

CUMMINS INC  
Form 11-K  
June 28, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 11-K**

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
For the Fiscal Year Ended December 31, 2006**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-4949**

**NELSON RETIREMENT AND SAVINGS PLAN**  
(Full title of the plan)

**CUMMINS INC.  
500 Jackson Street  
P. O. Box 3005  
Columbus, IN 47202-3005**  
(Name of Issuer of Securities Held Pursuant to the Plan and  
the Address of its Principal Executive Office)

**NELSON RETIREMENT AND SAVINGS PLAN**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**December 31, 2006 AND 2005**

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**NELSON RETIREMENT AND SAVINGS PLAN**

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December 31, 2006 AND 2005

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\* As the Plan is a member of the Cummins Inc. and Affiliates Retirement and Savings Plans Master Trust ("Master Trust"), the schedules of assets (held at end of year), at December 31, 2006 and of reportable transactions for the year ended December 31, 2006 of the Master Trust have been certified by the Master Trustee and have been separately filed with the Department of Labor. Other Supplemental Schedules not filed herewith are omitted because of the absence of the conditions under which they are required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Benefits Policy Committee and Participants of the  
Nelson Retirement and Savings Plan  
Columbus, Indiana

We have audited the accompanying statements of net assets available for benefits of the Nelson Retirement and Savings Plan (the "Plan") as of December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, line 4i - Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental information is the responsibility of the Plan's management. The supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

June 15, 2007

**NELSON RETIREMENT AND SAVINGS PLAN**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS  
December 31, 2006 AND 2005

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	2006	2005 As Restated
<b>Assets</b>		
Investments:		
Investment in Cummins Inc. and Affiliates Retirement and Savings Plans Master Trust, at fair value	\$ 120,275,109	\$ 111,942,042
Participant loans	620,923	1,552,379
Total investments	120,896,032	113,494,421
Employer contributions receivables	329,868	27,769
 Total assets	 121,225,900	 113,522,190
<b>Liabilities</b>		
Excess contributions refundable	10,886	28,261
<b>Net assets available for benefits</b>		
Net assets reflecting all investments at fair value	121,215,014	113,493,929
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	145,039	123,257
 Net assets available for benefits	 \$ 121,360,053	 \$ 113,617,186

*See accompanying notes to financial statements.*

**NELSON RETIREMENT AND SAVINGS PLAN**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
YEAR ENDED DECEMBER 31, 2006**Additions**

Contributions:	
Employer	2,623,739
Employee	3,792,412
Plan interest in Cummins Inc. and Affiliates Retirement and Savings Plans Master Trust investment income	15,006,912
Interest income	98,627
Total additions	21,521,690

**Deductions**

Benefits paid to participants	13,977,161
Other deductions	9,121
Total deductions	13,986,282

**Fund transfers with Affiliate Plans**

207,459

Net change in net assets available for benefits

7,742,867

**Net assets available for benefits, beginning of year**

113,617,186

**Net assets available for benefits, end of year**

\$ 121,360,053

*See accompanying notes to financial statements.*

## NELSON RETIREMENT AND SAVINGS PLAN

### NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

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#### 1. DESCRIPTION OF THE PLAN

The following description of the Nelson Retirement and Savings Plan (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

##### General

The Plan is a defined contribution plan designed to provide participants with a systematic method of savings and at the same time enable such participants to benefit from contributions made to the Plan by Cummins Inc. and Affiliates (collectively, the "Company"). Eligible employees are employees of Nelson Industries, Inc. ("Nelson"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

##### Master Trust

The Cummins Inc. and Affiliates Retirement and Savings Plans Master Trust ("Master Trust") holds the assets of the Plan and the following Company-sponsored plans:

- Cummins Inc. and Affiliates Retirement and Savings Plan for Bargaining Unit Employees;
- Cummins Inc. and Affiliates Retirement and Savings Plan for Onan Corporation Employees;
- Cummins Inc. and Affiliates Retirement and Savings Plan for Lubricant Consultants, Inc. Employees;
- Cummins Inc. and Affiliates Retirement and Savings Plan for Consolidated Diesel Company, Inc. Employees; and
- Cummins Inc. and Affiliates Retirement and Savings Plan for Salaried and Non-Bargaining Hourly Employees

The trustee for the Master Trust was The Vanguard Group until July 2005 when State Street Corporation was appointed as trustee. As participants transfer between different locations within the Company, their related Plan account transfers to the appropriate Plan, if applicable. Such transfers are reflected in the accompanying financial statements as "Fund transfers with Affiliate Plans".

##### Contributions

Participants may contribute up to 50% of their eligible pay through a combination of pre-tax and after-tax contributions. Participants may direct their contributions in any of seventeen investment options, including Cummins Inc. common stock.



**NELSON RETIREMENT AND SAVINGS PLAN**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

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Matching Contribution

Effective January 1, 2004, the Company matches participants 50% on 6% of wages. The matching contribution is made in the form of cash or Company stock. Prior to May 1, 2002, Company matching contributions in the form of Company stock could not be reinvested into other investment options until the participant was 55 years of age. On May 1, 2002, the Company started removing restrictions on the reinvestment of stock received as a Company match. At December 31, 2002, 80% of Company stock received as a match was available for diversification. Subsequent to February 1, 2003, the entire amount of Company stock received as a match is available for diversification.

Participant Accounts

Each participant's account is credited with the participant's contributions, the Company's contributions and an allocation of Plan earnings. Allocations of Plan earnings are made daily and are based upon the participant's weighted average account balance for the day, as described in the Plan document.

Vesting

Participants are fully vested in all employee and employer contributions and earnings thereon at all times.

Benefit Payments

Upon termination of employment or retirement, account balances are paid either as a lump-sum distribution or annual installments not to exceed the lesser of 15 years or the life expectancy of the participant and/or joint life expectancy of the participant and beneficiary, and commence no later than the participant reaching age 70-1/2. The Plan also permits hardship withdrawals from participant pre-tax contributions and actual earnings thereon. Participants may also withdraw their after-tax contributions.

Voting Rights

Each participant is entitled to exercise voting rights attributable to the Company shares allocated to his or her account. The Trustee shall vote all Company shares for which no voting instructions were received in the same manner and proportion as the shares for which voting instructions were received.

**NELSON RETIREMENT AND SAVINGS PLAN**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

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Participant Loans

A participant can obtain a loan up to a maximum of the lesser of \$50,000 or 50% of the participant's account balance. Loans are secured by the participant's account balance and bear interest at the prime rate plus one percent, and mature no later than 4½ years from the date of the loan.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Plan have been prepared on an accrual basis of accounting.

Investments

The Plan's investment in the Master Trust is stated at fair value based on the fair value of the underlying investments of the Master Trust, determined primarily by quoted market prices, except for the fixed income fund. The fixed income fund consists primarily of insurance contracts and bank investment contracts with various companies. Insurance contracts and bank contracts are nontransferable, but provide for benefit-responsive withdrawals by plan participants at contract value. Alternative investment contracts consist of investments together with contracts under which a bank or other institution provides for benefit-responsive withdrawals by plan participants at contract value. Fair value is determined using a discounted cash flow method by considering such factors as the benefit-responsiveness of the investment contracts, the ability of the parties to perform in accordance with the terms of the contracts, and the likelihood that plan-directed withdrawals would cause payment to plan participants to be at amounts other than contract value. There are no limitations on liquidity guarantees and no valuation reserves are being recorded to adjust contract amounts.

Allocation of Master Trust Assets and Transactions

The investment income and expenses of the Master Trust are allocated to each plan based on the relationship of the Plan's investment balances to the total Master Trust investment balances.

