

CUMMINS INC
Form DEF 14A
March 27, 2012

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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
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- Soliciting Material under §240.14a-12

CUMMINS INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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

NOTICE OF 2012 ANNUAL MEETING OF SHAREHOLDERS

To Our Shareholders:

NOTICE IS HEREBY GIVEN that the 2012 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 8, 2012, at 11:00 a.m. Eastern Daylight Saving Time, for the following purposes:

1. to elect the nine 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 2012;
4. to approve the Cummins Inc. 2012 Omnibus Incentive Plan;
5. to approve the Cummins Inc. Employee Stock Purchase Plan, as amended;
6. to vote on a proposal to amend our by-laws to allow shareholders who have a 25% net long position in our Common Stock to call special shareholder meetings; and
7. 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 15, 2012 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 Inc. and Affiliates 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 27, 2012

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY
MATERIALS FOR THE 2012 ANNUAL SHAREHOLDER MEETING TO BE HELD
ON MAY 8, 2012: the Annual Report and Proxy Statement
are available at www.ematerials.com/cmi**

PROXY STATEMENT FOR 2012 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 2012 Annual Meeting of Shareholders to be held on Tuesday, May 8, 2012, 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 27, 2012.

Holders of our Common Stock of record at the close of business on March 15, 2012 are entitled to vote at the Annual Meeting. On that date there were issued and outstanding 192,180,672 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 Inc. and Affiliates Retirement and Savings Plans, 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.

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 approval of our 2012 Omnibus Incentive Plan; (iv) on approval of our Employee Stock Purchase Plan, as amended; or (v) on the proposal to our amend our by-laws to allow shareholders to call special shareholder meetings. 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 approval of our 2012 Omnibus Incentive Plan; (iv) on approval of our Employee Stock Purchase Plan, as amended; or (v) on the proposal to amend our by-laws to allow shareholders to call special shareholder meetings.

CORPORATE GOVERNANCE

We have long 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 conduct and our by-laws, along with certain other corporate governance documents, are available on our website, www.cummins.com, and are otherwise available in print to any shareholder who requests them from our Secretary.

Independence

Eight out of our nine 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. 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 Mr. 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 does not have a policy on whether or not the roles of our Chief Executive Officer and Chairman should be separate, and, if they are to be separate, whether the Chairman should be selected from our non-employee directors or be an employee director. 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. Further, our Board believes 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;

Conferring with the Chairman on Board meeting agendas and meeting schedules;

Calling and presiding over executive sessions of independent directors and communicating feedback on executive session 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; 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 six meetings during 2011. 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), R. J. Bernhard, F. R. Chang Diaz, S. B. Dobbs, A. M. Herman and G. R. Nelson. All members are independent directors as defined under our independence criteria, NYSE listing standards and SEC rules. The Audit Committee met eleven times during 2011. Our Board has determined that Mr. Herdman is an "audit committee financial expert" 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.

Compensation Committee. The current members of our Compensation Committee are G. R. Nelson (Chairman), R. K. Herdman, A. M. Herman, W. I. Miller and C. Ware. All members are independent directors as defined under our independence criteria, NYSE listing standards and SEC rules. The Compensation Committee met six times during 2011. 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 as reported to it by the Governance and Nominating Committee.

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The Compensation Committee initiated a change in compensation consulting support during 2011. Effective May 2011, the Committee ceased its utilization of services from Meridian Compensation Partners LLC, or Meridian, and engaged Farient Advisors LLC, or Farient, as its independent compensation consultant to provide input and advice to the Committee. Farient has been 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.

Because Farient was engaged in May 2011, consulting support for many of the 2011 pay actions approved in early 2011 and disclosed in this proxy statement was provided by Meridian. Since May 2011, Farient has provided advice and guidance to the Committee on several matters including:

Compensation for our new Chief Executive Officer beginning in 2012

2012 compensation for our Named Executive Officers and other officers

Farient does not provide any other services to our company and was therefore determined by our Committee to be an independent compensation advisor. 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 consultant engaged by the Committee, including consideration of the following factors relevant to independence:

The provision of other services to us by the compensation consultant;

The amount of fees received from us by the compensation consultant as a percentage of the total revenue of the consultant;

The policies and procedures of the compensation consultant that are designed to prevent conflicts of interest;

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

The Committee also:

Has final authority to hire or terminate the 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;

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

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

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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, S.B. Dobbs, R. K. Herdman, W. I. Miller, G. R. Nelson and C. Ware. All members are independent directors as defined under our independence criteria, NYSE listing standards and SEC rules. The Governance and Nominating Committee met six times during 2011. 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, but may also engage, if it deems appropriate, a professional search firm. 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.

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. Each year, the Committee reviews the backgrounds of current and prospective directors to assess the effectiveness of our commitment to ensuring that the Board has the diverse experiences necessary to lead our company and advises the full Board on its progress. 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.

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 November 30, 2011, which was 160 days in advance of the 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.

Committee members annually review the performance of our Chief Executive Officer based upon performance against a work plan, considering both quantitative and qualitative measures. The Committee reports the results of such review to the Compensation Committee. The Committee also monitors meeting attendance of Board members.

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 2011.

Finance Committee. The members of our Finance Committee are W. I. Miller (Chairman), R. J. Bernhard, F. R. Chang Diaz, S. B. Dobbs, R. K. Herdman and C. Ware. Our Finance Committee is authorized to review and advise the company on our financial strategy pertaining to capital structure, creditworthiness, dividend policy, share repurchase policy, and financing requirements. Our Finance Committee met three times during 2011.

Safety, Environment and Technology Committee. The members of our Safety, Environment and Technology Committee are R. J. Bernhard (Chairman), F. R. Chang Diaz, S. B. Dobbs, W. I. Miller, G. R. Nelson and C. Ware. 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 four times in 2011.

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

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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 2011 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 9 on the Proxy Card)

As previously announced, Mr. Theodore M. Solso, who had served as our Chairman and Chief Executive Officer since 2000, retired effective December 31, 2011. Mr. Solso was succeeded as our Chairman and Chief Executive Officer by Mr. N. Thomas Linebarger, who had previously served as our President and Chief Operating Officer, effective January 1, 2012. During Mr. Solso's tenure, our market capitalization grew tenfold and we were recognized for our leadership in areas including emissions reduction technologies and related environmental activities, our financial performance, our corporate responsibility, as well as diversity and human rights issues. During Mr. Solso's tenure, we achieved numerous milestones:

Our sales grew from \$6.6 billion in 2000 to \$18 billion in 2011.

From 2000 through 2011, our shareholders enjoyed a total return of over 800 percent. We had two stock splits, five dividend increases and repurchased \$1.5 billion worth of our stock.

We were among the first to meet the Environmental Protection Agency's rigorous diesel emission standards in 2002, 2007 and 2010, establishing technology and environmental leadership that are the hallmarks of our global products today.

Mr. Solso was named a top five finalist to Marketwatch's Chief Executive Officer of the Decade in 2010 and to Barron's list of the 30 Most Respected Chief Executive Officers for 2010 and 2011. Our board thanks Mr. Solso for his long and distinguished service.

As a result of Mr. Solso's retirement, our board now consists of nine directors, all of whom are nominated for reelection at the Annual Meeting to hold office until our 2013 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.

Since it is currently anticipated that the Board's nominees for director at the Annual Meeting will be uncontested, each nominee will be elected to a full term only if the nominee receives the "majority vote" of our shareholders. This means that the term of any nominee who does not receive a majority of the votes cast by shareholders will expire no later than 90 days after 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. In the event one or more of the nominees named below fails to receive a majority of the votes cast for his or her election, then our Governance and Nominating Committee will promptly consider how to fill such a resulting vacancy on our Board and make a recommendation to our Board. Such recommendation may include the potential reappointment to our Board of the director who failed to receive a majority vote if our Governance and Nominating 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 in order of their length of service on our Board, beginning first with our employee director and then followed by our independent directors.

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 49

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.

WILLIAM I. MILLER President of The Wallace Foundation

Director since 1989; Age 55

In July 2011, Mr. Miller was named President of the Wallace Foundation, a knowledge-focused national philanthropy with a mission of improving learning and enrichment opportunities for disadvantaged children. Mr. Miller was the Chairman of Irwin Management Company, a Columbus, Indiana private investment firm, from 1990 to 2011. From 1990 to 2009, he 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. Mr. Miller is also Chairman of the Board of Tipton Lakes Company (a real estate development firm). Mr. Miller is a director or trustee of the New Perspective Fund, Inc., the New World Fund, Inc. and EuroPacific Growth Fund (all three 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 20 years of service as a director of Cummins.

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

Director since 2001; Age 64

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 the Business Advisory Board of Sodexo, Inc., an integrated food and facilities management services company, and as Chair of Toyota Motor Corporation's North American Diversity Advisory Board. From 1997 to 2001, she served as U.S. Secretary of Labor. She has also been a director of The Coca Cola Company since 2007, Entergy Corporation since 2003, and MGM Mirage since 2002. Her non-profit board affiliations include Trustee of the National Urban League and George Meany National Labor College. In addition, Ms. Herman is a member of the board of directors of the Clinton Bush Haiti Fund.

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.

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

Director since 2004; Age 62

Ms. Nelson became President and Chief Executive Officer 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 international business negotiations, environmental policy matters and human resources. She has served as a director of Ball Corporation since 2006 and CH2M Hill since May 2010. She was a director of Tower Automotive from 2001 to 2007 and Nicor Inc. from 2005-2011. She has been a member of the Executive Committee of the National Coal Council since 2000 and served as Chairman from 2006-2008. She serves on the advisory committee of the Center for Executive Women at Northwestern University. Ms. Nelson is also a frequent lecturer at Northwestern University's Kellogg Graduate School of Management on topics related to leadership and corporate governance. Ms. Nelson was named a 2011 National Association of Corporate Directors (NACD) Board Leadership 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.

CARL WARE Retired from The Coca-Cola Company

Director since 2004; Age 68

Mr. Ware retired from The Coca-Cola Company in 2003 as Executive Vice President, Public Affairs and Administration following a 28-year career holding positions of increasing responsibility. From 1993 to 2000, Mr. Ware served as President and Chief Operating Officer of Coke's Africa Group. He was elected to the Atlanta City Council in 1973 and served as President of the City Council until 1979. From 1970 to 1973, he served the Atlanta Housing Authority as Director of Family and Community Services and Deputy Director of Urban Redevelopment. He has served as a director of Chevron Corporation since 2001 and as a director of Coca-Cola Bottling Co. Consolidated since 2000. He also serves as a director of PGA Tour Golf Course Properties, and the Atlanta Falcons.

We believe that Mr. Ware is well qualified to be a director of our company because of his experience in leadership roles in publicly traded companies and the public sector and his international business experience.

ROBERT K. HERDMAN Managing Director of Kalorama Partners LLC

Director since 2008; Age 63

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. Since 2011, he has been a member of the Board of Directors and has chaired the Audit Committee of WPX Energy, Inc. He has been a member of the Board of Directors and has chaired the Audit Committee of HSBC Finance Corporation (since 2004), the Audit Committee of HSBC North America Holdings, Inc. (since 2005) and the Audit Committee of HSBC USA, Inc. (since 2010). These HSBC entities belong to a single controlled group of corporations and their Boards of Directors and Audit Committees conduct their meetings simultaneously with identical membership. Mr. Herdman also served as a director of Westwood One, Inc. in 2005-2006.

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.

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 59

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, where he remains an Adjunct Professor. 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 is currently Secretary General of the International Institute of Noise Control Engineering (I-INCE), and is also a member of the Board of Directors of the INCE Foundation.

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 62

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.

STEPHEN B. DOBBS Senior Group President at Fluor Corporation

Director since 2010; Age 55

Mr. Dobbs is Senior Group President over Fluor Corporation's Industrial and Infrastructure Group responsible for a wide diversity of the markets the company serves, including infrastructure, telecommunications, mining, transportation, life sciences, heavy manufacturing, advanced technology, microelectronics, commercial, institutional, health care, water and alternative power. Mr. Dobbs has 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.

Mr. Dobbs earned his doctorate in engineering from Texas A&M University and holds two undergraduate degrees in nuclear engineering, also from Texas A&M. He serves 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 serves 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.

COMPENSATION RISK ASSESSMENT

In December 2011, 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 could be potentially encouraged by each of 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 objectives for our compensation arrangements and our company's overall risk profile. Risk-mitigation features identified by our Compensation Committee included the following:

Pay Mix Our executive compensation program is weighted towards incentives, but salaries are targeted at median, mitigating the need to take significant risks to earn average compensation. Because our program is weighted towards long-term incentive compensation, the interests of our executives are well-aligned with those of our shareholders, driving long-term shareholder value.

