6                | 2            | —                                | 27       |
| Segment EBIT  | 1,041   | 527        | 218              | 388          | <sup>(3)</sup> (14 )             | 2,160    |
| Segment EBIT as a percentage of total sales                           | 10.4 %  | 12.1 %     | 7.2 %            | 10.3 %       |                                  | 12.5 %   |
| 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 <sup>(2)</sup>                          | 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          | <sup>(3)</sup> (25 )             | 2,303    |
| Add back restructuring charges  | 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 sales | 11.8 %  | 10.8 %     | 9.1 %            | 11.7 %       |                                  | 13.6 %   |

<sup>(1)</sup> Includes intersegment sales and profit in inventory eliminations and unallocated corporate expenses. There were no significant unallocated corporate expenses for the year ended December 31, 2013. The year ended December 31, 2012, included a \$20 million charge (\$12 million after-tax) related to legal matters and a \$6 million gain (\$4 million after-tax) related to adjustments from our 2011 divestitures. The gain and the charge were 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.

<sup>(2)</sup> Depreciation and amortization as shown on a segment basis excludes the amortization of debt discount of \$2 million and \$6 million at December 31, 2013 and 2012, respectively. These amounts were included in the Condensed Consolidated Statements of Income as "Interest expense."

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(3) Distribution segment EBIT for the year ended December 31, 2013, included a \$7 million gain and \$5 million gain on the fair value adjustment resulting from the acquisitions of a controlling interest in Cummins Northwest LLC and Cummins Rocky Mountain LLC, respectively. Distribution segment EBIT for the year ended December 31, 2012, included a \$7 million gain on the fair value adjustment resulting from the acquisition of a controlling interest in Cummins Central Power.

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 |                    |                   | Years ended       |                   |
|--------------------------------------|--------------------|--------------------|-------------------|-------------------|-------------------|
|                                      | December 31, 2013  | September 29, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 |
| EBIT excluding restructuring charges | \$566              | \$ 536             | \$532             | \$2,160           | \$2,355           |
| Add: Restructuring charges           | —                  | —                  | (52               | ) —               | (52 )             |
| Total EBIT                           | 566                | 536                | 480               | 2,160             | 2,303             |
| Less: Interest expense               | 19                 | 8                  | 7                 | 41                | 32                |
| Income before income taxes           | \$547              | \$ 528             | \$473             | \$2,119           | \$2,271           |

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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 reporting periods was as follows:

| In millions   | Three months ended |                    | Years ended       |                   |
|---|--------------------|--------------------|-------------------|-------------------|
|   | December 31, 2013  | September 29, 2013 | December 31, 2013 | December 31, 2012 |
| Distribution Entities                               |                    |                    |                   |                   |
| North American distributors                         | \$31               | \$ 34              | \$129             | \$147             |
| Komatsu Cummins Chile, Ltda.                        | 8                  | 6                  | 25                | 26                |
| All other distributors                              | —                  | 1                  | 1                 | 4                 |
| Manufacturing Entities                              |                    |                    |                   |                   |
| Dongfeng Cummins Engine Company, Ltd.               | 18                 | 13                 | 63                | 52                |
| Chongqing Cummins Engine Company, Ltd.              | 14                 | 15                 | 58                | 61                |
| Beijing Foton Cummins Engine Co., Ltd. (Heavy-duty) | (7                 | ) (4               | ) (21             | ) (13             |
| Beijing Foton Cummins Engine Co., Ltd. (Light-duty) | 3                  | 4                  | 17                | 5                 |
| Shanghai Fleetguard Filter Co., Ltd.                | 2                  | 4                  | 13                | 13                |
| Tata Cummins, Ltd.                                  | 1                  | 1                  | 5                 | 11                |
| Cummins Westport, Inc.                              | (1                 | ) 2                | 4                 | 14                |
| All other manufacturers                             | 2                  | 7                  | 31                | 27                |
| Cummins share of net income                         | 71                 | 83                 | 325               | 347               |
| Royalty and interest income                         | 9                  | 8                  | 36                | 37                |
| Equity, royalty and interest income from investees  | \$80               | \$ 91              | \$361             | \$384             |

NOTE 2. 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 2013 was 15.7 percent and 25.1 percent, respectively. We recorded \$70 million or \$0.38 per share of tax benefits in the fourth quarter of 2013.

