

CUMMINS INC  
Form PRE 14A  
March 11, 2016

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**CUMMINS INC.**

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(Name of Registrant as Specified In Its Charter)

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500 JACKSON STREET, BOX 3005, COLUMBUS, INDIANA 47202-3005

**NOTICE OF 2016 ANNUAL MEETING OF SHAREHOLDERS**

*To Our Shareholders:*

NOTICE IS HEREBY GIVEN that the 2016 Annual Meeting of the Shareholders of Cummins Inc. will be held at our Columbus Engine Plant located at 500 Central Avenue, Columbus, Indiana, on Tuesday, May 10, 2016, at 11:00 a.m. Eastern Daylight Saving Time, for the following purposes:

1. to elect the ten nominees named in the attached proxy statement as directors for the ensuing year;
2. to consider an advisory vote on the compensation of our named executive officers;
3. to ratify the appointment of PricewaterhouseCoopers LLP as our auditors for 2016;
4. to consider our Board of Directors' proposal regarding proxy access;
5. to consider a proposal from a shareholder regarding proxy access; and
6. to transact any other business that may properly come before the meeting or any adjournment thereof.

Only shareholders of our Common Stock of record at the close of business on March 8, 2016 are entitled to notice of and to vote at the meeting.

If you do not expect to be present in person at the meeting, you are urged to vote your shares by telephone, via the Internet, or by completing, signing and dating the enclosed proxy card and returning it promptly in the envelope provided.

You may revoke your proxy card at any time before the voting. Except with respect to shares attributable to accounts held in the Cummins Retirement and Savings Plans, any shareholders entitled to vote at the annual meeting who attend the meeting will be entitled to cast their votes in person.

MARK J. SIFFERLEN,  
*Secretary*

March 28, 2016

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY  
MATERIALS FOR THE 2016 ANNUAL SHAREHOLDER MEETING TO BE HELD  
ON MAY 10, 2016: the Annual Report and Proxy Statement  
are available at [www.proxyvote.com](http://www.proxyvote.com)**

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## PROXY STATEMENT FOR 2016 ANNUAL SHAREHOLDERS MEETING

We are furnishing this proxy statement in connection with the solicitation by our Board of Directors of proxies to be voted at our 2016 Annual Meeting of Shareholders to be held on Tuesday, May 10, 2016, and at any adjournment thereof, which we refer to as our "Annual Meeting." This proxy statement, together with the enclosed proxy card, is first being made available to our shareholders on or about March 28, 2016.

Holders of our Common Stock of record at the close of business on March 8, 2016 are entitled to vote at the Annual Meeting. On that date there were issued and outstanding 170,345,990 shares of Common Stock, each of which is entitled to one vote on each matter submitted to a shareholder vote at the Annual Meeting.

Each share of Common Stock represented by a properly executed and delivered proxy card will be voted at the Annual Meeting in accordance with the instructions indicated on that proxy card, unless such proxy card has been previously revoked. If no instructions are indicated on a signed proxy card, the shares represented by such proxy card will be voted as recommended by our Board.

A shareholder may revoke his or her proxy card at any time before the Annual Meeting by delivering to our Secretary written notice of such revocation. This notice must include the number of shares for which the proxy card had been given and the name of the shareholder of such shares as it appears on the stock certificate(s), or in book entry form on the records of our stock transfer agent and registrar, Wells Fargo Shareowner Services, evidencing ownership of such shares. In addition, except with respect to shares attributable to accounts held in the Cummins Retirement and Savings Plans (the "Cummins RSPs"), any shareholder who has executed a proxy card but is present at the Annual Meeting will be entitled to cast his or her vote in person instead of by proxy card, thereby canceling the previously executed proxy card.

Participants in a Cummins RSP who hold shares of Common Stock in their account and provide voting instructions to the trustee with respect to such shares will have their shares voted by the trustee as instructed. Such participants will be considered named fiduciaries with respect to the shares allocated to their accounts solely for purposes of this proxy solicitation. If no voting instructions are provided, shares held in the accounts will be voted in the same manner and proportion as shares with respect to which valid voting instructions were received. Any instructions received by the trustee from participants regarding their vote shall be confidential. Cummins RSP participants may attend the Annual Meeting but cannot vote the shares in their Cummins RSP accounts in person at the Annual Meeting.

**IMPORTANT: If you hold your shares in a brokerage account, you should be aware that, due to New York Stock Exchange, or NYSE, rules, if you do not affirmatively instruct your broker how to vote within 10 days prior to our Annual Meeting, your broker will *not* be permitted to vote your shares (i) for the election of directors; (ii) on the advisory vote on the compensation of our named executive officers; (iii) on our Board's proposal regarding proxy access; or (iv) on the shareholder proposal regarding proxy access. Therefore, you must affirmatively take action to vote your shares at our Annual Meeting. If you do not affirmatively vote your shares, your shares will not be voted (i) for the election of directors; (ii) on the advisory vote on the compensation of our named executive officers; (iii) on our Board's proposal regarding proxy access; or (iv) on the shareholder proposal regarding proxy access.**

## CORPORATE GOVERNANCE

We long have believed that good corporate governance is important in ensuring that we are managed for the long-term benefit of our shareholders. We continuously review our Board's structure, policies and practices and compare them to those suggested by various authorities in corporate governance and to the practices of other public companies. Our corporate governance principles, charters for each of our Board's Audit, Compensation, and Governance and Nominating Committees, our code of business conduct and our by-laws, along with certain other corporate governance documents, are available on our website, [www.cummins.com](http://www.cummins.com), and are otherwise available in print to any shareholder who requests them from our Secretary.

### Independence

Nine out of our ten directors qualify as independent directors within the meaning of the rules adopted by the Securities and Exchange Commission, or SEC, and the corporate governance standards for companies listed on the NYSE. Pursuant to the requirements of the NYSE, our Board has adopted independence standards that meet or exceed the independence standards of the NYSE, including categorical standards to assist the Governance and Nominating Committee and our Board in evaluating the independence of each director. The categorical standards are included in our corporate governance principles, which are available on our website at [www.cummins.com](http://www.cummins.com). A copy also may be obtained upon written request.

Following a discussion and applying the standards referenced above, the Governance and Nominating Committee of our Board determined that all directors standing for election, except N. Thomas Linebarger, our Chief Executive Officer, qualified as independent. Based on the recommendation of the Committee, our full Board approved this conclusion.

### Leadership Structure and Risk Oversight

Our corporate governance principles describe in detail how our Board must conduct its oversight responsibilities in representing and protecting our company's stakeholders. As stated in the principles, our Board has the freedom to decide whom our Chairman and Chief Executive Officer should be based solely on what it believes is in the best interests of our company and its shareholders. Currently, our Board believes it is in the best interests of our company for the roles of our Chairman and Chief Executive Officer to be combined and to appoint a Lead Director from among our independent directors. Our Board believes that this leadership structure currently assists our Board in creating a unified vision for our company, streamlines accountability for our performance and facilitates our Board's efficient and effective functioning.

Our Board evaluates its policy on whether the roles of our Chairman and Chief Executive Officer should be combined on an annual basis. In doing so, our Board considers the skills, experiences and qualifications of our then-serving directors (including any newly elected directors), the evolving needs of our company, how well our leadership structure is functioning, and the views of our shareholders.

Based on its review of our leadership structure in 2015, our Board continues to believe that Mr. Linebarger, our Chief Executive Officer, is the person best qualified to serve as our Chairman given his history in executive positions with our company and his skills and experience in the industries in which we operate. Alexis M. Herman is our Lead Director. Ms. Herman was selected for this position because of her service on our Board since 2001, her experience as the U.S. Secretary of Labor and her other experiences in leadership positions in the private and public sectors.

Our Lead Director's responsibilities include:

Serving as Chairman of the Governance and Nominating Committee;

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Conferring with the Chairman on, and approving, Board meeting agendas and meeting schedules to assure there is sufficient time for discussion of all agenda items;

Calling and presiding over all meetings of the Board at which the Chairman is not present, including executive sessions of independent directors and communicating feedback on executive sessions to the Chairman;

Leading the annual performance reviews of the Chief Executive Officer and the Board;

Ensuring that there is open communication between our independent directors and the Chairman and other management members;

Being available, when deemed appropriate by the Board, for consultation and direct communication with shareholders;

Reviewing, at his or her discretion, information to be sent to the Board; and

Conferring with the Chairman on other issues of corporate importance, as appropriate.

Our Board and its committees are involved on an ongoing basis in the oversight of our material enterprise-related risks. Our senior management, led by our Chief Executive Officer and Chief Financial Officer in conjunction with other appropriate officers, undertakes a process that identifies, categorizes and analyzes the relative severity and likelihood of the various different types of risks to which we are or may be subject. Depending upon the type of the material identified risks, our Board, Audit Committee, Finance Committee, Compensation Committee and/or Safety, Environment and Technology Committee then receive periodic reports and information directly from our senior management members who have functional responsibility for the management of such risks. These reports identify and assess the different types of enterprise-related risks and address mitigation strategies and plans implemented or proposed for each key risk. Based on the further input of our Chief Executive Officer or Chief Financial Officer as necessary or appropriate, our Board and/or its respective appropriate committee then reviews such information, proposed mitigation strategies and plans, and monitors our progress on mitigating such risks. Our Board and its committees' roles in the oversight process of our identified material risks have not impacted our Board's leadership structure.

### **Board of Directors and Committees**

Our Board held five meetings during 2015. All of the directors attended 75% or more of the aggregate number of meetings of our Board and the committees on which they served that were held during the periods in which they served. The non-employee members of our Board also met in executive session without management present as part of each regular meeting. Alexis M. Herman, our Lead Director, presided over these sessions.

Under our corporate governance principles, our Board has established six standing committees. Certain of the principal functions performed by these committees and the members of our Board currently serving on these committees are as follows:

*Audit Committee.* The current members of our Audit Committee are R. K. Herdman (Chairman), A. M. Herman, T. J. Lynch and G. R. Nelson. All members are independent directors as defined under our independence criteria, SEC rules and NYSE listing standards, including those specifically applicable to audit committee members. The Audit Committee met ten times during 2015. Our Board has determined that Mr. Herdman and Mr. Lynch are "audit committee financial experts" for purposes of the SEC's rules. The Audit Committee reviews our accounting and auditing principles and procedures. The Audit Committee also reviews the scope, timing and fees for our annual audit and the results of audit examinations performed by our internal auditors and independent public accountants, including any recommendations to further improve our system of accounting and internal controls. It also monitors the independence and performance of our external and internal auditors.

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*Compensation Committee.* The current members of our Compensation Committee are G. R. Nelson (Chairman), R. K. Herdman, A. M. Herman and T. J. Lynch. All members are independent directors as defined under our independence criteria, SEC rules and NYSE listing standards, including those specifically applicable to compensation committee members. The Compensation Committee met five times during 2015. The Compensation Committee administers and determines eligibility for, and makes awards under, our incentive plans. The Committee also reviews and evaluates our executive compensation standards and practices, including salaries, bonus distributions, deferred compensation practices and participation in stock purchase plans. It annually establishes and approves the compensation of our Chief Executive Officer following a review of his performance, including input from all of the other independent directors.

For 2015, the Compensation Committee engaged Farient Advisors LLC, or Farient, as its independent compensation consultant to provide input and advice to the Committee. Farient was engaged to provide analysis and recommendations on compensation strategy issues; assess our peer group used for comparing performance and pay; benchmark our total compensation levels and mix (by pay component), plan design and policies; test the alignment between performance and pay; benchmark our equity levels; monitor the impact and success of any program changes; provide regular updates on changes impacting compensation and guidance on how to respond; assess any management proposals on the foregoing issues; review our compensation-related disclosures; assist with our annual compensation risk assessment; annually assess and provide advice regarding the views of proxy advisory services and major institutional shareholders on our executive compensation practices; provide analysis and advice relating to say on pay votes; and assist in setting the compensation of our Board.

Farient provided advice and guidance to the Committee on several matters in 2015, including:

Compensation for our Chief Executive Officer; and

Compensation for our Named Executive Officers and other officers.

Other than the services described above, Farient does not provide any other services to our company. Farient's role in establishing the compensation of our Named Executive Officers, to the extent material, is addressed under "Executive Compensation Compensation Discussion and Analysis."

Our Compensation Committee maintains a formal process to ensure the independence of any executive compensation advisor engaged by the Committee, including consideration of all factors relevant to the advisor's independence from management. The factors considered by the Committee include:

The provision of other services to us by the firm that employs the compensation advisor;

The amount of fees received from us by the firm that employs the compensation advisor as a percentage of the total revenue of the firm;

The policies and procedures of the firm that employs the compensation advisor that are designed to prevent conflicts of interest;

Any business or personal relationship of the compensation advisor with any member of our Compensation Committee;

Any business or personal relationship of the compensation advisor or the firm employing the advisor with any of our executive officers; and

Any stock in our company owned by the compensation advisor or the advisor's immediate family members.

The Compensation Committee assessed the independence of Farient in light of the foregoing factors and concluded that Farient is an independent compensation advisor and that its work for the Committee did not raise any conflict of interest.

The Committee also:

Has final authority to hire or terminate any consultant;

May seek additional opinions from other consultants at any time;

Reviews and approves annually the consultant's scope of work, both for duties provided to the Committee and for duties provided to management;

Approves annually the consultant's fee structure for services rendered, and the Chairman of the Committee reviews and approves actual fees incurred quarterly;

Reviews annually structural safeguards to assure the independence of the consultant;

Conducts an annual formal review of the consultant's performance; and

Is responsible for determining whether, and under what circumstances, the consultant participates in Committee meetings and executive sessions.

*Governance and Nominating Committee.* The current members of our Governance and Nominating Committee are A. M. Herman (Chairman), R. J. Bernhard, F. R. Chang Diaz, B. V. Di Leo, S. B. Dobbs, R. K. Herdman, T. J. Lynch, W. I. Miller and G. R. Nelson. All members are independent directors as defined under our independence criteria, SEC rules and NYSE listing standards. The Governance and Nominating Committee met five times during 2015. The Governance and Nominating Committee reviews and makes recommendations to our Board with respect to its membership, size, composition, procedures and organization. The Committee uses its network of contacts to identify potential director candidates, and it engaged a professional search firm to identify potential director candidates based on criteria selected by the Committee, interview identified candidates and conduct background checks. This Committee will also consider properly submitted shareholder recommendations of nominees for election to our Board. Shareholder recommendations, including biographical information as to the proposed candidate and a statement from the shareholder as to the qualifications and willingness of such person to serve on our Board, must be submitted in writing to our Secretary.

Director Selection and Board Refreshment. It is a top priority of our Board and our Governance and Nominating Committee that our directors have the skills, background and values to effectively represent the long term interest of our shareholders. Throughout the year, our Board reviews a matrix of the qualifications, skills and experience that we believe our Board needs to have and discusses whether there are any gaps that need to be filled that will improve our Board's performance. We assess potential new director candidates in light of the matrix and whether they possess qualifications, skills and experience needed by our Board. When we identify potential new director candidates, we review extensive background information compiled by our professional search firm, evaluate their references, consider their prior board experience and conduct in-person interviews.

We also believe that new perspectives and ideas are essential for an innovative and strategic board. The average tenure of our directors is approximately eight years. Since 2008, we have added seven new directors to our Board. Our Board will continue to review and refresh the skills, qualifications and experiences that our Board needs to have to serve the long term interests of our shareholders.

In 2015, following a rigorous selection process, we added two new directors, Mr. Di Leo and Mr. Lynch, to address our commitment to have a sitting chief executive officer of a publicly traded company on our Board (Mr. Lynch) and more international experience (Mr. Di Leo and Mr. Lynch). The addition of Mr. Di Leo to our Board also addressed our goals of having a director with a background in sales and marketing and more information technology experience on our Board.

As required by our corporate governance principles, our Governance and Nominating Committee must recommend director nominees such that our Board is comprised of a substantial majority of independent directors and possesses a variety of experience and background, including those who have





substantial experience in the business community, those who have substantial experience outside the business community (such as public, academic or scientific experience), and those who will represent our stakeholders as a whole rather than special interest groups or individual constituencies. In particular, as it considers possible directors, the Committee seeks out candidates who represent the diverse perspectives of all people. As discussed in our corporate governance principles, each director nominee is chosen without regard to gender, race, religion, national origin or sexual orientation. The Committee considers only potential directors who demonstrate the attributes of our core values: integrity, corporate responsibility, diversity, global involvement, innovation and delivering superior results. As a result, we believe that our Board has been effective in assembling a diverse group of directors as measured by the criteria of gender, race and professional experience.

Each candidate should have sufficient time available to devote to our affairs and be free of any conflict of interest that would violate any applicable law or regulation or interfere with the proper performance of his or her responsibilities including being able to represent the best long-term interests of all of our shareholders. Each candidate also should possess substantial and significant experience that would be of particular importance to us in the performance of his or her duties as a director. The Committee does not intend to alter the manner in which it evaluates candidates, including the foregoing criteria, based on whether or not the candidate was recommended by a shareholder.

Shareholder Nominations. Any shareholder entitled to vote for the election of directors at a meeting may nominate a person or persons for election as directors only if written notice of such shareholder's intent to make such nominations is given, either by personal delivery or by mail, postage prepaid, to the Secretary of our company not later than 160 days in advance of the originally scheduled date of such meeting (provided, however, that if the originally scheduled date of such meeting is earlier than the anniversary of the date of the previous year's annual meeting, such written notice may be so given and received not later than the close of business on the 10th day following the date of the first public disclosure, which may include any public filing by us with the SEC, of the originally scheduled date of such meeting).

Each notice required by our by-laws must be signed manually or by facsimile by the shareholder of record and must set forth the information required by our by-laws, including (i) the name and address, as they appear on our books, of the shareholder who intends to make the nomination and of any beneficial owner or owners on whose behalf the nomination is made; (ii) a representation that the shareholder is a holder of record of shares of our Common Stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) certain other information regarding the shareholder and its interests in our company; (iv) the name, age, business address and residential address of each nominee proposed in such notice; (v) the principal occupation or employment of each such nominee; (vi) the number of shares of our capital stock that are owned of record or beneficially by each such nominee; (vii) with respect to each nominee for election or reelection to our Board, a completed and signed questionnaire, representation and agreement described in our by-laws; (viii) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the SEC had each nominee been nominated, or intended to be nominated, by our Board; (ix) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, including all arrangements or understandings pursuant to which the nominations are being made, between or among such shareholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or any other person or persons (naming such person or persons), on the other hand; and (x) the written consent of each nominee to serve as a director if so elected.

The deadline for written notice of a shareholder's intent to make a nomination with respect to the Annual Meeting was the close of business on December 2, 2015, which was 160 days in advance of the

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Annual Meeting (which is typically held on the second Tuesday of each May). We received no such qualifying nominations before this deadline with respect to the Annual Meeting.

*Executive Committee.* The members of our Executive Committee are N. T. Linebarger (Chairman), W. I. Miller and A.M. Herman. Our Executive Committee is authorized to exercise the powers of our Board in the management and direction of our business and affairs during the intervals between meetings of our Board. It also acts upon matters specifically delegated to it by the full Board of Directors. Our Executive Committee did not meet during 2015.

*Finance Committee.* The members of our Finance Committee are W. I. Miller (Chairman), R. J. Bernhard, F. R. Chang Diaz, B. V. Di Leo and S. B. Dobbs. Our Finance Committee is authorized to review and advise our management and our Board on our financial strategy pertaining to capital structure, creditworthiness, dividend policy, share repurchase policy, and financing requirements. Our Finance Committee met four times during 2015.

*Safety, Environment and Technology Committee.* The members of our Safety, Environment and Technology Committee are R. J. Bernhard (Chairman), F. R. Chang Diaz, B. V. Di Leo, S. B. Dobbs and W. I. Miller. This Committee is authorized to assist the Board of Directors in its oversight of safety policies, review environmental and technological strategies, compliance programs and major projects and review public policy developments, strategies and positions taken by us with respect to safety, environmental and technological matters that significantly impact us or our products. It met five times in 2015.

*Communication with the Board of Directors.* Shareholders and other interested parties may communicate with our Board, including our Lead Director and other non-management directors, by sending written communication to the directors c/o our Secretary, 500 Jackson Street, Mail Code 60903, Columbus, Indiana 47201. All such communications will be reviewed by the Secretary or his designee to determine which communications are appropriate to be forwarded to the directors. All communications will be forwarded except those that are related to our products and services, are solicitations or otherwise relate to improper or irrelevant topics as determined in the sole discretion of the Secretary or his designee.

Our Secretary maintains and provides copies of all such communications received and determined appropriate to be forwarded to the Governance and Nominating Committee in advance of each of its meetings and reports to the Committee on the number and nature of communications that were not determined appropriate to be forwarded.

We require all of our director nominees standing for election at an annual meeting of shareholders to attend such meeting. All director nominees standing for election at our 2015 Annual Meeting of Shareholders were present in person. We currently expect all director nominees standing for election at the Annual Meeting to be present in person.

**ELECTION OF DIRECTORS**  
**(Items 1 through 10 on the Proxy Card)**

*General*

All ten of our directors are nominated for reelection at the Annual Meeting to hold office until our 2017 annual meeting of shareholders and until their successors are elected and qualified. Any submitted proxy will be voted in favor of the nominees named below to serve as directors unless the shareholder indicates to the contrary on his or her proxy. All nominees have been previously elected to our Board by our shareholders and have served continuously since the date indicated below.

*Majority Vote Required for Director Elections*

To be elected for a full term, a director nominee must receive a majority of the votes cast by shareholders at the Annual Meeting. Receipt by a nominee of the majority of votes cast means that the number of shares voted "for" exceeds the number of votes "against" that nominee. Abstentions and broker non-votes are not counted as a vote either "for" or "against" a nominee.

Any director nominee who receives less than a majority of the votes cast by shareholders will serve for only 90 days after the Annual Meeting to permit our Governance and Nominating Committee to consider and make a recommendation to our Board concerning how to fill the resulting vacancy on our Board. Our Governance and Nominating Committee will make its recommendation to our Board concerning how to fill the vacancy based on what it believes to be in the best interests of our company and our shareholders. There are otherwise no constraints on the Governance and Nominating Committee's discretion in making its recommendation, and the individual who received less than a majority of votes cast will not be automatically disqualified from consideration and potential reappointment to our Board by the Governance and Nominating Committee if the Committee believes that such a reappointment is in the best interests of our company and our shareholders. Our Board will then act on the Governance and Nominating Committee's recommendation and thereafter publicly disclose its decision regarding how it has decided to fill such vacancy. Any director who has his or her term shortened as a result of not receiving a majority vote will not participate in the Governance and Nominating Committee's recommendation or our Board's decision.

Our Board expects that each of the nominees will be able to serve as a director if so elected at the Annual Meeting, but if any of them is unable to serve at the time the election occurs, proxies received that have been voted either for such nominee or for all nominees or which contain no voting instructions will be voted for the election of another nominee to be designated by our Board, unless our Board decides to reduce the number of our directors.

**NOMINEES FOR BOARD OF DIRECTORS**

The names of the nominees for directors, together with biographical sketches, including their business experience during the past five years, directorships of other public corporations and their qualifications to serve on our Board are set forth below. Our nominees are listed below, beginning with our Chairman and Chief Executive Officer and followed by our independent directors in alphabetical order.

OUR BOARD RECOMMENDS THAT SHAREHOLDERS VOTE **FOR** EACH OF THE NOMINEES SET FORTH BELOW.

**N. THOMAS LINEBARGER Chairman and Chief Executive Officer, Cummins Inc.**

*Director since 2009; Age 53*

Mr. Linebarger became the Chairman of the Board and Chief Executive Officer of our company on January 1, 2012. Mr. Linebarger was our President and Chief Operating Officer from 2008-2011 after serving as Executive Vice President and President, Power Generation Business from 2003 to 2008 and as Vice President, Chief Financial Officer from 2000 to 2003. From 1998 to 2000, he was our Vice President, Supply Chain Management, after holding various other positions with us. Mr. Linebarger received a B.S. from Stanford University and a B.A. from Claremont McKenna College in 1986 and M.S. and M.B.A. degrees from Stanford in 1993. He was a director of Pactiv Corporation from 2005 to 2010 and has been a director of Harley-Davidson, Inc. since 2008.

We believe that Mr. Linebarger is well qualified to be a director of our company because of his experience in various senior management positions with our company and his high level of familiarity with our company and our industry.

**ROBERT J. BERNHARD Vice President for Research and Professor in the Department of Aerospace and Mechanical Engineering, University of Notre Dame**

*Director since 2008; Age 63*

Mr. Bernhard joined the University of Notre Dame in 2007 and prior to that was Associate Vice President for Research at Purdue University since 2004. He also held Assistant, Associate and full Professor positions at Purdue University. He was Director of the Ray W. Herrick Laboratories at Purdue's School of Mechanical Engineering from 1994 to 2005. Mr. Bernhard is also a Professional Engineer and earned a B.S.M.E. and Ph.D., E.M. from Iowa State University in 1973 and 1982, and an M.S.M.E. from the University of Maryland in 1976. He was the Secretary General of the International Institute of Noise Control Engineering (I-INCE) from 2000 to 2015, and the Institute of Noise Control Engineering.