Performance Measurement System The performance goals under 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 Conduct; or (iii) make material changes to our long-term business strategy or our methods of management or operation. Our incentive goals are set at competitive levels which require stretch performance but are achievable. Additionally, our annual bonus plan and performance share and performance cash performance goals are capped at 120% of target, reducing the risk of actions being taken that increase short-term profit at the expense of long-term value creation. Similarly, our annual bonus plan, performance share and performance cash payouts 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 the 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. The Committee's certification happens only after the Board has reviewed our annual financial results. Additionally, we have stock ownership guidelines for all of our officers that align the interests of our officers with the interests of our shareholders. Officers may not sell any shares until their individual ownership requirements have been satisfied.

Governance and Internal Controls In measuring our financial performance under our annual bonus plan, our Compensation Committee has discretion to exclude certain 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 unanticipated matters. Our Compensation Committee also may exclude certain corporate expense allocations from individual operating segment performance calculations. We believe that allowing these exclusions lessens the risk that our executives would otherwise be encouraged to take actions with respect to such items based on the effect the actions might have on incentive compensation,

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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 Cummins has a balanced pay and performance executive compensation system 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**

Executive Summary

Our Compensation Discussion and Analysis, or CD&A, provides detailed information about compensation programs for five of our executive officers, whom we refer to as our "Named Executive Officers." Our Named Executive Officers for 2011 were Mr. Solso, who served as our Chairman and Chief Executive Officer, until December 31, 2011; Mr. Linebarger, who served as our President and Chief Operating Officer until December 31, 2011 and who succeeded Mr. Solso as our Chairman and Chief Executive Officer effective January 1, 2012; Mr. P.J. Ward, our Vice President and Chief Financial Officer; Mr. R. J. Freeland, our Vice President and President Engine Business; and Ms. P. Carter, our Vice President and President Distribution Business.

The sections of this CD&A that immediately follow focus principally on 2011 compensation matters. Thereafter, we have included a separate section of this CD&A that focuses on key decisions and changes made with respect to compensation matters affecting 2012 and subsequent years.

We have designed our executive compensation programs to support our overall performance goals. Our compensation programs are based on the principle of "pay for performance," which means the level of compensation received by executives should be closely tied to our corporate financial and stock performance.

The Compensation Committee reviews our executive compensation programs on a regular basis, and has structured the programs to consist of three principal elements: base salary, annual bonus and long-term incentive compensation. We refer to these three elements as "total direct compensation." We also provide to our officers, as part of a competitive compensation package, limited post-employment benefits and perquisites, and we have continued to provide programs and plan design features to further align the interests of our officers with the interests of our shareholders, including mandatory stock ownership requirements, clawbacks, and vesting of stock options following an executive's normal retirement date. We generally target all of our compensation elements at the median level of a large group of U.S. manufacturing companies.

Objectives and Principles of our Executive Compensation Program

We have designed our executive compensation program to attract, motivate, focus and retain employees with the skills required to achieve our performance goals in a competitive global business environment. Our program is designed to reflect each individual's contribution to our corporate performance, while striking an appropriate balance between short-term and longer-term corporate performance. While the specific elements of executive compensation vary from time to time, our executive compensation program's overriding focus is on the principle of pay for performance, as we define it, both in program design and in the specific awards.

In addition, we consider the following principles when designing and implementing compensation programs for our officers:

Our executives' target total direct compensation opportunity should be at the median of the compensation range payable to similarly situated executives at U.S.-headquartered manufacturing companies with comparable job scope and size-when our financial performance meets certain Board-approved targets. The Compensation Committee benchmarks these targets against the relative performance of other similar companies.

Our programs are designed to provide a competitive compensation "opportunity" for our executives. We believe that our executives should be compensated well when our company performs

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well and that their total direct compensation should vary in relation to our corporate performance, relative to our internal goals.

There should be a balance between annual and longer-term elements of compensation.

The more senior a person's position, the more his or her compensation should be "at risk," meaning dependent on our corporate and stock price performance.

Our stock should be an important part of our executive compensation programs in order to link our management's compensation with our shareholders' returns. The greater the level of responsibility of the person, the more his or her compensation should be stock-based.

Our compensation programs should support retention of our experienced executives and achievement of our leadership succession plans.

Our executive compensation system should be transparent to our investors and employees and should be simple and easy to understand.

Achieving the Performance-Based Principle

To illustrate how our executive compensation program achieves the objectives described above, set forth below are the percentages for each of the three elements that make up the target total direct compensation opportunity provided in 2011 to our then current Chief Executive Officer, to our then current President and Chief Operating Officer (who is now our Chief Executive Officer), and our other Named Executive Officers as a group.

	At Risk Based on Performance:					
	Base Salary		Target Annual Bonus		Target Long-Term Incentive Compensation	
T. M. Solso	12%		14%		74%	
N. Thomas Linebarger	18%		18%		64%	
Other Named Executive Officers as a Group	20%	21%	15%	16%	62%	64%

We believe that our executive compensation aligned well with the objectives of our programs and our corporate performance in 2011, driven by these factors:

Our total net sales grew to over \$18 billion, an increase of 36 percent year-over-year and up 67 percent over the last two years.

Net income attributable to Cummins was a record \$1.85 billion compared to \$1 billion in 2010.

Our cash flow from operations totaled \$2.1 billion, driven by both our strong earnings results and improvement in our working capital efficiency, allowing us to continue to fund our investments in future growth while increasing returns to shareholders.

We continued our efforts to return value to our shareholders in 2011, increasing our dividend 52 percent and repurchasing 6.4 million shares during the year.

The following graphs show the strong direct relationship between our corporate financial performance and our executive compensation levels by comparing the relationship over the past five years of our (i) average total shareholder return (three-year rolling average, on a dividend reinvested basis), or TSR;

(ii) return on average net assets, or ROANA; (iii) return on equity, or ROE; and (iv) average annual total compensation for our Named Executive Officers, or Avg TC:

Link Between Financial Performance and Executive Compensation

Note: The "Avg TC" values in these graphs for 2009-2011 reflect the averages of the total compensation values for our Named Executive Officers as reported in the Summary Compensation Table of this proxy statement. The "Avg TC" values shown in these graphs for 2007 and 2008 reflect the averages of the total compensation values for the Named Executive Officers as reported in the Summary Compensation Tables of the 2007 and 2008 proxy statements, respectively.

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Other Highlights of Our Executive Compensation Programs

We continually review best practices in the area of executive compensation and have revised our compensation policies and practices in the last two years to:

Eliminate tax gross-ups for excise taxes that may be imposed on payments to our executive officers in connection with a change in control.

Impose a "double trigger" requirement for accelerated vesting of our executive officers' equity grants upon a change in control in which the grants are assumed or replaced so that, 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 his or her unvested equity to become vested on an accelerated basis. This change is effective for all equity grants made in 2012 and future years.

Modify the benefits payable to our executive officers upon a change in control and termination of employment. The cash severance amount for our executive officers other than the CEO was changed from three to two years' base salary and from three to two annual bonus payments, calculated at a 1.0 payout factor (in addition to the full vesting of certain insurance and retirement benefits and the continuation for the two-year severance period of certain other benefits). For the CEO, the cash severance amount remains equal to three years' base salary and three annual bonus payments calculated at a 1.0 payout factor (in addition to the full vesting of certain insurance and retirement benefits and the continuation for the three-year severance period of certain other benefits).

Increase the length of the performance period for our long-term incentive performance cash and performance shares from two years to three years to incentivize sustained corporate financial performance over a longer period.

Increase the percentage of our long-term incentive compensation allocated to equity.

Eliminate tax gross-ups on all perquisites.

Our executive compensation arrangements include other features considered best practices, such as the following:

Benefits under our change in control arrangements with our executive officers, other than equity awards granted in 2011 or earlier years, are all 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). As described above, equity grants made in 2012 and future years are also subject to a double trigger upon change in control.

We do not permit backdating or repricing of stock options.

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

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

We use different performance measures in our short- and long-term incentive compensation plans to ensure a balanced focus on returns, as well as growth and profitability, which are inherent in our return measures. In addition, we believe that our return measures correlate to shareholder value creation over the long term.

For those executives with responsibility for supervising the operations of one of our operating segments, the balance of corporate and business unit weighting in incentive plans encourages those

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executives to focus on overall corporate performance as well as business unit performance in order to prevent actions that may improve business unit performance and maximize awards but harm our overall financial health.

We set clear financial goals that we believe are challenging, competitive and enhance shareholder value over time.

We have capped payouts under our annual bonus and long-term incentive compensation plans at 200% of the target awards.

We have adopted 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.

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.

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

We identify a peer group to use for benchmarking compensation levels and target setting.

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.

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

2011 Executive Compensation Matters

Explanation of Executive Compensation Program Changes Starting in 2011

Beginning in 2011, we increased the length of the performance period for our long-term incentive performance cash and performance shares from two years to three years to incentivize sustained corporate financial performance over a longer period. We continue to use ROE as the performance measure to determine the level of payouts under our performance cash and performance share awards.

We also increased the equity component of our long-term incentive compensation elements beginning in 2011. Previously, the cash and equity portion of our long-term incentive awards were split equally. The new mix of elements is performance cash (34%), performance shares (33%), and stock options (33%). We believed it was appropriate to change our long-term incentive compensation plan for our leaders so that their interests are increasingly aligned with our longer-term strategy and the interests of our shareholders who want us to achieve both our short-term targets and deliver sustainable profitable growth over the long term. We believe these changes provide a good balance between rewards for achievement of our annual ROANA-based bonus plan and our longer-term three-year ROE-based incentive plan.

2011 Peer Group

For purposes of determining various 2011 executive compensation levels for our Named Executive Officers, we compared base salaries, annual bonus targets and long-term incentive compensation targets against the median levels of such compensation elements at a customized peer group of 17 similarly

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situated companies, as well as against broad manufacturing industry survey data. The following companies were included in our customized 2011 peer group:

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.

This 2011 peer group was selected based on industry, reputation, revenue size, investor comparisons and competition for customers and talent. We continue to reference this peer group in determining 2012 compensation levels, while also utilizing a broader survey base of major U.S. manufacturing companies, as described below.

Benchmarking Compensation Elements for 2011

In determining compensation for 2011, we used both aggregated survey information that had been provided by AonHewitt, as well as selected 2011 peer group data, to determine competitive levels of pay. The aggregated survey information included 207 U.S. manufacturing corporations. The companies in the database had annual sales volumes ranging from \$266 million to \$156 billion, with average sales of \$11 billion. We refer to the companies in the database as "similarly sized U.S. manufacturing companies."

We believed that using both a broader survey base of major U.S. manufacturing companies, as well as our selected peer group, provided a reasonable and useful measure of comparable market compensation. The market compensation data is size-adjusted to reflect the specific scope, primarily revenue responsibility, for each position. For example, we used our total revenues to calculate the market median compensation levels for officers who have overall responsibility relating to our entire company, while we used the sales for an operating segment for officers responsible for that business.

Generally speaking, in determining compensation for our executive officers in 2011, we compared the total direct compensation of each of our officer positions to the compensation paid to similar positions among similarly sized U.S. manufacturing companies in AonHewitt's survey database, as well as against selected 2011 peer group data, using regression analysis to calculate the target median levels of base salary, targeted annual bonus participation, and targeted long-term incentive compensation value for scope of responsibility for each position. The Compensation Committee also considers other factors beyond market and 2011 peer group data when determining compensation. These factors include experience, tenure, potential, internal equity and performance. The Compensation Committee believes that all of the Named Executive Officer's compensation packages are in the median range of the competitive market.

Annual Bonus

ROANA performance targets established for our 2011 annual bonus plan reflected the targets set in our 2011 annual operating plan, which we refer to as our "AOP," as approved by our Board. For our 2011 annual bonus plan, target ROANA was 30.70%, which was based on target EBIT of \$2.108 billion. The Compensation Committee considered the performance of similarly sized U.S. manufacturing companies, including those in our 2011 peer group, in setting these targets.

Long-Term Incentive Compensation

Beginning with grants for 2011, the Compensation Committee decided that our long-term incentive compensation should be equally balanced among each of the three compensation elements of our long-term grants. As a result, for 2011, two-thirds of the targeted value of our long-term grants consisted of stock-based awards (one-third performance shares and one-third stock options) and one-third consisted of performance-based cash awards. Our Committee believed this reallocation, particularly when coupled with the 10-year term of our stock option grants, would help to further increase the linkage of the compensation of our Named Executive Officers and other plan participants to our share performance over time.

Historically, the performance cash and performance share elements of our long-term grants were tied to two-year performance cycles. In 2011, however, we transitioned these long-term grants to three-year performance cycles. Our Compensation Committee made this change in order to further link our long-term incentive compensation to a longer sustained period of our corporate performance and to further incentivize our officers to make decisions that benefit our company and its shareholders over a longer-term horizon. We believe these changes are consistent with evolving best practices, including the practices of many of our 2011 peer group companies.

