

February 25, 2009



Cummins Revises 2008 Operating Results to Reflect Increased Warranty Liability

Company Reaffirms Sales and Earnings Guidance for 2009

COLUMBUS, Ind.--(BUSINESS WIRE)-- Cummins Inc. (NYSE: CMI) announced today that it has revised its fourth quarter and full year 2008 operating results to reflect a higher warranty liability than previously reported.

As a result of the change, the Company's Earnings Before Interest and Taxes (EBIT) for the fourth quarter decreased by \$73 million, while net income was reduced by \$46 million, or 23 cents a share. The change in earnings reflects an \$82 million increase in warranty liability, offset by a \$9 million reduction in variable and incentive compensation as a result of this change.

The Company's revised fourth quarter EBIT was \$56 million and net income was \$43 million, or 22 cents a share. For the full year, the Company's revised EBIT was \$1.22 billion and net income was \$755 million, or \$3.84 a share. The earnings revisions affect the fourth quarter results of the Company's Engine and Component segments.

The warranty liability was revised to reflect a change in estimate in the warranty costs primarily for mid-range engine products launched in 2007. In late February, our analysis of recent warranty payments indicated that a revision to our initial warranty liability estimate is appropriate.

The Company is aggressively addressing the product issues and has made modifications that have reduced the failure rate of these products. The increase in the warranty liability reflects higher than expected costs associated with these repairs.

The Company also reaffirmed the financial guidance it gave earlier this month, with sales in 2009 expected to be approximately 20 percent lower than 2008. EBIT margin is expected to be 6.5 percent of sales, excluding restructuring costs associated with job actions announced in the first quarter of 2009.

CUMMINS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited) (a)

	Three months ended		
	December 31, 2008	September 28, 2008	December 31, 2007
	in millions (except per share amounts)		
NET SALES	\$ 3,288	\$ 3,693	\$ 3,516
Cost of sales	2,754	2,873	2,834
GROSS MARGIN	534	820	682
OPERATING EXPENSES AND INCOME			
Selling, general and administrative expenses	341	388	359
Research, development and engineering expenses	102	113	93
Equity, royalty and interest income from investees (Note 1)	51	66	59
Restructuring charges (Note 2)	37	--	--
Other operating (expense) income, net	(3	) (2	) 13
OPERATING INCOME	102	383	302
Interest income	4	4	9
Interest expense	9	10	14
Other (expense) income, net (Note 3)	(50	) (7	) 13
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	47	370	310
Income tax (benefit) expense (Note 4)	(12	) 123	97
Minority interests in income of consolidated subsidiaries	16	18	15
NET INCOME	\$ 43	\$ 229	\$ 198
EARNINGS PER COMMON SHARE			
Basic	\$ 0.22	\$ 1.18	\$ 1.01
Diluted	\$ 0.22	\$ 1.17	\$ 1.00
WEIGHTED AVERAGE SHARES OUTSTANDING			

Basic	194.7	194.9	195.7
Diluted	196.6	196.5	197.5
Cash dividends declared per share	\$ 0.175	\$ 0.175	\$ 0.125

(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)

	For the years ended	
	December 31,	December 31,
	2008	2007
	in millions (except per share amounts)	
NET SALES	\$ 14,342	\$ 13,048
Cost of sales	11,402	10,492
GROSS MARGIN	2,940	2,556
OPERATING EXPENSES AND INCOME		
Selling, general and administrative expenses	1,450	1,296
Research, development and engineering expenses	422	329
Equity, royalty and interest income from investees (Note 1)	253	205
Restructuring charges (Note 2)	37	--
Other operating (expense) income, net	(12)	22
OPERATING INCOME	1,272	1,158
Interest income	18	36
Interest expense	42	58
Other (expense) income, net (Note 3)	(70)	33
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,178	1,169
Income tax expense (Note 4)	360	381
Minority interests in income of	63	49

consolidated subsidiaries

NET INCOME	\$ 755	\$ 739
EARNINGS PER COMMON SHARE		
Basic	\$ 3.87	\$ 3.72
Diluted	\$ 3.84	\$ 3.70
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	195.0	198.4
Diluted	196.5	199.9
Cash dividends declared per share	\$ 0.60	\$ 0.43

(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)