We believe that Mr. Bernhard is well qualified to be a director of our company because of his experience and expertise as a mechanical engineer, teacher and researcher in the field of mechanical engineering, which is integral to our industry, and his international experience with technology and research.

**DR. FRANKLIN R. CHANG DIAZ Founder, Chairman and Chief Executive Officer of Ad Astra Rocket Company**

*Director since 2009; Age 65*

Dr. Chang Diaz is Chairman and Chief Executive Officer of Ad Astra Rocket Company, a U.S. spaceflight engineering company based in Houston, Texas and dedicated to the development of advanced plasma rocket propulsion technology. Dr. Chang Diaz founded Ad Astra in 2005 following his retirement from NASA after a 25-year career during which he flew seven space missions and logged over 1,600 hours in space. In 1994, Dr. Chang Diaz founded and directed NASA's Advanced Space Propulsion Laboratory at the Johnson Space Center where he managed a multicenter research team developing new plasma rocket technology. Dr. Chang Diaz is a dual citizen of Costa Rica and the United States. As part of his involvement in Costa Rica's development, Dr. Chang Diaz currently leads the implementation of the "Strategy for the XXI Century," a plan to transform Costa Rica into a fully developed nation by the year 2050. Dr. Chang Diaz received the Liberty Medal in 1986 from President Ronald Reagan and is a four-time recipient of NASA's Distinguished Service Medal, the agency's highest honor. Dr. Chang Diaz also serves as an Adjunct Professor of Physics at Rice University and the University of Houston.

We believe that Dr. Chang Diaz is well qualified to be a director of our company because of his scientific accomplishments, his leadership of an engineering company, his professional and personal achievements and his knowledge of Latin America.

**BRUNO V. DI LEO ALLEN Senior Vice President, IBM Sales and Distribution**

*Director since 2015; Age 59*

Mr. Di Leo has served as Senior Vice President, IBM Sales and Distribution for International Business Machines Corporation, or IBM, a globally integrated technology and consulting company, since 2012. In this position, he is accountable for revenue, profit, and client satisfaction in Japan, Asia Pacific, Latin America, Greater China and the Middle East and Africa. He also oversees IBM's Enterprise client segment globally. From 2008 to 2011, he was General Manager for IBM's Growth Markets Unit based in Shanghai. Mr. Di Leo has more than 40 years of business leadership experience in multinational environments, having lived and held executive positions on four continents.

Mr. Di Leo is a member of the international advisory board of Instituto de Estudios Superiores de la Empresa (IESE Business School) as well as a member of the Deming Center Advisory Board of Columbia Business School. He holds a business administration degree from Ricardo Palma University and a postgraduate degree from Escuela Superior de Administracion de Negocios, both in his native Peru. He is fluent in Spanish, Portuguese, English and Italian.

We believe that Mr. Di Leo is well qualified to be a director of our company because of his experience as Senior Vice President of IBM and his other leadership roles there, his extensive global business experience, and his background in information technology and sales and marketing.

**STEPHEN B. DOBBS**

*Director since 2010; Age 59*

Mr. Dobbs is a former executive of Fluor Corporation, a publicly traded professional services firm providing engineering, procurement, construction, fabrication and modularization, commissioning and maintenance, as well as project management services on a global basis. Mr. Dobbs served as Senior Group President over Fluor's Industrial and Infrastructure Group until his retirement in 2014. In that role, Mr. Dobbs was responsible for a wide diversity of the markets served by Fluor, including infrastructure, telecommunications, mining, operations and maintenance, transportation, life sciences, heavy manufacturing, advanced technology, microelectronics, commercial, institutional, health care, water, and alternative power. Mr. Dobbs served Fluor in numerous U.S. and international locations including Southern Africa, Europe, and China. He is an industry recognized expert in project finance in Europe and the United States, particularly public private partnerships and private finance initiatives. Since 2015, Mr. Dobbs has been a member of the Board of Directors of Lend Lease Corporation Limited, an international property and infrastructure group that is publicly traded in Australia.

Dobbs earned his doctorate in engineering from Texas A&M University and holds two undergraduate degrees in nuclear engineering, also from Texas A&M. Until his retirement from Fluor, he served on the World Economic Forum's Global Agenda Council on Geopolitical Risk as well as the Governor's Business Council for the State of Texas. He also served as a director of the U.S. China Business Council.

We believe that Mr. Dobbs is well qualified to be a director of our company because of his experience in leadership roles at Fluor, his technical background and his international business experience.

**ROBERT K. HERDMAN Managing Director of Kalorama Partners LLC**

*Director since 2008; Age 67*

Mr. Herdman has been Managing Director of Kalorama Partners LLC, a Washington, D.C. consulting firm specializing in providing advice regarding corporate governance, risk assessment, crisis management and related matters since 2004. He was the Chief Accountant of the SEC from October 2001 to November 2002 prior to joining Kalorama. Prior to joining the SEC, he was Ernst & Young's Vice Chairman of Professional Practice for its Assurance and Advisory Business Services (AABS) practice in the Americas and the Global Director of AABS Professional Practice for Ernst & Young International. He was the senior Ernst & Young partner responsible for the firm's relationships with the SEC, FASB and AICPA. Since 2011, he has been a member of the Board of Directors and has chaired the Audit Committee of WPX Energy, Inc. In April 2015, he retired from the Board of Directors of HSBC Finance Corporation and HSBC USA Inc. Mr. Herdman had served on the Audit Committees of both companies through April 2013. Mr. Herdman also retired from the Board of Directors of HSBC North America Holdings, Inc. in April 2015 and was past Chairman of both its Audit and Risk Committees.

We believe that Mr. Herdman is well qualified to be a director of our company because of his background as the Chief Accountant of the SEC and his professional experiences and accomplishments.

**ALEXIS M. HERMAN Chairman and Chief Executive Officer of New Ventures, LLC**

*Director since 2001; Age 68*

Ms. Herman serves as Chair and Chief Executive Officer of New Ventures LLC, a corporate consulting company, and has held these positions since 2001. She serves as Chair of Toyota Motor Corporation's North American Diversity Advisory Board and is a member of Toyota's Global Advisory Board. From 1997 to 2001, she served as U.S. Secretary of Labor. She has also served as a director of The Coca Cola Company since 2007, Entergy Corporation since 2003, and MGM Resorts International since 2002. In addition, Ms. Herman is Co-Chair for the Bush Clinton Presidential Leadership Scholars Program and a Trustee of the National Urban League. In 2014, Ms. Herman was named to the 2014 National Association of Corporate Directors (NACD) Directorship 100 in recognition of exemplary leadership in the boardroom and promoting the highest standards of corporate governance.

We believe that Ms. Herman is well qualified to be a director of our company and our Lead Director because of her experience as the U.S. Secretary of Labor and her other experiences in leadership positions in the private and public sectors.



**THOMAS J. LYNCH Chairman and Chief Executive Officer of TE Connectivity Ltd.**

*Director since 2015; Age 61*

Mr. Lynch is Chairman and Chief Executive Officer of TE Connectivity Ltd. (formerly Tyco Electronics Ltd.), a global provider of connectivity and sensor solutions, harsh environment applications, and undersea telecommunication systems. Mr. Lynch has served as the Chief Executive Officer of TE Connectivity Ltd. since January 2006, as a member of its board of directors since 2007 and as Chairman of the Board since January 2013. From September 2004 to January 2006, Mr. Lynch was at Tyco International as the President of Tyco Engineered Products & Services, a global manufacturer of industrial valves and controls. Mr. Lynch joined Tyco from Motorola, where he served as Executive Vice President of Motorola, and President and Chief Executive Officer of Motorola's Personal Communications sector, a leading supplier of cellular handsets. Mr. Lynch has served as a director of Thermo Fisher Scientific Inc. since 2009. Mr. Lynch serves on the President's National Security Telecommunications Advisory Committee, and on the Boards of The Franklin Institute and the U.S. China Business Council (USCBC).

We believe that Mr. Lynch is well qualified to be a director of our company because of his experience in leadership roles at TE Connectivity Ltd. and other companies and his global business experience.

**WILLIAM I. MILLER President of The Wallace Foundation**

*Director since 1989; Age 59*

Mr. Miller has served as President of the Wallace Foundation, a knowledge-focused national philanthropy with a mission of improving learning and enrichment for disadvantaged children and the vitality of the arts for everyone, since 2011. Mr. Miller was the Chairman of Irwin Management Company, a Columbus, Indiana private investment firm, from 1990 to 2011. Mr. Miller has also served as Chairman of the Board of Tipton Lakes Company, a real estate development firm, since 1985. Mr. Miller has been a director or trustee of the New Perspective Fund, Inc. and the New World Fund, Inc. since 1992 and of the EuroPacific Growth Fund, Inc. since 1999. All three of the funds are in the same mutual fund family.

We believe that Mr. Miller is well qualified to be a director of our company because of his leadership experience, his experience in business and financial matters, and his over 25 years of service as a director of our company.

**GEORGIA R. NELSON President and Chief Executive Officer of PTI Resources, LLC**

*Director since 2004; Age 66*

Ms. Nelson became President and CEO of PTI Resources, LLC, an independent consulting firm, in 2005. Prior to this role, Ms. Nelson retired in 2005 from Edison International, where she had been President of Midwest Generation EME, LLC since 1999 and General Manager of Edison Mission Energy Americas since 2002. Her business responsibilities have included management of regulated and unregulated power operations and a large energy trading subsidiary as well as the construction and operation of power generation projects worldwide. She has had extensive experience in business negotiations, environmental policy matters and human resources. She has served as a director of Ball Corporation since 2006, TransAlta Corporation since 2014 and Sims Metal Management Limited since 2014. Since 2010, she has been a director of CH2M Hill Companies Ltd., a privately-held company. She was a director of Nicor Inc. from 2005-2011. She serves on the advisory committee of the Center for Executive Women at Northwestern University. In November 2012, Ms. Nelson was named to the 2012 National Association of Corporate Directors (NACD) Directorship 100 in recognition of exemplary leadership in the boardroom and promoting the highest standards of corporate governance. Ms. Nelson is an NACD Board Fellow.

We believe that Ms. Nelson is well qualified to be a director of our company because of her leadership roles in the power generation business and her experience in general operations, human resources and environmental and technical matters.

## COMPENSATION RISK ASSESSMENT

In December 2015, our Compensation Committee conducted its annual risk assessment of our compensation policies and practices covering all employees. After a thorough review and assessment of potential risks, our Compensation Committee evaluated the levels of risk-taking that potentially could be encouraged by our compensation arrangements, taking into account the arrangements' risk-mitigation features, to determine whether they are appropriate in the context of our strategic plan and annual budget, our overall compensation arrangements, our compensation objectives and our Company's overall risk profile. Risk-mitigation features identified by our Compensation Committee included the following:

**Pay Mix** The three primary elements of our executive compensation program are base salary, annual bonus and long-term incentive compensation. We target the median of the market, as we define it, for our total compensation package while also placing a sufficient portion of each officer's pay at risk. This approach effectively mitigates the need for executives to take significant risks to earn average compensation but also ensures that the interests of our executives are well-aligned with those of our shareholders, driving long-term shareholder value.

**Performance Measurement System** The performance goals set forth in our annual bonus and long term incentive plans are based upon budgeted levels that are reviewed and approved by our Board and that we believe are attainable at their targeted levels without the need to (i) take inappropriate risks; (ii) take actions that would violate our Code of Business Conduct; or (iii) make material changes to our long-term business strategy or our methods of management or operation. We set our incentive goals to require stretch performance which we believe is achievable. The performance goals under our annual bonus and long term incentive plans are set with the maximum performance goals at 120% of the respective targets. This reduces the risk of actions being taken that would increase short-term profit at the expense of long-term value creation. Similarly, payouts under our annual bonus and long term incentive plans are capped at 200% of target, helping to control further the level of risk taken in the short-term at the expense of the long-term.

**Time Horizon** Our long term incentive plan awards are based on a three-year performance period, which encourages our employees to focus on sustained growth of our Company over the long term, rather than taking short-term risks. Our 10-year option term also encourages our employees to focus on longer-term stock price appreciation.

**Clawback Policy** Amounts paid to any officer under our annual bonus and long-term incentive compensation plans are subject to "clawback" recovery in the event of a material restatement of our financial statements resulting from the fraudulent actions of any officer.

**Other Risk Mitigators** We pay incentive compensation only after our audited financial results are complete and the Compensation Committee has certified our performance results for the annual bonus plan and performance share payouts as well as the associated incentive awards. Additionally, we have stock ownership requirements for all of our officers that align the interests of our officers with the interests of our shareholders. Subject to limited exceptions, officers may not sell any shares until their individual stock ownership requirements have been satisfied. We also have policies prohibiting officers from engaging in forms of hedging or monetization transactions involving the establishment of a short position in our securities, such as zero-cost collars and forward sale contracts, and from entering into any arrangement that, directly or indirectly, involves the pledge of our securities or other use of our securities as collateral for a loan.

**Exclusion of Unusual Items** In measuring our financial performance under our annual bonus plan, our Compensation Committee has discretion to exclude certain unusual items from operating performance measures that result from decisions made at the corporate level, such as acquisitions, divestitures, or joint venture formations in the initial year if we did not anticipate them at the time targets were established, pension plan contributions above required levels, and certain other

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unanticipated matters. We believe that allowing these exclusions lessens the risk that our executives would otherwise be encouraged to take actions or inactions with respect to such items based on the effect the actions might have on incentive compensation, rather than based on the actions' merits and impact on achieving our long-term goals and objectives.

As a result of its review, our Compensation Committee concluded that we have a balanced pay and performance executive compensation program that does not drive excessive financial risk-taking. We believe that risks arising from our compensation policies and practices are not reasonably likely to have a material adverse effect on our Company.

**EXECUTIVE COMPENSATION  
COMPENSATION DISCUSSION AND ANALYSIS**

Our Compensation Discussion and Analysis, or CD&A, provides detailed information about our executive compensation programs as well as the principles and processes utilized by the Compensation Committee in making executive compensation decisions. This CD&A focuses on the compensation of the following five executive officers, whom we refer to as our "Named Executive Officers" for 2015:

| <b>Named Executive Officer</b> | <b>Title</b>   |
|--------------------------------|--|
| N. Thomas Linebarger           | Chairman of the Board of Directors and Chief Executive Officer |
| Patrick J. Ward                | Vice President Chief Financial Officer                         |
| Richard J. Freeland            | President and Chief Operating Officer                          |
| Livingston L. Satterthwaite    | Vice President President, Distribution Business                |
| Marya M. Rose                  | Vice President Chief Administrative Officer                    |

**Executive Summary**

Our long-term success depends on our ability to attract, motivate, focus and retain highly talented individuals who are committed to our vision and strategy. A key objective of our executive compensation program is to link our executives' pay to their performance and their advancement of our overall annual and long-term performance and business strategies. Other objectives include encouraging high-performing executives to remain with us over the course of their careers.

We believe that the amount of compensation for each Named Executive Officer reflects extensive management experience, continued high performance and exceptional service to Cummins. We also believe that our compensation strategies have been effective in attracting executive talent and promoting performance and retention.

**Changes in 2015**

*Changes to Our Leadership Team*

On April 1, 2015, Livingston L. Satterthwaite was appointed as our Vice President and President, Distribution Business. Previously, Mr. Satterthwaite held the position of Vice President and President, Power Generation Business since 2008. As a result of Mr. Satterthwaite's appointment, his base salary was increased from \$550,000 to \$570,000.

*Changes to our Executive Compensation Program*

Based on changes approved by our Compensation Committee in 2014, effective in 2015 our annual bonus plan moved to a "One Cummins" annual bonus plan in which all eligible employees, including our Named Executive Officers, participate, with the exception of our North American distributor organization. Upon the completion of the organizational transition, we intend to move the North American distributor organization to the "One Cummins" annual bonus plan. Previously, we had maintained annual bonus plans for individual segments, distributors, manufacturing facilities and logistics centers. We introduced the "One Cummins" annual bonus plan for a number of reasons, including the determination that:

The overall success of our Company is more important than that of any individual business;

Collaboration across our organization is critical to our success; and

Shareholder returns likely will be enhanced by encouraging our employees to collectively share in the success of our Company.

The "One Cummins" annual bonus plan is based on our overall return on average net assets, or ROANA, performance. ROANA is defined as earnings before interest and taxes (EBIT) divided by

average net assets. We use ROANA as a comprehensive measure of our return on investment because we believe that:

There is a proven strong correlation between high returns on investments and increasing our valuation; and

ROANA provides focus on both profitable growth, and the effectiveness of our investments, leading to enhanced Total Shareholder Return (TSR).

### **Principles of our Executive Compensation Program**

The primary focus of our executive compensation program is the principle of pay for performance, as we define it, both in program design and in specific awards. We believe that the level of compensation received by executives should be closely tied to our corporate financial and stock price performance.

Our executive compensation program also is designed to attract, motivate, focus and retain employees with the skills required to achieve our performance goals in a competitive global business environment. Therefore, our program is designed to reflect each individual's contribution to our corporate performance, while striking an appropriate balance between short-term and long-term corporate results.

In addition to our focus on pay for performance, we also consider the following principles when designing and implementing our executive compensation program:

*Market Positioning:* On average our executives' target total direct compensation opportunity, consisting of base salary, target annual bonus and target long-term incentive value, should be at the median of the market, as we define it, and as described in the "Market Alignment of our Executive Compensation Program Elements" section;

*Short-Term/Long-Term Balance:* There should be a balance between annual and long-term elements of compensation;

*Pay at Risk:* The more senior an executive's position, the more his or her compensation should be "at risk," which means that it is dependent on our corporate financial and stock price performance;

*Alignment with Shareholder Interests:* Equity-based compensation and stock ownership should be an important part of our executive compensation program in order to link our management's compensation with our shareholders' returns. The greater the level of responsibility of the officer, the more his or her compensation should be stock-based and the higher his or her stock ownership requirement should be;

*Retention:* Our compensation program should support retention of our experienced executives and achievement of our leadership succession plans; and

*Simple and Transparent:* Our executive compensation program should be transparent to our investors and employees and should be simple and easy to understand.

### **Link between Financial Performance and Executive Compensation**

We have a long-standing commitment to pay for performance that we implement by providing a majority of compensation through arrangements designed to hold our executive officers accountable for business results and reward them for consistently strong corporate performance and the creation of value for our shareholders. The Compensation Committee has carefully structured the key elements of our executive compensation program to support this objective. Specifically:

The performance metrics that we use in our compensation program encourage management to generate growth in income and cash flow through profitable investment, which supports both dividend payments to shareholders as well as future investments in growth and innovation;



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Our annual bonus program rewards operational performance through our Return on Average Net Assets (ROANA) metric;

Our performance cash and performance share programs reward Return on Equity (ROE) performance over three years;

Rewarding our executives based on our relative achievement of ROANA and ROE targets encourages management to invest in profitable future growth opportunities when allocating shareholder capital; and

Our use of stock options further encourages management to generate long-term superior returns for our shareholders.

Our Compensation Committee annually requests that Fariet Advisors LLC, or Fariet, evaluate the relationship between our executive compensation and our financial and shareholder return performance. As in prior years, Fariet conducted quantitative analyses to test the alignment of our Chief Executive Officer's pay and corporate performance by simulating the pay for performance tests relied upon by proxy voting advisory firms and by using its own pay for performance alignment model which tests 3-year average performance-adjusted compensation relative to 3-year average Total Shareholder Return, or TSR. Our Compensation Committee considers these analyses in evaluating whether our Chief Executive Officer's compensation has corresponded with the performance delivered.

In addition, as a further test, the following graphs show the relationship between our corporate financial and TSR performance and our executive compensation levels over the past five years as measured by our: (i) average TSR (three-year rolling average, on a dividend reinvested basis); (ii) ROANA; (iii) ROE; and (iv) average annual total compensation for our Named Executive Officers, or Avg TC, as reported in our Summary Compensation Table:



Note: The "Avg TC" values in these graphs reflect the averages of the total compensation values for our Named Executive Officers as reported in the Summary Compensation Tables of our proxy statements for the respective years shown in the graphs.

To illustrate how our executive compensation program achieves our pay at risk principle, set forth below are the percentages for each of the three elements that make up the target total direct compensation opportunity provided in 2015 to our Chief Executive Officer and our other Named Executive Officers as a group.

*Target Total Direct Compensation Mix Fiscal Year 2015*

(Consists of base salary, annual bonus award target and 2015 long-term incentive grant value)

The targets for performance-linked components for 2015 were 86% and 76% for the CEO and Named Executive Officers, respectively.

*How We Did in 2015 and How Our Executive Compensation Aligned with Our Performance*

In 2015, we faced challenging economic conditions as a slowdown in global markets led to lower corporate financial results and shareholder returns compared to the prior two years. We believe that these



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challenging conditions were appropriately reflected in our executive compensation in the form of a decline in the value of annual total compensation for 2015, as shown in the graphs above. The close correlation between our financial performance and our Named Executive Officers' compensation demonstrate that our executive compensation aligned well with the objectives of our program and our corporate financial and shareholder return performance in 2015.

*2015 Business Highlights.* Our revenues decreased by 1 percent in 2015 compared to 2014, due primarily to weakness in international markets and the negative impact of a stronger US dollar. Revenues in North America were higher, driven by stronger demand in on-highway markets and distributor acquisitions. These North American increases were more than offset by weak end market demand in Brazil, China and a number of other international markets. We generated significant cash flow from operations in 2015 that enabled us to keep investing in our business and also increase cash returned to shareholders. Key business highlights for 2015 include:

Our total net sales were \$19.1 billion, 1 percent lower than 2014;

We incurred a \$211 million (\$133 million after-tax) charge due to the impairment of the assets of our light duty diesel business in response to lower than anticipated demand for our products;

We incurred a \$90 million (\$61 million after-tax) restructuring charge due to lower demand for our products in the United States and key markets around the world;

Our EBIT was \$2.09 billion, down 16 percent compared to \$2.50 billion in 2014;

Net income attributable to Cummins Inc. was \$1.40 billion, compared to \$1.65 billion in 2014;

ROANA was 22 percent and ROE was 17 percent, compared to 26 percent and 20 percent in 2014, respectively;

We continued our efforts to return value to our shareholders in 2015 by increasing our dividend by 25 percent and by repurchasing 7.2 million shares of our Common Stock. In total we returned \$1.5 billion or 74 percent of cash from operations to shareholders; and

The average annual TSR over the three year period ending 2015 was (4.6) percent.

### *Market Alignment of our Executive Compensation Program Elements*

Throughout our CD&A, each reference to the "market" and to our market positioning practices is intended to incorporate the market positioning approach outlined below.

We review our executive compensation program on a regular basis, and generally target the median of the market in positioning each element of our compensation: base salary, annual bonus and long-term incentives. These elements together equate to total direct compensation. We consider compensation to be at the median of the market if it is within +/- 10% of the median level indicated by the benchmarking data.

For 2015, our primary reference in aligning executives' compensation to the market was a consolidation and integration of market data from the Aon Hewitt Total Compensation Management Executive Survey and Mercer Benchmark Database Survey of companies in the manufacturing industry. Data also are referenced from our Custom Peer Group, defined below. The data we obtain from our Custom Peer Group for comparison purposes pertains to pay data for the Chief Executive Officer position (although these data are consulted for reference only and are not blended with the survey data to determine pay positioning), pay program design, dilution, and performance. We believe this approach provides an appropriate representation of the market, as applicable to our executives, and reduces the impact of fluctuations in market data over time.

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Our Custom Peer Group is made up of the following 17 companies. The companies were selected based on industry, reputation, revenue size, investor comparisons and competition for customers and talent. Our Custom Peer Group includes both U.S. and internationally listed publicly traded major participants in the end markets we serve and includes: (i) customers with a strong presence in one or more of our major markets, (ii) competitors that compete directly or indirectly with one or more of the Company's businesses, and (iii) key suppliers of related products. It also includes diversified industrial companies that compete for investor capital within the Industrial market segment. We have been consistent in how our Custom Peer Group is selected, and, as a result, the group has remained the same for the past several years.

Borg Warner Incorporated

Caterpillar Incorporated

Daimler AG

Danaher Corporation

Deere and Company

Donaldson Company Incorporated

Eaton Corporation

Emerson Electric Company

Honeywell International Incorporated

Illinois Tool Works

Ingersoll-Rand PLC

Navistar International Corporation

Paccar Incorporated

Parker-Hannifin Corporation

Textron Incorporated

Volvo AB

W. W. Grainger, Inc.

### **Advisory Shareholder Vote on our Executive Compensation in 2015**

In May 2015, after the 2015 executive compensation actions described in this CD&A had taken place, we held our fifth advisory shareholder vote to approve the compensation of our Named Executive Officers at our annual shareholders' meeting. Consistent with the recommendation of our Board, our shareholders voted 96.2% in favor of our executive compensation. In response to this strong vote of shareholder approval and considering our belief that our programs support our business strategies and our objectives, we have not undertaken any material changes to our executive compensation programs for 2016.