For 2011, our Named Executive Officers received a transition cash award based on our two-year ROE performance in addition to their long-term grant. This award was designed to ensure consistency of award levels during the transition from a two-year to three-year performance period.

The table below summarizes the ROE targets and performance for the 2011-2012 transition award and 2011-2013 award cycle.

Award Cycle (Performance Period)	ROE Target for 1.0 Payout	Actual ROE Achieved	Payout Factor
2011-2012 Transition Award	21.65%	ROE calculated at the end of the 2011-2012 performance period for payout in 2013	TBD
2011-2013	21.10%	ROE calculated at the end of the 2011-2013 performance period for payout in 2014	TBD

Our stock-based grants to our Named Executive Officers were split 50/50 between performance shares and stock options in 2011. Our Compensation Committee believes this 50/50 split provides a balanced time horizon with our performance share awards being earned after a three-year performance period and our options having a 10-year term, vesting after the first two years.

Effective with the 2011-2013 long-term grants of performance shares, we eliminated the one-year restriction period on vested performance shares that had applied to earlier grants with two-year performance periods to reflect the change to a three-year performance period.

Advisory Shareholder Vote on our Executive Compensation in 2011

In May 2011 (after the 2011 executive compensation actions described above had taken place), we held our first advisory shareholder vote to approve the compensation of our Named Executive Officers at our annual shareholders' meeting, and, consistent with the recommendation of our Board, our shareholders voted in favor of our executive compensation, with approximately 90% of votes cast in favor

and approximately 10% of votes cast against. Consistent with this strong vote of shareholder approval, we have not undertaken any material changes to our executive compensation programs in 2012 in response to the outcome of the vote. In keeping with the recommendation of our Board, our shareholders also expressed a preference that future advisory shareholder votes to approve the compensation of our Named Executive Officers be held on an annual basis and, as previously disclosed, our Board determined to hold an advisory vote to approve the compensation of the Named Executive Officers every year.

Retirement of Mr. Solso

Mr. Solso retired effective as of December 31, 2011, and was succeeded as Chairman and Chief Executive Officer by Mr. Linebarger. In connection with Mr. Solso's retirement, to appropriately reward Mr. Solso for his service to our company and maintain his connection to our financial performance for a number of years following his retirement, Mr. Solso will receive prorated portions of the earned amounts of his long-term performance cash awards for the 2011-2013 and 2011-2012 award cycles and his performance shares for the 2011-2013 award cycle. These amounts will be payable on the normal payout schedule based on the actual payout factors. Accordingly, the actual amounts that Mr. Solso will receive under these awards are entirely dependent on our performance against the applicable performance metrics. Mr. Solso's stock options automatically vested upon his retirement in accordance with their terms; the options will have a five-year post-retirement term.

Overview of 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. These reviews include general comparisons against market data and analysis prepared by the Compensation Committee's executive compensation consultant, Fariant Advisors LLC, or Fariant, including the following market practices:

Executive compensation policies and practices

Competitive pay objectives

Base salaries

Annual bonus plans, including performance measures, performance targets and plan leverage

Long term incentive strategy and grants, 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

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. The Compensation Committee periodically benchmarks our targets against the performance of other similar companies. The Compensation Committee may also determine to 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 convertible debt. Certain corporate expense allocations may also be excluded from the individual operating segment performance calculations. No adjustments were made for such events in determining 2011 executive compensation amounts.

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 our Governance and Nominating Committee. The Governance and Nominating Committee formally reviews 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 that the Compensation Committee uses 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 2011 included the financial performance of our company, progress towards achieving our company's long-term strategic objectives and the development of key leadership talent.

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 consultant. Members of management do not make any recommendations regarding the compensation of our Chief Executive Officer. The Compensation Committee Chair presents the Compensation Committee's decisions on the compensation for our Chief Executive Officer to the Governance and Nominating Committee and the Board for their information.

Role of Our Officers in Setting Compensation for Other Officers

Members of our senior management, including our Named Executive Officers, recommend compensation actions 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 similarly sized U.S. manufacturing companies. 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, for the upcoming year. Our officer compensation review occurs annually at the February Compensation Committee meeting since 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

Section 162(m) of the Internal Revenue Code of 1986, as amended, which we refer to as the "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 payments under our Senior Executive Bonus Plan and Senior Executive Longer-Term Performance Plan for tax deductibility under Section 162(m). Because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) and the regulations issued thereunder, however, no assurance can be given, notwithstanding our intentions, that compensation intended to satisfy the requirements for deductibility under Section 162(m) will do so. Grants of stock options under our 2003 Stock Incentive Plan do not currently qualify for tax deductibility in excess of the \$1million limitation as they do not meet the performance-based exemption under Section 162(m).

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At the Annual Meeting, we are seeking approval of a new incentive plan, called the Cummins Inc. 2012 Omnibus Incentive Plan. As described further below, we intend for the Plan, if approved, to permit payments under our Senior Executive Bonus Plan and Senior Executive Longer-Term Performance Plan, as well as grants of stock options thereunder, to qualify for tax deductibility as performance based compensation under Section 162(m).

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 below, we have historically targeted the base salaries of our Named Executive Officers at the median range of base salaries of similarly situated executives at similarly sized U.S. manufacturing companies. 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 2011, 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. In total, these elements are designed to fulfill our basic goals of linking pay to performance, as we define it, and paying competitively. All officers participate in each element of the program, but in varying degrees.

Base Salary

We review the base salary of our officers annually. We target our officers' base salary to be at the median range of base salaries of similarly situated executives of similarly sized U.S. manufacturing companies. The Compensation Committee also considers other factors beyond market and 2011 peer group data when determining salaries. These factors include experience, tenure, potential, internal equity and performance. This may result in an individual's base salary being set above or below the median range. The Compensation Committee believes that all of the Named Executive Officer's salaries are in the median range of the competitive market.

In 2011, the Compensation Committee determined an appropriate adjustment to the base salary of Mr. Linebarger, in connection with his appointment to the position of Chairman and Chief Executive Officer. Effective, January 1, 2012, the Compensation Committee increased his base salary to an annual rate of \$1,125,000.

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 an executive's annual base salary, multiplied by the participation percentage of 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. For those executives with responsibility for supervising the operations of one of our operating segments, 50% of their annual bonus is based upon the ROANA performance of their respective specific operating unit and 50% of their bonus is based upon the payout factor for our consolidated corporate performance. There is no discretionary element to computing annual bonuses.

For example:

\$550,000 Annual Base Salary
 × 60% Participation Percentage
 × 0.8 Payout Factor based on Company performance versus the incentive goal

\$264,000 Annual Bonus

Each Named Executive Officer's participation rate is set as a percentage of his or her annual base salary. Participation rates are based on the same survey group data as base salaries and are set at the median of the range for similarly situated executives at similarly sized U.S. manufacturing companies. Our Named Executive Officers' participation rates for 2011, expressed as a percentage of their respective 2011 base salaries, were:

T. M. Solso	125%
T. Linebarger(1)	100%
P. J. Ward	75%
R. J. Freeland	75%
P. Carter	75%

(1) In connection with Mr. Linebarger's appointment to the position of Chairman and Chief Executive Officer, the Compensation Committee determined that his bonus plan participation rate for 2012 would be set at 125% of his 2012 base salary.

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 we believe it appropriately balances our profitability and the management of our assets, and also is an important element underlying our share value.

ROANA, for compensation purposes is calculated as follows:

The numerator is Segment Earnings Before Interest and Tax, or EBIT, which is defined as each respective operating segment's direct earnings before interest expense, provisions for income taxes and non-controlling interests in earnings of consolidated subsidiaries and consideration of any corporate expense allocations. The denominator is Average Net Assets, which is derived from our consolidated balance sheet and excludes debt and related financing accounts, deferred tax amounts, certain pension and post retirement liability accounts, and those net assets managed by Corporate, such as cash. Average Net Assets are then allocated to the appropriate operating segment.

Payout factors are determined using actual ROANA results compared to goal ranges as described below. For 2011, the payout factor for our consolidated corporate ROANA performance was equal to the weighted average of the payout factors from each of our four operating segments, weighted by business unit Earnings Before Interest and Taxes (EBIT).

In setting the annual ROANA targets for the purpose of determining our executives' annual bonus opportunity for that year, the Compensation Committee reviews the levels of difficulty of our AOP for each operating segment, 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 payout factors for 2011 ranged from 0.1 to a maximum of 2.0 in increments of 0.1.

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Payouts start at 0.1 resulting from meeting 60% of AOP, while 120% of AOP was required to earn a 2.0 payout factor, as follows:

Payout Factor	ROANA Target Used to Establish Final Payout Factor
0.1	60% of ROANA Target
0.2-0.9 (0.1 increments)	Each target point in this range is derived by evenly allocating the 100%-60% of ROANA difference across each point in the range
1.0	100% of ROANA Target
1.1-1.9 (0.1 increments)	Each target point in this range is derived by evenly allocating the 120%-100% of ROANA difference across each payout factor in the range
2.0	120% of ROANA Target

Note: The methodology described above applies to each operating segment except the Distribution Business, for which we use 80% of its ROANA target to establish its 0.1 Payout Factor. We apply this modified approach because the Distribution Business operates in a less cyclical business environment than our other operating segments. Each target point in the Distribution Business's 0.2-0.9 range is derived by evenly allocating the 100%-80% of ROANA difference across each point in the range. The 2.0 Payout Factor for the Distribution Business is calculated in the same manner as our other operating segments, using 120% of its ROANA target.

Setting the targets with appropriate levels of difficulty underscores the importance of achieving or exceeding the AOP performance commitments each operating segment establishes annually. This approach requires increasingly difficult targets during economic upturns, and realistic goals that maximize performance during cyclical downturns. The Compensation Committee periodically benchmarks these AOP targets against the performance of similarly sized U.S. manufacturing companies.

Based on our actual corporate performance during 2011, as measured against our ROANA goal, which was based on achieving our AOP, the payout factor for the corporate weighted average formula was 2.0. Performance varied by operating segment, resulting in the 2011 payout factor for each of the Named Executive Officers varying between 1.95 and 2.0. The payout factors used to calculate the annual bonus for each Named Executive Officer for 2011 were as follows:

	Overall Payout Factor
T. M. Solso (100% Corporate Payout Factor)	2.0
T. Linebarger (100% Corporate Payout Factor)	2.0
P. J. Ward (100% Corporate Payout Factor)	2.0
R. J. Freeland (50% Corporate Payout Factor and 50% Engine Business Payout Factor)	2.0
P. Carter (50% Corporate Payout Factor and 50% Distribution Business Payout Factor)	1.95

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Performance varied by operating segment resulting in the following 2011 payout factors:

Operating Segment	ROANA Target for 1.0 Payout Factor	Actual 2011 ROANA Performance	Weightings for Calculating Corporate Bonus	2011 Payout Factors
Engine Business	75.64%	99.31%	55.1%	2.0
Power Generation Business	41.09%	41.31%	14.5%	1.0
Distribution Business	32.05%	38.16%	13.4%	1.9
Components Group (1)	32.10%	35.94%	17.0%	1.3-2.0
			100%	

- (1) The components group segment ROANA represents the weighted average performance targets for the businesses within that segment. The components group 2011 Payout Factors represents the range of payout factors for the businesses within that segment.

Long-Term Incentive Compensation

Our long-term incentive compensation program consists of performance cash awards and stock-based grants.

For our stock-based awards, the Compensation Committee believes that the combination of performance shares and stock options provides an appropriate balance in how we pay for longer-term performance, recognizing that performance shares provide value to participants for achieving financial targets, even if our stock price declines from the grant date, while stock options have value only if our stock price increases after the grant date and promote a longer-term focus on stock price growth potentially up to the full 10-year term of our options. The Compensation Committee believes that this blended approach of granting both performance shares and stock options balances pay for performance, provides appropriate incentives for participants, and strengthens the linkage of the interests of our Named Executive Officers with the interests of our shareholders.

Long-Term Grant Methodology

In determining the appropriate grant sizes, the Compensation Committee uses a valuation methodology that converts the targeted value of the grants into an 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. In 2011, the targeted value of the long-term grants was divided between cash and stock-based awards, with two-thirds of the value being allocated to stock-based awards (one-third to performance shares and one-third to stock options) and one-third being allocated to cash-based awards. Under our valuation model for the stock options, the ratio of stock options to performance shares awarded in 2011 was approximately 1.6 to 1.

Grant amounts under the long-term incentive compensation plan have been set to provide an "at target" total long-term incentive compensation opportunity at the median of the comparable level of long-term incentive compensation provided by similarly sized U.S. manufacturing companies for similar positions and scope. The Compensation Committee reviews the proportion of total long-term incentive compensation that is dependent on our financial and stock performance in determining the relative amount of the compensation opportunity allocated to each element. More senior positions have a larger proportion of their total direct compensation opportunity dependent on our performance than do less senior positions.