Fourth quarter 2013 income tax provision is net of the following items:

|  |      |
|--|------|
| One-time impacts of foreign legal entity restructuring activities  | \$16 |
| One-time impact of reconciliation of state income tax provision to tax return  | 17   |
| Lower operating rate primarily resulting from recognition of state and federal research and development credits and the recurring impacts of foreign legal entity restructuring activities | 37   |
| Total  | \$70 |

The full year one-time tax items included these fourth quarter items, as well as a \$7 million third quarter one-time net tax expense related primarily to adjustments to our income tax accounts based on our 2012 tax return filings, a first quarter one-time tax benefit of \$28 million attributable to the reinstatement of the research credit back to 2012 and a

one-time tax expense in the first quarter of 2013 of \$17 million, which primarily relates to the write-off of a deferred tax asset deemed unrecoverable. Our effective tax rate for the fourth quarter and full year of 2012 was 16.1 percent and 23.5 percent, respectively.

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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,                  |   |       |   |
|  | 2013                 |   | 2012  |   |
| U.S. federal statutory rate  | 35.0                 | % | 35.0  | % |
| State income tax, net of federal effect  | 0.2                  |   | 1.0   |   |
| Research tax credits   | (3.7                 | ) | (0.4  | ) |
| Differences in rates and taxability of foreign subsidiaries and joint ventures | (6.0                 | ) | (12.1 | ) |
| Other, net   | (0.4                 | ) | —     |   |
| Effective tax rate   | 25.1                 | % | 23.5  | % |

We expect our 2014 effective tax rate to be 28.5 percent excluding any discrete items that may arise. The research tax credit expired December 31, 2013, and has not yet been renewed by Congress. If the research credit is reinstated during 2014, we would anticipate the 2014 effective tax rate to be reduced to 27 percent. The increase in the effective tax rate from 2013 to 2014 is attributable primarily to one-time tax benefits in 2013 that will not repeat in 2014 as well as changes in tax legislation in the U.S. and U.K. that will unfavorably impact our 2014 effective tax rate.

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 periods presented as it illustrates our operating performance without regard to special items including tax adjustments, restructuring charges and gain on sale of businesses. 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 following periods:

| In millions   | Three months ended |             |                    |             |                   |             |
|---|--------------------|-------------|--------------------|-------------|-------------------|-------------|
|   | December 31, 2013  |             | September 29, 2013 |             | December 31, 2012 |             |
|   | Net Income         | Diluted EPS | Net Income         | Diluted EPS | Net Income        | Diluted EPS |
| Net income attributable to Cummins Inc.                         | \$432              | \$2.32      | \$355              | \$1.90      | \$369             | \$1.95      |
| Add   |                    |             |                    |             |                   |             |
| Restructuring charges <sup>(1)</sup>                            | —                  | —           | —                  | —           | 35                | 0.19        |
| Less  |                    |             |                    |             |                   |             |
| Tax items <sup>(2)</sup>  | 70                 | 0.38        | (7                 | (0.04       | ) 39              | 0.21        |
| Net income attributable to Cummins Inc. excluding special items | \$362              | \$1.94      | \$362              | \$1.94      | \$365             | \$1.93      |

| In millions   | Years ended       |             |                   |             |  |  |
|---|-------------------|-------------|-------------------|-------------|--|--|
|   | December 31, 2013 |             | December 31, 2012 |             |  |  |
|   | Net Income        | Diluted EPS | Net Income        | Diluted EPS |  |  |
| Net income attributable to Cummins Inc.                         | \$1,483           | \$7.91      | \$1,645           | \$8.67      |  |  |
| Add   |                   |             |                   |             |  |  |
| Restructuring charges <sup>(1)</sup>                            | —                 | —           | 35                | 0.18        |  |  |
| Less  |                   |             |                   |             |  |  |
| Tax items <sup>(2)</sup>  | 74                | 0.39        | 55                | 0.29        |  |  |
| Gain on sale of businesses <sup>(3)</sup>                       | —                 | —           | 4                 | 0.02        |  |  |
| Net income attributable to Cummins Inc. excluding special items | \$1,409           | \$7.52      | \$1,621           | \$8.54      |  |  |

(1) In the fourth quarter of 2012, we recorded restructuring and other charges of \$52 million (\$35 million after tax).

(2) See Note 2, "INCOME TAXES."

The one-time tax benefits for the three months and full 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 full year also included a \$16 million one-time tax benefit from the third quarter, \$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.

In the second quarter of 2012, we recognized a \$6 million gain (\$4 million after-tax) related to adjustments from (3) our 2011 divestitures. The gains have been excluded from operating results as they were not considered in our evaluation of performance for the year ended December 31, 2012.