**NELSON RETIREMENT AND SAVINGS PLAN**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

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Use of Estimates

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risks and Uncertainties

The Master Trust invests in various securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Payment of Benefits

Benefit payments are recorded when paid.

Administrative Expenses

Substantially all costs of administering the Plan are paid by the Company.

Reclassifications

Certain prior year amounts have been reclassified herein to conform to the current method of presentation.

**NELSON RETIREMENT AND SAVINGS PLAN**NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005**3. INVESTMENTS IN MASTER TRUST**

The Plan's investments are held in the Master Trust. At December 31, 2006 and 2005, the Plan's interest in the net assets of the Master Trust was 8.4% and 8.8%, respectively. The following investments are held by the Master Trust as of December 31:

	2006	2005 As Restated
Cummins Inc. Common Stock Fund	\$ 149,069,879	\$ 153,650,988
Cummins Inc. common stock - ESOP fund (non-participant directed)	67,973,065	57,940,244
Fixed income fund	346,161,583	331,851,578
Common / collective trust fund	172,121,130	158,108,788
Registered investment companies	690,909,492	563,836,920
<b>Total</b>	<b>\$ 1,426,235,149</b>	<b>\$ 1,265,388,518</b>

The fixed income fund portion of the Master Trust comprises several fully benefit-responsive insurance and investment contracts. This fund includes both open-ended, security-backed investments as well as closed-ended, general account investments maturing through 2009. The contracts have varying yields which averaged 4.87 percent and 4.75 percent during the years ended December 31, 2006 and 2005, respectively. The contracts have varying crediting interest rates which averaged 4.93 percent and 4.66 percent during the years ended December 31, 2006 and 2005, respectively. The crediting interest rates adjust on varying intervals by contract. There are no reserves against contract value for credit risk of the contract issuer or otherwise.

The fixed income fund's key objectives are to provide preservation of principal, maintain a stable interest rate, and provide daily liquidity at contract value for participant withdrawals and transfers in accordance with the provision of the Plans. To accomplish these objectives, the fixed income fund invests primarily in investment contracts such as traditional guaranteed investment contracts (GICs) and wrapper contracts (also known as synthetic GICs). In a traditional GIC, the issuer takes a deposit from the fixed income fund and purchases investments that are held in the issuer's general account. The issuer is contractually obligated to repay the principal and a specified rate of interest guaranteed to the fixed income fund.

## NELSON RETIREMENT AND SAVINGS PLAN

### NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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In a wrapper contract structure, the underlying investments are owned by the fixed income fund and held in trust for participants. The fixed income fund purchases a wrapper contract from an insurance company or bank. The wrapper contract amortizes the realized and unrealized gains and losses on the underlying fixed income investments, typically over the duration of the investments, through adjustments to the future interest crediting rate (which is the rate earned by participants in the fixed income fund for the underlying investments). The issuer of the wrapper contract provides assurance that the adjustments to the interest crediting rate do not result in a future interest crediting rate that is less than zero. An interest crediting rate less than zero would result in a loss of principal or accrued interest.

The key factors that influence future interest crediting rates for a wrapper contract include the level of market interest rates, the amount and timing of participant contributions, transfers, and withdrawals into and out of the wrapper contract, the investment returns generated by the fixed income investments that back the wrapper contract and the duration of the underlying investments backing the wrapper contract. Wrapper contracts' interest crediting rates are typically reset on a monthly or quarterly basis. While there may be slight variations from one contract to another, most wrapper contracts use a formula to determine the interest crediting rate that is based on the specific factors as aforementioned. Over time, the crediting rate formula amortizes the fixed income fund's realized and unrealized market value gains and losses over the duration of the underlying investments.