ROE has been the measure on which performance cash and performance shares are earned because we believe that it provides a meaningful measure of profitability relative to our shareholders' stake over the performance period. We believe that ROE is a more meaningful measure of the impact of actions under the control of management than stock price, yet links our officers' interests to those of our shareholders, because historical data have indicated a strong, positive correlation between our ROE and our stock price.

We believe that our grants of performance shares forge a strong linkage of interests between our management and our shareholders since the value participants actually receive is determined by both our financial performance relative to our pre-established ROE goal, as well as our stock price.

Performance Cash Awards

Performance cash awards are granted as target awards expressed as a dollar amount for each participant. Multiples of the target award may be earned, ranging from zero to two times the target award, based on how well we achieve or exceed performance measures established by the Compensation Committee over a specified measurement period. Annually, the Compensation Committee grants target awards to be earned based on our performance over a period of time called the "award cycle." From 2003 until 2010, the award cycles were overlapping two-year periods, and the performance measure determining the actual payouts has been our consolidated return on equity, or ROE. In 2011, however, we began transitioning our long-term grants to three-year performance cycles. Our Compensation Committee made this change in order to further link our long-term incentive compensation to a longer sustained period of our corporate performance and to further incentivize our officers to make decisions that benefit our company and its shareholders over a longer-term horizon. We believe these changes are consistent with evolving best practices, including the practices of many of our 2011 peer group companies.

For 2011, our Named Executive Officers received a transition cash award based on our two-year ROE performance in addition to their long-term grant. This award was designed to ensure consistency of award levels during the transition from a two-year to a three-year performance period.

The target amounts of the performance cash awards will be paid in cash if we achieve target ROE for the award cycle. For our two-year awards, target ROE for the award cycle is the average of the ROE for the two-year award cycle period based on (i) our AOP for the first year and (ii) a target level established by management and approved by the Compensation Committee for the second year of the award cycle. For our three-year awards, target ROE for the award cycle is the average of the ROE for the three-year award cycle period based on (i) our AOP for the first year and (ii) a target level established by management and approved by the Compensation Committee for the second and third years of the award cycle.

The ROE for each award cycle is calculated as the cumulative net income for the applicable performance period, divided by the average shareholders' equity for the period, divided by the number of years in the award cycle. The 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, or OPEB, amounts and equity transactions not built into the operating plan such as Common Stock repurchases in excess of what was included in the plan. 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 2011 ROE goal, which was based on achievement of our 2011 AOP, was discussed as part of the Compensation Committee's annual incentive compensation setting process. The Compensation Committee considered the performance of similarly sized U.S. manufacturing companies, including those in our 2011 peer group, in setting this target.

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The table below summarizes the ROE targets and performance for award cycles from 2009-2010 through 2011-2013.

Award Cycle (Performance Period)	ROE Target for 1.0 Payout	Actual ROE Achieved	Payout Factor
2009-2010	15.38%	16.05%	1.2
2010-2011	11.69%	25.67%	2.0
2011-2012 Transition Award	21.65%	ROE calculated at the end of the 2011-2012 performance period for payout in 2013	TBD
2011-2013	21.10%	ROE calculated at the end of the 2011-2013 performance period for payout in 2014	TBD

For all award cycles, a 2.0 payout factor 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.

Performance Shares and Option Awards

The target grant value of the stock-based grants made in 2011 was comprised equally of performance shares and stock options. The target award of performance shares granted to each participant is expressed as a number of shares of our Common Stock. A percentage of the target award number of shares may be earned, ranging from zero to 200%, based on the same ROE performance measures over the awards cycle and, therefore, the same payout factor as our performance cash awards.

In years prior to 2011, any performance shares that were earned after the two-year award cycle remained restricted for one additional year. Effective with the 2011-2013 long-term grants of performance shares, we no longer require this one-year restriction period on vested performance shares.

In 2011, we granted non-qualified stock options representing approximately half of the target value of stock based grants with an exercise price per share equal to the average of the high and low trading prices of a share 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 second 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.

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 such number of shares of our Common Stock having a total value equal to the following multiples of their respective base salaries: Chief Executive Officer, five times base salary; other designated officers (including all of the Named Executive Officers other than the Chief Executive Officer), three times base salary; all other officers, one times 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. 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 they would not drop below their ownership threshold.

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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 have also adopted formal stock ownership guidelines for non-employee members of our Board. As of December 31, 2011, all of our non-employee directors had either satisfied this requirement or had additional time to do so.

Officers and directors are prohibited 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.

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 similarly sized U.S. manufacturing companies.

In addition to these benefits, our officers, including our Named Executive Officers, participate in our Supplemental Life Insurance and Deferred Income Program. This program is provided 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 coordinate 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. The two highest compensated Named Executive Officers (Messrs. Solso and Linebarger) are eligible to receive an additional benefit, exceeding the benefit for other participants by 10%. In December 2011, the Compensation Committee discontinued this additional benefit for future participants in the plan but maintained it for Messrs. Solso and Linebarger who are currently the two highest compensated Named Executive Officers.

Our officers, including our Named Executive Officers, are eligible to participate in our non-qualified deferred compensation plan, as are all exempt U.S. employees whose salaries equal or exceed \$100,000. This program is designed to provide opportunities for capital accumulation on a tax-deferred basis and financial planning, 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%. We also pay all brokerage commissions and fees in connection with each purchase of shares.

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. Since these financial counselors are familiar with our compensation and retirement plans, our Named Executive Officers' financial planning and tax return preparation are enhanced, thereby providing a benefit to our company and our Named Executive Officers.

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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.

2012 Executive Compensation Matters

Executive Compensation Program Changes Starting in 2012

Beginning in 2012, we made the changes to our executive compensation programs described below.

In connection with Mr. Linebarger's appointment to the position of Chairman and Chief Executive Officer as of January 1, 2012, the Compensation Committee increased his base salary to an annual rate of \$1,125,000 effective upon his promotion to Chairman and Chief Executive Officer. Additionally, Mr. Linebarger's base annual salary will be increased to \$1,200,000, effective July 1, 2012, the timing of which aligns with the annual pay increases for our other Named Executive Officers. The Compensation Committee also determined that Mr. Linebarger's target annual bonus for 2012 would be 125% of his base salary. In determining these compensation elements, the Compensation Committee referred to other Chairman and CEO positions among similarly sized U.S. manufacturing companies in AonHewitt's survey database, as well as our selected peer group data, using regression analysis to calculate median levels of base salary and targeted annual bonus participation.

Our Compensation Committee took action to impose a "double trigger" requirement for accelerated vesting of our executive officers' equity grants upon a change in control in which the grants are assumed or replaced so that, 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 his or her unvested equity to become vested on an accelerated basis. This change is effective for all equity grants made in 2012 and future years.

Our Compensation Committee also took action in late 2011 to reduce the benefits provided to our executive officers (other than our Chief Executive Officer) upon a change in control and termination of employment to an amount equal to two (rather than three) years' base salary and two (rather than three) annual bonus payments calculated at a 1.0 payout factor (in addition to the full vesting of certain insurance and retirement benefits and the continuation for the two-year severance period of certain other benefits).

Our Compensation Committee approved changes to the annual bonus plan to reinforce the importance of our overall, global success in relation to the success of each individual business. Starting in 2012, our corporate annual bonus plan will convert from an EBIT weighted average of each business unit's ROANA, to a company-wide ROANA plan, based on our total company ROANA results. Each of our Named Executive Officers will be impacted by this change. Those officers who lead one of our business segments and therefore participate in both a business segment ROANA plan and the company annual bonus plan will continue to participate in their business segment ROANA plan, but their participation in the weighted average plan will be converted to the company-wide ROANA plan. Other officers who participated only in the weighted average plan in 2011 will participate in the company-wide ROANA plan in 2012.

Benchmarking Compensation Elements for 2012

In determining compensation for 2012, we and the Compensation Committee used both broad U.S. manufacturing survey data and our selected peer group data, to determine competitive levels of pay. The methodology used to compare each officer position was consistent with the methodology used in 2011.

In determining compensation for 2012, we and the Compensation Committee believed that using both a broader survey base of major U.S. manufacturing companies, as well as our selected peer group of 17 companies, provided a reasonable and useful measure of comparable market compensation. The market compensation data reflected the specific scope (based mainly on revenue responsibility) for each position. For example, we used our total sales to calculate the market median compensation levels for officers who have overall responsibility relating to our entire company, while we used the sales for an operating segment for officers responsible for that business.

New Omnibus Incentive Plan

The Compensation Committee has adopted a new omnibus incentive plan, the Cummins Inc. 2012 Omnibus Incentive Plan, subject to shareholder approval at the Annual Meeting. The Plan, if approved by our shareholders at the Annual Meeting, will replace the existing Cummins Inc. 2003 Stock Incentive Plan, the Cummins Inc. Senior Executive Target Bonus Plan, the Cummins Inc. Target Bonus Plan, the Cummins Inc. Senior Executive Longer Term Performance Plan and the Cummins Inc. Longer Term Performance Plan and serve as an "umbrella" plan for our equity-based and cash-based incentive compensation programs. The existing plans described in the preceding sentence will be terminated if the Plan is approved, although outstanding awards will continue to be governed by the terms of the existing plans. The two complementary purposes of the Cummins Inc. 2012 Omnibus Incentive Plan are to attract, retain and motivate our executives, other selected employees and directors and to link the interests of these individuals with the interests of our shareholders. We do not expect the adoption of the 2012 Omnibus Incentive Plan to result in any material change to our current equity compensation practices.

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 "Payments Upon a Qualified Termination Following a 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 and are similar to benefits offered to executives of comparable companies. 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 security and future.

The Compensation Committee selected the triggering events for change in control and termination benefits to our Named Executive Officers based on its judgment that these events would likely result in the job security distractions and retention concerns described above. Our change in control compensation protection arrangements require the occurrence of two events (a so-called "double trigger") to trigger payments: (1) a "change in control," and (2) termination without "cause" by the company or termination by the officer with "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. Until 2011, these benefits included a severance payment equal to three years'

base salary plus three annual bonus payments calculated at a 1.0 payout factor. We would also provide for the full vesting of certain insurance and retirement benefits and the continuation for the three-year severance period of certain other benefits.

In 2011, after conducting a review of the change in control and termination benefits that we provide our executive officers, the Compensation Committee determined to reduce these benefits for all of our Named Executive Officers (except our Chief Executive Officer) so that our Named Executive Officers (except our Chief Executive Officer) now will be entitled to receive only two (rather than three) years' base salary, and two (rather than three) annual bonus payments calculated at a 1.0 payout factor (in addition to the full vesting of certain insurance and retirement benefits and the continuation for the two-year severance period of certain other benefits). Our Chief Executive Officer will continue to receive the benefits that were in place prior to these changes, as the current level of benefits is consistent with the most prevalent benefit multiple for other chief executives among companies in our peer group.

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. Some stock-based awards under our long-term compensation plans provided for accelerated vesting upon a change in control without requiring termination of employment. In 2011, our Compensation Committee determined that all future stock-based awards under our long-term compensation plans would provide for accelerated vesting upon a change in control only if there was also a termination of the award holder's employment by us without cause or by the award holder with good reason within two years after the change in control.

Also in 2011, after conducting its review of our change in control and termination benefits described above, the Compensation Committee decided to eliminate from our long-standing change in control compensation protection arrangements all tax gross-ups for excise taxes imposed because of the "golden parachute" excise tax provisions of Code Sections 280G and 4999. Instead, we modified the arrangements to 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. Before this change, we had provided our Named Executive Officers with a gross-up payment if necessary so that the executive would receive the same economic terms as if there were no excise tax. We eliminated the gross-up payments to conform our change in control compensation protection arrangements to what we believe are the current best practices in this area.

Confidentiality and Non-Compete Agreements

Each officer, including 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.

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, 2011.

Respectfully submitted,
GEORGIA R. NELSON, CHAIR
ROBERT K. HERDMAN
ALEXIS M. HERMAN
WILLIAM I. MILLER
CARL WARE

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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.