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

Earnings before interest, taxes and noncontrolling interests

We define EBIT as earnings 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 |                    |                   | Years ended       |                   |   |
|---|--------------------|--------------------|-------------------|-------------------|-------------------|---|
|   | December 31, 2013  | September 29, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 |   |
| Earnings before interest expense, income taxes and special items                              | \$566              | \$536              | \$532             | \$2,160           | \$2,349           |   |
| Earnings before interest expense, income taxes and special items as a percentage of net sales | 12.3               | % 12.6             | % 12.4            | % 12.5            | % 13.6            | % |
| Less  |                    |                    |                   |                   |                   |   |
| Restructuring charges   | —                  | —                  | 52                | —                 | 52                |   |
| Add   |                    |                    |                   |                   |                   |   |
| Gain on sale of businesses  | —                  | —                  | —                 | —                 | 6                 |   |
| Earnings before interest expense and income taxes   | \$566              | \$536              | \$480             | \$2,160           | \$2,303           |   |
| EBIT as a percentage of net sales   | 12.3               | % 12.6             | % 11.2            | % 12.5            | % 13.3            | % |
| Less  |                    |                    |                   |                   |                   |   |
| Interest expense  | 19                 | 8                  | 7                 | 41                | 32                |   |
| Income tax expense  | 86                 | 154                | 75                | 531               | 533               |   |
| Consolidated net income   | 461                | 374                | 398               | 1,588             | 1,738             |   |
| Less  |                    |                    |                   |                   |                   |   |
| Net income attributable to noncontrolling interests   | 29                 | 19                 | 29                | 105               | 93                |   |
| Net income attributable to Cummins Inc.   | \$432              | \$355              | \$369             | \$1,483           | \$1,645           |   |
| Net income attributable to Cummins Inc. as a percentage of net sales                          | 9.4                | % 8.3              | % 8.6             | % 8.6             | % 9.5             | % |

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

Engine segment net sales by market

2013

| In millions                  | Q1      | Q2      | Q3      | Q4      | YTD      |
|------------------------------|---------|---------|---------|---------|----------|
| Heavy-duty truck             | \$654   | \$723   | \$690   | \$638   | \$2,705  |
| Medium-duty truck and bus    | 448     | 595     | 570     | 572     | 2,185    |
| Light-duty automotive and RV | 260     | 345     | 330     | 365     | 1,300    |
| Industrial                   | 714     | 762     | 709     | 811     | 2,996    |
| Stationary power             | 227     | 231     | 193     | 176     | 827      |
| Total sales                  | \$2,303 | \$2,656 | \$2,492 | \$2,562 | \$10,013 |

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 |

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

2013

| Units           | Q1      | Q2      | Q3      | Q4      | YTD     |
|-----------------|---------|---------|---------|---------|---------|
| Midrange        | 94,600  | 121,900 | 113,800 | 115,700 | 446,000 |
| Heavy-duty      | 24,900  | 28,300  | 26,500  | 25,700  | 105,400 |
| High-horsepower | 4,200   | 3,600   | 3,500   | 3,500   | 14,800  |
| Total units     | 123,700 | 153,800 | 143,800 | 144,900 | 566,200 |

2012

| Units           | Q1      | Q2      | Q3      | Q4      | YTD     |
|-----------------|---------|---------|---------|---------|---------|
| Midrange        | 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 |

Component segment sales by business

2013

| In millions        | Q1      | Q2      | Q3      | Q4      | YTD     |
|--------------------|---------|---------|---------|---------|---------|
| Emission solutions | \$400   | \$444   | \$458   | \$489   | \$1,791 |
| Turbo technologies | 266     | 294     | 263     | 292     | 1,115   |
| Filtration         | 255     | 271     | 248     | 254     | 1,028   |
| Fuel systems       | 97      | 108     | 103     | 100     | 408     |
| Total sales        | \$1,018 | \$1,117 | \$1,072 | \$1,135 | \$4,342 |

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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 |

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

Our Power Generation segment changed the name of the generator technologies business to alternators in the fourth quarter of 2013. Power Generation segment sales by business were as follows:

2013

| In millions     | Q1    | Q2    | Q3    | Q4    | YTD     |
|-----------------|-------|-------|-------|-------|---------|
| Power products  | \$409 | \$474 | \$421 | \$421 | \$1,725 |
| Power systems   | 179   | 187   | 122   | 168   | 656     |
| Alternators     | 126   | 125   | 126   | 119   | 496     |
| Power solutions | 32    | 28    | 43    | 51    | 154     |
| Total sales     | \$746 | \$814 | \$712 | \$759 | \$3,031 |

2012

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

Distribution segment sales by business

2013

| In millions          | Q1    | Q2    | Q3    | Q4      | YTD     |
|----------------------|-------|-------|-------|---------|---------|
| Parts and filtration | \$322 | \$369 | \$377 | \$397   | \$1,465 |
| Power generation     | 163   | 241   | 234   | 293     | 931     |
| Engines              | 152   | 183   | 170   | 208     | 713     |
| Service              | 141   | 161   | 163   | 175     | 640     |
| Total sales          | \$778 | \$954 | \$944 | \$1,073 | \$3,749 |

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 |