December 31, December 31,
2008 2007

in millions
(except par value)

ASSETS

Current assets

Cash and cash equivalents	\$ 426	\$ 577
Marketable securities	77	120
Accounts and notes receivable, net	1,782	1,998
Inventories	1,783	1,692
Other current assets	645	428
Total current assets	4,713	4,815

Long-term assets

Property, plant and equipment, net	1,841	1,645
Investments and advances related to equity method investees	588	514
Goodwill and other intangible assets, net	585	538

Other assets	792	683
Total assets	\$ 8,519	\$ 8,195
LIABILITIES		
Current liabilities		
Current portion of long-term debt and loans payable	\$ 69	\$ 119
Accounts payable (principally trade)	1,009	1,263
Accrued expenses	1,561	1,329
Total current liabilities	2,639	2,711
Long-term liabilities		
Long-term debt	629	555
Other liabilities	1,771	1,227
Total liabilities	5,039	4,493
MINORITY INTERESTS	250	293
SHAREHOLDERS' EQUITY		
Common stock, \$2.50 par value, 500 and 300 shares authorized, 221.7 and 220.4 shares issued	1,793	1,719
Retained earnings	3,288	2,660
Treasury stock, at cost, 20.4 and 18.2 shares	(715)	(593)
Common stock held by employee benefits trust, at cost, 5.1 and 6.5 shares	(61)	(79)
Unearned compensation	(5)	(11)
Accumulated other comprehensive loss	(1,070)	(287)
Total shareholders' equity	3,230	3,409
Total liabilities, minority interests and shareholders' equity	\$ 8,519	\$ 8,195

(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)

For the years ended

	December 31,	December 31,
	2008	2007
	in millions	
NET CASH PROVIDED BY OPERATING ACTIVITIES (Note 5)	\$ 987	\$ 810
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(543)	(353)
Investments in internal use software	(82)	(67)
Investments in and advances to equity investees	(89)	(66)
Acquisition of businesses, net of cash acquired	(142)	(20)
Proceeds from the sale of an equity investment	64	35
Investments in marketable securities--acquisitions	(390)	(405)
Investments in marketable securities--liquidations	409	395
Purchases of other investments	(62)	(57)
Other, net	(13)	23
Net cash used in investing activities	(848)	(515)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	76	15
Payments on borrowings and capital lease obligations	(152)	(144)
Dividend payments on common stock	(122)	(89)
Proceeds from sale of common stock held by employee benefit trust	63	13
Repurchases of common stock	(128)	(335)
Other, net	26	(36)
Net cash used in financing activities	(237)	(576)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(53)	18
Net decrease in cash and cash equivalents	(151)	(263)
Cash and cash equivalents at beginning of year	577	840
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 426	\$ 577

(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)

	Engine	Power Generation	Components	Distribution	Non- segment items (1)	Total
	in millions					
Three months ended December 31, 2008						
External sales	\$ 1,590	\$ 675	\$ 468	\$ 555	\$ --	\$ 3,288
Intersegment sales	346	212	208	2	(768)	--
Total sales	1,936	887	676	557	(768)	3,288
Depreciation and amortization (2)	47	10	16	8	—	81
Research, development and engineering expense	71	10	21	—	—	102
Equity, royalty and interest income from investees	8	6	4	33	--	51
Restructuring charges	—	—	—	—	37	37
Interest income	3	—	—	1	--	4
Segment EBIT	(40)	75	(6)	64	(37)	56

Three months
ended
September 28,
2008

External sales	\$ 1,927	\$ 653	\$ 535	\$ 578	\$ --	\$ 3,693
Intersegment sales	352	235	266	3	(856)	--
Total sales	2,279	888	801	581	(856)	3,693
Depreciation and amortization (2)	43	9	16	6	--	74
Research, development and engineering expense	75	11	27	--	--	113
Equity, royalty and interest income from investees	26	6	3	31	--	66
Interest income	2	1	1	--	--	4
Segment EBIT	160	108	61	61	(10)	380
Three months ended December 31, 2007						
External sales	\$ 1,862	\$ 645	\$ 542	\$ 467	\$ --	\$ 3,516
Intersegment sales	293	195	235	1	(724)	--
Total sales	2,155	840	777	468	(724)	3,516
Depreciation and amortization (2)	44	11	16	3	—	74
Research, development and engineering expense	63	9	21	—	—	93
Equity, royalty and interest income from investees	26	5	3	25	--	59
Interest income	6	2	1	--	--	9