### **How our Executive Compensation is Determined**

Our Compensation Committee regularly reviews all elements of our executive compensation program and makes changes it deems appropriate from time to time. Each review includes general comparisons against market data and analysis prepared by the Compensation Committee's independent executive compensation consultant, Farient, including data on market practices, analysis, and decision support in the following areas:

Executive compensation policies and practices;

Pay strategy and positioning on all elements of compensation;

Annual bonus plan design, including performance measures, performance targets and plan leverage;

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Long-term incentive plan strategy and design, including the mix of elements, as well as performance measures, performance targets and plan leverage for the performance share and performance cash components;

Stock ownership guidelines;

Executive perquisites, including personal use of Company aircraft;

Executive benefits and protection policies, including severance practices for officers, supplemental retirement plans, deferred compensation plans and change in control compensation protection programs; and

Assessment of the risk associated with our compensation programs.

The Compensation Committee has the flexibility to establish performance measures and goals annually that are deemed appropriate to help achieve our business strategy and objectives. In setting the performance goals for the annual bonus, performance shares, and performance cash plan, the Compensation Committee benchmarks historical performance of the Custom Peer Group and regularly evaluates whether the goals are sufficiently demanding relative to short-term and long-term performance trends of these peers. Additionally, the Committee solicits Fairficient's assessment regarding the degree of difficulty associated with the incentive plan performance targets in the context of both external analyst expectations for our annual and long-term performance as well as relative peer performance expectations. Using this process, the Committee believes that the payouts associated with various levels of our performance under the incentive plans are aligned with our objective of creating long-term value for our shareholders within an appropriate external performance context.

The Compensation Committee may also decide to include or exclude the effects of certain operating performance measures which result from decisions made at the corporate level, such as acquisitions, divestitures, or joint venture formations in the initial year, if such events were not anticipated at the time targets were initially established, pension plan contributions above required levels and certain other unanticipated matters.

In determining the final payout factor for the 2015 annual bonus plan and our performance under the 2013 - 2015 long term incentive compensation plan, we excluded costs related to restructuring actions we implemented in 2015 in response to a slowdown in the global markets that was not contemplated at the time the performance goals for these plans were developed. The Compensation Committee determined it was appropriate to exclude these costs from the calculation of performance under the plans to avoid providing a deterrent to implementing necessary cost-cutting measures and to ensure that the incentive under the plans continue to be based on operational factors within our executive officers' control.

Additionally, impairment costs reflecting a change in our point of view on the longer term asset utilization of the light duty diesel program are being excluded from the calculation of the 2015 annual bonus plan. The nature of this particular special charge does not reflect our operational performance in 2015. The light duty diesel investment was a multi-year project with the investment occurring in prior years, so the Compensation Committee felt it was not appropriate to include the impact of the impairment costs in the calculation of the 2015 annual bonuses. This is consistent with similar actions taken in previous years when one-time non-operational gains were excluded from the calculation of the annual bonus plan.

However, the Compensation Committee also determined that the impairment charges would be included in the calculation for the 2013-2015 long term incentive compensation plan because the impairment costs reflect a lower than expected return on investments we made in the light duty diesel program over a number of years.

The Compensation Committee believes it is appropriate to take these actions in order to encourage innovation and appropriate risk taking that are necessary for growth and that will enhance long term shareholder value while at the same time holding the senior leadership accountable for the results of such investments.

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### *Best Practices Adopted in Determining Executive Compensation*

We continually review best practices in the area of executive compensation. Our executive compensation arrangements include features considered best practices, such as the following:

#### What We Do

##### *Performance Measurement*

We set clear financial goals that we believe are challenging but achievable, meet or exceed competitive standards, and enhance shareholder value over time.

We use different performance measures in our short- and long-term incentive compensation plans to correlate with our financial performance on both an annual and longer-term basis, as well as our returns to shareholders. In addition, we believe that our performance measures correlate to shareholder value creation over the long term.

##### *Compensation Program Design / Pay For Performance Alignment*

Our annual bonus plan is designed to strengthen the tie between individual employee performance and corporate performance.

Effective in 2015, we moved to a "One Cummins" annual bonus plan in which all eligible employees participate, with the exception of our North American distributor organization. Upon the completion of the organizational transition, we intend to move the North American distributor organization to the "One Cummins" annual bonus plan. Previously, we had maintained annual bonus plans for individual segments, distributors, manufacturing facilities and logistics centers. We introduced the "One Cummins" annual bonus plan for a number of reasons, including: to emphasize that the overall success of our Company is more important than any individual business; to further encourage collaboration across our organization; and to promote "One Cummins" by encouraging our employees to collectively share in the success of our Company.

We use multiple components under our long-term incentive compensation program (performance cash, performance shares and stock options) to address the motivational concerns associated with a singular focus on any one form of incentive compensation.

To further encourage focus on the sustained growth of our Company over the long term and to aid in retention, our performance shares, performance cash and stock option awards to our executive officers cliff vest after three years.

We cap payouts under our short- and long-term incentive compensation plans at 200% of the target awards.

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Perquisites do not comprise a major element in our executive compensation program.

### *Risk Mitigation*

We maintain a compensation recoupment, or "clawback," policy in our corporate governance principles providing that, if any of our financial statements are required to be materially restated resulting from the fraudulent actions of any officer, our Board may direct that we recover all or a portion of any award or any past or future compensation other than base salary from any such officer with respect to any year for which our financial results are adversely affected by such restatement.

### *Governance*

We monitor our pay practices to help confirm that they do not encourage excessive risk taking.

Our Compensation Committee benefits from the use of an outside, independent compensation consultant.

### *Other*

We require executive officers to maintain certain stock ownership levels and prohibit them from engaging in forms of hedging or similar types of transactions with respect to our stock or entering into any arrangement that, directly or indirectly, involves the pledge of our securities or other use of our securities as collateral for a loan.

Benefits under our change in control arrangements with our executive officers are subject to a "double trigger" rather than a "single trigger" (i.e., in addition to the change in control occurring, the executive officer's employment must be terminated by us without cause or by the executive officer with good reason in order for him or her to receive any benefits under the arrangement).



What We Don't Do

We do not permit backdating or repricing of stock options.

We do not have separate employment contracts with our executive officers.

We do not guarantee salary increases, bonuses or equity grants for our executive officers and we do not provide discretionary bonuses to our Named Executive Officers.

We will not gross-up excise taxes that may be imposed on payments to our executive officers in connection with a change in control.

*Determination of Our Chief Executive Officer's Compensation*

On an annual basis, our Chief Executive Officer discusses his priorities and objectives with respect to our Company's and our management team's goals with the full Board. Our independent directors formally review our Chief Executive Officer's performance annually. This review is based on our Chief Executive Officer's performance against specific objectives, which include the progress made by our Company in implementing its business strategy and achieving its business objectives, both short-term and long-term. This review, which is reported in detail to the Compensation Committee, considers both quantitative and qualitative performance matters and is a key factor used by the Compensation Committee in setting our Chief Executive Officer's compensation for the coming year. Specific business objectives and goals that were part of our Chief Executive Officer's performance review for 2015 included the financial performance of our Company, progress towards achieving our Company's long-term strategic objectives and the development of key leadership talent.

After receiving the reports described above from both our Chief Executive Officer and the independent directors, the Compensation Committee meets in executive session to determine the compensation of our Chief Executive Officer. In this discussion, the Compensation Committee has access to data and advice from its compensation consultant, Farient. Members of management do not make recommendations regarding the compensation of our Chief Executive Officer. The Compensation Committee Chair then presents the Compensation Committee's decisions on the compensation for our Chief Executive Officer to the Board for its information.

*Role of Our Officers in Setting Compensation for Other Officers*

Members of our senior management, including our Named Executive Officers, recommend compensation to our Chief Executive Officer for officers in the areas for which they are responsible (but not with respect to their own compensation). Taking these recommendations into consideration, our Chief Executive Officer then makes recommendations to our Compensation Committee regarding each officer. Our senior management and our Chief Executive Officer base these recommendations on assessments of individual performance and potential to assume greater responsibility, as well as market survey data for similar executive positions. Our Chief Executive Officer discusses the recommendations and performance of the officers with the Compensation Committee. The Compensation Committee reviews our Chief Executive Officer's recommendations, may make modifications based on the market data and a discussion of individual and corporate performance, and then makes the final decisions regarding each officer's total targeted compensation, and its respective elements. Our officer compensation review occurs annually, at the February Compensation Committee meeting. This is the first Compensation Committee meeting after our prior year-end and provides the earliest opportunity to review and assess individual and corporate performance for the previous year. As part of its review process, the Compensation Committee has access to the advice and input of its independent compensation consultant, Farient.

*Tax Considerations in Determining Officer Compensation*

Section 162(m) of the Internal Revenue Code of 1986, as amended, or Code, limits the corporate tax deduction to \$1 million for compensation paid annually to any one of our Named Executive Officers (other than our Chief Financial Officer), unless the compensation meets certain requirements to qualify as

performance based compensation. It is generally our intention to qualify compensation payments for tax deductibility under Section 162(m). Notwithstanding our intentions, because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) and the regulations issued thereunder, no assurance can be given that compensation intended to satisfy the requirements for deductibility under Section 162(m) will so qualify.

The Compensation Committee reserves the right to provide compensation that does not qualify as performance based compensation under Section 162(m) to the extent it believes such compensation is necessary to continue to provide competitive arrangements intended to attract and retain, and provide appropriate incentives to, qualified officers and other key employees.

As explained in this CD&A, we have historically targeted the base salaries of our Named Executive Officers at the median range of base salaries in the market. The Compensation Committee intends to continue this policy notwithstanding the provisions of Section 162(m). As a result of the foregoing, the portion of our Chief Executive Officer's base salary that exceeded \$1 million in 2015, as well as any other compensation paid to our Named Executive Officers (other than our Chief Financial Officer) in excess of \$1 million that was not performance based within the meaning of Section 162(m), will not qualify for tax deductibility under Section 162(m).

### **Compensation Program Elements**

Our executive compensation program consists of three principal elements: base salary, annual bonus opportunities and long-term incentive compensation opportunities. When considered together, these elements are total direct compensation. In total, all elements of our executive compensation program are designed to fulfill our basic goals of linking pay to performance and to pay competitively. All officers participate in each element of the program, but in varying degrees.

All elements of compensation are reviewed annually for each officer, including our Named Executive Officers. Our annual review of executive compensation includes an evaluation of each officer's compensation as it compares to the median of the market for each officer's position. Our annual review also includes consideration of internal equity and the experience, tenure, potential and performance of each officer. Our Compensation Committee bases its final decisions about officers' compensation on subjective consideration of all of these factors. As a result, the Compensation Committee believes that the 2015 total direct compensation for each of the Named Executive Officers approximates the competitive market median.

#### *Base Salary*

In our annual review of base salaries for our officers, we target base salary at the median of the market for similar executive positions. Because we also subjectively consider other factors, including experience, tenure, potential, performance and internal equity, some officers' base salaries may be set above or below the median range. The Compensation Committee believes that all of the Named Executive Officers' salaries for 2015, after adjustment as described below, approximate the median of the competitive market.

#### *2015 Adjustments to Base Salary*

In determining the base salaries for the Named Executive Officers, the Compensation Committee reviewed each executive's job responsibilities, management experience, individual contributions, number of years in his or her position, and then-current salary relative to market pay levels.

Following a comprehensive review of Mr. Linebarger's performance by the Board of Directors, the Compensation Committee approved a raise in Mr. Linebarger's 2015 salary of \$75,000, or 5.8%, compared to 2014.

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After considering input from Mr. Linebarger on the individual contributions of each other Named Executive Officer, and after reviewing the position of each Named Executive Officer relative to his or her calculated median market value, and in consideration of our merit increase budget, the Compensation Committee approved the following salary increases effective July 1, 2015:

| Named Executive Officer     | 2015 Base Salary Increases |             |            | 2015<br>Base Salary |
|-----------------------------|----------------------------|-------------|------------|---------------------|
|                             | 2014<br>Base Salary        | \$ Increase | % Increase |                     |
| N. Thomas Linebarger        | \$ 1,300,000               | \$ 75,000   | 5.8%       | \$ 1,375,000        |
| Patrick J. Ward             | \$ 685,000                 | \$ 41,000   | 6.0%       | \$ 726,000          |
| Richard J. Freeland         | \$ 800,000                 | \$ 48,000   | 6.0%       | \$ 848,000          |
| Livingston L. Satterthwaite | \$ 550,000                 | \$ 20,000   | 3.6%       | \$ 570,000(1)       |
| Marya M. Rose               | \$ 604,000                 | \$ 30,000   | 5.0%       | \$ 634,000          |

- (1) On February 23, 2015, the Compensation Committee approved Mr. Satterthwaite's appointment to Vice President President, Distribution Business. In connection with that appointment, effective April 1, 2015, the Compensation Committee approved a change to Mr. Satterthwaite's base salary to \$570,000.

### *Annual Bonus*

We design annual bonus opportunities for our executives to link executive pay to our annual financial performance. Annual bonus payouts are equal to the participation rate of annual base salary assigned to the executive's position and then further multiplied by a payout factor based on our Company's actual financial performance against our ROANA goal for that year. There is no discretionary element to computing annual bonuses.

For example:

\$726,000      Annual Base Salary  
 × 60%        Participation Rate  
 × 0.8        Payout Factor based on Company performance versus the incentive goal

\$348,480      Annual Bonus

Each Named Executive Officer's participation rate is set as a percentage of his or her annual base salary. Participation rates are set to align with the median range of the market. Our Named Executive Officers' participation rates for 2015, expressed as a percentage of the actual 2015 earnings from their respective 2015 base salaries, were:

| Named Executive Officer     | 2015 Participation Rate |
|-----------------------------|-------------------------|
| N. Thomas Linebarger        | 135%                    |
| Patrick J. Ward             | 85%                     |
| Richard J. Freeland         | 95%                     |
| Livingston L. Satterthwaite | 80%                     |
| Marya M. Rose               | 80%                     |

The payout factor is calculated based on a formula annually approved by the Compensation Committee. For purposes of determining the payout factor, we measure our corporate performance based on our annual ROANA. We have selected ROANA as the sole performance measure under our annual bonus program because it appropriately balances our growth, profitability and the management of our assets, all of which combine to drive our share value.

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ROANA, for compensation purposes is calculated as follows:

$$\text{ROANA} = \frac{\text{Earnings Before Interest and Tax (EBIT)}}{\text{Average Net Assets}}$$

For ROANA, the numerator is Earnings Before Interest and Tax, or EBIT, which is defined as the company's direct earnings before interest expense, provisions for income taxes and non-controlling interests in earnings of consolidated subsidiaries. The denominator is Average Net Assets, which is derived from our consolidated balance sheet and excludes debt and related financing accounts, deferred tax amounts and certain pension and post retirement liability accounts. For the reasons described above under "*How our Executive Compensation is Determined*," in calculating EBIT for 2015, we excluded restructuring costs of \$90 million (pre-tax) and impairment costs of \$211 million (pre-tax).

Payout factors are determined using actual ROANA results compared to the target and goal range approved by the Compensation Committee. In setting the annual ROANA target for the purpose of determining our executives' annual bonus opportunity, the Compensation Committee reviews the levels of difficulty of the annual operating plan, or AOP, considering the markets involved and the current economic environment. The Compensation Committee then establishes the 1.0 payout factor at the ROANA amount reflected in achieving our AOP and establishes the range of payout factors against the relative achievement of our ROANA target. The possible payout factors for 2015 ranged from 0.1 to a maximum of 2.0 in increments of 0.1. Payouts start at 0.1 resulting from meeting 60% of AOP, and can rise to 2.0, resulting from meeting 120% of AOP, as follows:

| Payout Factor                        | ROANA Target Used to Establish Final Payout Factor   |
|--------------------------------------|--|
| <b>0.1</b>                           | <b>60% of ROANA Target</b>   |
| <b>0.2 - 0.9</b><br>(0.1 increments) | Each target point in this range is derived by evenly allocating the 60% -100% of ROANA difference across each point in the range rounded to the second decimal place           |
| <b>1.0</b>                           | <b>100% of ROANA Target</b>  |
| <b>1.1 - 1.9</b><br>(0.1 increments) | Each target point in this range is derived by evenly allocating the 100% - 120% of ROANA difference across each payout factor in the range rounded to the second decimal place |
| <b>2.0</b>                           | <b>120% and above of ROANA Target</b>  |

Setting the target with the appropriate level of difficulty underscores the importance of achieving or exceeding our AOP performance commitment. This approach requires increasingly difficult targets during economic upturns, and realistic goals that maximize performance, to the extent possible, during cyclical downturns.

For our 2015 annual bonus plan, the ROANA performance target established and approved by our Board reflected the target set in our 2015 AOP. Target ROANA was 28.02%, which was based on target

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EBIT of \$2.863 billion. In setting this target, the Compensation Committee considered the AOP as well as our historical performance relative to our Custom Peer Group.

|                                 | ROANA Goal | Goal as<br>% of Target | Payout as<br>% of Target(1) |
|---------------------------------|------------|------------------------|-----------------------------|
| ≥Maximum                        | 33.62%     | 120%                   | 200%                        |
| Target                          | 28.02%     | 100%                   | 100%                        |
| Threshold                       | 16.77%     | 60%                    | 10%                         |
| <Threshold                      | <16.77%    | <60%                   | 0%                          |
| EBIT at Target: \$2.863 billion |            |                        |                             |

(1)

Interpolate for performance between discrete points

Based on our actual performance during 2015, and excluding the financial impact of the restructuring actions and asset impairment, EBIT was \$2.391 billion and ROANA was 24.93%. As measured against our ROANA goal of 28.02%, the payout factor was 0.7. The payout factor used to calculate the annual bonus for each Named Executive Officer for 2015 was 0.7.

Based on the approved 2015 overall payout factor, the actual 2015 annual bonus awards for each Named Executive Officer were as follows:

| Named Executive Officer     | Summary of Awards        |   |                       | Overall<br>Payout<br>Factor | =   | 2015<br>Annual Bonus<br>Award |
|-----------------------------|--------------------------|---|-----------------------|-----------------------------|-----|-------------------------------|
|                             | Annual<br>Base<br>Salary | X | Participation<br>Rate |                             |     |                               |
| N. Thomas Linebarger        | \$ 1,337,500             |   | 135%                  |                             | 0.7 | \$ 1,263,938                  |
| Patrick J. Ward             | \$ 705,500               |   | 85%                   |                             | 0.7 | \$ 419,773                    |
| Richard J. Freeland         | \$ 824,000               |   | 95%                   |                             | 0.7 | \$ 547,960                    |
| Livingston L. Satterthwaite | \$ 565,000               |   | 80%                   |                             | 0.7 | \$ 316,400                    |
| Marya M. Rose               | \$ 619,000               |   | 80%                   |                             | 0.7 | \$ 346,640                    |

### *Long-term Incentive Compensation and Methodology*

Our long-term incentive compensation program consists of performance cash, performance share, and stock option awards. This blended approach of granting these three long-term incentive vehicles supports our pay for performance philosophy, provides appropriate incentives for participants to achieve financial targets, and strengthens the linkage between the economic interests of our Named Executive Officers and our shareholders.

We balance our long-term incentive compensation equally among these three compensation elements as follows:

### 2015 Long-term Incentive Plan

| Element               | Allocation           | Performance<br>Measure      | Term                                    |
|-----------------------|----------------------|-----------------------------|---|
| Performance Cash      | 34% of target<br>LTI | ROE                         | 3-years                                 |
| Performance<br>Shares | 33% of target<br>LTI | ROE                         | 3-years                                 |
| Stock Options         | 33% of target<br>LTI | Stock price<br>appreciation | 3-year cliff<br>vesting 10-year<br>term |



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This allocation, particularly when coupled with the ten-year term of our stock option grants, strengthens the linkage between the compensation of our Named Executive Officers and our share performance over time.

The amount of performance cash and performance shares earned by each Named Executive Officer is based on our ROE performance, because ROE (i) is a meaningful measure of financial performance relative to our shareholders' interests over the three-year performance period; (ii) provides an incentive for profitable growth; and (iii) correlates well with shareholder value. ROE is a more meaningful measure of the impact of actions under the control of management than stock price, yet links our officers' economic interests to those of our shareholders, because historical data have indicated a strong, positive correlation over time between our ROE and our stock price.

ROE for compensation purposes is calculated as follows:

$$\text{ROE} = \frac{\text{Average Net Income (for three-year performance period)}}{\text{Average Shareholders' Equity (for three-year performance period)}}$$

The ROE for each award cycle is calculated as our average net income for the three-year performance period in the award cycle divided by our average shareholders' equity for the three-year performance period in the award cycle. For the reasons described above under "*How our Executive Compensation is Determined*," for 2015 we calculated net income excluding restructuring costs of \$61 million (after-tax). Our average shareholders' equity for each award cycle is calculated based on quarter ending values during the award cycle. The numerator is profit after tax, or PAT, for the applicable period. The equity calculation is adjusted for changes to equity related to unrecognized pension and other post-employment benefit amounts and equity transactions not built into the AOP such as common stock repurchases in excess of what was included in the AOP. The Compensation Committee has the discretion to adjust the payouts downward, but not upward, once it establishes the performance measures each year.

The overall degree of difficulty for achieving the 2013-2015 ROE target, which was based on achievement of our 2015 AOP, was discussed as part of the Compensation Committee's annual incentive compensation setting process. The Compensation Committee considered the recent historical performance of our Custom Peer Group in setting this target.

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The tables below summarize the ROE targets and performance for the 2013-2015, 2014-2016 and 2015-2017 award cycles.

|             | ROE Goal  |           |           | Goal as     | Payout as      |
|-------------|-----------|-----------|-----------|-------------|----------------|
|             | 2013-2015 | 2014-2016 | 2015-2017 | % of Target | % of Target(1) |
| ≥ Maximum   | 24.42%    | 23.62%    | 24.62%    | 120%        | 200%           |
| Target      | 20.35%    | 19.68%    | 20.52%    | 100%        | 100%           |
| Threshold   | 12.21%    | 11.81%    | 12.31%    | 60%         | 10%            |
| < Threshold | <12.21%   | <11.81%   | <12.31%   | <60%        | 0%             |

(1)

Interpolate for performance between discrete points

| Award Cycle<br>(Performance Period) | ROE Target<br>for<br>1.0 Payout | Actual ROE Achieved  | Payout<br>Factor |
|-------------------------------------|---------------------------------|--|------------------|
| 2013-2015                           | 20.35%                          | 18.22%   | 0.7              |
| 2014-2016                           | 19.68%                          | ROE calculated at the end of the<br>2014-2016 performance period for<br>payout in 2017 | TBD              |
| 2015-2017                           | 20.52%                          | ROE calculated at the end of the<br>2015-2017 performance period for<br>payout in 2018 | TBD              |

For all award cycles, a 2.0 payout factor for both performance cash and performance shares requires performance equal to 120% of the target performance level. This is the maximum payout achievable. The threshold payout of 10% of the target award requires performance equal to 60% of the target performance level resulting in a 0.1 payout factor.

*2015 Target Grant Values.* Each Named Executive Officer's 2015 target grant value was set to provide an "at target" total long-term incentive compensation opportunity at the median of the market.

The Compensation Committee uses a valuation methodology that converts the targeted value of the grants into a targeted dollar amount of performance cash and a number of performance shares and stock options using a calculation of market-based economic value. A six-month average price of our stock is used in determining the number of performance shares to be granted. We believe the six-month average is most appropriate as it eliminates any unforeseen gains or losses in value associated with a temporary stock price spike or drop. The number of stock options granted is determined using the Black-Scholes model. Under our valuation model for our stock option grants, the ratio of stock options to performance shares awarded in 2015 was approximately 3.3 to 1.

On April 2, 2015, we granted non-qualified stock options with an exercise price per share equal to the closing price of our Common Stock on the grant date. The stock options vest and become exercisable with respect to all of the underlying shares of our Common Stock on the third anniversary of the grant date, or upon the recipient's earlier retirement, death or disability, so long as the recipient is continuously employed by us or a subsidiary until such date or event.

The 2015 long-term incentive plan grants for our Named Executive Officers were as follows:

| Named Executive Officer     | 2015 LTI<br>Grant Value | Performance<br>Cash Value | Performance<br>Shares Value | Stock Options<br>Value |
|-----------------------------|-------------------------|---------------------------|-----------------------------|------------------------|
| N. Thomas Linebarger        | \$ 6,800,000            | \$ 2,786,000              | \$ 2,007,000                | \$ 2,007,000           |
| Patrick J. Ward             | \$ 1,725,000            | \$ 707,000                | \$ 509,000                  | \$ 509,000             |
| Richard J. Freeland         | \$ 2,500,000            | \$ 1,024,000              | \$ 738,000                  | \$ 738,000             |
| Livingston L. Satterthwaite | \$ 1,250,000            | \$ 512,000                | \$ 369,000                  | \$ 369,000             |
| Marya M. Rose               | \$ 1,150,000            | \$ 471,000                | \$ 339,500                  | \$ 339,500             |



## Benefits

Our officers, including our Named Executive Officers, participate in the full range of health, welfare and retirement benefits and are covered by the same plans as other exempt employees. We target our total benefit package to be at the median of the market.