2011 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) Change in Pension Value and Non qualified Deferred	(6) All Other Compensation	Total Compensation
							Earnings		
T. M. Solso, Former Chairman and CEO(7)	2011	\$ 1,355,000	\$ 0	\$ 2,373,276	\$ 2,006,025	\$ 8,881,500	\$ 3,165,137	\$ 158,944	\$ 17,939,882
	2010	\$ 1,285,000	\$ 0	\$ 1,615,960	\$ 1,383,674	\$ 6,404,500	\$ 620,078	\$ 112,215	\$ 11,421,427
	2009	\$ 1,139,250	\$ 0	\$ 610,447	\$ 642,637	\$ 1,991,100	\$ 1,489,788	\$ 96,215	\$ 5,969,437
T. Linebarger, President and Chief Operating Officer(8)	2011	\$ 850,000	\$ 0	\$ 818,231	\$ 691,842	\$ 3,348,000	\$ 2,572,274	\$ 26,528	\$ 8,306,875
	2010	\$ 787,500	\$ 0	\$ 484,788	\$ 415,204	\$ 2,375,100	\$ 631,544	\$ 27,922	\$ 4,722,058
	2009	\$ 678,125	\$ 0	\$ 183,152	\$ 192,830	\$ 714,600	\$ 2,134,478	\$ 21,195	\$ 3,924,380
P. J. Ward, Vice President and Chief Financial Officer	2011	\$ 562,500	\$ 0	\$ 511,903	\$ 432,402	\$ 1,941,750	\$ 1,269,575	\$ 10,776	\$ 4,728,906
	2010	\$ 450,000	\$ 0	\$ 323,192	\$ 276,633	\$ 1,063,800	\$ 413,101	\$ 15,504	\$ 2,542,230
	2009	\$ 361,667	\$ 0	\$ 91,576	\$ 96,376	\$ 280,200	\$ 468,359	\$ 19,776	\$ 1,317,954
R. J. Freeland, Vice President and President Engine Business	2011	\$ 592,500	\$ 0	\$ 511,903	\$ 432,402	\$ 1,986,750	\$ 1,306,070	\$ 24,831	\$ 4,854,456
	2010	\$ 551,667	\$ 0	\$ 323,192	\$ 276,633	\$ 1,243,966	\$ 192,356	\$ 20,904	\$ 2,608,718
	2009	\$ 461,125	\$ 0	\$ 100,679	\$ 106,006	\$ 410,700	\$ 950,095	\$ 19,860	\$ 2,048,465
P. Carter, Vice President and President Distribution Business	2011	\$ 515,000	\$ 0	\$ 409,115	\$ 345,921	\$ 1,439,187	\$ 1,004,702	\$ 53,431	\$ 3,767,356
	2010	\$ 485,000	\$ 0	\$ 201,995	\$ 173,086	\$ 951,300	\$ 194,214	\$ 84,334	\$ 2,089,929

- (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 pursuant to the 2003 Stock 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 2011, 2010 and 2009. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Performance shares granted prior to 2011 are earned and converted to shares of restricted stock based on our financial performance over a two-year period, and the shares of restricted stock so earned remain restricted for one additional year. Performance shares granted in 2011 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 2011 awards at the grant date assuming that the highest level of performance conditions are attained, are as follows: T. M. Solso \$4,745,620; T. Linebarger \$1,636,140; P. J. Ward \$1,023,606; R. J. Freeland \$1,023,606; P. Carter \$818,070.
- (3) The Option Awards column represents the fair value on the grant date computed in accordance with ASC Topic 718 for option awards pursuant to the 2003 Stock 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, 2011. 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 2011 consist of (i) payments made in March 2012 under the Senior Executive Target Bonus Plan for 2011 performance and (ii) payments for the Senior Executive Longer-term Performance Plan, which were paid in March 2012 based on our 2010-2011 performance. The payments for each Named Executive Officer from these sources were:

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	T. M. Solso	T. Linebarger	P. J. Ward	R. J. Freeland	P. Carter
Senior Executive Target Bonus Plan	\$ 3,387,500	\$ 1,700,000	\$ 843,750	\$ 888,750	\$ 753,187
Senior Executive Longer-Term Performance Plan	\$ 5,494,000	\$ 1,648,000	\$ 1,098,000	\$ 1,098,000	\$ 686,000
TOTAL	\$ 8,881,500	\$ 3,348,000	\$ 1,941,750	\$ 1,986,750	\$ 1,439,187

(5)

The aggregate changes during 2011 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:

	T. M. Solso	T. Linebarger	P. J. Ward	R. J. Freeland	P. Carter
Cummins Inc. Pension Plan A (Qualified)	\$ 59,918	\$ 39,926	\$ 34,970	\$ 16,259	\$ 26,000
Cummins Excess Benefit Plan (Non-qualified)	\$ 507,082	\$ 185,627	\$ 65,110	\$ 72,741	\$ 66,000
Supplemental Life Insurance and Deferred Income Program (Non-qualified)	\$ 2,361,712	\$ 2,312,758	\$ 1,166,624	\$ 1,151,687	\$ 911,964
Sub-total	\$ 2,928,712	\$ 2,538,311	\$ 1,266,704	\$ 1,240,687	\$ 1,003,964
Above-market earnings on non-qualified deferred compensation:	\$ 236,425	\$ 33,963	\$ 2,871	\$ 65,383	\$ 738
TOTAL	\$ 3,165,137	\$ 2,572,274	\$ 1,269,575	\$ 1,306,070	\$ 1,004,702

"Above-market" is defined as the amount of earnings that exceeded 120% of the applicable federal long-term rate.

(6)

This column consists of the following for 2011:

	T. M. Solso	T. Linebarger	P. J. Ward	R. J. Freeland	P. Carter
Financial Counseling	\$ 5,215	\$ 5,081	\$ 0	\$ 5,178	\$ 5,355
Personal use of Company Aircraft	\$ 122,825	\$ 9,518	\$ 0	\$ 7,252	\$ 35,125
Life Insurance Costs	\$ 22,329	\$ 3,354	\$ 2,201	\$ 3,826	\$ 4,376
Company Match in the Retirement and Savings Plan	\$ 8,575	\$ 8,575	\$ 8,575	\$ 8,575	\$ 8,575
TOTAL	\$ 158,944	\$ 26,528	\$ 10,776	\$ 24,831	\$ 53,431

Personal Use of Company Aircraft was calculated using an average indicated hourly cost of \$2,266.14 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.

(7)

Mr. Solso retired from the position of Chairman and Chief Executive Officer at the end of 2011.

(8)

Mr. Linebarger became our Chairman and Chief Executive Officer effective January 1, 2012.

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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 2011

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	All Other Option Awards	(6)	(7)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	Number of Shares or Underlying Securities	Number of Options	Exercise or Base Price of Option Awards (\$)	Fair Value of Stock and Option Awards
T. M. Solso	3/14/11	3/14/11(1)	\$ 169,375	\$ 1,693,750	\$ 3,387,500							
	3/14/11	3/14/11(2)	\$ 237,500	\$ 2,375,000	\$ 4,750,000							
	3/14/11	3/14/11(3)	\$ 329,500	\$ 3,295,000	\$ 6,590,000							
	3/28/11	3/14/11(4)				2,332	23,320	46,640				\$ 2,373,276
	5/2/11	3/14/11(5)							0	37,810	\$ 119.77	\$ 2,006,025
T. Linebarger	2/7/11	2/7/11(1)	\$ 85,000	\$ 850,000	\$ 1,700,000							
	2/7/11	2/7/11(2)	\$ 81,900	\$ 819,000	\$ 1,638,000							
	2/7/11	2/7/11(3)	\$ 113,600	\$ 1,136,000	\$ 2,272,000							
	3/28/11	2/7/11(4)				804	8,040	16,080				\$ 818,231
	5/2/11	2/7/11(5)							0	13,040	\$ 119.77	\$ 691,842
P. J. Ward	2/7/11	2/7/11(1)	\$ 42,188	\$ 421,875	\$ 843,750							
	2/7/11	2/7/11(2)	\$ 51,200	\$ 512,000	\$ 1,024,000							
	2/7/11	2/7/11(3)	\$ 71,000	\$ 710,000	\$ 1,420,000							
	3/28/11	2/7/11(4)				503	5,030	10,060				\$ 511,903
	5/2/11	2/7/11(5)							0	8,150	\$ 119.77	\$ 432,402
R. J. Freeland	2/7/11	2/7/11(1)	\$ 44,438	\$ 444,375	\$ 888,750							
	2/7/11	2/7/11(2)	\$ 51,200	\$ 512,000	\$ 1,024,000							
	2/7/11	2/7/11(3)	\$ 71,000	\$ 710,000	\$ 1,420,000							
	3/28/11	2/7/11(4)				503	5,030	10,060				\$ 511,903
	5/2/11	2/7/11(5)							0	8,150	\$ 119.77	\$ 432,402
P. Carter	2/7/11	2/7/11(1)	\$ 38,625	\$ 386,250	\$ 772,500							
	2/7/11	2/7/11(2)	\$ 41,000	\$ 410,000	\$ 820,000							
	2/7/11	2/7/11(3)	\$ 56,800	\$ 568,000	\$ 1,136,000							
	3/28/11	2/7/11(4)				402	4,020	8,040				\$ 409,115
	5/2/11	2/7/11(5)							0	6,520	\$ 119.77	\$ 345,921

-
- (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 in 2011. A multiple of the target award is earned based on our Return on Equity (ROE) performance during 2011-2013. Since, for the first time, the target award is based on a three-year performance period, we also made a transition award as described in the following footnote. 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 2011-2013 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 2014.
- (3) Since our regular performance cash awards in 2011 covered a three-year period for the first time (rather than a two-year period), we made additional transition awards, expressed as dollar amounts, under our Longer-Term Performance Plan and Senior Executive Longer-Term Performance Plan. A multiple of the target award is earned based on our ROE performance during 2011-2012. The amount earned and paid under the transition award will range from zero to 200% of the target award amount. The target award will be earned if our ROE for 2011-2012 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 2013.
- (4) We made target awards of performance shares under our 2003 Stock Incentive Plan in 2011. The awards are expressed as a target number of shares of our Common Stock. Shares are earned based on our ROE performance during 2011-2013, 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 2011-2013 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.
- (5) We awarded stock options under our 2003 Stock Incentive Plan. The options were granted on May 2, 2011 at a grant price of \$119.77. The options are not exercisable until May 2, 2013 (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 May 2, 2021, five years after retirement or disability, or one year after death.
- (6) The grant price of the stock options is equal to the average of the high and low trading prices of our Common Stock on the grant date (\$119.77), which was higher than the closing market price of our Common Stock on the grant date (\$118.29).
- (7) The grant date fair value for performance shares, based upon probable outcome of the performance conditions to which they are subject, is \$101.77/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 grant date fair value for stock option awards was the Black-Scholes value at grant date which was \$53.0554/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, 2011, 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 2011 YEAR-END

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	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 (\$)	
T. M. Solso	37,810(1)	0	\$ 119.77	5/2/2021	40,236(2)	\$ 3,541,573(3)	51,720(4)	\$ 4,552,394(3)	
	54,520(5)	0	\$ 58.115	3/1/2020					
	82,750(6)	0	\$ 19.42	3/2/2019					
T. Linebarger	0	13,040(1)	\$ 119.77	5/2/2021	12,072(2)	\$ 1,062,577(3)	16,560(4)	\$ 1,457,611(3)	
	0	16,360(5)	\$ 58.115	3/1/2020					
	24,830(6)	0	\$ 19.42	3/2/2019					
P. J. Ward	0	8,150(1)	\$ 119.77	5/2/2021	6,036(2)	\$ 531,289(3)	10,710(4)	\$ 942,694(3)	
	0	10,900(5)	\$ 58.115	3/1/2020					
	12,410(6)	0	\$ 19.42	3/2/2019					
R. J. Freeland	0	8,150(1)	\$ 119.77	5/2/2021	6,636(2)	\$ 584,101(3)	10,710(4)	\$ 942,694(3)	
	0	10,900(5)	\$ 58.115	3/1/2020					
	13,650(6)	0	\$ 19.42	3/2/2019					
P. Carter	0	6,520(1)	\$ 119.77	5/2/2021	5,028(2)	\$ 442,565(3)	7,570(4)	\$ 666,311(3)	
	0	6,820(5)	\$ 58.115	3/1/2020					

- (1) These stock options were granted on May 2, 2011 and will vest and become exercisable with respect to all of the underlying shares of our Common Stock on the second 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. Mr. Solso retired effective December 31, 2011, and his stock options vested in full on that date.
- (2) Target awards of performance shares were granted in February 2009 to be earned in a multiple ranging from zero to two times the target award, based on our performance during 2009-2010. The performance shares became earned and converted to shares of restricted stock in March 2011, based on our 2009-2010 performance. These restricted stock shares are shown in this column. The vesting date for the shares of restricted stock in this column was March 1, 2012.
- (3) The price used to calculate the market value of outstanding shares was \$88.02, the closing price of our Common Stock on the NYSE on December 30, 2011, the last trading day of the year.
- (4) Target awards of performance shares were granted in March 2010 and March 2011 to be earned in a multiple ranging from zero to two times the target awards, based on our performance during 2010-2011 and 2011-2013, respectively. The performance shares earned from the March 2010 grant will be converted to shares of restricted stock for one additional year. The performance shares earned from the March 2011 grant will be awarded in 2014 and will not be subject to a restriction period. Performance during the previous award cycle exceeded threshold; therefore, target amounts are shown.
- (5) These stock options were granted on March 1, 2010 and vest and become exercisable with respect to all of the underlying shares of our Common Stock on the second 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. Mr. Solso retired effective December 31, 2011, and his stock options vested in full on that date.
- (6) 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.