Because changes in market interest rates affect the yield to maturity and the market value of the underlying investments, they can have a material impact on the wrapper contract's interest crediting rate. In addition, participant withdrawals and transfers from the fixed income fund are paid at contract value but funded through the market value liquidation of the underlying investments, which also impacts the interest crediting rate. The resulting gains and losses in the market value of the underlying investments relative to the wrapper contract values are represented in the Statements of Net Assets Available for Benefits as "Adjustment from fair value to contract value". If the adjustment from fair value to contract value is positive for a given contract, this indicates that the wrapper contract value is greater than the market value of the underlying investments. The embedded market value losses will be amortized in the future through a lower interest crediting rate than would otherwise be the case. If the adjustment from fair value to contract value is negative, this indicates that the wrapper contract value is less than the market value of the underlying investments. The amortization of the embedded market value gains will cause the future interest crediting rate to be higher than it otherwise would have been.

**NELSON RETIREMENT AND SAVINGS PLAN**

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

All wrapper contracts provide for a minimum interest crediting rate of zero percent. In the event that the interest crediting rate should fall to zero and the requirements of the wrapper contract are satisfied, the wrapper issuers will pay to the Plans the shortfall needed to maintain the interest crediting rate at zero. This helps to ensure that participants' principal and accrued interest will be protected.

In certain circumstances, the amount withdrawn from the wrapper contract would be payable at fair value rather than at contract value. These events include termination of the Plans, a material adverse change to the provisions of the Plans, if the employer elects to withdraw from a wrapper contract in order to switch to a different investment provider, or if the terms of a successor plan (in the event of the spin-off or sale of a division) do not meet the wrapper contract issuer's underwriting criteria for issuance of a clone wrapper contract. These events described herein that could result in the payment of benefits at market value rather than contract value are not probable of occurring in the foreseeable future.

Examples of events that would permit a wrapper contract issuer to terminate a wrapper contract upon short notice include the Plans' loss of its qualified status, uncured material breaches of responsibilities, or material and adverse changes to the provisions of the Plans. If one of these events was to occur, the wrapper contract issuer could terminate the wrapper contract at the market value of the underlying investments (or in the case of a traditional GIC, at the hypothetical market value based upon a contractual formula).

**NELSON RETIREMENT AND SAVINGS PLAN**NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

Following is a summary of the fixed income fund's investments at December 31, 2006:

Contract Issuer	Contract Number	Security Name	Issuer Ratings	Investments at Fair Value	Wrap Contracts at Fair Value	Adjustment to Contract Value
<b>Traditional GICs</b>						
Genworth Life	GS-3841		AA-/Aa3	\$ 5,412,492		\$ 167,678
Genworth Life	GS-3841-2		AA-/Aa3	5,536,012		124,538
Mass Mutual	35109		AAA/Aa1	5,070,833		35,993
Mass Mutual	GICO-35118		AAA/Aa1	7,594,867		178,559
New York Life	GA-31907		AA+/Aaa	2,958,902		79,800
Principal Life	GA-4-15203-8		AA/Aa2	3,209,601		46,221
Principal Life	GA-4-15203-7		AA/Aa2	1,994,013		26,029
Principal Life	GA-4-15203-6		AA/Aa2	4,068,079		13,885
Principal Life	GA-4-15203-5		AA/Aa2	3,056,626		5,385
Travelers Insurance	GR-18788		AA/Aa2	6,925,299		263,350
Travelers Insurance	GR-18736		AA/Aa2	4,923,319		84,586
<b>Wrapped Portfolios</b>						
Bank of America	05-046	Wrapper IGT AAA Asset-Backed Securities Fund	/Aa1	40,661,438	-0-	107,916
IXIS Financial	1926	Wrapper IGT INVESCO Multi-Manager Intermediate	AAA/Aaa	62,838,309	-0-	1,846,520
Monumental	MDA-00705TR	Wrapper IGT INVESCO Short-Term Bond Fund	AA/Aa3	26,396,214	-0-	175,024
Rabobank Nederland	CUM070501	Wrapper IGT INVESCO Multi-Manager Intermediate	AAA/Aaa	62,351,529	-0-	809,554
State Street Bank	105021	Wrapper	AA/Aa2			