In addition to these benefits, our officers, including our Named Executive Officers, participate in a supplemental life insurance and deferred income program, which is designed to attract and retain key leadership talent in senior positions. This program provides additional life insurance equal to three times base salary while the officer is an active employee, and additional retirement payments, which are offset by and coordinated with payments from our regular retirement plans. The supplemental retirement provision "tops up" the pension available from our regular pension plans to provide a total benefit based on a percentage of the officer's highest average consecutive 60 month (five years) base salary and annual bonus received during the last 10 years of employment. The total replacement formula is 2% for each of the first 20 years and 1% for each of the next 10 years, with a maximum 50% total after 30 years of service. Under the terms of the program, Mr. Linebarger is eligible to receive an additional 10% benefit.

Our officers, including our Named Executive Officers, are eligible to participate in our non-qualified deferred compensation plan. This program is designed to provide financial planning opportunities for capital accumulation on a tax-deferred basis, and to meet competitive market practice.

Substantially all of our U.S. employees, including our Named Executive Officers, are eligible to participate in our employee stock purchase plan. Under the employee stock purchase plan, each eligible employee may authorize the withholding of 1-15% of his or her base pay each pay period to be used to purchase shares of our Common Stock for the employee's account on the open market by a third-party administrator we have engaged for this purpose. We make a matching contribution in cash in an amount sufficient to result in the employee receiving a discount on the shares purchased of 10%.

## Perquisites

Perquisites do not comprise a major element in our executive compensation program.

We provide support to our officers, including our Named Executive Officers, for the services of a financial counselor. The financial counselor provides estate and tax planning advice and tax return preparation. The fees for these services are detailed in the Summary Compensation Table.

Our officers, including our Named Executive Officers, may use our aircraft for reasonable personal use, following a prescribed approval process. The Compensation Committee reviews the level of usage annually. We believe that our officers' ability to use a Company plane for limited personal use saves time and provides additional security for them, thereby benefiting our Company. The aggregate incremental cost to us of such personal use by our Named Executive Officers is detailed in the Summary Compensation Table.

Executive physical examinations are available for all officers, including our Named Executive Officers. The Compensation Committee considers this practice to be good corporate governance and a direct benefit to our Company's shareholders.

## Compensation Recoupment

Our compensation awards are subject to our compensation recoupment, or "clawback," policy in our corporate governance principles providing that, if any of our financial statements are required to be materially restated resulting from the fraudulent actions of any officer, our Board may direct that we recover all or a portion of any award or any past or future compensation other than base salary from any such officer with respect to any year for which our financial results are adversely affected by such restatement.

**Post-Employment Compensation and Change in Control Protections**

We do not have formal severance agreements with any of our Named Executive Officers, but we have a policy of paying severance under certain circumstances to officers whose employment is terminated, and certain of our plans provide for other benefits upon certain change in control events and terminations of employment, each as described in detail under "Potential Payments Upon Termination or Change in Control." The Compensation Committee believes the change in control and termination benefits that we provide our Named Executive Officers are consistent with the Compensation Committee's overall objectives. The Compensation Committee periodically reviews and modifies these benefits to ensure that they continue to meet these objectives. The purposes of these benefits are to permit our key executives to concentrate on taking actions that are in the best interests of our shareholders without regard to whether such action may ultimately have an adverse impact on their job security and to enable them to provide objective advice on any potential change in control of our Company without undue concern regarding its potential impact on their personal financial situation.

In addition to a qualified change in control, payment under the plan requires termination without "cause" by the Company or termination by the officer for "good reason" within two years of the change in control. Upon the occurrence of both triggering events, certain benefits would be provided to the affected Named Executive Officer:

**For our Chief Executive Officer**

**For our Named Executive Officers (except our Chief Executive Officer)**

Severance equal to three year's base salary plus three annual bonus payments calculated at a 1.0 payout factor

Severance equal to two year's base salary plus two annual bonus payments calculated at a 1.0 payout factor

Full vesting of certain insurance and retirement benefits

Full vesting of certain insurance and retirement benefits

Continuation for the three-year severance period of certain other benefits.

Continuation for the two-year severance period of certain other benefits.

In addition to the severance provisions of our change in control compensation protection arrangements, there are provisions within our long-term compensation plans that provide payment of outstanding awards in the event of a change in control, without requiring actual or constructive termination of the officer. All stock-based awards granted in 2012 or later under our long-term compensation plans provide for accelerated vesting upon a change in control only if the award holder's employment is also terminated by us without cause or by the award holder with good reason within two years after the change in control.

Our change in control compensation protection arrangements do not provide for tax gross-ups for excise taxes imposed because of the "golden parachute" excise tax provisions of Code Sections 280G and 4999. Instead, the arrangements provide that, if excise taxes are imposed because of the golden parachute excise tax provisions of Code Sections 280G and 4999, the Named Executive Officer's change in control compensation protections will be either cut back, to a level below the level that would trigger the imposition of the excise taxes, or paid in full and subjected to the excise taxes, whichever results in the better after-tax result to the Named Executive Officer.

**Confidentiality and Non-Compete Agreements**

Each of our Named Executive Officers has signed an agreement not to disclose our confidential information or to accept employment with certain competitors during, and for 12 months subsequent to, the time the officer is employed by us.

**Stock Ownership Requirements**

The Compensation Committee believes that our officers should own significant amounts of our stock in order to further link their economic interests to those of our shareholders. To underscore this, we require our officers to own a number of shares of our Common Stock having a total value equal to the following multiples of their respective base salaries:

| <b>Group</b>  | <b>Stock Ownership Requirement</b> |
|---|------------------------------------|
| Chief Executive Officer   | Five times (5x) base salary        |
| Members of the Cummins Leadership Team (including all of the Named Executive Officers other than the Chief Executive Officer) | Three times (3x) base salary       |
| All Other Officers  | One time (1x) base salary          |

An officer's direct and indirect ownership of our Common Stock counts towards the officer's ownership requirements, but unexercised stock options and unearned performance shares are not counted towards officer stock ownership requirements.

Because our stock value may vary, these ownership requirements are expressed as a set number of shares for defined bands of salary. The numbers of shares required are reviewed annually and established by the Compensation Committee based on the average market price of our stock over a three-year period.

Officers have five years from the date of their initial appointments to meet their requirement. An officer whose salary increases to the level of a new salary band (and higher stock ownership requirement) will have three years from the date of such increase to achieve the new higher level. Subject to limited exceptions, officers may not sell any of our shares until they reach their stock ownership guideline, and then they may only sell our shares to the extent their stock ownership would not drop below their ownership requirement.

All of our Named Executive Officers are in compliance with their stock ownership requirements or still have time to meet their ownership requirement.

As described under "Director Compensation," we also have formal stock ownership guidelines for non-employee members of our Board. All of our non-employee directors have either satisfied this requirement or have additional time to do so.

**Pledging and Hedging Policy**

Officers and directors are prohibited from engaging in forms of hedging or monetization transactions involving the establishment of a short position in our Common Stock, such as zero-cost collars and forward sale contracts. They are also prohibited from entering into any arrangement that, directly or indirectly, involves the pledge of our securities or other use of our securities as collateral for a loan.

**Compensation Committee Report**

The Compensation Committee of the Board of Directors has reviewed and discussed the preceding Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement for incorporation by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Respectfully submitted,  
GEORGIA R. NELSON, CHAIR  
ROBERT K. HERDMAN  
ALEXIS M. HERMAN  
THOMAS J. LYNCH

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A summary compensation table and supplemental tables on the following pages disclose compensation information for our Named Executive Officers during our last three completed fiscal years (or such shorter period for which the Named Executive Officer was a Named Executive Officer) and our last completed fiscal year, respectively.

**2015 SUMMARY COMPENSATION TABLE AND SUPPLEMENTAL TABLES**

| Name and Principal Position  | Year | Annual Salary | (1) Bonus | (2) Stock Awards | (3) Option Awards | (4) Non-Equity Incentive Plan Compensation | (5)   | (6)        | Total         |
|--|------|---------------|-----------|------------------|-------------------|--|---|------------|---------------|
|  |      |               |           |                  |                   |  | Change in Pension Value and Nonqualified Deferred Compensation Earnings |            |               |
| N. T. Linebarger, Chairman and Chief Executive Officer                   | 2015 | \$ 1,337,500  | \$ 0      | \$ 2,337,425     | \$ 2,174,854      | \$ 3,070,638                               | \$ 3,251,780  | \$ 107,528 | \$ 12,279,725 |
|  | 2014 | \$ 1,250,000  | \$ 0      | \$ 2,636,666     | \$ 2,233,767      | \$ 3,318,550                               | \$ 5,267,522  | \$ 78,050  | \$ 14,784,555 |
|  | 2013 | \$ 1,200,000  | \$ 0      | \$ 2,694,832     | \$ 2,880,262      | \$ 2,524,500                               | \$ 21,963   | \$ 71,480  | \$ 9,393,037  |
| P. J. Ward, Vice President and Chief Financial Officer                   | 2015 | \$ 705,500    | \$ 0      | \$ 593,040       | \$ 551,765        | \$ 871,273                                 | \$ 1,161,468  | \$ 25,678  | \$ 3,908,724  |
|  | 2014 | \$ 680,000    | \$ 0      | \$ 659,521       | \$ 558,317        | \$ 1,065,600                               | \$ 2,380,601  | \$ 24,818  | \$ 5,368,857  |
|  | 2013 | \$ 675,000    | \$ 0      | \$ 673,974       | \$ 719,826        | \$ 1,227,000                               | \$ 158,076  | \$ 24,039  | \$ 3,477,915  |
| R. J. Freeland, President and Chief Operating Officer                    | 2015 | \$ 824,000    | \$ 0      | \$ 859,329       | \$ 799,379        | \$ 1,042,860                               | \$ 767,058  | \$ 34,017  | \$ 4,326,643  |
|  | 2014 | \$ 730,208    | \$ 0      | \$ 842,021       | \$ 700,066        | \$ 1,169,066                               | \$ 1,576,962  | \$ 42,673  | \$ 5,060,996  |
|  | 2013 | \$ 670,000    | \$ 0      | \$ 737,858       | \$ 788,358        | \$ 1,250,400                               | \$ 34,344   | \$ 25,022  | \$ 3,505,982  |
| L. L. Satterthwaite, Vice President and President, Distribution Business | 2015 | \$ 565,000    | \$ 0      | \$ 429,664       | \$ 399,689        | \$ 674,800                                 | \$ 690,102  | \$ 19,240  | \$ 2,778,495  |
|  | 2014 | \$ 550,000    | \$ 0      | \$ 523,362       | \$ 443,370        | \$ 666,400                                 | \$ 1,437,809  | \$ 47,509  | \$ 3,668,450  |
|  | 2013 | \$ 550,000    | \$ 0      | \$ 534,494       | \$ 571,260        | \$ 988,000                                 | \$ 3,537  | \$ 34,623  | \$ 2,681,914  |
| M. M. Rose, Vice President and Chief Administrative Officer              | 2015 | \$ 619,000    | \$ 0      | \$ 394,931       | \$ 367,843        | \$ 676,340                                 | \$ 736,787  | \$ 42,574  | \$ 2,837,475  |

(1) Our annual bonuses are performance based, not discretionary, and are therefore included as Non-Equity Incentive Plan Compensation in the table above.

(2) The Stock Awards column represents the fair value on the grant date, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, which we refer to as ASC Topic 718, for stock awards, which were made pursuant to the 2012 Omnibus Incentive Plan, based upon the probable outcome of the performance conditions, consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date under ASC Topic 718. Additional information about the assumptions that we used when valuing equity awards is set forth in our Annual Reports on Form 10-K in Note 17 to the Consolidated Financial Statements for 2015. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Performance shares are earned based on our financial performance over a three-year period, and the shares earned are not restricted after the performance period. The maximum values of the 2015 awards at the grant date assuming that the highest level of performance conditions are attained, are as follows: N. T. Linebarger \$4,674,850; P. J. Ward \$1,186,079; R. J. Freeland \$1,718,657; L. L. Satterthwaite \$859,329; M. M. Rose \$789,862.

(3) The Option Awards column represents the fair value on the grant date computed in accordance with ASC Topic 718 for option awards, which were made pursuant to the 2012 Omnibus Incentive Plan. Additional information about the assumptions that we used when valuing equity awards is set forth in our Annual Report on Form 10-K in Note 17 to the Consolidated Financial Statements for our fiscal year ended December 31, 2015. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions.

(4) The amounts shown in this column for 2015 consist of (i) payments made in March 2016 under the Senior Executive Target Bonus Plan for 2015 performance and (ii) payments for the Senior Executive Longer-term Performance Plan, which were paid in March 2016 based on our 2013-2015 performance. The payments for each Named Executive Officer from these sources were:

|   | <b>N. T. Linebarger</b> | <b>P. J. Ward</b> | <b>R. J. Freeland</b> | <b>L. L. Satterthwaite</b> | <b>M. M. Rose</b> |
|---|-------------------------|-------------------|-----------------------|----------------------------|-------------------|
| Senior Executive Target Bonus Plan            | \$ 1,263,938            | \$ 419,773        | \$ 547,960            | \$ 316,400                 | \$ 346,640        |
| Senior Executive Longer-Term Performance Plan | \$ 1,806,700            | \$ 451,500        | \$ 494,900            | \$ 358,400                 | \$ 329,700        |
| <b>TOTAL</b>                                  | <b>\$ 3,070,638</b>     | <b>\$ 871,273</b> | <b>\$ 1,042,860</b>   | <b>\$ 674,800</b>          | <b>\$ 676,340</b> |

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(5)

The aggregate changes during 2015 in the actuarial present value of each Named Executive Officer's pension plans and the above market earnings on non-qualified deferred compensation are as follows:

|  | <b>N. T. Linebarger</b> | <b>P. J. Ward</b>   | <b>R. J. Freeland</b> | <b>L. L. Satterthwaite</b> | <b>M. M. Rose</b> |
|--|-------------------------|---------------------|-----------------------|----------------------------|-------------------|
| Cummins Pension Plan (Qualified)                                     | \$ 26,549               | \$ 27,324           | \$ 14,887             | \$ 33,336                  | \$ 22,507         |
| Excess Benefit Retirement Plan (Non-qualified)                       | \$ 206,868              | \$ 75,130           | \$ 146,113            | \$ 47,304                  | \$ 59,303         |
| Supplemental Life Insurance and Deferred Income Plan (Non-qualified) | \$ 2,957,371            | \$ 1,044,860        | \$ 537,792            | \$ 609,462                 | \$ 597,962        |
| Sub-total  | \$ 3,190,788            | \$ 1,147,314        | \$ 698,792            | \$ 690,102                 | \$ 679,772        |
| Above-market earnings on non-qualified deferred compensation         | \$ 60,992               | \$ 14,154           | \$ 68,266             | \$ 0                       | \$ 57,015         |
| <b>TOTAL</b>   | <b>\$ 3,251,780</b>     | <b>\$ 1,161,468</b> | <b>\$ 767,058</b>     | <b>\$ 690,102</b>          | <b>\$ 736,787</b> |

"Above-market" is defined as the amount of earnings that exceeded 120% of the applicable federal long-term rate. The present value of the benefits depends in part on the interest rate used to discount the future benefits under the Plan to their present value. The amounts shown in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column and in the table immediately above reflect our Named Executive Officers' years of credited service under our pension plans.

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(6)

This column consists of the following for 2015:

|   | <b>N. T. Linebarger</b> | <b>P. J. Ward</b> | <b>R. J. Freeland</b> | <b>L. L. Satterthwaite</b> | <b>M. M. Rose</b> |
|---|-------------------------|-------------------|-----------------------|----------------------------|-------------------|
| Financial Counseling  | \$ 11,200               | \$ 12,480         | \$ 11,200             | \$ 6,000                   | \$ 11,200         |
| Personal use of Company Aircraft                            | \$ 79,512               | \$ 0              | \$ 6,343              | \$ 0                       | \$ 19,028         |
| Life Insurance Costs  | \$ 7,041                | \$ 3,423          | \$ 6,699              | \$ 3,465                   | \$ 2,571          |
| Company Contributions under the Retirement and Savings Plan | \$ 9,775                | \$ 9,775          | \$ 9,775              | \$ 9,775                   | \$ 9,775          |
| <b>TOTAL</b>  | <b>\$ 107,528</b>       | <b>\$ 25,678</b>  | <b>\$ 34,017</b>      | <b>\$ 19,240</b>           | <b>\$ 42,574</b>  |

Personal Use of Company Aircraft was calculated using an average indicated hourly cost of \$2,265.29 which is the incremental cost incurred by the Company. This cost is calculated based on the Company's annual average fuel cost and other expenses derived from published industry averages.



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The following table complements the disclosures set forth in columns captioned Non-Equity Incentive Plan Compensation, Stock Awards and Option Awards in the Summary Compensation Table.

GRANTS OF PLAN-BASED AWARDS IN 2015

| Name                | Grant Date | Date of Committee Action | Estimated Future Payouts Under Non-Equity Incentive Plan Awards |              |              | Estimated Future Payouts Under Equity Incentive Plan Awards |            |             | All Other Stock Awards: Number of Shares or Units (#) | All Other Option Awards: Number of Securities Underlying Options (#) | (5)<br>Exercise or Base Price of Option Awards (\$) | (6)<br>Grant Date Fair Value of Stock and Option Awards (\$) |
|---------------------|------------|--------------------------|---|--------------|--------------|---|------------|-------------|---|--|---|--|
|                     |            |                          | Threshold (\$)  | Target (\$)  | Maximum (\$) | Threshold (#)   | Target (#) | Maximum (#) |   |  |   |  |
| N. T. Linebarger    | N/A        | N/A(1)                   | \$ 180,563  | \$ 1,805,625 | \$ 3,611,250 |   |            |             |   |  |   |  |
|                     | N/A        | N/A(2)                   | \$ 278,600  | \$ 2,786,000 | \$ 5,572,000 |   |            |             |   |  |   |  |
|                     | 4/2/15     | 2/23/15(3)               |   |              |              | 1,817   | 18,170     | 36,340      |   |  | \$ 2,337,425  |  |
|                     | 4/2/15     | 2/23/15(4)               |   |              |              |   |            |             | 0   | 60,780   | \$ 136.82 \$ 2,174,854                              |  |
| P. J. Ward          | N/A        | N/A(1)                   | \$ 59,968   | \$ 599,675   | \$ 1,199,350 |   |            |             |   |  |   |  |
|                     | N/A        | N/A(2)                   | \$ 70,700   | \$ 707,000   | \$ 1,414,000 |   |            |             |   |  |   |  |
|                     | 4/2/15     | 2/23/15(3)               |   |              |              | 461   | 4,610      | 9,220       |   |  | \$ 593,040  |  |
|                     | 4/2/15     | 2/23/15(4)               |   |              |              |   |            |             | 0   | 15,420   | \$ 136.82 \$ 551,765                                |  |
| R. J. Freeland      | N/A        | N/A(1)                   | \$ 78,280   | \$ 782,800   | \$ 1,565,600 |   |            |             |   |  |   |  |
|                     | N/A        | N/A(2)                   | \$ 102,400  | \$ 1,024,000 | \$ 2,048,000 |   |            |             |   |  |   |  |
|                     | 4/2/15     | 2/23/15(3)               |   |              |              | 668   | 6,680      | 13,360      |   |  | \$ 859,329  |  |
|                     | 4/2/15     | 2/23/15(4)               |   |              |              |   |            |             | 0   | 22,340   | \$ 136.82 \$ 799,379                                |  |
| L. L. Satterthwaite | N/A        | N/A(1)                   | \$ 45,200   | \$ 452,000   | \$ 904,000   |   |            |             |   |  |   |  |
|                     | N/A        | N/A(2)                   | \$ 51,200   | \$ 512,000   | \$ 1,024,000 |   |            |             |   |  |   |  |
|                     | 4/2/15     | 2/23/15(3)               |   |              |              | 334   | 3,340      | 6,680       |   |  | \$ 429,664  |  |
|                     | 4/2/15     | 2/23/15(4)               |   |              |              |   |            |             | 0   | 11,170   | \$ 136.82 \$ 399,689                                |  |
| M. M. Rose          | N/A        | N/A(1)                   | \$ 49,520   | \$ 495,200   | \$ 990,400   |   |            |             |   |  |   |  |
|                     | N/A        | N/A(2)                   | \$ 47,100   | \$ 471,000   | \$ 942,000   |   |            |             |   |  |   |  |
|                     | 4/2/15     | 2/23/15(3)               |   |              |              | 307   | 3,070      | 6,140       |   |  | \$ 394,931  |  |
|                     | 4/2/15     | 2/23/15(4)               |   |              |              |   |            |             | 0   | 10,280   | \$ 136.82 \$ 367,843                                |  |

(1) Named Executive Officers participate in the annual bonus plan, as described in the Compensation Discussion and Analysis. The payout is calculated based on a formula approved by the Compensation Committee annually. Each participant is assigned a participation rate as a percent of salary. For purposes of this plan, our performance is measured by ROANA as defined by the plan. The annual bonus is calculated as follows:

(Annual Bonus) equals (Annual Base Salary Paid for calendar year) times (participation percentage assigned to each position) times (Payout Factor)

The Payout Factor could range from zero to 2.0, in increments of 0.1.

- (2) We made target awards, expressed as dollar amounts, under our Longer-Term Performance Plan and Senior Executive Longer-Term Performance Plan, which are sub-plans under our 2012 Omnibus Incentive Plan, in 2015. A multiple of the target award is earned based on our Return on Equity (ROE) performance during 2015-2017. The amount earned and paid under the three-year target award would range from zero to 200% of the target award amount. The target award will be earned if our ROE for 2015-2017 is equal to the targeted ROE level established for that period as described in the Compensation Discussion and Analysis. The Threshold Payment (10% of the target award) will be earned if our ROE is 60% of the targeted ROE for the period. The maximum payment (200% of the target award) will be earned if our ROE is 20% above the targeted ROE for the period. To the extent earned, the payments will be made in March 2018.
- (3) We made target awards of performance shares under our 2012 Omnibus Incentive Plan in 2015. The awards are expressed as a target number of shares of our Common Stock. Shares are earned based on our ROE performance during 2015-2017, based on the same measures as established for the target awards under the Longer-Term Performance Plan and Senior Executive Longer-Term Performance Plan. The number of shares earned can range from zero to 200% of the target award number of shares. The target award number of shares will be earned if our ROE for 2015-2017 is equal to the targeted ROE established for the period as described in the Compensation Discussion and Analysis. Dividends are payable only at the conclusion of the performance period on the shares that become earned.
- (4) We awarded stock options under our 2012 Omnibus Incentive Plan. The options were granted on April 2, 2015 at a grant price of \$136.82, which was equal to the unadjusted closing market price of our Common Stock on the grant date. The options are not exercisable until April 2, 2018 (or upon the recipient's earlier retirement, death or disability) so long as the recipient is continuously employed by us or a subsidiary until such date, vest on the same schedule and expire on the earliest of April 2, 2025, five years after retirement or disability, or one year after death.
- (5) The grant price of the stock options is equal to the unadjusted closing price of our Common Stock on the April 2, 2015 grant date of \$136.82.
- (6) The April 2, 2015 grant date fair value for performance shares, based upon probable outcome of the performance conditions to which they are subject, is \$128.642/share, which is consistent with the estimate of aggregate compensation costs to be recognized over the service period determined as of the grant date under ASC Topic 718 (excluding the effect of estimated forfeitures). The April 2, 2015 grant date fair value for stock option awards was the Black-Scholes value at grant date which was \$35.7824/share.

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The following two tables are intended to enhance understanding of equity compensation that has been previously awarded and remained outstanding, as of December 31, 2015, including amounts realized on equity compensation during the last year as a result of the vesting or exercise of equity awards.