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The outstanding target awards of performance shares as of December 31, 2011 for the 2010-2011 and 2011-2013 awards cycles were as follows:

Name	Grant Year	Number of Units of Performance Shares	Date Earned and Converted to Restricted Stock	Vesting Date for Shares of Restricted Stock
T. M. Solso	2011	23,320	N/A	N/A
	2010	28,400	3/2/2012	3/1/2013
T. Linebarger	2011	8,040	N/A	N/A
	2010	8,520	3/2/2012	3/1/2013
P. J. Ward	2011	5,030	N/A	N/A
	2010	5,680	3/2/2012	3/1/2013
R. J. Freeland	2011	5,030	N/A	N/A
	2010	5,680	3/2/2012	3/1/2013
P. Carter	2011	4,020	N/A	N/A
	2010	3,550	3/2/2012	3/1/2013

OPTION EXERCISES AND STOCK VESTED IN 2011

Name	(1) Option Awards	(2)	(3) Stock Awards	(4)
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
T. M. Solso	0	\$ 0	14,301	\$ 1,428,956
T. Linebarger	0	\$ 0	4,290	\$ 428,657
P. J. Ward	0	\$ 0	1,431	\$ 142,986
R. J. Freeland	0	\$ 0	2,361	\$ 235,911
P. Carter	6,000	\$ 593,220	1,788	\$ 178,657

(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 February 2008 to be earned in a multiple ranging from zero to two times the target award, based on our performance during 2008-2009. The performance shares became earned and converted to shares of restricted stock in March 2010, based on our 2008-2009 performance. These restricted stock shares became vested and were distributed on March 2, 2011.

(4) The values realized on vesting for the performance shares were calculated using the unadjusted closing price of our Common Stock on March 1, 2011 (\$99.92).

PENSION BENEFITS FOR 2011

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
T. M. Solso	Cummins Inc. and Affiliates Pension Plan A (Qualified)	40	\$ 1,207,000	\$ 0
	Excess Benefit Plan (Non-qualified)		\$ 5,400,000	\$ 0
	Supplemental Life Insurance and Deferred Income Plan (Non-qualified)		\$ 18,024,992	\$ 0
T. Linebarger	Cummins Inc. and Affiliates Pension Plan A (Qualified)	19	\$ 315,134	\$ 0
	Excess Benefit Plan (Non-qualified)		\$ 731,890	\$ 0
	Supplemental Life Insurance and Deferred Income Plan (Non-qualified)		\$ 7,154,734	\$ 0
P. J. Ward	Cummins Inc. and Affiliates Pension Plan A (Qualified)	24	\$ 270,091	\$ 0
	Excess Benefit Plan (Non-qualified)		\$ 149,644	\$ 0
	Supplemental Life Insurance and Deferred Income Plan (Non-qualified)		\$ 2,890,268	\$ 0
R. J. Freeland	Cummins Inc. and Affiliates Pension Plan A (Qualified)	33	\$ 658,425	\$ 0
	Excess Benefit Plan (Non-qualified)		\$ 411,575	\$ 0
	Supplemental Life Insurance and Deferred Income Plan (Non-qualified)		\$ 6,428,817	\$ 0
P. Carter	Cummins Inc. and Affiliates Pension Plan A (Qualified)	14	\$ 235,000	\$ 0
	Excess Benefit Plan (Non-qualified)		\$ 395,000	\$ 0
	Supplemental Life Insurance and Deferred Income Plan (Non-qualified)		\$ 5,144,306	\$ 0

The Cummins Inc. and Affiliates Pension Plan A is a Cash Balance Pension Plan ("Plan A"). 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 Plan A benefit upon attaining five years of service.

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

The SERP benefit is based on a percentage of the highest five consecutive years of total compensation during the final 10 years 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

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two highest paid Named Executive Officers at the time of retirement will receive an annual benefit equal 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 Messrs. Solso and Linebarger who are currently the two highest paid Named Executive Officers.

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

Officers whose service and age total 80 (minimums of age 55 and 20 years service), or who were participants in the plan prior to 1997 and have at least 30 years of service, regardless of age, would qualify for immediate unreduced commencement of life annuity benefits. Therefore, Messrs. Solso and Freeland qualified, as of December 31, 2011, 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 service, increasing in 15% annual increments, with 100% vesting after 10 years 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 Code 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 Plan A.

Mr. Solso retired effective December 31, 2011 and will begin receiving benefits under the Excess Benefit Plan and the SERP.

Accelerated SERP Formula for Executives Hired Mid-Career

For some officers who joined our company mid-career, including Ms. Carter, 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 1994 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 2011 of 0.0%, 9.24%, and 4.85%, respectively.

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Crediting options may be changed annually. At the time of the election to defer, the participant chooses the time and the form of distribution. Choices for taking distribution are lump sum or annual installments, up to fifteen.

NON-QUALIFIED DEFERRED COMPENSATION IN 2011

Name	(1) Executive Contributions in Last Fiscal Year	Registrant Contributions in Last Fiscal Year (\$)	(1) Aggregate Earnings in Last Fiscal Year (\$)	Aggregate Withdrawals/ Distributions (\$)	(2) Aggregate Balance at Last Fiscal Year End (\$)
T. M. Solso	\$ 0	\$ 0	\$ 465,376	\$ 0	\$ 7,260,783
T. Linebarger	\$ 0	\$ 0	\$ 74,015	\$ 0	\$ 1,262,826
P. J. Ward	\$ 125,000	\$ 0	\$ 9,408	\$ 68,734	\$ 259,908
R. J. Freeland	\$ 0	\$ 0	\$ 161,619	\$ 0	\$ 3,018,137
P. Carter	\$ 0	\$ 0	\$ 1,452	\$ 0	\$ 22,659

- (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: T. M. Solso \$236,425; T. Linebarger \$33,963; P. J. Ward \$2,871; R. J. Freeland \$65,383; P. Carter \$738. One hundred percent of the contributions made by P. J. Ward 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: T. M. Solso \$971,825; T. Linebarger \$229,799; P. J. Ward \$312,283; R. J. Freeland \$704,895; and P. Carter \$1,318.

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 awards under our 2003 Stock Incentive Plan that were granted prior to 2012 would become immediately vested and exercisable. In 2011, we modified our approach to change in control terms prospectively so that any equity awards granted in 2012 and future years would require two events (i.e., a so-called "double trigger") 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.

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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. As described in our "Compensation Discussion and Analysis Post-Employment Compensation," in 2011, we eliminated gross-up payments for taxes resulting from the application of the "golden parachute" excise tax provisions of Code Sections 280G and 4999 and replaced it with 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.

The payments to each of our Named Executive Officers, assuming that all triggering events occurred on December 30, 2011 and that all changes to our change in control plans made in 2011 are fully effective, are estimated in the table below. Amounts actually received, should any of the triggering events occur, may vary.

Payments	R. J.					
		T. M. Solso	T. Linebarger	P. J. Ward	Freeland	P. Carter
Severance	(1)	\$ 9,450,000	\$ 3,500,000	\$ 2,187,500	\$ 2,187,500	\$ 1,855,000
Unvested Stock Option Spread	*(2)	\$ 1,630,421	\$ 489,246	\$ 325,965	\$ 325,965	\$ 203,952
Unvested Restricted Stock	*(3)	\$ 3,541,573	\$ 1,062,577	\$ 531,289	\$ 584,101	\$ 442,565
LTI Plan Payment	*(4)	\$ 9,738,561	\$ 3,122,611	\$ 2,017,361	\$ 2,017,361	\$ 1,429,978
Retirement Benefit Payment	(5)	\$ 1,773,840	\$ 2,556,394	\$ 1,620,821	\$ 407,278	\$ 554,972
Welfare Benefit Values	(6)	\$ 29,187	\$ 19,458	\$ 19,458	\$ 19,458	\$ 19,458
Financial Advisory and 401(k) Benefit		\$ 55,725	\$ 37,150	\$ 37,150	\$ 37,150	\$ 37,150
Aggregate Payments		\$ 26,219,307	\$ 10,787,436	\$ 6,739,544	\$ 5,578,813	\$ 4,543,075

* These payouts would occur upon a change in control, without requiring termination of employment.

- (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. Solso as CEO. 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 \$88.02 and a change in control date of December 30, 2011.
- (3) Total value of unvested restricted stock that would become vested upon a change in control, assuming a share price of \$88.02 and a change in control date of December 30, 2011.

- (4) Pro-rated payouts of outstanding performance cash target awards for the 2011-2012 awards cycle, all of the performance cash target awards for the 2010-2011 awards cycle, and all of the performance share target awards for the 2011-2012 awards cycle, all at target level, assuming a \$88.02 share price for the performance shares.
- (5) Incremental actuarial value attributable to retirement for three years of additional service.
- (6) Estimated value associated with the continuation of life insurance, medical, dental, and disability benefits for three years following termination.

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 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 2011, and that the price per share of our Common Stock is the closing price as of that date, \$88.02.

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.

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, 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.

2010-2011 Awards Cycle Grants

Since the entire 2010-2011 awards cycle was completed as of the assumed December 30, 2011 date of the termination, all participants would have been entitled to the payment at the normal time in March 2012. Since there would be no special acceleration, the amounts of these payments are not shown on the tables.

2011-2012 Transition Awards Cycle Grants

Since the termination event is assumed to occur on December 30, 2011, which was the end of the first year of the 2011-2012 transition awards cycle, the Committee has the discretion to award one-half of the target award for the 2011-2012 awards cycle. For purposes of this table, one-half of the target awards for the 2011-2012 awards cycle, assuming a payout factor of 1.0, is shown as payable under Retirement, Death, and Disability.

2011-2013 Awards Cycle Grants

Since the termination event is assumed to occur on December 30, 2011, which was the end of the first year of the 2011-2013 awards cycle, the Committee has the discretion to award one-third of the target award for the 2011-2013 awards cycle. For purposes of this table, one-third of the target awards for the 2011-2013 awards cycle, assuming a payout factor of 1.0, is shown as payable under Retirement, Death, and Disability.

Performance Shares:

In cases of retirement or termination without cause, the Committee has the discretion to continue awards in effect, or to accelerate vesting of outstanding awards.

After the death or disability of a participant, the Committee may in its sole discretion at any time (i) terminate restrictions regarding awards; (ii) accelerate any or all installments and rights; and (iii) instruct us to pay the total of any accelerated payments in a single sum to the participant, the participant's estate, beneficiaries or representative. Assumptions below are based on historic practice.

2009-2010 Awards Cycle Grants

Target awards of shares were earned based on our performance during 2009-2010 and converted to restricted stock in March 2011. The shares would have become vested March 1, 2012, so it is assumed that the Committee would accelerate the vesting of these shares in all of the termination events, except voluntary termination and termination for cause.

2010-2011 Awards Cycle Grants

Performance shares would have been earned based on our performance during 2010-2011 and converted to restricted stock in March 2012, and remain restricted until March 1, 2013. No shares would be payable in the event of termination for cause or voluntary termination as of December 30, 2011. The Committee would have the discretion to accelerate payment in the event of involuntary termination without cause, retirement, disability or death. Amounts of these payments are not shown on the tables.

2011-2013 Awards Cycle Grants

Performance shares would become earned based on our performance during 2011-2013 and paid out in unrestricted shares in March 2014. Since the shares were not yet earned, it is assumed no payments were accelerated. For purposes of this table, one-third of the target awards for the 2011-2013 awards cycle, assuming a payout factor of 1.0, is shown as payable under Retirement, Death, and Disability.

Stock Options:

2010-2011 Awards Cycle Grants

Stock options were granted on March 1, 2010 and will vest and become exercisable with respect to all of the underlying shares of our Common Stock on the second anniversary of the grant date, or March 1, 2012, 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.

2011-2013 Awards Cycle Grants

Stock options were granted on May 2, 2011 and will vest and become exercisable with respect to all of the underlying shares of our Common Stock on the second anniversary of the grant date, or May 2, 2013, 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 30, 2011, are estimated in the table below. Amounts actually received should any of the triggering events occur may vary.