Segment EBIT	120	86	47	56	15	324
For the year ended December 31, 2008						
External sales	\$ 7,432	\$ 2,601	\$ 2,154	\$ 2,155	\$ --	\$ 14,342
Intersegment sales	1,378	899	998	9	(3,284)	--
Total sales	8,810	3,500	3,152	2,164	(3,284)	14,342
Depreciation and amortization (2)	180	41	65	25	—	311
Research, development and engineering expense	286	41	95	—	—	422
Equity, royalty and interest income from investees	99	23	14	117	--	253
Restructuring charges	—	—	—	37	37	
Interest income	10	3	3	2	--	18
Segment EBIT	535	376	169	242	(102)	1,220
For the year ended December 31, 2007						
External sales	\$ 7,129	\$ 2,375	\$ 2,007	\$ 1,537	\$ --	\$ 13,048
Intersegment sales	1,053	685	925	3	(2,666)	--
Total sales	8,182	3,060	2,932	1,540	(2,666)	13,048
Depreciation and amortization (2)	176	42	59	11	—	288
Research, development and	222	34	73	—	—	329

engineering
expense

Equity,
royalty and
interest
income from
investees

Interest
income

Segment EBIT	589	334	153	187	(36	)	1,227
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(1) Includes intercompany eliminations and unallocated corporate expenses. For the three months ended and the year ended December 31, 2008, Non-segment includes a \$36 million decrease in cash surrender value in corporate owned life insurance (COLI).

(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 Financial Statements is shown in the table below:

	Three months ended			For the years ended	
	December 31,	September 28,	December 31,	December 31,	December 31,
	2008	2008	2007	2008	2007
in millions					
Segment EBIT	\$ 56	\$ 380	\$ 324	\$ 1,220	\$ 1,227
Less:					
Interest expense	9	10	14	42	58
Income before income taxes and minority interests	\$ 47	\$ 370	\$ 310	\$ 1,178	\$ 1,169

FINANCIAL MEASURES THAT SUPPLEMENT GAAP

(Unaudited)

Earnings before interest, taxes and minority interests (EBIT)

We define EBIT as earnings before interest expense, income tax expense and minority interests in income of consolidated subsidiaries. We use EBIT to assess and measure the performance of our operating segments and also as a component in measuring our variable compensation programs. Below is a reconciliation of EBIT, a non-GAAP financial measure, to our consolidated net income, for each of the applicable periods:

	Three Months Ended			For the years ended		
	December 31,	September 28,	December 31,	December 31,	December 31,	
	2008	2008	2007	2008	2007	
	in millions					
Earnings before interest, income taxes and minority interests	\$ 56	\$ 380	\$ 324	\$ 1,220	\$ 1,227	
EBIT as a percentage of net sales	1.7	% 10.3	% 9.2	% 8.5	% 9.4	%
Less:						
Interest expense	9	10	14	42	58	
Income tax expense	(12	) 123	97	360	381	
Minority interests in income of consolidated subsidiaries	16	18	15	63	49	
Net income	\$ 43	\$ 229	\$ 198	\$ 755	\$ 739	
Net income as a percentage of net sales	1.3	% 6.2	% 5.6	% 5.3	% 5.7	%

We believe EBIT is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to financing methods, capital structure or income taxes. This measure is not in accordance with, or an alternative for, accounting principles generally accepted in the United States of America (GAAP) and may not be consistent with measures used by other companies. It should be considered supplemental data.