**OUTSTANDING EQUITY AWARDS AT 2015 YEAR-END**

| Name             | Option Awards   |   |                            |                        | Stock Awards  |  |               |               |               |
|------------------|---|---|----------------------------|------------------------|---|--|---------------|---------------|---------------|
|                  | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price (\$) | Option Expiration Date | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |               |               |               |
| N. T. Linebarger | 0   | 60,780(1)   | \$ 136.82                  | 4/2/2025               | 36,760(2)   | \$ 3,235,248(3)  |               |               |               |
|                  | 0   | 44,890(4)   | \$ 149.34                  | 4/2/2024               |   |  |               |               |               |
|                  | 60,100(5)   | 0   | \$ 111.84                  | 4/2/2023               |   |  |               |               |               |
|                  | 37,510(6)   | 0   | \$ 120.28                  | 4/2/2022               |   |  |               |               |               |
|                  | 13,040(7)   | 0   | \$ 119.77                  | 5/2/2021               |   |  |               |               |               |
|                  | 16,360(8)   | 0   | \$ 58.115                  | 3/1/2020               |   |  |               |               |               |
|                  | 24,830(9)   | 0   | \$ 19.420                  | 3/2/2019               |   |  |               |               |               |
|                  | 0   | 15,420(1)   | \$ 136.82                  | 4/2/2025               |   |  | 9,260(2)      | \$ 814,973(3) |               |
|                  | 0   | 11,220(4)   | \$ 149.34                  | 4/2/2024               |   |  |               |               |               |
| 15,020(5)        | 0   | \$ 111.84   | 4/2/2023                   |                        |   |  |               |               |               |
| 11,030(6)        | 0   | \$ 120.28   | 4/2/2022                   |                        |   |  |               |               |               |
| 8,150(7)         | 0   | \$ 119.77   | 5/2/2021                   |                        |   |  |               |               |               |
| 5,900(8)         | 0   | \$ 58.115   | 3/1/2020                   |                        |   |  |               |               |               |
| R. J. Freeland   | 0   | 22,340(1)   | \$ 136.82                  | 4/2/2025               | 12,590(2)   | \$ 1,108,046(3)  |               |               |               |
|                  | 0   | 1,960(10)   | \$ 154.20                  | 7/16/2024              |   |  |               |               |               |
|                  | 0   | 12,290(4)   | \$ 149.34                  | 4/2/2024               |   |  |               |               |               |
|                  | 16,450(5)   | 0   | \$ 111.84                  | 4/2/2023               |   |  |               |               |               |
|                  | 11,030(6)   | 0   | \$ 120.28                  | 4/2/2022               |   |  |               |               |               |
|                  | 8,150(7)  | 0   | \$ 119.77                  | 5/2/2021               |   |  |               |               |               |
|                  | 10,900(8)   | 0   | \$ 58.115                  | 3/1/2020               |   |  |               |               |               |
|                  | 3,650(9)  | 0   | \$ 19.420                  | 3/2/2019               |   |  |               |               |               |
|                  | L. L. Satterthwaite   | 0   | 11,170(1)                  | \$ 136.82              |   |  | 4/2/2025      | 7,030(2)      | \$ 618,710(3) |
| 0                |   | 8,910(4)  | \$ 149.34                  | 4/2/2024               |   |  |               |               |               |
| 11,920(5)        |   | 0   | \$ 111.84                  | 4/2/2023               |   |  |               |               |               |
| 9,190(6)         |   | 0   | \$ 120.28                  | 4/2/2022               |   |  |               |               |               |
| 8,150(7)         |   | 0   | \$ 119.77                  | 5/2/2021               |   |  |               |               |               |
| 8,450(8)         |   | 0   | \$ 58.115                  | 3/1/2020               |   |  |               |               |               |
| 12,830(9)        |   | 0   | \$ 19.420                  | 3/2/2019               |   |  |               |               |               |
| M. M. Rose       |   | 0   | 10,280(1)                  | \$ 136.82              | 4/2/2025  | 6,460(2)   | \$ 568,545(3) |               |               |
|                  |   | 0   | 8,190(4)                   | \$ 149.34              | 4/2/2024  |  |               |               |               |
|                  | 10,970(5)   | 0   | \$ 111.84                  | 4/2/2023               |   |  |               |               |               |
|                  | 7,350(6)  | 0   | \$ 120.28                  | 4/2/2022               |   |  |               |               |               |
|                  | 5,220(7)  | 0   | \$ 119.77                  | 5/2/2021               |   |  |               |               |               |
|                  | 5,450(8)  | 0   | \$ 58.115                  | 3/1/2020               |   |  |               |               |               |

(1) These stock options were granted on April 2, 2015 and will vest and become exercisable with respect to all of the underlying shares of our Common Stock on the third anniversary of the grant date, or upon the recipient's earlier retirement, death, or disability, so long as the recipient is continuously employed by us or a subsidiary until such a date or event.



- (2) Target awards of performance shares were granted in April 2014 and April 2015 to be earned in a multiple ranging from zero to two times the target awards, based on our performance during 2014-2016 and 2015-2017, respectively. The performance shares earned from the April 2014 grant will be awarded in 2017 and the performance shares earned from the April 2015 grant will be awarded in 2018. Performance for the 2014 - 2016 period, as well as for 2015 alone, was above the threshold level but below target; therefore the target amounts are shown for both the April 2014 grant and the April 2015 grant.
- (3) The price per share used to calculate the market value was \$88.01, the unadjusted closing price of our Common Stock on the NYSE on December 31, 2015, the last trading day of the year.
- (4) These stock options were granted on April 2, 2014 and will vest and become exercisable with respect to all of the underlying shares of our Common Stock on the third anniversary of the grant date, or upon the recipient's earlier retirement, death, or disability, so long as the recipient is continuously employed by us or a subsidiary until such a date or event.
- (5) These stock options were granted on April 2, 2013 and vested and became exercisable with respect to all of the underlying shares of our Common Stock on the second anniversary of the grant date.
- (6) These stock options were granted on April 2, 2012 and vested and became exercisable with respect to all of the underlying shares of our Common Stock on the second anniversary of the grant date.
- (7) These stock options were granted on May 2, 2011 and vested and became exercisable with respect to all of the underlying shares of our Common Stock on the second anniversary of the grant date.
- (8) These stock options were granted on March 1, 2010 and vested and became exercisable with respect to all of the underlying shares of our Common Stock on the second anniversary of the grant date.
- (9) These stock options were granted on March 2, 2009 and vested and became exercisable with respect to all of the underlying shares of our Common Stock on the second anniversary of the grant date.
- (10) These stock options were granted on July 16, 2014 and will vest and become exercisable with respect to all of the underlying shares of our Common Stock on the third anniversary of the grant date, or upon the recipient's earlier retirement, death or disability, so long as the recipient is continuously employed by us or a subsidiary until such a date or event.

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The outstanding awards of performance shares as of December 31, 2015 for the 2014-2016 and the 2015-2017 awards cycles, shown at target, were as follows:

| Name                | Grant Year | Number of Units of Performance Shares |
|---------------------|------------|---------------------------------------|
| N. T. Linebarger    | 2015       | 18,170                                |
|                     | 2014       | 18,590                                |
| P. J. Ward          | 2015       | 4,610                                 |
|                     | 2014       | 4,650                                 |
| R. J. Freeland      | 2015       | 6,680                                 |
|                     | 2014       | 5,910                                 |
| L. L. Satterthwaite | 2015       | 3,340                                 |
|                     | 2014       | 3,690                                 |
| M. M. Rose          | 2015       | 3,070                                 |
|                     | 2014       | 3,390                                 |

### OPTION EXERCISES AND STOCK VESTED IN 2015

| Name                | (1)                                       |                                 | (2)                                      |                                | (3)                                      |                                | (4)                                      |                                |
|---------------------|---|---------------------------------|--|--------------------------------|--|--------------------------------|--|--------------------------------|
|                     | Option Awards                             |                                 | Stock Awards                             |                                | Option Awards                            |                                | Stock Awards                             |                                |
|                     | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) |
| N. T. Linebarger    | 0   | \$ 0                            | 14,742                                   | \$ 2,096,755                   | 14,742                                   | \$ 2,096,755                   | 14,742                                   | \$ 2,096,755                   |
| P. J. Ward          | 0   | \$ 0                            | 4,333                                    | \$ 616,283                     | 4,333                                    | \$ 616,283                     | 4,333                                    | \$ 616,283                     |
| R. J. Freeland      | 0   | \$ 0                            | 4,333                                    | \$ 616,283                     | 4,333                                    | \$ 616,283                     | 4,333                                    | \$ 616,283                     |
| L. L. Satterthwaite | 0   | \$ 0                            | 3,612                                    | \$ 513,735                     | 3,612                                    | \$ 513,735                     | 3,612                                    | \$ 513,735                     |
| M. M. Rose          | 0   | \$ 0                            | 2,891                                    | \$ 411,187                     | 2,891                                    | \$ 411,187                     | 2,891                                    | \$ 411,187                     |

- (1) Represents the gross number of shares acquired upon exercise of vested options without taking into account any shares that may be withheld to cover option exercise price or applicable tax obligations.
- (2) Represents the value of exercised options calculated by multiplying (i) the number of shares of our Common Stock to which the exercise of the option related, by (ii) the difference between the per-share closing price of our Common Stock on the NYSE on the date of exercise and the exercise price of the options.
- (3) Target awards of performance shares were granted in April 2012 to be earned in a multiple ranging from zero to two times the target award, based on our performance during 2012-2014. The performance shares became earned and vested on March 1, 2015, based on our 2012-2014 performance.
- (4) The values realized on vesting for the performance shares were calculated using the unadjusted closing price of our Common Stock on February 27, 2015 (\$142.23).

## PENSION BENEFITS FOR 2015

| Name                | Plan Name  | Number of<br>Years<br>Credited<br>Service<br>(#) | Present<br>Value of<br>Accumulated<br>Benefit<br>(\$) | Payments<br>During<br>Last Fiscal<br>Year<br>(\$) |
|---------------------|--|--|---|---|
| N. T. Linebarger    | Cummins Pension Plan (Qualified)                                     | 22   | \$ 502,168  | \$ 0  |
|                     | Excess Benefit Retirement Plan (Non-qualified)                       | 22   | \$ 1,406,753  | \$ 0  |
|                     | Supplemental Life Insurance and Deferred Income Plan (Non-qualified) | 22   | \$ 18,207,312   | \$ 0  |
| P. J. Ward          | Cummins Pension Plan (Qualified)                                     | 28   | \$ 520,008  | \$ 0  |
|                     | Excess Benefit Retirement Plan (Non-qualified)                       | 28   | \$ 429,902  | \$ 0  |
|                     | Supplemental Life Insurance and Deferred Income Plan (Non-qualified) | 28   | \$ 8,232,649  | \$ 0  |
| R. J. Freeland      | Cummins Pension Plan (Qualified)                                     | 37   | \$ 766,602  | \$ 0  |
|                     | Excess Benefit Retirement Plan (Non-qualified)                       | 37   | \$ 843,398  | \$ 0  |
|                     | Supplemental Life Insurance and Deferred Income Plan (Non-qualified) | 37   | \$ 8,958,877  | \$ 0  |
| L. L. Satterthwaite | Cummins Pension Plan (Qualified)                                     | 27   | \$ 587,391  | \$ 0  |
|                     | Excess Benefit Retirement Plan (Non-qualified)                       | 27   | \$ 361,147  | \$ 0  |
|                     | Supplemental Life Insurance and Deferred Income Plan (Non-qualified) | 27   | \$ 6,031,017  | \$ 0  |
| M. M. Rose          | Cummins Pension Plan (Qualified)                                     | 18   | \$ 344,763  | \$ 0  |
|                     | Excess Benefit Retirement Plan (Non-qualified)                       | 18   | \$ 463,435  | \$ 0  |
|                     | Supplemental Life Insurance and Deferred Income Plan (Non-qualified) | 18   | \$ 4,265,034  | \$ 0  |

The Cummins Pension Plan is a cash balance pension plan. Participants receive pay credits equal to 6% of total monthly pay, defined as base salary and annual bonus payments. Individual accounts are maintained for each participant. The accounts receive interest credits equal to 30-year Treasury bond rate plus 1%. Participants are 100% vested in the Cummins Pension Plan benefit upon attaining three years of service.

The Excess Benefit Retirement Plan provides non-qualified pension benefits in excess of limitations imposed by the Code on the benefits provided by the Cummins Pension Plan formula. It preserves the total benefit payable under the Cummins Pension Plan formula.

The Supplemental Life Insurance and Deferred Income Plan provides a Supplemental Executive Retirement Plan ("SERP") Life Annuity benefit to our officers who participate in the Cummins Pension Plan.

The SERP benefit is based on a percentage of the highest 60 consecutive months of total compensation during the final 120 months of the participant's career. Total Compensation for calculation of five year average pay is defined as base salary and annual bonus payments.

The percentage is calculated as 2% of the participant's five year average pay for each of the first 20 years of service plus 1% of the participant's five year average pay for each of the next 10 years of service. The maximum is a 50% benefit after 30 years of service, except that an officer who is among our two highest paid Named Executive Officers at the time of retirement will receive an annual benefit equal

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to an additional 10%. In December 2011, the Compensation Committee discontinued this additional benefit for all future participants in the plan but maintained it for the two then-highest paid Named Executive Officers, one of whom was Mr. Linebarger.

The retirement benefit calculated by this formula is offset by the highest combined annuity available from the Cummins Pension Plan and the Excess Benefit Retirement Plan, thus topping up the benefits available from those plans to total the target retirement benefit.

Officers whose service and age total 80 (minimum age 55 and 20 years of service), or who were participants in the plan prior to 2006 and have at least 30 years of service, regardless of age, would qualify for immediate unreduced commencement of life annuity benefits. Therefore, Mr. Freeland qualified, as of December 31, 2015, for immediate commencement of unreduced benefits. Additionally, Mr. Satterthwaite qualified, as of December 31, 2015, for immediate commencement of unreduced benefits.

Otherwise, after retirement or termination of employment, unreduced benefits may be commenced at age 60. Retired or terminated vested employees who do not qualify for unreduced benefits under the age and service conditions described in the previous paragraph may commence benefits as early as age 55, but the life annuity benefit would be reduced by .333% for each month the participant's age at commencement preceded 60.

Vesting for the SERP benefit is 25% after five years of service, increasing in 15% annual increments, with 100% vesting after 10 years of service.

The life annuity benefit has a 15-year certain payment, with a 50% benefit for surviving spouse or domestic partner.

The SERP benefit accrued for service prior to 2005 may be elected as a lump sum payment. Benefits accrued after 2005 are subject to the provisions of Internal Revenue Code Section 409A, which preclude election of a lump sum distribution of such benefits at the time permitted for benefits accrued for service prior to 2005.

The actuarial table and discount rates used to calculate a lump sum payment under the SERP are the same as those used to make such calculations under the qualified Cummins Pension Plan.

### ***Accelerated SERP Formula for Executives Hired Mid-Career***

For some officers who joined our company mid-career, the SERP benefit is calculated at an accelerated rate, requiring one-half the service necessary for other participants.

The accelerated formula provides a target benefit based on 4% for the first 10 years and 2% for the next five years of service, with a maximum of 50% of Five Year Average Pay after fifteen years of service. Eligibility for immediate commencement of unreduced benefits is achieved when age and service total 70 (minimum age 58 and 10 years of service). Otherwise, for participants who are no longer our employees, unreduced benefits may commence at age 60 or as early as age 55, but reduced .333% for each month age at commencement precedes age 60.

### **Non-Qualified Deferred Compensation Plan**

Our Deferred Compensation Plan permits deferral of up to 100% of base salary, annual bonus, and/or payments from the Senior Executive Longer-Term Performance Plan.

Accounts are credited with earnings based on each participant's selection among three alternatives: Standard & Poor's 500 Index, Barclays Capital Aggregate Bond Index, or 10-Year Treasury Bill + 2%, which had annual returns in 2015 of 0.73%, 0.15%, and 4.08%, respectively. Some participants may have a balance in a legacy investment option, 10-Year Treasury Bill +4%, which had annual returns in 2015 of 6.08%. This option is not open to additional investment.



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Based on changes approved by the Compensation Committee in 2015, effective with the 2016 plan year, account crediting options within our Deferred Compensation Plan will be similar to the investment choices available in our 401(k) plan. Expanding the account crediting options available in our Deferred Compensation Plan to be similar to the investment choices available in our 401(k) plan increases the number of account crediting options available to participants. As a result, effective December 31, 2015, the Standard & Poor's 500 Index, Barclays Capital Aggregate Bond Index and the 10-Year Treasury Bill + 2% options were closed to additional investment.

Crediting options may be changed monthly. At the time of the election to defer, the participant chooses the time and the form of distribution. The participant may elect to have distributions begin on a specified date or following retirement. Distributions will also commence on any other separation from service, or upon death or a change of control.

### NON-QUALIFIED DEFERRED COMPENSATION IN 2015

| Name                | (1)<br>Executive<br>Contributions<br>in Last<br>Fiscal Year | Registrant<br>Contributions<br>in Last<br>Fiscal<br>Year (\$) | (1)<br>Aggregate<br>Earnings in<br>Last Fiscal<br>Year (\$) | Aggregate<br>Withdrawals/<br>Distributions<br>(\$) | (2)<br>Aggregate<br>Balance at<br>Last Fiscal<br>Year End (\$) |
|---------------------|---|---|---|--|--|
| N. T. Linebarger    | \$ 1,793,871  | \$ 0  | \$ 192,895  | \$ 0   | \$ 4,757,879   |
| P. J. Ward          | \$ 100,000  | \$ 0  | \$ 41,945   | \$ 0   | \$ 1,222,657   |
| R. J. Freeland      | \$ 714,606  | \$ 0  | \$ 195,687  | \$ 0   | \$ 4,405,078   |
| L. L. Satterthwaite | \$ 0  | \$ 0  | \$ 14   | \$ 9,340   | \$ 0   |
| M. M. Rose          | \$ 0  | \$ 0  | \$ 117,508  | \$ 0   | \$ 2,049,389   |

(1) Amounts included in the above table that were also reported in the "Change in Non-Qualified Deferred Compensation Earnings" column of the Summary Compensation Table as "Above-market earnings" for the Non-Qualified Deferred Compensation Plan for each Named Executive Officer are: N. T. Linebarger \$60,992; P. J. Ward \$14,154; R. J. Freeland \$68,266; L. L. Satterthwaite \$0; M. M. Rose \$57,015. One hundred percent of the contributions made by N. T. Linebarger, P. J. Ward, L. L. Satterthwaite and M. M. Rose are reflected in the Summary Compensation Table.

(2) Amounts included in this column that have been reported in the Summary Compensation Table since 2006 for each Named Executive Officer are: N. T. Linebarger \$3,625,421; P. J. Ward \$1,182,989; R. J. Freeland \$1,642,054; L. L. Satterthwaite \$9,487; M. M. Rose \$57,015.

**POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL**

**Payments upon a Change in Control without a Qualified Termination or upon a Qualified Termination following a Change in Control**

In the event of a change in control of our company or certain terminations of employment within two years after a change in control, we will provide benefits to certain executives, including our Named Executive Officers.

Upon a change in control, outstanding equity-based awards would not automatically become immediately vested and exercisable. Instead, two events (i.e., a so-called "double trigger") are required to trigger accelerated vesting and exercisability: both a change in control and termination without "cause" by the company or termination by the officer with "good reason" within two years of the change in control.

Upon a termination of employment without "cause" by the company or for "good reason" by the officer following a change in control, our Named Executive Officers, except our Chief Executive Officer, would be entitled to two years' salary plus two annual bonus payments calculated using a 1.0 payout factor. Our Chief Executive Officer would be entitled to three years' salary plus three annual bonus payments. We would also provide for the full vesting of certain insurance and retirement benefits. Additionally, the Named Executive Officers, other than our Chief Executive Officer, would receive a payment equal in value to two years' additional participation under our tax-qualified and nonqualified pension plans as well as two years' continued participation in other employee benefit plans, and our Chief Executive Officer would receive a payment equal in value to three years' additional participation under our tax-qualified and nonqualified pension plans as well as three years' continued participation in other employee benefits plans.

Outstanding awards of performance cash would be paid on a pro-rated basis, calculated as the percentage of days of each respective awards cycle that had elapsed as of the date of the change in control, and assuming a 1.0 payout factor. The value of supplemental and excess retirement (non-qualified) benefits will also be paid in cash. All amounts of compensation deferred under our Deferred Compensation Plan will be paid in cash. Our change in control arrangements with our Named Executive Officers do not entitle them to gross-up payments for taxes resulting from the application of the "golden parachute" excise tax provisions of Code Sections 280G and 4999. Instead, the arrangements reflect a "best net of taxes" approach under which, if excise taxes are imposed because of the golden parachute excise tax provisions of Code Sections 280G and 4999, the Named Executive Officer's change in control compensation protections will be either cut back, to a level below the level that would trigger the imposition of the excise taxes, or paid in full and subjected to the excise taxes, whichever results in the better after-tax result to the Named Executive Officer.

"Change in control" is generally defined as a consolidation or merger in which we are not the continuing or surviving corporation or in which our shares are converted; a sale, lease, exchange or transfer of substantially all of our assets; approval by our shareholders of a plan or proposal to liquidate or dissolve our company; the acquisition by a person of 25% or more of our voting power; or a majority change in the composition of our Board in a two-year period under specified circumstances where the nomination or election of the new directors is not approved by a supermajority of the directors prior to the change.

Termination for "cause" means a termination of the officer's employment by us due to the officer's willful and continued failure to perform his or her duties with us (after notice and an opportunity to cure), other than due to incapacity due to illness, or due to the officer's conviction of a felony.

Termination for "good reason" generally means a termination by the officer within 90 days following specified adverse changes in the officer's employment circumstances such as the assignment of duties not consistent with the officer's position, certain relocations of the officer's location of employment or reductions in compensation.

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The payments to each of our Named Executive Officers, assuming that all triggering events occurred on December 31, 2015, are estimated in the table below. Amounts actually received, should any of the triggering events occur, may vary.

| Payments                                     | N. T.      |                      | P. J. Ward          | R. J. Freeland      | L. L.               |                     | M. M. Rose |
|--|------------|----------------------|---------------------|---------------------|---------------------|---------------------|------------|
|  | Linebarger |                      |                     |                     | Satterthwaite       |                     |            |
| Severance                                    | (1) \$     | 9,693,750            | \$ 2,686,200        | \$ 3,307,200        | \$ 2,052,000        | \$ 2,282,400        |            |
| Unvested Stock Option Spread                 | (2) \$     | 0                    | \$ 0                | \$ 0                | \$ 0                | \$ 0                | 0          |
| Unvested Restricted Stock                    | (3) \$     | 0                    | \$ 0                | \$ 0                | \$ 0                | \$ 0                | 0          |
| LTI Plan Payment                             | (4) \$     | 10,693,114           | \$ 2,682,743        | \$ 3,312,955        | \$ 2,084,521        | \$ 1,917,151        |            |
| Retirement Benefit Payment                   | (5) \$     | 5,153,155            | \$ 589,613          | \$ 603,739          | \$ 363,240          | \$ 657,507          |            |
| Welfare Benefit Values                       | (6) \$     | 28,917               | \$ 19,278           | \$ 19,278           | \$ 19,278           | \$ 19,278           |            |
| Financial Advisory and 401(k) Benefit        | \$         | 62,925               | \$ 41,950           | \$ 41,950           | \$ 41,950           | \$ 41,950           |            |
| Reduction due to Best Net of Taxes Provision | (7) \$     | 0                    | \$ 0                | \$ 0                | \$ 0                | \$ 0                | 0          |
| <b>Aggregate Payments</b>                    |            | <b>\$ 25,631,861</b> | <b>\$ 6,019,784</b> | <b>\$ 7,285,122</b> | <b>\$ 4,560,989</b> | <b>\$ 4,918,286</b> |            |

- (1) Severance payment equal to three times annual base salary at the time of the termination, plus three annual bonus payments at a 1.0 payout factor for Mr. Linebarger as Chief Executive Officer. For the other Named Executive Officers, two times the Named Executive Officer's annual base salary at the time of the termination, plus two annual bonus payments at a 1.0 payout factor.
- (2) Total value of unvested stock options that would become vested upon a change in control, assuming a share price of \$88.01 and a change in control date of December 31, 2015.
- (3) Total value of unvested restricted stock that would become vested upon a change in control, assuming a share price of \$88.01 and a change in control date of December 31, 2015.
- (4) Pro-rated payouts of outstanding performance cash target awards for the 2014-2016 and 2015-2017 awards cycle, all of the performance cash target awards for the 2013-2015 awards cycle, and all of the performance share target awards for the 2013-2015, 2014-2016 and 2015-2017 awards cycle, all at target level, assuming a \$88.01 share price for the performance shares.
- (5) Incremental actuarial value attributable to retirement for three years of additional service for Mr. Linebarger or two years for the other Named Executive Officers.
- (6) Estimated value associated with the continuation of life insurance, medical, dental, and disability benefits for three years for Mr. Linebarger or two years for the other Named Executive Officers following termination.
- (7) The calculation of the Reduction due to Best Net of Taxes Provision is based upon a Code Section 280G excise tax rate of 20% and the highest marginal income tax rates for 2015. Furthermore, it was assumed that no value will be attributed to reasonable compensation. At the time of any change in control, a value may be so attributed, which would affect whether a reduction would be triggered and the amount of any such reduction.

### Potential Payments upon Termination of Employment Other than Following a Change in Control

The following tables summarize the estimated payments to be made to Named Executive Officers under provisions of plans or established practice in the event of termination of employment including

resignation, involuntary termination, involuntary termination for cause, retirement, death and disability other than following a change in control.

Termination for cause includes, but is not limited to: violation of our Treatment of Others Policy, violation of the Code of Business Conduct, theft or other acts of dishonesty, willful destruction of our property, refusal to obey a supervisor's reasonable instructions, conduct endangering the safety of employees or co-workers, falsification of our documents, or violation of our other rules or policies.

We only report amounts where vesting requirements are waived and/or time of payment is accelerated, or benefits that are not generally available to our other exempt employees. Also, information is not repeated that is disclosed previously under the Pension Benefits Table, the Deferred Compensation Table, or the Outstanding Equity Awards Table, except to the extent that the amounts payable to the Named Executive Officer would be enhanced by the termination event described.

The amounts shown assume the terminating event occurred on the last business day of 2015, and that the price per share of our Common Stock is the closing price as of that date, \$88.01.

#### *Severance*

We do not have formal severance agreements with any of our Named Executive Officers. However, the Committee has established a policy that any of our Named Executive Officers, if terminated by us other than for cause, will generally be entitled to receive up to 12 months' base salary as severance, paid as salary continuation, and a pro-rated portion of his or her annual bonus for the portion of the year prior to termination, payable at the normal time and using the same payout factors as for all other participants. All of these elements would require a signed release of claims agreement.