	Involuntary Termination						
	Voluntary	Not-for-Cause	Termination	for	Retirement	Death	Disability
T. M. Solso	Termination	Termination	Cause	Retirement	Death	Disability	
Severance	\$ 0	\$ 1,400,000	\$ 0	\$ 0	\$ 0	\$ 0	0
Accelerated Vesting of Long-Term Grants:							
Performance Cash							
2011 2013 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 791,667	\$ 791,667	\$ 791,667	
Performance Cash							
2011 2012 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 1,647,500	\$ 1,647,500	\$ 1,647,500	
Performance Shares							
2011-2013 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 684,209	\$ 684,209	\$ 684,209	
Performance Shares							
2009-2010 Awards Cycle	\$ 0	\$ 3,541,573	\$ 0	\$ 3,541,573	\$ 3,541,573	\$ 3,541,573	
Stock Options							
2010-2011 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 1,630,421	\$ 1,630,421	\$ 1,630,421	
Stock Options							
2011-2012 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
Outplacement	\$ 0	\$ 12,000	\$ 0	\$ 0	\$ 0	\$ 0	
Welfare Benefits	\$ 0	\$ 9,729	\$ 0	\$ 0	\$ 0	\$ 0	
Financial Counseling	\$ 0	\$ 10,000	\$ 0	\$ 10,000	\$ 10,000	\$ 10,000	
Life Insurance							
(Supplemental Life Insurance Program only)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,200,000	\$ 0	
Aggregate Payments	\$ 0	\$ 4,973,302	\$ 0	\$ 8,305,370	\$ 12,505,37	\$ 8,305,370	

Mr. Solso retired effective as of December 31, 2011, and was succeeded as Chairman and Chief Executive Officer by Mr. Linebarger. In connection with Mr. Solso's retirement, to appropriately reward Mr. Solso for his service to our company and maintain his connection to our financial performance for a number of years following his retirement, Mr. Solso will receive prorated portions of the earned amounts of his long-term performance cash awards for the 2011-2013 and 2011-2012 award cycles and his performance shares for the 2011-2013 award cycle. These amounts will be payable on the normal payout schedule based on the actual payout factors. Accordingly, the actual amounts that Mr. Solso will receive under these awards are entirely dependent on our relative performance against the applicable performance

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metrics. Mr. Solso's stock options automatically vested upon his retirement in accordance with their terms; the options will have a five-year post-retirement term.

	Involuntary Termination		for					
	Voluntary Termination	Not-for-Cause Termination	Cause	Retirement	Death	Disability		
T. Linebarger								
Severance	\$ 0	\$ 875,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Accelerated Vesting of Long-Term Grants:								
Performance Cash								
2011-2013 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 273,000	\$ 273,000	\$ 273,000	\$ 273,000	\$ 273,000
Performance Cash								
2011-2012 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 568,000	\$ 568,000	\$ 568,000	\$ 568,000	\$ 568,000
Performance Shares								
2011-2013 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 235,894	\$ 235,894	\$ 235,894	\$ 235,894	\$ 235,894
Performance Shares								
2009-2010 Awards Cycle	\$ 0	\$ 1,062,577	\$ 0	\$ 1,062,577	\$ 1,062,577	\$ 1,062,577	\$ 1,062,577	\$ 1,062,577
Stock Options								
2010-2011 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 489,246	\$ 489,246	\$ 489,246	\$ 489,246	\$ 489,246
Stock Options								
2011-2012 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Outplacement	\$ 0	\$ 12,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Welfare Benefits	\$ 0	\$ 9,729	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Financial Counseling	\$ 0	\$ 10,000	\$ 0	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Life Insurance								
(Supplemental Life Insurance Program only)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,625,000	\$ 2,625,000	\$ 2,625,000	\$ 2,625,000
Aggregate Payments	\$ 0	\$ 1,969,306	\$ 0	\$ 2,638,717	\$ 5,263,717	\$ 5,263,717	\$ 5,263,717	\$ 5,263,717

	Involuntary Termination					
	Voluntary Termination	Not-for-Cause Termination	for Cause	Retirement	Death	Disability
P. J. Ward						
Severance	\$ 0	\$ 625,000	\$ 0	\$ 0	\$ 0	\$ 0
Accelerated Vesting of Long-Term Grants:						
Performance Cash						
2011-2013 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 170,667	\$ 170,667	\$ 170,667
Performance Cash						
2011-2012 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 355,000	\$ 355,000	\$ 355,000
Performance Shares						
2011-2013 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 147,580	\$ 147,580	\$ 147,580
Performance Shares						
2009-2010 Awards Cycle	\$ 0	\$ 531,289	\$ 0	\$ 531,289	\$ 531,289	\$ 531,289
Stock Options						
2010-2011 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 325,965	\$ 325,965	\$ 325,965
Stock Options						
2011-2012 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Outplacement	\$ 0	\$ 12,000	\$ 0	\$ 0	\$ 0	\$ 0
Welfare Benefits	\$ 0	\$ 9,729	\$ 0	\$ 0	\$ 0	\$ 0
Financial Counseling	\$ 0	\$ 10,000	\$ 0	\$ 10,000	\$ 10,000	\$ 10,000
Life Insurance (Supplemental Life Insurance Program only)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,875,000	\$ 0
Aggregate Payments	\$ 0	\$ 1,188,018	\$ 0	\$ 1,540,501	\$ 3,415,501	\$ 1,540,501

	Involuntary Termination					
	Voluntary Termination	Not-for-Cause Termination	for Cause	Retirement	Death	Disability
R. J. Freeland						
Severance	\$ 0	\$ 625,000	\$ 0	\$ 0	\$ 0	\$ 0
Accelerated Vesting of Long-Term Grants:						
Performance Cash						
2011-2013 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 170,667	\$ 170,667	\$ 170,667
Performance Cash						
2011-2012 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 355,000	\$ 355,000	\$ 355,000
Performance Shares						
2011-2013 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 147,580	\$ 147,580	\$ 147,580
Performance Shares						
2009-2010 Awards Cycle	\$ 0	\$ 584,101	\$ 0	\$ 584,101	\$ 584,101	\$ 584,101
Stock Options						
2010-2011 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 325,965	\$ 325,965	\$ 325,965
Stock Options						
2011-2012 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Outplacement	\$ 0	\$ 12,000	\$ 0	\$ 0	\$ 0	\$ 0
Welfare Benefits	\$ 0	\$ 9,729	\$ 0	\$ 0	\$ 0	\$ 0
Financial Counseling	\$ 0	\$ 10,000	\$ 0	\$ 10,000	\$ 10,000	\$ 10,000
Life Insurance (Supplemental Life Insurance Program only)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,875,000	\$ 0
Aggregate Payments	\$ 0	\$ 1,240,830	\$ 0	\$ 1,593,313	\$ 3,468,313	\$ 1,593,313

	Involuntary Termination					
	Voluntary Termination	Not-for-Cause Termination	for Cause	Retirement	Death	Disability
P. Carter						
Severance	\$ 0	\$ 530,000	\$ 0	\$ 0	\$ 0	\$ 0
Accelerated Vesting of Long-Term Grants:						
Performance Cash						
2011-2013 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 136,667	\$ 136,667	\$ 136,667
Performance Cash						
2011-2012 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 284,000	\$ 284,000	\$ 284,000
Performance Shares						
2011-2013 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 117,947	\$ 117,947	\$ 117,947
Performance Shares						
2009-2010 Awards Cycle	\$ 0	\$ 442,565	\$ 0	\$ 442,565	\$ 442,565	\$ 442,565
Stock Options						
2010-2011 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 203,952	\$ 203,952	\$ 203,952
Stock Options						
2011-2012 Awards Cycle	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Outplacement	\$ 0	\$ 12,000	\$ 0	\$ 0	\$ 0	\$ 0
Welfare Benefits	\$ 0	\$ 9,729	\$ 0	\$ 0	\$ 0	\$ 0
Financial Counseling	\$ 0	\$ 10,000	\$ 0	\$ 10,000	\$ 10,000	\$ 10,000
Life Insurance (Supplemental Life Insurance Program only)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,590,000	\$ 0
Aggregate Payments	\$ 0	\$ 1,004,294	\$ 0	\$ 1,195,131	\$ 2,785,131	\$ 1,195,131

**ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS
(Item 10 on the Proxy Card)**

As indicated by the preceding discussion, executive compensation is an important matter both to us and to our shareholders. In 2011, we held our first advisory shareholder vote to approve the compensation of our Named Executive Officers as required by Section 14A of the Securities Exchange Act of 1934. We also held our first advisory shareholder vote on the frequency of future advisory shareholder votes to approve the compensation of our Named Executive Officers. In keeping with the recommendation of our Board, our shareholders expressed a preference that future advisory shareholder votes to approve the compensation of our Named Executive Officers be held on an annual basis and, as previously disclosed, our Board determined to hold an advisory vote to approve the compensation of the Named Executive Officers every year. Accordingly, we are again seeking input from our shareholders through this 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.

We have designed our executive compensation program to attract, motivate, focus and retain employees with the skills required to achieve our performance goals in a competitive global business environment. Our program is designed to reflect each individual's contribution to our corporate performance, while striking an appropriate balance between short-term and longer-term corporate performance. While the specific elements of executive compensation vary from time to time, our executive compensation program's overriding focus is on the principle of pay for performance, as we define it, both in program design and in the specific awards.

In addition, we consider the following principles when designing and implementing compensation programs for our officers:

Our executives' target total direct compensation opportunity should be at the median of the compensation range payable to similarly situated executives at U.S.-headquartered manufacturing companies with comparable job scope and size when our financial performance meets certain Board-approved targets. The Compensation Committee benchmarks these targets against the relative performance of other similar companies.

Our programs are designed to provide a competitive compensation "opportunity" for our executives. We believe that our executives should be compensated well when our company performs well and that their total direct compensation should vary in relation to our corporate performance, relative to our internal goals.

There should be a balance between annual and longer-term elements of compensation.

The more senior a person's position, the more his or her compensation should be "at risk," meaning dependent on our corporate and stock price performance.

Our stock should be an important part of our executive compensation programs in order to link our management's compensation with our shareholders' returns. The greater the level of responsibility of the person, the more his or her compensation should be stock-based.

Our compensation programs should support retention of our experienced executives and achievement of our leadership succession plans.

Our executive compensation system should be transparent to our investors and employees and should be simple and easy to understand.

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We continually review best practices in the area of executive compensation and have revised our compensation policies and practices in the last two years to:

Eliminate tax gross-ups for excise taxes that may be imposed on payments to our executive officers in connection with a change in control.

Impose a "double trigger" requirement for accelerated vesting of our executive officers' equity grants upon a change in control in which the grants are assumed or replaced so that, 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 his or her unvested equity to become vested on an accelerated basis. This change is effective for all equity grants made in 2012 and future years.

Modify the benefits payable to our executive officers upon a change in control and termination of employment. The cash severance amount for our executive officers other than the CEO was changed from three to two years' base salary and from three to two annual bonus payments, calculated at a 1.0 payout factor (in addition to the full vesting of certain insurance and retirement benefits and the continuation for the two-year severance period of certain other benefits). For the CEO, the cash severance amount remains equal to three years' base salary and three annual bonus payments calculated at a 1.0 payout factor (in addition to the full vesting of certain insurance and retirement benefits and the continuation for the three-year severance period of certain other benefits).

Increase the length of the performance period for our long-term incentive performance cash and performance shares from two years to three years to incentivize sustained corporate financial performance over a longer period.

Increase the percentage of our long-term incentive compensation allocated to equity.

Eliminate tax gross-ups on all perquisites.

We believe that our existing compensation programs have been effective at motivating our key executive officers, including our Named Executive Officers, to achieve superior performance and results for our company, effectively aligning compensation with performance results, giving our executives an ownership interest in our company so their interests are aligned with our shareholders, and enabling us to attract and retain talented executive officers whose services are in key demand in our industry and market sectors.

As previously disclosed, our executive compensation aligned well with the objectives of our programs and our corporate performance in 2011, driven by these factors:

Our total net sales grew to over \$18 billion, an increase of 36 percent year-over-year and up 67 percent over the last two years.

Net income attributable to Cummins was a record \$1.85 billion compared to \$1 billion in 2010.

Our cash flow from operations totaled \$2.1 billion, driven by both our strong earnings results and improvement in our working capital efficiency, allowing us to continue to fund our investments in future growth while increasing returns to shareholders.

We continued our efforts to return value to our shareholders in 2011, increasing our dividend 52 percent and repurchasing 6.4 million shares during the year.

The following graphs show the strong direct relationship between our corporate financial performance and our executive compensation levels by comparing the relationship over the past five years of our (i) average total shareholder return (three-year rolling average, on a dividend

reinvested basis), or TSR;

(ii) return on average net assets, or ROANA; (iii) return on equity, or ROE; and (iv) average annual total compensation for our Named Executive Officers, or Avg TC:

Link Between Financial Performance and Executive Compensation

Note: The "Avg TC" values in these graphs for 2009 - 2011 reflect the averages of the total compensation values for our Named Executive Officers as reported in the Summary Compensation Table of this proxy statement. The "Avg TC" values shown in these graphs for 2007 and 2008 reflect the averages of the total compensation values for the Named Executive Officers as reported in the Summary Compensation Tables of the 2007 and 2008 proxy statements, respectively.