CUMMINS INC. AND 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 was as follows:

	Three months ended			For the years ended	
	December 31, 2008	September 28, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	in millions				
North American distributors	\$ 28	\$ 26	\$ 24	\$ 100	\$ 83
Dongfeng Cummins Engine Company, Ltd.	5	16	12	55	41
Chongqing Cummins Engine Company, Ltd.	7	9	7	30	22
Shanghai Fleetguard Filter Co. Ltd.	1	2	2	8	6
Tata Cummins Ltd.	—	—	4	7	13
Cummins MerCruiser Diesel Marine LLC	(2	) (1	) 2	3	11
All others	6	9	4	28	16
Cummins share of net income	45	61	55	231	192
Royalty and interest income	6	5	4	22	13

Equity, royalty and interest income from investees	\$ 51	\$ 66	\$ 59	\$ 253	\$ 205
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NOTE 2. RESTRUCTURING CHARGES

We have executed restructuring actions primarily in the form of voluntary and involuntary separation programs in the fourth quarter of 2008. These actions were in response to the continued deterioration we saw in our U.S. businesses and most key markets around the world in the second half of 2008, as well as a reduction in orders in most U.S. and global markets for 2009. We reduced our worldwide professional workforce by approximately 650 employees. We offered a voluntary retirement package to certain active professional employees in the United States based on a clearly defined set of criteria. We also took involuntary actions which included certain hourly employees. The compensation packages contained salary and continuation of benefits, including health care, life insurance and outplacement services. The voluntary retirement package was accepted by approximately 150 employees. The remaining reductions of approximately 500 employees were involuntary. The expenses recorded during the year ended December 31, 2008 included severance costs related to both voluntary and involuntary terminations. During 2008, we incurred total pretax expenses related to the restructuring initiative of approximately \$37 million.

Employee termination and severance costs were recorded based on approved plans developed by the businesses and corporate management which specified positions to be eliminated, benefits to be paid under existing severance plans or statutory requirements and the expected timetable for completion of the plan. Estimates of restructuring were made based on information available at the time charges were recorded. Due to the inherent uncertainty involved, actual amounts paid for such activities may differ from amounts initially recorded and we may need to revise previous estimates.

CUMMINS INC. AND SUBSIDIARIES

SELECTED FOOTNOTE DATA

(Unaudited)

NOTE 3. OTHER (EXPENSE) INCOME

Other (expense) income included the following:

Three months ended			For the years ended	
December 31,	September 28,	December 31,	December 31,	December 31,
2008	2008	2007	2008	2007
in millions				

Other
(expense)
income:

Change in cash surrender value of corporate owned life insurance	\$ (36	)	\$ -	\$ -	\$ (36	)	\$ -	
Foreign currency (losses) gains	(23	)	(10	)	12	(46	)	28
Other, net	9		3		1		12	5
Total other (expense) income, net	\$ (50	)	\$ (7	)	\$ 13	\$ (70	)	\$ 33

NOTE 4. INCOME TAXES

Our effective benefit rate in the fourth quarter of 2008 was 25.5 percent compared to an effective tax rate of 31.3 percent for 2007. The change is primarily due to greater foreign earnings in 2008, which are subject to lower tax rates. The fourth quarter effective benefit rate also includes a \$10 million (0.8 percent) reduction due to the legislative reinstatement of the U.S. research tax credit. The full-year 2008 effective tax rate was 30.6 percent and we expect our full-year 2009 effective tax rate to be sustained at approximately 31 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, 2008 and 2007 was \$314 million and \$290 million, respectively.

About Cummins

Cummins Inc., a global power leader, is a corporation of complementary business units that design, manufacture, distribute and service engines and related technologies, including fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems. Headquartered in Columbus, Indiana, (USA) Cummins serves customers in approximately 190 countries and territories through a network of more than 500 company-owned and independent distributor locations and approximately 5,200 dealer locations. Cummins reported net income of \$755 million on sales of \$14.34 billion in 2008. Press releases can be found on the Web at www.cummins.com.

Presentation of Non-GAAP Financial Information

EBIT is a non-GAAP measure used in this release. EBIT is defined and reconciled to what management believes to be the most comparable GAAP measure in a schedule attached to

this release. Cummins presents this information as it believes it is useful to understanding the Company's operating performance, and because EBIT is a measure used internally to assess the performance of the operating units.

Forward-looking disclosure statement

Information provided in this release that is not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the company's expectations, hopes, beliefs and intentions on strategies regarding the future. It is important to note that the company's actual future results could differ materially from those projected in such forward-looking statements because of a number of factors, including, but not limited to, general economic, business and financing conditions, labor relations, governmental action, competitor pricing activity, expense volatility and other risks detailed from time to time in Cummins Securities and Exchange Commission filings.

Source: Cummins Inc.