#### *Accelerated Vesting of Long-Term Grants*

As described elsewhere in this proxy statement, currently we provide annual target award grants of performance cash, performance shares and stock options. The grants are based on a three-year performance period.

#### *Performance Cash:*

If a participant's employment with us terminates during the first year of an awards cycle, other than by reason of retirement, death or disability, the participant will not receive any payout for that awards cycle. If a participant's employment terminates during the second year of an awards cycle other than by reason of retirement, death or disability, the Compensation Committee, in its discretion, may determine whether the participant will receive a proportionate payout of any payment with respect to the awards cycle based on the period of employment during the cycle.

If a participant retires, dies or becomes disabled during an awards cycle, the participant or such participant's estate, as the case may be, will receive a proportionate share of any payment with respect to the awards cycle based on the period of employment during the cycle, regardless of the length of time of such employment. In the case of retirement the proportionate share of the payment will be based on the actual payout factor. In the case of death or disability, the payment depends on when the death or disability occurs. If the death or disability occurs in year one of the performance period, the payout is based on an assumed payout factor of 1.0. If the death or disability occurs in year two, the payout factor is based on the actual year one performance and an assumed payout factor of 1.0 for years two and three. If death or disability occurs in year three, the payout factor is made on the normal payout cycle according to the actual payout factor.

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### *2013-2015 Awards Cycle Grants*

Since the entire 2013-2015 awards cycle was completed as of the assumed December 31, 2015 date of the termination, all participants would have been entitled to the payment at the normal time in March 2016. Since there would be no special acceleration, the amounts of these payments are not shown on the tables.

### *2014-2016 Awards Cycle Grants*

Since the termination event is assumed to occur on December 31, 2015, which was the end of the second year of the 2014-2016 awards cycle, the Committee has the discretion to award two-thirds of the target award for the 2014-2016 awards cycle. For purposes of this table, two-thirds of the target awards for the 2014-2016 awards cycle, assuming a payout factor of 1.0, is shown as payable under retirement, death, and disability.

### *2015-2017 Awards Cycle Grants*

Since the termination event is assumed to occur on December 31, 2015, which was the end of the first year of the 2015-2017 awards cycle, the Committee has the discretion to award one-third of the target award for the 2015-2017 awards cycle. For purposes of this table, one-third of the target awards for the 2015-2017 awards cycle, assuming a payout factor of 1.0, is shown as payable under retirement, death, and disability.

### *Performance Shares:*

If a participant's employment with us terminates during the first year of an awards cycle, other than by reason of retirement, death or disability, the participant will not receive any performance shares for that awards cycle. If a participant's employment terminates during the second year of an awards cycle other than by reason of retirement, death or disability, the Compensation Committee, in its discretion, may determine whether the participant will receive a proportionate payout of any performance shares with respect to the awards cycle based on the period of employment during the cycle.

If a participant retires, dies or becomes disabled during an awards cycle, the participant or such participant's estate, as the case may be, will receive a proportionate number of any performance shares earned with respect to the awards cycle based on the period of employment during the cycle, regardless of the length of time of such employment. In the case of retirement, the proportionate number will be based on the actual payout factor. In the case of death or disability, the number depends on when the death or disability occurs. If the death or disability occurs in year one of the performance period, the number of shares earned is based on an assumed payout factor of 1.0. If the death or disability occurs in year two, the number of shares earned is based on the actual year one performance and an assumed payout factor of 1.0 for years two and three. If death or disability occurs in year three, the number of shares earned is determined on the normal payout cycle according to the actual payout factor.

### *2013-2015 Awards Cycle Grants*

Since the entire 2013-2015 awards cycle was completed as of the assumed December 31, 2015 date of the termination, participants would have earned performance shares at the normal time in March 2016. Since there would be no special acceleration, the amounts of the awards are not shown on the tables.

### *2014-2016 Awards Cycle Grants*

Performance shares would become earned based on our performance during 2014-2016 and paid out in unrestricted shares in March 2017. Since the shares were not yet earned, it is assumed no payments were accelerated on a termination other than a retirement, death or disability. For purposes of this table,

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two-thirds of the target awards for the 2014-2016 awards cycle, assuming a payout factor of 1.0, is shown as payable under retirement, death, and disability.

### *2015-2017 Awards Cycle Grants*

Performance shares would become earned based on our performance during 2015-2017 and paid out in unrestricted shares in March 2018. Since the shares were not yet earned, it is assumed no payments were accelerated on a termination other than a retirement, death or disability. For purposes of this table, one-third of the target awards for the 2015-2017 awards cycle, assuming a payout factor of 1.0, is shown as payable under retirement, death, and disability.

### *Stock Options:*

#### *2014-2016 Awards Cycle Grants*

Stock options were granted on April 2, 2014 and will vest and become exercisable with respect to all of the underlying shares of our Common Stock on the third anniversary of the grant date, or April 2, 2017, or upon the recipient's earlier retirement, death or disability, so long as the recipient is continuously employed by us or a subsidiary until such date or event. Accordingly, the value of the accelerated vesting is shown only in the columns relating to a termination for retirement, death or disability.

#### *2015-2017 Awards Cycle Grants*

Stock options were granted on April 2, 2015 and will vest and become exercisable with respect to all of the underlying shares of our Common Stock on the third anniversary of the grant date, or April 2, 2018, or upon the recipient's earlier retirement, death or disability, so long as the recipient is continuously employed by us or a subsidiary until such date or event. Accordingly, the value of the accelerated vesting is shown only in the columns relating to a termination for retirement, death or disability.

### *Executive Life Insurance*

Each of the Named Executive Officers participates in the Supplemental Life Insurance and Deferred Income Program, whereby officers are eligible for life insurance equal to three times base salary. Since this is a program not participated in by non-officer employees, the values of this incremental coverage are shown in the table.

### *Outplacement, Welfare Benefits, and Financial Counseling*

Outplacement assistance and welfare benefits will be provided only in the case of involuntary not-for-cause termination. Financial counseling support will not be provided in cases of voluntary termination and termination for cause.

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The payments to each of our Named Executive Officers, assuming that the triggering event occurred on December 31, 2015, are estimated in the table below. Amounts actually received should any of the triggering events occur may vary.

|   | Voluntary Termination |          | Involuntary Not-for-Cause Termination |                  | Retirement | Death    | Disability |                  |
|---|-----------------------|----------|---------------------------------------|------------------|------------|----------|------------|------------------|
| <b>N. T. Linebarger</b>                                   |                       |          |                                       |                  |            |          |            |                  |
| Severance   | \$                    | 0        | \$                                    | 1,375,000        | \$         | 0        | \$         | 0                |
| Accelerated Vesting of Long-Term Grants:                  |                       |          |                                       |                  |            |          |            |                  |
| Performance Cash 2014-2016 Awards Cycle                   | \$                    | 0        | \$                                    | 0                | \$         | 0        | \$         | 1,720,667        |
| Performance Cash 2015-2017 Awards Cycle                   | \$                    | 0        | \$                                    | 0                | \$         | 0        | \$         | 928,667          |
| Performance Shares 2014-2016 Awards Cycle                 | \$                    | 0        | \$                                    | 0                | \$         | 0        | \$         | 1,090,737        |
| Performance Shares 2015-2017 Awards Cycle                 | \$                    | 0        | \$                                    | 0                | \$         | 0        | \$         | 533,047          |
| Stock Options 2014-2016 Awards Cycle                      | \$                    | 0        | \$                                    | 0                | \$         | 0        | \$         | 0                |
| Stock Options 2015-2017 Awards Cycle                      | \$                    | 0        | \$                                    | 0                | \$         | 0        | \$         | 0                |
| Outplacement  | \$                    | 0        | \$                                    | 5,900            | \$         | 0        | \$         | 0                |
| Welfare Benefits  | \$                    | 0        | \$                                    | 28,917           | \$         | 0        | \$         | 0                |
| Financial Counseling                                      | \$                    | 0        | \$                                    | 11,200           | \$         | 0        | \$         | 11,200           |
| Life Insurance (Supplemental Life Insurance Program only) | \$                    | 0        | \$                                    | 0                | \$         | 0        | \$         | 4,125,000        |
| <b>Aggregate Payments</b>                                 | <b>\$</b>             | <b>0</b> | <b>\$</b>                             | <b>1,421,017</b> | <b>\$</b>  | <b>0</b> | <b>\$</b>  | <b>8,409,318</b> |

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|   | Involuntary Termination |                           |             |             |                     |                     |
|---|-------------------------|---------------------------|-------------|-------------|---------------------|---------------------|
|   | Voluntary Termination   | Not-for-Cause Termination | for Cause   | Retirement  | Death               | Disability          |
| <b>P. J. Ward</b>   |                         |                           |             |             |                     |                     |
| Severance   | \$ 0                    | \$ 726,000                | \$ 0        | \$ 0        | \$ 0                | \$ 0                |
| Accelerated Vesting of Long-Term Grants:                  |                         |                           |             |             |                     |                     |
| Performance Cash 2014-2016 Awards Cycle                   | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 430,000          | \$ 430,000          |
| Performance Cash 2015-2017 Awards Cycle                   | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 235,667          | \$ 235,667          |
| Performance Shares 2014-2016 Awards Cycle                 | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 272,831          | \$ 272,831          |
| Performance Shares 2015-2017 Awards Cycle                 | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 135,242          | \$ 135,242          |
| Stock Options 2014-2016 Awards Cycle                      | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 0                | \$ 0                |
| Stock Options 2015-2017 Awards Cycle                      | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 0                | \$ 0                |
| Outplacement  | \$ 0                    | \$ 5,900                  | \$ 0        | \$ 0        | \$ 0                | \$ 0                |
| Welfare Benefits  | \$ 0                    | \$ 19,278                 | \$ 0        | \$ 0        | \$ 0                | \$ 0                |
| Financial Counseling                                      | \$ 0                    | \$ 11,200                 | \$ 0        | \$ 0        | \$ 11,200           | \$ 11,200           |
| Life Insurance (Supplemental Life Insurance Program only) | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 2,178,000        | \$ 0                |
| <b>Aggregate Payments</b>                                 | <b>\$ 0</b>             | <b>\$ 762,378</b>         | <b>\$ 0</b> | <b>\$ 0</b> | <b>\$ 3,262,940</b> | <b>\$ 1,084,940</b> |

|   | Involuntary Termination |                           |             |                     |                     |                     |
|---|-------------------------|---------------------------|-------------|---------------------|---------------------|---------------------|
|   | Voluntary Termination   | Not-for-Cause Termination | for Cause   | Retirement          | Death               | Disability          |
| <b>R. J. Freeland</b>                                     |                         |                           |             |                     |                     |                     |
| Severance   | \$ 0                    | \$ 848,000                | \$ 0        | \$ 0                | \$ 0                | \$ 0                |
| Accelerated Vesting of Long-Term Grants:                  |                         |                           |             |                     |                     |                     |
| Performance Cash 2014-2016 Awards Cycle                   | \$ 0                    | \$ 0                      | \$ 0        | \$ 546,667          | \$ 546,667          | \$ 546,667          |
| Performance Cash 2015-2017 Awards Cycle                   | \$ 0                    | \$ 0                      | \$ 0        | \$ 341,333          | \$ 341,333          | \$ 341,333          |
| Performance Shares 2014-2016 Awards Cycle                 | \$ 0                    | \$ 0                      | \$ 0        | \$ 346,759          | \$ 346,759          | \$ 346,759          |
| Performance Shares 2015-2017 Awards Cycle                 | \$ 0                    | \$ 0                      | \$ 0        | \$ 195,969          | \$ 195,969          | \$ 195,969          |
| Stock Options 2014-2016 Awards Cycle                      | \$ 0                    | \$ 0                      | \$ 0        | \$ 0                | \$ 0                | \$ 0                |
| Stock Options 2015-2017 Awards Cycle                      | \$ 0                    | \$ 0                      | \$ 0        | \$ 0                | \$ 0                | \$ 0                |
| Outplacement  | \$ 0                    | \$ 5,900                  | \$ 0        | \$ 0                | \$ 0                | \$ 0                |
| Welfare Benefits  | \$ 0                    | \$ 19,278                 | \$ 0        | \$ 0                | \$ 0                | \$ 0                |
| Financial Counseling                                      | \$ 0                    | \$ 11,200                 | \$ 0        | \$ 11,200           | \$ 11,200           | \$ 11,200           |
| Life Insurance (Supplemental Life Insurance Program only) | \$ 0                    | \$ 0                      | \$ 0        | \$ 0                | \$ 2,544,000        | \$ 0                |
| <b>Aggregate Payments</b>                                 | <b>\$ 0</b>             | <b>\$ 884,378</b>         | <b>\$ 0</b> | <b>\$ 1,441,928</b> | <b>\$ 3,985,928</b> | <b>\$ 1,441,928</b> |



|   | Involuntary Termination |                           |             |                   |                     |                   |
|---|-------------------------|---------------------------|-------------|-------------------|---------------------|-------------------|
|   | Voluntary Termination   | Not-for-Cause Termination | for Cause   | Retirement        | Death               | Disability        |
| <b>L. L. Satterthwaite</b>                                |                         |                           |             |                   |                     |                   |
| Severance   | \$ 0                    | \$ 570,000                | \$ 0        | \$ 0              | \$ 0                | \$ 0              |
| Accelerated Vesting of Long-Term Grants:                  |                         |                           |             |                   |                     |                   |
| Performance Cash 2014-2016 Awards Cycle                   | \$ 0                    | \$ 0                      | \$ 0        | \$ 341,333        | \$ 341,333          | \$ 341,333        |
| Performance Cash 2015-2017 Awards Cycle                   | \$ 0                    | \$ 0                      | \$ 0        | \$ 170,667        | \$ 170,667          | \$ 170,667        |
| Performance Shares 2014-2016 Awards Cycle                 | \$ 0                    | \$ 0                      | \$ 0        | \$ 216,505        | \$ 216,505          | \$ 216,505        |
| Performance Shares 2015-2017 Awards Cycle                 | \$ 0                    | \$ 0                      | \$ 0        | \$ 97,984         | \$ 97,984           | \$ 97,984         |
| Stock Options 2014-2016 Awards Cycle                      | \$ 0                    | \$ 0                      | \$ 0        | \$ 0              | \$ 0                | \$ 0              |
| Stock Options 2015-2017 Awards Cycle                      | \$ 0                    | \$ 0                      | \$ 0        | \$ 0              | \$ 0                | \$ 0              |
| Outplacement  | \$ 0                    | \$ 5,900                  | \$ 0        | \$ 0              | \$ 0                | \$ 0              |
| Welfare Benefits  | \$ 0                    | \$ 19,278                 | \$ 0        | \$ 0              | \$ 0                | \$ 0              |
| Financial Counseling                                      | \$ 0                    | \$ 11,200                 | \$ 0        | \$ 11,200         | \$ 11,200           | \$ 11,200         |
| Life Insurance (Supplemental Life Insurance Program only) | \$ 0                    | \$ 0                      | \$ 0        | \$ 0              | \$ 1,710,000        | \$ 0              |
| <b>Aggregate Payments</b>                                 | <b>\$ 0</b>             | <b>\$ 606,378</b>         | <b>\$ 0</b> | <b>\$ 837,689</b> | <b>\$ 2,547,689</b> | <b>\$ 837,689</b> |

|   | Involuntary Termination |                           |             |             |                     |                   |
|---|-------------------------|---------------------------|-------------|-------------|---------------------|-------------------|
|   | Voluntary Termination   | Not-for-Cause Termination | for Cause   | Retirement  | Death               | Disability        |
| <b>M. M. Rose</b>   |                         |                           |             |             |                     |                   |
| Severance   | \$ 0                    | \$ 634,000                | \$ 0        | \$ 0        | \$ 0                | \$ 0              |
| Accelerated Vesting of Long-Term Grants:                  |                         |                           |             |             |                     |                   |
| Performance Cash 2014-2016 Awards Cycle                   | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 314,000          | \$ 314,000        |
| Performance Cash 2015-2017 Awards Cycle                   | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 157,000          | \$ 157,000        |
| Performance Shares 2014-2016 Awards Cycle                 | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 198,903          | \$ 198,903        |
| Performance Shares 2015-2017 Awards Cycle                 | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 90,064           | \$ 90,064         |
| Stock Options 2014-2016 Awards Cycle                      | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 0                | \$ 0              |
| Stock Options 2015-2017 Awards Cycle                      | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 0                | \$ 0              |
| Outplacement  | \$ 0                    | \$ 5,900                  | \$ 0        | \$ 0        | \$ 0                | \$ 0              |
| Welfare Benefits  | \$ 0                    | \$ 19,278                 | \$ 0        | \$ 0        | \$ 0                | \$ 0              |
| Financial Counseling                                      | \$ 0                    | \$ 11,200                 | \$ 0        | \$ 0        | \$ 11,200           | \$ 11,200         |
| Life Insurance (Supplemental Life Insurance Program only) | \$ 0                    | \$ 0                      | \$ 0        | \$ 0        | \$ 1,902,000        | \$ 0              |
| <b>Aggregate Payments</b>                                 | <b>\$ 0</b>             | <b>\$ 670,378</b>         | <b>\$ 0</b> | <b>\$ 0</b> | <b>\$ 2,673,167</b> | <b>\$ 771,167</b> |

**ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS  
(Item 11 on the Proxy Card)**

Executive compensation is important to us and to our shareholders. Since 2011, we have held annual advisory shareholder votes to approve the compensation of our Named Executive Officers as required by Section 14A of the Securities Exchange Act of 1934. At this year's Annual Meeting, we once again are seeking input from our shareholders through an advisory vote to approve the compensation of our Named Executive Officers as disclosed in the Compensation Discussion and Analysis section and the accompanying compensation tables and narratives contained in this proxy statement. In 2015, consistent with the recommendation of our Board, our shareholders voted in favor of our executive compensation, with 96.2% of votes cast in favor.

**Principles of our Executive Compensation Program**

The primary focus of our executive compensation program is the principle of pay for performance, as we define it, both in program design and in specific awards. We believe that the level of compensation received by executives should be closely tied to our corporate financial and stock price performance.

Our executive compensation program also is designed to attract, motivate, focus and retain employees with the skills required to achieve our performance goals in a competitive global business environment. Therefore, our program is designed to reflect each individual's contribution to our corporate performance, while striking an appropriate balance between short-term and long-term corporate results.

In addition to our focus on pay for performance, we also consider the following principles when designing and implementing our executive compensation program:

*Market Positioning:* On average our executives' target total direct compensation opportunity, consisting of base salary, target annual bonus and target long-term incentive value, should be at the median of the market, as we define it, and as described in the "Market Alignment of our Executive Compensation Program Elements" section;

*Short-Term/Long-Term Balance:* There should be a balance between annual and long-term elements of compensation;

*Pay at Risk:* The more senior an executive's position, the more his or her compensation should be "at risk," which means that it is dependent on our corporate financial and stock price performance;

*Alignment with Shareholder Interests:* Equity-based compensation and stock ownership should be an important part of our executive compensation program in order to link our management's compensation with our shareholders' returns. The greater the level of responsibility of the officer, the more his or her compensation should be stock-based and the higher his or her stock ownership requirement;

*Retention:* Our compensation program should support retention of our experienced executives and achievement of our leadership succession plans; and

*Simple and Transparent:* Our executive compensation program should be transparent to our investors and employees and should be simple and easy to understand.

**Link between Financial Performance and Executive Compensation**

We have a long-standing commitment to pay for performance that we implement by providing a majority of compensation through arrangements designed to hold our executive officers accountable for business results and reward them for consistently strong corporate performance and the creation of value

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for our shareholders. The Compensation Committee has carefully structured the key elements of our executive compensation program to support this objective. Specifically:

The performance metrics that we use in our compensation program encourage management to generate growth in income and cash flow through profitable investment, which supports both dividend payments to shareholders as well as future investments in growth and innovation;

Our annual bonus program rewards operational performance through our Return on Average Net Assets (ROANA) metric;

Our performance cash and performance share programs reward Return on Equity (ROE) performance over three years;

Rewarding our executives based on our relative achievement of ROANA and ROE targets encourages management to invest in profitable future growth opportunities when allocating shareholder capital; and

Our use of stock options further encourages management to generate long-term superior returns for our shareholders.

Our Compensation Committee annually requests that Farient Advisors LLC, or Farient, evaluate the relationship between our executive compensation and our financial and shareholder return performance. As in prior years, Farient conducted quantitative analyses to test the alignment of our Chief Executive Officer's pay and corporate performance by simulating the pay for performance tests relied upon by proxy voting advisor firms and by using its own pay for performance alignment model which tests 3-year average performance-adjusted compensation relative to 3-year average Total Shareholder Return, or TSR. Our Compensation Committee considers these analyses in evaluating whether our Chief Executive Officer's compensation has corresponded with the performance delivered.

In addition, as a further test, the following graphs show the relationship between our corporate financial and TSR performance and our executive compensation levels over the past five years as measured by our: (i) average TSR (three-year rolling average, on a dividend reinvested basis); (ii) ROANA; (iii) ROE; and (iv) average annual total compensation for our Named Executive Officers, or Avg TC, as reported in our Summary Compensation Table:

Note: The "Avg TC" values in these graphs reflect the averages of the total compensation values for our Named Executive Officers as reported in the Summary Compensation Tables of our proxy statements for the respective years shown in the graphs.

To illustrate how our executive compensation program achieves our pay at risk principle, set forth below are the percentages for each of the three elements that make up the target total direct compensation opportunity provided in 2015 to our Chief Executive Officer and our other Named Executive Officers as a group.

*Target Total Direct Compensation Mix Fiscal Year 2015*

(Consists of base salary, annual bonus award target and 2015 long-term incentive grant value)

The targets for performance-linked components for 2015 were 86% and 76% for the CEO and Named Executive Officers, respectively.

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### *How We Did in 2015 and How Our Executive Compensation Aligned with Our Performance*

In 2015, we faced challenging economic conditions as a slowdown in global markets led to lower corporate financial results and shareholder returns compared to the prior two years. We believe that these challenging conditions were appropriately reflected in our executive compensation in the form of a decline in the value of annual total compensation for 2015, as shown in the graphs above. The close correlation between our financial performance and our Named Executive Officers' compensation demonstrate that our executive compensation aligned well with the objectives of our program and our corporate financial and shareholder return performance in 2015.

*2015 Business Highlights.* Our revenues decreased by 1 percent in 2015 compared to 2014, due primarily to weakness in international markets and the negative impact of a stronger US dollar. Revenues in North America were higher, driven by stronger demand in on-highway markets and distributor acquisitions. These North American increases were more than offset by weak end market demand in Brazil, China and a number of other international markets. We generated significant cash flow from operations in 2015 that enabled us to keep investing in our business and also increase cash returned to shareholders. Key business highlights for 2015 include:

Our total net sales were \$19.1 billion, 1 percent lower than 2014;

We incurred a \$211 million (\$133 million after-tax) charge due to the impairment of the assets of our light duty diesel business in response to lower than anticipated demand for our products;

We incurred a \$90 million (\$61 million after-tax) restructuring charge due to lower demand for our products in the United States and key markets around the world;

Our EBIT was \$2.09 billion, down 16 percent compared to \$2.50 billion in 2014;

Net income attributable to Cummins Inc. was \$1.40 billion, compared to \$1.65 billion in 2014;

ROANA was 22 percent and ROE was 17 percent, compared to 26 percent and 20 percent in 2014, respectively;

We continued our efforts to return value to our shareholders in 2015 by increasing our dividend by 25 percent and by repurchasing 7.2 million shares of our Common Stock. In total we returned \$1.5 billion or 74 percent of cash from operations to shareholders; and

The average annual TSR over the three year period ending 2015 was (4.6) percent.

**Best Practices Adopted in Determining Executive Compensation**

We continually review best practices in the area of executive compensation. Our executive compensation arrangements include features considered best practices, such as the following:

**What We Do**

*Performance  
Measurement*

We set clear financial goals that we believe are challenging but achievable, meet or exceed competitive standards, and enhance shareholder value over time.

We use different performance measures in our short- and long-term incentive compensation plans to correlate with our financial performance on both an annual and longer-term basis, as well as our returns to shareholders. In addition, we believe that our performance measures correlate to shareholder value creation over the long term.

*Compensation  
Program Design / Pay  
For Performance  
Alignment*

Our annual bonus plan is designed to strengthen the tie between individual employee performance and corporate performance.

Effective in 2015, we moved to a "One Cummins" annual bonus plan in which all eligible employees participate, with the exception of our North American distributor organization. Upon the completion of the organizational transition, we intend to move the North American distributor organization to the "One Cummins" annual bonus plan. Previously, we had maintained annual bonus plans for individual segments, distributors, manufacturing facilities and logistics centers. We introduced the "One Cummins" annual bonus plan for a number of reasons, including: to emphasize that the overall success of our Company is more important than any individual business; to further encourage collaboration across our organization; and to promote "One Cummins" by encouraging our employees to collectively share in the success of our Company.

We use multiple components under our long-term incentive compensation program (performance cash, performance shares and stock options) to address the motivational concerns associated with a singular focus on any one form of incentive compensation.