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 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, compensation tables, and accompanying narratives contained in this proxy statement."

The compensation of the Named Executive Officers as disclosed in the Compensation Discussion and Analysis section and 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."

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

Beginning in May 2011, each of our non-employee directors became entitled to targeted annual compensation of \$200,000, \$90,000 of which was paid in cash and \$110,000 of which was represented by an award of our Common Stock. This represented an increase, based on general industry and peer group market data, from the 2010 targeted total annual compensation of \$150,000, one-half of which was delivered in cash and one-half of which was represented by a stock award. 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 \$7,500, 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 annual cash retainer fee of \$8,000, the Audit Committee Chairman receives an additional \$15,000 annual cash retainer and the Compensation Committee Chairman receives an additional \$10,000 annual cash retainer. The Lead Director receives an additional annual cash retainer fee of \$20,000. Committee members also receive \$1,000 for attending a committee meeting (other than a meeting of the Executive Committee) that is not held in connection with a regular or special meeting of our Board.

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. Upon ceasing to be a director, the deferred compensation, plus accrued interest, is paid to the director or the director's beneficiary 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, 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%.

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. This ownership requirement was first required to be met in 2010 for non-employee directors who were first elected prior to 2004. Non-employee directors first elected after 2003 must comply with the requirement within six years of becoming a member of our Board. 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. As of December 31, 2011, all of our non-employee directors had either satisfied this requirement or had additional time to do so.

Name	(1) Fees Earned or Paid in Cash (\$)	(2) Stock Awards (\$)	(3) Change in Pension Value and Non Qualified Deferred Compensation	All Other Compensation	Total
			Earnings		
R. J. Bernhard	\$ 103,000	\$ 116,515	\$ 0	\$ 0	\$ 219,515
F. R. Chang Diaz	\$ 96,000	\$ 116,515	\$ 0	\$ 0	\$ 212,515
S. B. Dobbs	\$ 96,000	\$ 116,515	\$ 0	\$ 0	\$ 212,515
R. K. Herdman	\$ 111,000	\$ 116,515	\$ 0	\$ 0	\$ 227,515
A. M. Herman(4)	\$ 126,000	\$ 116,515	\$ 25,341	\$ 0	\$ 267,856
W. I. Miller(4)	\$ 98,500	\$ 116,515	\$ 45,138	\$ 0	\$ 260,153
G. R. Nelson	\$ 105,000	\$ 116,515	\$ 9,466	\$ 0	\$ 230,981
C. Ware	\$ 91,000	\$ 116,515	\$ 10,746	\$ 0	\$ 218,261

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

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Director	Board Retainer	Special Committee Meeting Fees	Lead Director Fee	Committee Chaired	Committee Chair Fees	Total
R. J. Bernhard	\$ 90,000	\$ 5,000	\$ 0	Safety, Environment and Technology	\$ 8,000	\$ 103,000
F. R. Chang						
Diaz	\$ 90,000	\$ 6,000	\$ 0		\$ 0	\$ 96,000
S. B. Dobbs	\$ 90,000	\$ 6,000	\$ 0		\$ 0	\$ 96,000
R. K. Herdman	\$ 90,000	\$ 6,000	\$ 0	Audit	\$ 15,000	\$ 111,000
A. M. Herman	\$ 90,000	\$ 6,000	\$ 20,000	Governance and Nominating	\$ 10,000	\$ 126,000
W. I. Miller	\$ 90,000	\$ 1,000	\$ 0	Finance	\$ 7,500	\$ 98,500
G. R. Nelson	\$ 90,000	\$ 5,000	\$ 0	Compensation	\$ 10,000	\$ 105,000
C. Ware	\$ 90,000	\$ 1,000	\$ 0		\$ 0	\$ 91,000

(2) The stock award column represents the aggregate grant date fair value of the awards, which was \$118.41 per share. The aggregate grant date fair value was computed in accordance with ASC Topic 718. The assumptions made in valuing stock awards for 2011 are included in the Notes to Consolidated Financial Statements in our 2011 Annual Report on Form 10-K and such information is incorporated by reference.

The stock value represents 55 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 984 shares of stock. The shares for all directors were granted using a value of \$111.696, the preceding 20-day average of closing prices of our Common Stock on the NYSE on the grant date of May 10, 2011.

(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) As part of our overall support of charitable and educational institutions, we previously established the Cummins Inc. Charitable Bequest Program in which non-employee 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. We have purchased life insurance policies on each participating director, the proceeds of which fund donations under the program. Policies are fully paid and, therefore, no premiums were payable in 2011. Directors do not receive any direct financial benefit from the program since all charitable deductions accrue to us.

**SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS
(Item 11 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 2012. 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. 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.

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.

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 2011 and 2010, and fees billed for other services rendered by PwC during those periods.

	2011	2010
	(dollars in millions)	
Audit fees:(1)	9.2	7.8
Tax fees:(2)	0.7	0.5
All other fees:(3)	0.1	0
<i>Total</i>	10.0	8.3

- (1) Audit fees consisted of work performed in connection with the audit of our financial statements, as well as work generally only the independent auditor can reasonably be expected to provide, such as statutory audits.
- (2) Tax fees consisted principally of assistance with matters related to foreign tax compliance and planning, review of foreign tax returns and tax claims.
- (3) All other fees included nominal amounts incurred for seminars related to employee training, assistance with applications for various government grants, quality review of the internal audit function and licensing fees for technical research tools.

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 our accounting policies, internal control over financial reporting, financial reporting practices and legal and regulatory compliance. 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 our independent registered public accounting firm, internal auditors and management. During 2011, the Committee met 11 times. The Committee schedules its meetings with a view to ensuring that it devotes appropriate attention to all of its tasks. The Committee, or the Committee Chair as representative of the Committee, discussed the interim financial information contained in each quarterly earnings announcement with the Chief Financial Officer, Controller and the independent auditors, prior to public release. The Committee also met with the independent auditor to discuss the results of its reviews of the interim financial statements. The Committee periodically meets in executive session.

Throughout the year, the Audit Committee monitors matters related to the independence of PwC, our independent registered public accounting firm. As part of its monitoring activities, the Committee obtained a letter from PwC containing a description of all relationships between PwC and us. After reviewing the letter and discussing it with our management, the Committee discussed with PwC its overall relationship with us and any of those relationships described in the letter that could impact PwC's objectivity and independence. Based on its continued monitoring activities and year-end review, the Committee satisfied itself as to PwC's independence. PwC also has confirmed in its letter that, in its professional judgment, it is independent of our company within the meaning of the federal securities laws and within the requirements of Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*.

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The Committee reviewed with both our independent and internal auditors their respective audit plans, audit scope, 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 2011 Annual Report on Form 10-K. Management has the responsibility for the preparation and integrity of our financial statements and its internal control over financial reporting and PwC has the responsibility for the 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 Statement on Auditing Standards No. 114, "*The Auditor's Communication With Those Charged With Governance*." With and without management present, the Committee discussed and reviewed the results of PwC's examination of our financial statements and internal control over financial reporting, as well as management's report on internal control over financial reporting. The Committee also discussed the results of internal audit examinations.

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 Annual Report on Form 10-K for the year ended December 31, 2011, for filing with the SEC. The Committee also reappointed PwC as our independent auditors for 2012.

Respectfully submitted,
ROBERT K. HERDMAN, CHAIR
ROBERT J. BERNHARD
FRANKLIN CHANG DIAZ
STEPHEN B. DOBBS
ALEXIS M. HERMAN
GEORGIA R. NELSON

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**APPROVAL OF 2012 OMNIBUS INCENTIVE PLAN
(Item 12 on the Proxy Card)**

Summary of Proposal

Our Board is recommending that our shareholders approve the Cummins Inc. 2012 Omnibus Incentive Plan, which we refer to as the "2012 Plan," including the authority to issue an additional 3,500,000 shares of our Common Stock under the 2012 Plan over the existing shares available under the plan that currently serves as the vehicle for our equity compensation program, the Cummins Inc. 2003 Stock Incentive Plan (which we refer to as the "Existing Equity Plan").

We are implementing and seeking shareholder approval of the 2012 Plan because the Existing Equity Plan will be expiring in 2013. If our shareholders approve the 2012 Plan, the Existing Equity Plan will terminate, no new awards will be granted under the Existing Equity Plan, and the authority to issue the remaining shares of Common Stock available under the Existing Equity Plan will terminate. In addition, to streamline the administration of our existing cash incentive plans, the 2012 Plan is intended to replace the Cummins Inc. Senior Executive Target Bonus Plan, the Cummins Inc. Target Bonus Plan, the Cummins Inc. Senior Executive Longer Term Performance Plan and the Cummins Inc. Longer Term Performance Plan, which we refer to collectively as the "Existing Incentive Plans." We do not expect the adoption of the 2012 Plan to result in any material change to our current equity compensation practices.

The two primary purposes of the 2012 Plan are to help us attract, retain, focus and motivate our executives, other key employees and directors and to link the interests of these individuals with the interests of our shareholders over the longer term. The 2012 Plan will accomplish these purposes by serving as the primary vehicle for our equity-based and other incentive compensation programs. Therefore, we believe that approval of the 2012 Plan is important to our future success.

Key Reasons to Support the 2012 Plan:

The Existing Equity Plan will be expiring in 2013.

Our equity-based and other incentive compensation programs, including the Existing Equity Plan, have been integral to our past success and the 2012 Plan will continue to be an essential element contributing to our future performance.

The number of shares reserved under the 2012 Plan represents what we believe is an acceptable level of dilution to our existing shareholders in light of the benefits to our future performance that we expect the 2012 Plan to support. Based on our historical annual equity grant levels, we believe that the number of shares of Common Stock reserved for issuance under the 2012 Plan will last us approximately three to five years. We estimate that the additional 3,500,000 shares reserved for issuance under the 2012 Plan could result in a maximum potential dilution to our existing shareholders of approximately 1.8%, based on our current total of 192,180,672 shares of Common Stock outstanding as of March 15, 2012.

Our equity grants under the Existing Equity Plan have been at a level we consider to be moderate, and we expect to continue similar grant practices under the 2012 Plan over the near term. Our three-year average burn rate is approximately 0.5% when calculated by dividing the total number of share awards granted in any given year by the number of shares of Common Stock outstanding (calculated without discounting for cancelled or forfeited options or shares acquired or retained by us).

The 2012 Plan will incorporate the following two practices implemented within the last year:

We have eliminated tax gross-ups for excise taxes that may be imposed on payments to our executive officers in connection with a change in control.

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We imposed a "double trigger" requirement for accelerated vesting of our executive officers' equity grants upon a change in control in which the grants are assumed or replaced so that, 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 his or her unvested equity to become vested on an accelerated basis. (This change is effective for all equity grants made in 2012 and future years.)

We believe that our existing compensation programs have been effective at motivating our key executive officers, including our Named Executive Officers, to achieve superior performance and results for our company, effectively aligning compensation with performance results, giving our executives an ownership interest in our company so their interests are aligned with our shareholders, and enabling us to attract and retain talented executive officers whose services are in key demand in our industry and market sectors.

Securities Authorized for Issuance under Equity Compensation Plans

Our three-year average burn rate is approximately 0.5% when calculated by dividing the total number of share awards granted in any given year by the number of shares of Common Stock outstanding. The number of share awards used in the burn rate calculation is not discounted by cancelled or forfeited options or shares acquired or retained by us. As of March 15, 2012, approximately 4,009,467 shares remain available for future grants under the Existing Equity Plan.

If the 2012 Plan is approved by shareholders, an additional 3,500,000 shares, for a total of approximately 7,509,467 shares, will be authorized for grants under the Existing Equity Plan and the 2012 Plan. Any shares underlying outstanding awards under the Existing Equity Plan that would have become available for grant as a result of the plan's share recycling provisions had such plan remained active would, as described below, increase this number. As of March 15, 2012, there were a total of 1,917,731 shares underlying outstanding awards under the Existing Equity Plan, some or all of which could become available for grant under the 2012 Plan.

Effect of Proposal on the Cummins Inc. 2003 Stock Incentive Plan

As of March 15, 2012, there were approximately 4,009,467 shares of Common Stock remaining available for future grants of stock options, stock appreciation rights and stock awards under the Existing Equity Plan (out of a total of 13,500,000 shares that had been authorized under the Existing Equity Plan). If our shareholders approve the 2012 Plan, the Existing Equity Plan will terminate, no new awards will be granted under the Existing Equity Plan, and the authority to issue the remaining shares of Common Stock available under the Existing Equity Plan will terminate. All awards that were granted under the Existing Equity Plan that are outstanding as of the date of the approval of the 2012 Plan will remain outstanding and will continue to be governed by the Existing Equity Plan.

As of March 15, 2012, under the Existing Equity Plan, there were:

1,203,014 shares of Common Stock subject to outstanding options;