To further encourage focus on the sustained growth of our Company over the long term and to aid in retention, our performance shares, performance cash and stock option awards to our executive officers cliff vest after three years.

We cap payouts under our short- and long-term incentive compensation plans at 200% of the target awards.

Perquisites do not comprise a major element in our executive compensation program.

*Risk Mitigation*

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We maintain a compensation recoupment, or "clawback," policy in our corporate governance principles providing that, if any of our financial statements are required to be materially restated resulting from the fraudulent actions of any officer, our Board may direct that we recover all or a portion of any award or any past or future compensation other than base salary from any such officer with respect to any year for which our financial results are adversely affected by such restatement.

### *Governance*

We monitor our pay practices to help confirm that they do not encourage excessive risk taking.

Our Compensation Committee benefits from the use of an outside, independent compensation consultant.

### *Other*

We require executive officers to maintain certain stock ownership levels and prohibit them from engaging in forms of hedging or similar types of transactions with respect to our stock or entering into any arrangement that, directly or indirectly, involves the pledge of our securities or other use of our securities as collateral for a loan.

Benefits under our change in control arrangements with our executive officers are subject to a "double trigger" rather than a "single trigger" (i.e., in addition to the change in control occurring, the executive officer's employment must be terminated by us without cause or by the executive officer with good reason in order for him or her to receive any benefits under the arrangement).

What We Don't Do

We do not permit backdating or repricing of stock options.

We do not have separate employment contracts with our executive officers.

We do not guarantee salary increases, bonuses or equity grants for our executive officers and we do not provide discretionary bonuses to our Named Executive Officers.

We will not gross-up excise taxes that may be imposed on payments to our executive officers in connection with a change in control.

Our Board would like the support of our shareholders for the compensation of our Named Executive Officers as disclosed in the Compensation Discussion and Analysis section and the accompanying compensation tables and narratives contained in this proxy statement. Accordingly, for the reasons we discuss above, our Board unanimously recommends that shareholders vote in favor of the following resolution:

"RESOLVED, that the shareholders approve, on an advisory basis, the compensation of the Named Executive Officers as disclosed in the Compensation Discussion and Analysis section and the accompanying compensation tables and narratives contained in this proxy statement."

The compensation of the Named Executive Officers as disclosed in the Compensation Discussion and Analysis section and the accompanying compensation tables and narratives contained in this proxy statement will be approved if the votes cast in favor of the proposal exceed those cast against the proposal. Abstentions and broker non-votes will not affect the voting results for this proposal.

As this is an advisory vote, the results of the vote will not be binding on our Board, although our Compensation Committee will consider the outcome of the vote when evaluating the effectiveness of our compensation principles and practices and our Compensation Committee and our Board will review and consider the outcome of the vote when making future compensation decisions for our Named Executive Officers. We believe our Company benefits from constructive dialogue with our shareholders on these important matters, and while we continue to reach out to our shareholders on these and other issues, we also encourage our shareholders to contact us if they would like to communicate their views on our executive compensation programs. Shareholders who wish to communicate with our non-management directors concerning our executive compensation programs should refer to the section above entitled "Corporate Governance Board of Directors and Committees Communication with the Board of Directors." We intend to hold the next advisory vote on the compensation of our Named Executive Officers at the annual meeting in 2017.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THE COMPENSATION DISCUSSION AND ANALYSIS SECTION AND ACCOMPANYING COMPENSATION TABLES AND NARRATIVES IN THIS PROXY STATEMENT.



**DIRECTOR COMPENSATION**

We provide to each of our non-employee directors target annual compensation of \$250,000, \$100,000 of which is paid in cash and \$150,000 of which is represented by an award of our Common Stock. We also provide additional cash fees to the chairmen of our various committees. The Chairman of our Finance Committee receives an additional cash retainer of \$10,000, the Chairman of the Governance and Nominating Committee receives an additional cash retainer of \$10,000, the Chairman of the Safety, Environment and Technology Committee receives an additional cash retainer of \$10,000, the Audit Committee Chairman receives an additional \$15,000 cash retainer and the Compensation Committee Chairman receives an additional \$15,000 cash retainer. The Lead Director receives an additional annual cash retainer of \$25,000. There are no additional meeting fees for committee service for all committees.

We also have a Deferred Compensation Plan for non-employee directors, pursuant to which directors may elect to defer receipt of all or any portion of their compensation while they serve as a director. The deferred compensation, plus accrued interest, is paid to the director upon the earliest of a specified date (if one is selected by the director), the director's retirement or death or a change in control of our Company. If the deferred compensation and interest is paid in connection with a specified date or the director's retirement, it is paid to the director in a lump sum or in annual installments, not to exceed 15, as specified by the director. Upon a change in control of our Company or the director's death, such deferred compensation and interest would be paid in cash to the director in one lump sum. Accounts are credited with earnings based on each participant's selection among three alternatives: Standard & Poor's 500 Index, Barclays Capital Aggregate Bond Index or 10-Year Treasury Bill + 2%. Some directors may have a balance in a legacy investment option, 10-Year Treasury Bill +4%. This option is not open to additional investment.

Effective with the 2016 plan year, account crediting options within our Deferred Compensation Plan will be similar to the investment choices available in our 401(k) plan. Expanding the account crediting options available in our Deferred Compensation Plan to be similar to the investment choices available in our 401(k) plan increases the number of account crediting options available to participants. As a result, effective December 31, 2015, the Standard & Poor's 500 Index, Barclays Capital Aggregate Bond Index and the 10-Year Treasury Bill + 2% options were closed to additional investment.

Each non-employee director is required to maintain direct ownership of shares of our Common Stock (including stock awards) equal to or greater in value to three times his or her annual total retainer fee. Non-employee directors must comply with this requirement within six years of becoming a member of our Board. Subject to limited exceptions, non-employee directors are not allowed to sell our shares until they reach their stock ownership guideline, and then may not sell shares to the extent their ownership level would be less than the guideline amount. All of our non-employee directors have either satisfied this requirement or have additional time to do so, except for F.R. Chang Diaz, who was given an extension of one year to satisfy the requirement and is expected to do so upon receiving the equity portion of his annual compensation in connection with this year's Annual Meeting.

| Name               | (1)<br>Fees Earned<br>or<br>Paid in Cash |            | (2)<br>Stock Awards | (3)<br>Change in Pension<br>Value and<br>Non-Qualified<br>Deferred<br>Compensation<br>Earnings |          | (4)<br>All Other<br>Compensation |      | Total |
|--------------------|--|------------|---------------------|--|----------|----------------------------------|------|-------|
|                    | (\$)                                     | (\$)       |                     | (\$)   | (\$)     | (\$)                             | (\$) |       |
| R. J. Bernhard     | \$ 110,000                               | \$ 153,376 | \$ 153,376          | \$ 0   | \$ 1,392 | \$ 264,768                       |      |       |
| F. R. Chang Diaz   | \$ 100,000                               | \$ 153,376 | \$ 153,376          | \$ 0   | \$ 2,877 | \$ 256,253                       |      |       |
| B. V. Di Leo Allen | \$ 100,000                               | \$ 153,376 | \$ 153,376          | \$ 0   | \$ 0     | \$ 253,376                       |      |       |
| S. B. Dobbs        | \$ 100,000                               | \$ 153,376 | \$ 153,376          | \$ 0   | \$ 0     | \$ 253,376                       |      |       |
| R. K. Herdman(5)   | \$ 115,000                               | \$ 153,376 | \$ 153,376          | \$ 0   | \$ 1,709 | \$ 270,085                       |      |       |
| A. M. Herman(6)    | \$ 135,000                               | \$ 153,376 | \$ 153,376          | \$ 0   | \$ 1,076 | \$ 289,452                       |      |       |
| T. J. Lynch        | \$ 100,000                               | \$ 153,376 | \$ 153,376          | \$ 0   | \$ 0     | \$ 253,376                       |      |       |
| W. I. Miller(6)    | \$ 110,000                               | \$ 153,376 | \$ 153,376          | \$ 48,971  | \$ 847   | \$ 313,194                       |      |       |
| G. R. Nelson       | \$ 115,000                               | \$ 153,376 | \$ 153,376          | \$ 8,914   | \$ 1,076 | \$ 278,366                       |      |       |

(1) Fees Earned or Paid in Cash were as follows:

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| Director           | Board Retainer | Lead Director Fee | Committee Chaired                  | Committee Chair Fees | Total      |
|--------------------|----------------|-------------------|------------------------------------|----------------------|------------|
| R. J. Bernhard     | \$ 100,000     | \$ 0              | Safety, Environment and Technology | \$ 10,000            | \$ 110,000 |
| F. R. Chang Diaz   | \$ 100,000     | \$ 0              |                                    | \$ 0                 | \$ 100,000 |
| B. V. Di Leo Allen | \$ 100,000     | \$ 0              |                                    | \$ 0                 | \$ 100,000 |
| S. B. Dobbs        | \$ 100,000     | \$ 0              |                                    | \$ 0                 | \$ 100,000 |
| R. K. Herdman      | \$ 100,000     | \$ 0              | Audit                              | \$ 15,000            | \$ 115,000 |
| A. M. Herman       | \$ 100,000     | \$ 25,000         | Governance and Nominating          | \$ 10,000            | \$ 135,000 |
| T. J. Lynch        | \$ 100,000     | \$ 0              |                                    | \$ 0                 | \$ 100,000 |
| W. I. Miller       | \$ 100,000     | \$ 0              | Finance                            | \$ 10,000            | \$ 110,000 |
| G. R. Nelson       | \$ 100,000     | \$ 0              | Compensation                       | \$ 15,000            | \$ 115,000 |

(2) The stock award column represents the aggregate grant date fair value of the awards, which was \$141.23 per share. The aggregate grant date fair value was computed in accordance with ASC Topic 718. The assumptions made in valuing stock awards for 2015 are included in the Notes to Consolidated Financial Statements in our 2015 Annual Report on Form 10-K and such information is incorporated by reference.

The stock value represents 60 percent of the annual retainer. The number of shares is calculated by dividing the target value by the preceding 20-day average closing price of our Common Stock on the NYSE on the grant date, rounded down to the nearest whole share. Each director was awarded 1,086 shares of stock. The shares for all directors were granted using a value of \$138.0425, the preceding 20-day average of closing prices of our Common Stock on the NYSE on the grant date of May 12, 2015.

(3) These amounts represent "Above Market" earnings in the Deferred Compensation Plan, as described above. "Above-market" is defined as the amount of earnings that exceeded 120% of the applicable federal long-term rate published by the U.S. Internal Revenue Service.

(4) These amounts represent payments to our non-employee directors to reimburse them for income taxes on imputed income attributable to air travel by guests of the directors in connection with certain Board meetings during 2015. The payments also cover the additional income taxes incurred by the directors as a result of the reimbursement. Aside from these payments, we incurred no aggregate incremental cost for the travel.

(5) R.K. Herdman elected to defer 100% of the 2015 Stock Award. The value of this Stock Award is included in this table.

(6) As part of our overall support of charitable and educational institutions, we previously established the Cummins Inc. Charitable Bequest Program in which directors first elected prior to 2004 are eligible to participate. Only W. I. Miller and A. M. Herman currently participate in this program. Following the death of such director, we will donate 10 equal annual installments of \$100,000 to one or more qualifying institutions designated by such director. The obligations under this program are funded by life insurance policies that have been fully paid and there was therefore no cost associated with the program in 2015. Directors do not receive any direct financial benefit from the program since all charitable deductions accrue to us.

**SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS  
(Item 12 on the Proxy Card)**

The Audit Committee of our Board has voted to appoint PricewaterhouseCoopers LLP, or PwC, as the firm of independent public accountants to audit our financial statements for 2016. Although the selection and appointment of independent public accountants is not required to be submitted to a vote of our shareholders, our Board has decided, as in the past, to ask our shareholders to ratify this appointment. Such ratification does not limit the Audit Committee's ability to make subsequent changes to our auditors that it thinks appropriate.

Under its charter, the Committee is responsible for the appointment, compensation and oversight of our independent auditor. In selecting PwC as the independent public accountants for 2016, the Audit Committee considered a number of factors, including:

PwC's internal quality-control procedures, including results of the most recent Public Company Accounting Oversight Board (PCAOB) inspection report on PwC and the results of peer review examinations;

Consideration of investigations by governmental or professional authorities and whether they may impair PwC's ability to perform Cummins' annual audit;

PwC's independence program and any relationships between PwC and our company that could have a bearing on PwC's independence;

Whether PwC has the necessary expertise and global footprint to audit our operations worldwide;

The professional qualifications of the lead audit partner and other key engagement partners; and

The results of the evaluation of PwC's performance described in the Audit Committee Report below.

The Committee discusses services performed by PwC and considers the impact of non-audit services on PwC's independence. The Committee pre-approves these services and the related fees. We believe that all services rendered to us by PwC are permissible under applicable laws and regulations, and have been pre-approved by or on behalf of the Audit Committee pursuant to the policy described below. Fees paid to PwC for services are disclosed in the table below under the categories listed therein.

These services are actively monitored (both spending level and work content) by the Audit Committee to maintain the appropriate objectivity and independence in PwC's core work, which is the audit of our consolidated financial statements and the audit of our internal control over financial reporting.

A representative of PwC will be present at the Annual Meeting and will be available to answer appropriate questions but will not have the opportunity to make a statement. A report of the Audit Committee in connection with its independence, the independence of the auditors and certain other matters follows our Board's recommendation on this Item below.

**Vote Required and Recommendation of the Board of Directors**

Appointment of PwC as auditors will be ratified if the votes cast in favor of the proposal exceed those cast against the proposal. Abstentions and broker non-votes will not affect the voting results for the ratification of PwC.

OUR BOARD RECOMMENDS THAT SHAREHOLDERS VOTE **FOR** THIS PROPOSAL TO RATIFY THE APPOINTMENT OF PwC.

**Audit and Non-Audit Fees**

The following table presents fees for professional audit services rendered by PwC for the audit of our annual financial statements for 2015 and 2014, and fees billed for other services rendered by PwC during those periods.

|                        | 2015                     | 2014        |
|------------------------|--------------------------|-------------|
|                        | (dollars in<br>millions) |             |
| Audit fees:(1)         | 10.3                     | 10.1        |
| Audit-related fees:(2) | 0.2                      | 0.2         |
| Tax fees:(3)           | 1.5                      | 1.8         |
| All other fees:(4)     | 0.0                      | 0.1         |
| <i>Total</i>           | <i>12.1</i>              | <i>12.1</i> |

- (1) Audit fees consisted of work performed in connection with the audit of our financial statements (including internal control over financial reporting), as well as work generally only the independent auditor can reasonably be expected to provide, such as statutory and subsidiary audits.
- (2) Audit-related fees principally include attestation services requested by management, support of funding transaction, government grant audits and employee benefit plan audits.
- (3) Tax fees consisted principally of assistance with non-US tax compliance and planning, review of foreign tax returns and assistance in connection with tax audits.
- (4) All other fees included advisory services related to IT governance, seminars related to employee training, research survey results, licensing fees for technical research tools and other advisory services.

**Audit Committee Pre-Approval Policy**

The Sarbanes-Oxley Act of 2002 and rules of the SEC prohibit our independent accountant from providing certain types of non-audit services to us. They also require that all audit, review or attest engagements required under the securities laws and permitted non-audit services provided to us by our independent accountant be pre-approved by the Audit Committee or one of its members to whom the Audit Committee has delegated authority.

Under our policy and procedures, when considering whether to approve non-audit services to be provided by our independent accountant, the Audit Committee must consider whether the provision of the service would adversely affect the independence of the independent accountant. Specifically, the Audit Committee must consider whether the provision of the service would (i) place the accountant in the position of auditing his or her own work; (ii) result in the accountant acting as management or an employee of our company; or (iii) place the accountant in the position of being an advocate for us. Any proposed non-audit service that the Audit Committee determines would adversely affect the independence of our independent accountant will not be approved.

The Audit Committee is solely responsible for pre-approving all audit and non-audit services. The Audit Committee has delegated to its Chairman authority to pre-approve audit and permitted non-audit services to be provided by our independent accountant, provided that such services are permissible under our foregoing policy and procedures and do not exceed \$100,000 in the aggregate. Decisions of the Chairman must be reported to the full Audit Committee at its next scheduled meeting, and documented in a format required by the policy.

**Audit Committee Report**

The role of our Audit Committee is to assist our Board in fulfilling its oversight responsibilities as they relate to:

The integrity of our financial statements and internal control over financial reporting;

Our compliance with ethics policies, and legal and regulatory requirements; and

Our independent auditor's qualifications and independence.

The Committee also has responsibility for:

Preparing this report of the Committee, which is required to be included in our proxy statement;

Selecting, retaining, compensating, overseeing and evaluating our independent auditor;

Providing assistance to our Board in its oversight of our guidelines and policies with respect to enterprise risk management; and

Overseeing the performance of our internal audit function.

Each member of the Committee is independent as defined under our independence criteria, NYSE listing standards and SEC rules. The Committee operates under a written charter that has been adopted by our Board and is reviewed by the Committee on a periodic basis. The Committee's current charter can be viewed on our website.

The Committee fulfills its responsibilities through periodic meetings with PwC, our independent registered public accounting firm, and with our internal auditors and management. During 2015, the Committee met 10 times. The Committee periodically meets in executive session. The Committee also has periodic educational sessions on accounting and reporting matters.

The Committee reviewed with both PwC and our internal auditors, and approved, their respective audit plans, audit scope, compensation and identification of audit risks. Further, the Committee reviewed and discussed with our management and PwC our audited financial statements and management's and PwC's evaluations of our internal control over financial reporting, as reported in our 2015 Annual Report on Form 10-K. The Committee discussed our interim financial information contained in each quarterly earnings announcement and each Quarterly Report on Form 10-Q with our Chief Financial Officer, Controller and our independent auditors, prior to public release. The Committee also met with PwC to discuss the results of its reviews of our interim financial statements. Management has the responsibility for the preparation and integrity of our financial statements and internal control over financial reporting and PwC has the responsibility for the review or examinations thereof.

The Committee discussed and reviewed with PwC all matters required by auditing standards generally accepted in the United States of America, including those described in the PCAOB Auditing Standard No. 16, "Communications with Audit Committees." The Committee received the written disclosures and the letter from PwC required by applicable requirements of the PCAOB regarding the independent accountant's communications with the Committee concerning independence, and discussed with PwC its independence.

The Committee established a process for the formal evaluation of PwC's performance, which includes obtaining an annual assessment of PwC from management. In conducting this evaluation, the Committee reviewed responses to a questionnaire completed by members of management that covered areas such as the quality of services provided by PwC, sufficiency and experiences of resources on the engagement, communication and interaction with PwC over the course of the year, and independence, objectivity and professional skepticism of PwC. PwC's performance is also discussed with management during a private session, as well as in executive session. The Committee also considers other factors, including the policy that PwC follows with respect to rotation of its key audit personnel, so that there is a new partner-in-charge



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at least every five years. The Committee is involved in the selection of the partner-in-charge at the time of rotation. The most recent partner-in-charge rotation occurred in 2013.

Based on the above-mentioned reviews and discussions with management, internal audit and PwC, the Committee recommended to our Board of Directors that our audited financial statements and management's report on internal control over financial reporting be included in our 2015 Annual Report on Form 10-K, for filing with the SEC.

Based on the reviews and evaluations described above, the Committee reappointed PwC as our independent auditors for 2016, subject to shareholder ratification at the Annual Meeting.

Respectfully submitted,  
ROBERT K. HERDMAN, CHAIR  
ALEXIS M. HERMAN  
THOMAS J. LYNCH  
GEORGIA R. NELSON

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**THE BOARD'S PROPOSAL REGARDING PROXY ACCESS  
(Item 13 on the Proxy Card)**

**Overview**

Our Board recognizes that "proxy access," which would give shareholders the ability to include their director nominees in our proxy materials for our annual meetings of shareholders, may enhance shareholder ability to participate in director elections if properly structured and balanced to take into account our shareholder makeup.

However, our Board also believes that proxy access must be structured to:

Minimize the potential for abuse by investors who lack a meaningful long-term interest in our company or wish to promote special interests not aligned with the interests of our other shareholders; and

Minimize the potential for disruption to our Board's functioning and effectiveness.

Our proxy statement includes two proxy access proposals. One (this Item 13) is being proposed by our Board and the other (Item 14) (the "Shareholder Proxy Access Proposal") we received from a shareholder pursuant to Rule 14a-8 under the Securities Exchange Act of 1934. The primary differences between our Board's proposal and the Shareholder Proxy Access Proposal are the following:

| <b>Topic</b>                                       | <b>Board Proposal</b>   | <b>Shareholder Proposal</b>   |
|--|---|---|
| Number of shareholders who may aggregate ownership | Up to 20 shareholders   | No limit  |
| Safeguards against potential abuse or opportunism  | Only net long ownership counts toward the ownership threshold; borrowed shares do not count | Would permit a net short position to count toward the ownership threshold |
|  | Nominee cannot have prior voting agreements   | Would not prohibit prior voting agreements                                |

For the reasons described below, we encourage you to vote FOR our Board's proxy access proposal (this Item 13) and AGAINST the Shareholder Proxy Access Proposal (Item 14).

**Shareholder Outreach**

In evaluating proxy access and formulating our proposal, we sought input on the subject of proxy access from shareholders who held shares representing, in the aggregate, more than 40% of our outstanding common stock. Those shareholders who expressed a view on proxy access supported a proxy access bylaw tailored to our shareholder base and our long-term corporate strategy and including appropriate safeguards against potential abuse or opportunism, and we believe our Board's proposal meets those requirements while the Shareholder Proxy Access Proposal does not.

**Our Board's Proxy Access Proposal**

For the reasons discussed below, our Board is requesting that shareholders indicate their support for our company providing a proxy access right for shareholders with the following elements:



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Proxy access would be provided to a shareholder or a group of up to 20 shareholders owning more than 3% of our outstanding common stock continuously for at least three years.

Stock ownership would be determined under a standard requiring both (i) full voting and investment rights pertaining to the owned shares and (ii) full economic interest in (including the opportunity for profit and risk of loss on) such shares.

Borrowed or hedged shares would not count as owned shares; however, a shareholder will "own" shares held in the name of a nominee or other intermediary so long as the shareholder retains the right to instruct how the shares are voted with respect to the election of directors and possesses the full economic interest in the shares. Recallable loaned shares would count as owned shares if they were recallable within a specified period.

Eligible shareholders would be permitted to nominate up to 25% of our Board (or up to at least 2 directors, if our Board consists of fewer than 8 directors).

Nominating shareholders would be able to provide a written statement for inclusion in our proxy materials, not to exceed 500 words, in support of the shareholders' nominee's candidacy; provided, however, that we may decline to include any information in such statement we believe, in good faith, would be materially misleading or violate any applicable law or regulation.

Nominating shareholders would be required to satisfy certain informational and procedural requirements, including that (i) such shareholders will not have a purpose or intent to change or influence control of our company and (ii) their nominees will not have entered into any agreements as to how they will vote on different matters.

Proxy access will not be available if we have received notice that the nominating shareholders intend to nominate and file their own proxy materials in support of other director nominees.

Shareholder director nominees would be required to meet the same qualifications as our company's director nominees, including independence requirements under the listing standards of the NYSE, any applicable rules of the SEC and any publicly disclosed standards used by our Board in determining independence. Individuals also could not serve as proxy access nominees to the extent their election would cause us to violate our charter documents or applicable regulations or if they were an officer or director of a competitor, the subject of a criminal proceeding or a "bad actor" under applicable SEC rules.

#### **Our Board's Reasons for its Proxy Access Proposal**

*Our Board believes that, based on our discussions with major shareholders and our current shareholder makeup, a 3% share ownership threshold for a group of up to 20 shareholders, rather than an unlimited number of shareholders, would provide substantial opportunity for investors to access our proxy.*

We believe that a group limitation of up to 20 shareholders will provide reasonable access while limiting the possibility that small shareholders with narrowly defined special interests could become over-represented on our Board. A limitation of 20 shareholders will also prevent the administrative burden and expense that could be incurred in managing and vetting nominations from groups of potentially dozens or hundreds of small shareholders. Based on our current shareholder base, one small shareholder could reach the 3% threshold by forming a group with as few as one additional shareholder, and therefore we believe that a group of limitation of 20 would provide ample access to our proxy.

Our Board believes that an unlimited or higher group limitation, as proposed by the Shareholder Proxy Access Proposal, would provide opportunities for shareholders with narrowly defined special interests and short-term goals to promote their special interests and disrupt the operations of our Board and our business strategy at the expense of larger, long-term shareholders whose interests are represented by our Board as a whole rather than by a specific director they have nominated.

*Our Board believes that all shareholder ownership thresholds should be calculated on a net long basis over the requisite amount of our common stock.*

Our Board believes that proxy access should require a sustained commitment to our company in terms of the shareholder's ownership interest and holding period. Consequently, we believe that only those shares for which the nominating shareholder or shareholder group have held full voting and investment rights and the full economic interest, including the opportunity for profit and risk of loss, continuously for the required holding period should count for purposes of calculating the 3% proxy access share ownership threshold. Our Board's proposed standard for proxy access share ownership is similar to the standard used under our bylaws to calculate ownership for purposes of the right of shareholders holding at least 25% of the voting power of all outstanding shares of our Common Stock to have our Corporate Secretary call a special meeting of shareholders.

*Our Board believes that proxy access nominees should not be permitted to have entered into any prior agreements as to how they will vote on matters that come before our Board.*

Our proposal includes a requirement that proxy access nominees not have entered into any agreement as to how they will vote on matters that come before our Board. Our Board believes that all members of our Board should be free to consider the best interests of all of our shareholders in determining how they will vote on matters that come before our Board. If a proxy access nominee has entered into a prior agreement as to how he or she will vote on a specific matter, then as a director that individual may no longer free be to make an independent determination in the best interests of all of our shareholders. This may also risk breaching the director's fiduciary duties to the shareholders and placing the entire Board at risk.

#### **Voting Standard and Effect of our Board's Proxy Access Proposal**

Approval of our Board's proxy access proposal (this Item 13) is not conditioned on the approval or disapproval of the Shareholder Proxy Access Proposal (Item 14). Both our Board's proposal and the Shareholder Proxy Access Proposal are advisory and non-binding in nature, and each constitutes a recommendation by our shareholders to our Board.

The affirmative vote of a majority of the votes cast in person or by proxy at the Annual Meeting will be required to approve our Board's proxy access proposal or the Shareholder Proxy Access Proposal. Abstentions and broker non-votes will not affect the voting results for either proposal.

If our Board's proxy access proposal is approved, our Board intends to include a proposal to amend our bylaws to provide for a proxy access right reflecting the general terms described below in the proxy materials to be distributed by us in connection with our 2017 Annual Meeting of Shareholders. If our shareholders do not approve our Board's proxy access proposal, our Board could determine not to adopt any form of proxy access right. However, our Board also may determine to provide for a proxy access right either on the terms set forth in this Item 13 or on other terms if shareholders do not approve our Board's proxy access proposal, based on further engagement with our shareholders.

**Our Board's proposal for proxy access represents the framework that our Board believes is most beneficial to all of our shareholders and strikes the most appropriate balance between giving shareholders meaningful input on our Board while not being disruptive to board functions and effectiveness.**

**FOR THESE REASONS, OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR OUR BOARD'S PROXY ACCESS PROPOSAL.**

**SHAREHOLDER PROXY ACCESS PROPOSAL  
(Item 14 on the Proxy Card)**

John Chevedden, 2215 Nelson Avenue, No. 205, Redondo Beach, California 90278, owner of at least 85 shares of Common Stock, has informed us in writing that he intends to offer the following resolution for consideration at the Annual Meeting. In Item 13, described above, our Board is recommending that our shareholders approve a non-binding proposal to provide proxy access for stockholder nominated director candidates. Although our Board's proxy access proposal and the Shareholder Proxy Access Proposal concern the same subject matter, the terms of each proposal differ. You should carefully read the descriptions of each proposal, and our statement in opposition to the Shareholder Proxy Access Proposal, in considering our Board's proxy access proposal and the Shareholder Proxy Access Proposal.

Our Board unanimously recommends that you vote FOR our Board's proxy access proposal and AGAINST the Shareholder Proxy Access Proposal.

In accordance with SEC rules, the following text of the Shareholder Proxy Access Proposal and the supporting statement are presented exactly as they were submitted to the Company.

**Proposal 14 Shareholder Proxy Access**

RESOLVED: Shareholders ask our board of directors to adopt, and present for shareholder approval, a "proxy access" bylaw as follows:

Require the Company to include in proxy materials prepared for a shareholder meeting at which directors are to be elected the name, Disclosure and Statement (as defined herein) of any person nominated for election to the board by a shareholder or an unrestricted number of shareholders forming a group (the "Nominator") that meets the criteria established below.

Allow shareholders to vote on such nominee on the Company's proxy card.

The number of shareholder-nominated candidates appearing in proxy materials should not exceed one quarter of the directors then serving or two, whichever is greater. This bylaw should supplement existing rights under Company bylaws, providing that a Nominator must:

- a) have beneficially owned 3% or more of the Company's outstanding common stock, including recallable loaned stock, continuously for at least three years before submitting the nomination;
- b) give the Company, within the time period identified in its bylaws, written notice of the information required by the bylaws and any Securities and Exchange Commission (SEC) rules about (i) the nominee, including consent to being named in proxy materials and to serving as director if elected; and (ii) the Nominator, including proof it owns the required shares (the "Disclosure"); and
- c) certify that (i) it will assume liability stemming from any legal or regulatory violation arising out of the Nominator's communications with the Company shareholders, including the Disclosure and Statement; (ii) it will comply with all applicable laws and regulations if it uses soliciting material other than the Company's proxy materials; and (iii) to the best of its knowledge, the required shares were acquired in the ordinary course of business, not to change or influence control at the Company.

The Nominator may submit with the Disclosure a statement not exceeding 500 words in support of the nominee (the "Statement"). The Board should adopt procedures for promptly resolving disputes over whether notice of a nomination was timely, whether the Disclosure and Statement satisfy the bylaw and applicable federal regulations, and the priority given to multiple nominations exceeding the one-quarter limit. No additional restrictions that do not apply to other board nominees should be placed on these nominations or re-nominations.

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The Security and Exchange Commission's universal proxy access Rule 14a-11 was unfortunately vacated by 2011 a court decision. Therefore, proxy access rights must be established on a company-by-company basis.

Subsequently, *Proxy Access in the United States: Revisiting the Proposed SEC Rule*, a cost-benefit analysis by the CFA Institute (Chartered Financial Analyst), found proxy access would "benefit both the markets and corporate boardrooms, with little cost or disruption," raising US market capitalization by up to \$140 billion.

Please vote to enhance shareholder value:

### Shareholder Proxy Access Proposal 14

#### STATEMENT IN OPPOSITION

For the reasons described below, our Board encourages you to vote FOR our Board's proxy access proposal (Item 13) and AGAINST the Shareholder Proxy Access Proposal (this Item 14).

*The Shareholder Proxy Access Proposal is not properly structured to minimize the potential for abuse by investors who lack a meaningful long-term interest in our company or who wish to promote special interests that are not aligned with the interests of our other shareholders or to minimize disruption of board functions and effectiveness.*

Without sufficient ownership and procedural safeguards, proxy access could be highly disruptive to the operation of our Board and allow holders of a small amount of our common stock to exert undue influence on the governance of our company, which could be potentially damaging to the effectiveness of our Board and, by extension, to our corporate governance processes. Accessing the proxy materials is a serious, and potentially disruptive, event and should therefore include appropriate protections and be available only to a critical mass of long-term investors.

Our Board believes that the Shareholder Proxy Access Proposal is not properly structured to minimize the potential for abuse by investors who lack a meaningful long-term interest in our company or who wish to promote special interests that are not aligned with the interests of our other shareholders or to minimize disruption of board functions and effectiveness. The primary differences between our Board's proposal and the Shareholder Proxy Access Proposal are the following:

| Topic  | Board Proposal  | Shareholder Proposal  |
|--|---|---|
| Number of shareholders who may aggregate ownership | Up to 20 shareholders   | No limit  |
| Safeguards against potential abuse or opportunism  | Only net long ownership counts toward the ownership threshold; borrowed shares do not count | Would permit a net short position to count toward the ownership threshold |
|  | Nominee cannot have prior voting agreements   | Would not prohibit prior voting agreements                                |

These differences are addressed in more detail below.

***The Shareholder Proxy Access Proposal permits an unlimited number of shareholders to form a group to establish the share ownership required to make a nomination pursuant to proxy access, which would permit shareholders with narrowly defined special interests and short-term goals to be disproportionately represented and impose excessive administrative costs.***

We believe that a group limitation of up to 20 shareholders will provide reasonable access while limiting the possibility that small shareholders with narrowly defined special interests could become over-represented on our Board. A limitation of 20 shareholders will also prevent the administrative burden and expense that could be incurred in managing and vetting nominations from groups of potentially dozens or hundreds of small shareholders. Based on our current shareholder base, one small shareholder could reach the 3% threshold by forming a group with as few as one additional shareholder, and therefore we believe that a group of limitation of 20 would provide ample access to our proxy.

Our Board believes that an unlimited or higher group limitation, as proposed by the Shareholder Proxy Access Proposal, would provide opportunities for shareholders with narrowly defined special interests and short-term goals to promote their special interests and disrupt the operations of our Board and our business strategy at the expense of larger, long-term shareholders whose interests are represented by our Board as a whole rather than by a specific director they have nominated.

***The Shareholder Proxy Access Proposal does not preclude the use of our common stock sold short in meeting the ownership requirements for proxy access and fails to address the treatment of borrowed shares in the share ownership requirements.***

Absent a requirement for the nominating shareholder to retain voting power and investment power with respect to the shares one must own to establish eligibility to nominate a director, a shareholder could have a net short position in our common stock and still be entitled to use proxy access to make a nomination. A proxy access share ownership standard without such a requirement would also be inconsistent with the standard used under our bylaws to calculate ownership for purposes of the right of shareholders holding at least 25% of the voting power of all outstanding shares of our Common Stock to have our Corporate Secretary call a special meeting of shareholders.

***The Shareholder Proxy Access Proposal fails to prohibit proxy access nominees from having entered into prior agreements as to how they will vote on matters that come before our Board.***

The Shareholder Proxy Access Proposal fails to include a requirement that proxy access nominees not have entered into any agreement as to how they will vote on matters that come before our Board. Our Board believes that all members of our Board should be free to consider the best interests of all of our shareholders in determining how they will vote on matters that come before our Board. If a proxy access nominee has entered into a prior agreement as to how he or she will vote on a specific matter, then as a director that individual may no longer be free to make an independent determination in the best interests of all of our shareholders. The Shareholder Proxy Access Proposal does not prohibit a proxy access nominee from having entered into a prior voting agreement. To the contrary, it limits our ability to impose additional requirements, such as a limit on prior voting agreements, that are specific to proxy access nominees.

#### **Voting Standard and Effect of the Shareholder Proxy Access Proposal**

Approval of the Shareholder Proxy Access Proposal (this Item 14) is not conditioned on the approval or disapproval of our Board's proxy access proposal (Item 13). Both our Board's proposal and the Shareholder Proxy Access Proposal are advisory and non-binding in nature, and each constitutes a recommendation by our shareholders to our Board.

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The affirmative vote of a majority of the votes cast in person or by proxy at the Annual Meeting will be required to approve our Board's proxy access proposal or this Shareholder Proxy Access Proposal. Abstentions and broker non-votes will not affect the voting results for either proposal.

If our Board's proxy access proposal is approved (even if the Shareholder Proxy Access Proposal is also approved, and regardless of the relative approval percentages of the two proposals), our Board intends to include a proposal to amend our bylaws to provide for a proxy access right reflecting the general terms described in our Board's proxy access proposal above (Item 13) in the proxy materials to be distributed by us in connection with our 2017 Annual Meeting of Shareholders. If our shareholders do not approve our Board's proxy access proposal, our Board could determine not to adopt any form of proxy access right. However, our Board also may determine to provide for a proxy access right either on the terms set forth in our Board's proxy access proposal (Item 13) or on other terms if shareholders do not approve our Board's proxy access proposal, based on further engagement with our shareholders.

**To provide our Board the ability to develop a proxy access proposal that will continue to foster the substantial long-term shareholder value that we believe we can deliver to shareholders, our Board recommends that you vote AGAINST the Shareholder Proxy Access Proposal.**

FOR THESE REASONS, OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE **AGAINST** THIS SHAREHOLDER PROXY ACCESS PROPOSAL AND **FOR** OUR BOARD'S PROXY ACCESS PROPOSAL.

**STOCK OWNERSHIP OF DIRECTORS, MANAGEMENT AND OTHERS**

The following table sets forth information with respect to the beneficial ownership of our Common Stock as of March 8, 2016 by:

Each current director and director nominee;

Each executive officer appearing in the Summary Compensation Table;

All directors and executive officers as a group; and

Any person who is known by us to beneficially own more than 5% of the outstanding shares of our Common Stock based on our review of the reports regarding ownership filed with the SEC.

Beneficial ownership is determined in accordance with the rules of the SEC and includes any shares over which a person exercises sole or shared voting or investment power. Under these rules, beneficial ownership also includes any shares as to which the individual or entity has the right to acquire beneficial ownership within 60 days of March 8, 2016 through the exercise of any stock option or other right. Shares subject to stock options or other rights are deemed to be outstanding for the purpose of computing the



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ownership percentage of the person beneficially holding these stock option or other rights, but are not deemed to be outstanding for the purpose of computing the ownership percentage of any other person.

| Name  | Amount and Nature<br>of Beneficial<br>Ownership(1) | Percent of Class |
|---|--|------------------|
| State Street Corporation<br>One Lincoln Street<br>Boston, MA 02111                  | 12,498,477(2)                                      | 7.0%             |
| Capital Research Global Investors<br>333 South Hope Street<br>Los Angeles, CA 90071 | 11,585,891(3)                                      | 6.5%             |
| Harris Associates L.P.<br>111 S. Wacker Drive, Suite 4600<br>Chicago, IL 60606      | 11,137,675(4)                                      | 6.3%             |
| The Vanguard Group<br>100 Vanguard Blvd.<br>Malvern, PA 19355                       | 9,723,948(5)                                       | 5.5%             |
| Capital World Investors<br>333 South Hope Street<br>Los Angeles, CA 90071           | 9,331,392(6)                                       | 5.2%             |
| Blackrock, Inc.<br>55 East 52 <sup>nd</sup> Street<br>New York, NY 10055            | 8,922,144(7)                                       | 5.0%             |
| Robert J. Bernhard  | 10,169   | *                |
| Franklin R. Chang Diaz  | 5,152  | *                |
| Bruno V. Di Leo   | 2,803  | *                |
| Stephen B. Dobbs  | 5,628  | *                |
| Richard J. Freeland   | 86,243(8)  | *                |
| Robert K. Herdman   | 10,634   | *                |
| Alexis M. Herman  | 28,870   | *                |
| N. Thomas Linebarger  | 277,700(9)   | *                |
| Thomas J. Lynch   | 3,086  | *                |
| William I. Miller   | 38,649(10)   | *                |
| Georgia R. Nelson   | 16,804(11)   | *                |
| Marya M. Rose   | 46,900(12)   | *                |
| Tony L. Satterthwaite   | 92,520(13)   | *                |
| Pat J. Ward   | 83,934(14)   | *                |
| All directors and executive officers as a group, a total of 28 persons              | 965,205(15)  | *                |

\*

Less than 1%.

(1)

Except as otherwise indicated, the voting and investment powers of the shares listed are held solely by the reported owner.

(2)

The source of this information is a Schedule 13G filed February 12, 2016 with the SEC disclosing beneficial ownership of our Common Stock by State Street Corporation. State Street disclosed in its Schedule 13G that it has shared investment and voting power for all of the shares. State Street is the trustee of certain employee benefit plans sponsored by us which are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Shares of Common Stock are held in trust for the benefit of employees in the plans. As of December 31, 2015, based on information provided to us by State Street, in its capacity as trustee, it held 12,498,477 shares of Common Stock on behalf of the plans, some of which had not been allocated to plan participants. As plan trustee, State Street votes unallocated shares and shares allocated to participants' accounts as directed by

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participants. Shares of our Common Stock held by State Street, as trustee on behalf of the plans, as to which participants have made no timely voting directions are voted by the plan trustee in the same proportions as shares for which directions are received (subject to the trustee's responsibilities under Section 404 of ERISA).

- (3) The source of this information is a Schedule 13G/A filed February 16, 2016 with the SEC disclosing beneficial ownership of our Common Stock by Capital Research Global Investors and its related companies. Capital Research Global Investors and its related companies stated in their Schedule 13G/A that they have sole investment and voting power for all of the shares.
- (4) The source of this information is a Schedule 13G/A filed February 10, 2016 with the SEC disclosing beneficial ownership of our Common Stock by Harris Associates L.P. and its related companies. Harris Associates L.P. and its related companies stated in their Schedule 13G/A that they have sole investment and voting power for all of the shares.
- (5) The source of this information is a Schedule 13G/A filed February 10, 2016 with the SEC disclosing beneficial ownership of our Common Stock by The Vanguard Group and its related companies. The Vanguard Group and its related companies stated in their Schedule 13G/A that they have sole investment power for 9,391,784 shares and sole voting power for 310,948 shares.
- (6) The source of this information is a Schedule 13G/A filed February 12, 2016 with the SEC disclosing beneficial ownership of our Common Stock by Capital World Investors and its related companies. Capital World Investors and its related companies stated in their Schedule 13G/A that they have sole investment and voting power for all of the shares.
- (7) The source of this information is a Schedule 13G/A filed February 9, 2016 with the SEC disclosing beneficial ownership of our Common Stock by BlackRock, Inc. and its related companies. BlackRock and its related companies stated in their Schedule 13G/A that they have sole investment power for all of the shares and sole voting power for 7,436,670 shares.
- (8) Includes 50,180 shares that may be purchased upon the exercise of vested stock options within 60 days of March 8, 2016.
- (9) Includes 26,140 shares held by Mr. Linebarger's spouse and 151,840 shares that may be purchased upon the exercise of vested stock options within 60 days of March 8, 2016.
- (10) Includes 500 shares held in the Miller Annual Exclusion Trust.
- (11) Includes 1,977 shares held by Ms. Nelson's spouse.
- (12) Includes 28,990 shares that may be purchased upon the exercise of vested stock options within 60 days of March 8, 2016.
- (13) Includes 50,540 shares that may be purchased upon the exercise of vested stock options within 60 days of March 8, 2016.
- (14) Includes 40,100 shares that may be purchased upon the exercise of vested stock options within 60 days of March 8, 2016.
- (15) Includes 458,562 shares that may be purchased upon the exercise of vested stock options within 60 days of March 8, 2016.

### OTHER BUSINESS

Our Board does not know of any business to be presented for action at the Annual Meeting other than that set forth in the Notice of Annual Meeting of Shareholders as reflected in Items 1 through 14 on the proxy card, and as referenced in this proxy statement. Under the terms of our by-laws, moreover, since the deadline for notice of additional business has passed, no additional business may be presented by shareholders for action at the Annual Meeting.



**OTHER INFORMATION**  
**Related-Party Transactions**

Our company, together with our subsidiaries and affiliates, is a global company with extensive operations in the U.S. and many foreign countries. We have thousands of employees with widespread authority to purchase goods and services. Because of these far-reaching activities, we encounter transactions and business arrangements with persons, businesses and other organizations in which one of our directors, executive officers or nominees for director, significant investors or their immediate families, may also be a director, executive officer, or have some other direct or indirect material interest. Such transactions and arrangements, which we refer to as related-party transactions, have the potential to create actual or perceived conflicts of interest.

As a result, the Audit Committee of our Board has established, and our Board has approved, a written policy and procedures for review, approval or ratification of any related-party transactions or proposed transactions where the amount involved in any year exceeds or will exceed \$120,000. These procedures require that, in deciding whether to approve such a related-party transaction involving a director, director nominee, executive officer, holder of more than five percent of our Common Stock or their immediate family members, the Audit Committee must consider, among other factors:

Information about the goods and services to be or being provided by or to the related party;

The nature of the transaction and the costs to be incurred by us or payments to us;

An analysis of the costs and benefits associated with the transaction;

The business advantage we would gain by engaging in the transaction; and

An analysis of the significance of the transaction to us and the related party.

To receive Audit Committee approval, a related party transaction must be on terms that are believed to be fair and reasonable to us. Our policy requires that there be a business or corporate interest supporting the transaction and that the transaction be in the best interest of us and our shareholders.

Based on information known to us, we believe there were no transactions during 2015 in which we were or are to be a participant in which the amount involved exceeded or will exceed \$120,000, and in which any director, director nominee, executive officer, holder of more than five percent of our Common Stock at the time of the transaction or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors, and persons who beneficially own more than 10% of our Common Stock, to file reports of ownership and changes in ownership of such securities with the SEC and the NYSE. Copies of these reports must also be furnished to us. Based solely upon a review of the copies of the forms filed under Section 16(a) and furnished to us, written representations from reporting persons after inquiry, and forms filed by us on the reporting person's behalf, we believe that all filing requirements under Section 16(a) applicable to our executive officers and directors were complied with during 2015, except that a late Form 5 was filed for Mr. Ward on January 15, 2016 to report a bona fide gift occurring in 2014 and an amendment to a Form 4 was filed for Mr. Talaulicar on February 9, 2016 to correct the number of shares reported as sold on the original Form 4 in May 2015.

**Shareholder Proposals**

Shareholders may submit proposals to be considered for shareholder action at our 2017 Annual Meeting of Shareholders and inclusion in our proxy statement and proxy card if they do so in accordance



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with the appropriate regulations of the SEC. For such proposals to be considered for inclusion in our proxy statement and form of proxy card for our 2017 Annual Meeting of Shareholders, they must be received by our Secretary no later than November 25, 2016.

If a shareholder desires to bring proper business before an annual meeting of shareholders which is not the subject of a proposal timely submitted for inclusion in our proxy statement and form of proxy as described above, the shareholder must follow procedures outlined in our by-laws. Pursuant to our by-laws, a shareholder may bring business to be considered at the annual meeting, provided that the shareholder (i) is a shareholder of record at the time of giving notice to us of the business and is entitled to vote at the annual meeting where the business will be considered, and (ii) complies with the applicable notice procedures set forth in our by-laws. Our by-laws provide that, in the case of business other than the election of directors, the shareholder bringing the business must deliver written notice of the business to our Secretary no later than 90 days preceding the date the meeting is scheduled to occur in the notice of such meeting first given to shareholders, which we refer to as the "originally scheduled date," unless such date is earlier than the first anniversary of the date set forth in our first mailed definitive proxy materials for the prior year's annual meeting, in which case written notice of the proposal must be delivered not later than the close of business on the 10th day following the first public disclosure of the earlier date.

Each required notice must contain certain information, including information about the shareholder, as prescribed by the by-laws.

### **Legal Matters Involving Directors**

From 1990 to 2009, William I. Miller was Chairman and CEO of Irwin Financial Corporation, a diversified financial services company. On September 18, 2009, Irwin Financial Corporation filed a voluntary petition for relief under Chapter 7 of Title 11 of the United States Code before the United States Bankruptcy Court for the Southern District of Indiana.

### **Expenses of Solicitation**

The cost of this proxy solicitation will be borne by us. We will solicit proxies by mailing proxy materials to certain shareholders and a Notice of Internet Availability of Proxy Materials to all other shareholders; for shareholders that do not receive the full proxy materials, printed copies will be sent upon request as provided below and as provided in the Notice of Internet Availability of Proxy Materials.

We have retained Morrow & Co., LLC, 470 West Avenue, Stamford, Connecticut 06902, to assist us in the solicitation of proxies for a fee not to exceed \$9,000 plus expenses. Proxies may also be solicited by mail, telephone, e-mail or fax by our directors, officers and employees who will not be separately compensated for such services. Banks, brokerage houses and other institutions, nominees or fiduciaries will be reimbursed for their reasonable expenses incurred in forwarding proxy materials to the beneficial owners of our Common Stock upon request.

### **Delivery of Proxy Materials to Households**

Pursuant to the rules of the SEC, services that deliver our communications to shareholders that hold their stock through a bank, broker or other holder of record may deliver to multiple shareholders sharing the same address a single copy of our Notice of Internet availability of Proxy Materials and, as applicable, a printed version of our annual report to shareholders and this proxy statement. Upon oral or written request, we will promptly deliver a separate copy of the Notice of Internet Availability of Proxy Materials, annual report to shareholders and/or proxy statement to any shareholder at a shared address to which a single copy of the document was delivered.

Shareholders sharing an address may also request delivery in the future of a single copy of a Notice of Internet Availability of Proxy Materials, annual report to shareholders and/or proxy statement if they are

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currently receiving multiple copies of such documents. Shareholders may notify us of their requests by calling or writing to our Secretary at (317) 610-2500 or Cummins Inc., Mail Code 60903, 500 Jackson Street, Columbus, Indiana 47201.

March 28, 2016

**We will furnish to any shareholder, without charge, a copy of our Annual Report on Form 10-K. You may also obtain a copy of the Form 10-K by writing to Mark J. Sifferlen, Secretary, Cummins Inc., Mail Code 60903, 500 Jackson Street, Columbus, Indiana 47201 or on our website at [www.cummins.com](http://www.cummins.com).**

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**CUMMINS ANNUAL SHAREHOLDER MEETING  
May 10, 2016 11:00 A.M. (Eastern Daylight Saving Time)**

**COLUMBUS ENGINE PLANT  
500 CENTRAL AVENUE**















QuickLinks

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[IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2016 ANNUAL SHAREHOLDER MEETING TO BE HELD ON MAY 10, 2016: the Annual Report and Proxy Statement are available at \[www.proxyvote.com\]\(http://www.proxyvote.com\)](#)

[PROXY STATEMENT FOR 2016 ANNUAL SHAREHOLDERS MEETING](#)

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[CUMMINS ANNUAL SHAREHOLDER MEETING May 10, 2016 11:00 A.M. \(Eastern Daylight Saving Time\) COLUMBUS ENGINE PLANT 500 CENTRAL AVENUE](#)