CUMMINS INC
Form DEF 14A
March 23, 2011

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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.)

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Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

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o 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 2011 ANNUAL MEETING OF SHAREHOLDERS

To Our Shareholders:

NOTICE IS HEREBY GIVEN that the 2011 Annual Meeting of the Shareholders of Cummins Inc. will be held at our Columbus Engine Plant located at 500 Central Avenue, Columbus, Indiana, on Tuesday, May 10, 2011, at 11:00 a.m. Eastern Daylight Saving Time, for the following purposes:

1. to elect ten directors for the ensuing year;
2. to consider an advisory vote on the compensation of our named executive officers;
3. to consider an advisory vote on the frequency of the advisory vote on executive compensation;
4. to ratify the appointment of PricewaterhouseCoopers LLP as our auditors for 2011; and
5. 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 14, 2011 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.

MARYA M. ROSE,
Secretary

March 23, 2011

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2011 ANNUAL SHAREHOLDER MEETING TO BE HELD ON MAY 10, 2011: the Annual Report and Proxy Statement are available at www.ematerials.com/cmi

PROXY STATEMENT FOR 2011 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 2011 Annual Meeting of Shareholders to be held on Tuesday, May 10, 2011, 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 23, 2011.

Holders of our Common Stock of record at the close of business on March 14, 2011 are entitled to vote at the Annual Meeting. On that date there were issued and outstanding 196,819,134 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, rule changes, your broker will not be permitted to vote your shares for the election of directors or on the advisory vote on the compensation of our named executive officers or on the frequency of the advisory vote on executive compensation if you do not affirmatively instruct your broker how to vote within 10 days prior to our Annual Meeting. 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 for the election of directors or on the advisory vote on the compensation of our named executive officers or on the frequency of the advisory vote on executive compensation.

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

Our Board is composed of a substantial majority of directors who qualify as independent directors pursuant to the rules adopted by the Securities and Exchange Commission, or SEC, applicable to 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. Solso, our Chief Executive Officer, and Mr. Linebarger, our President and Chief Operating 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. Solso, our Chief Executive Officer, is the person best qualified to serve as our Chairman given his long history 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 Risk Officer in conjunction with other appropriate officers, undergoes 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 and/or President, Chief Operating Officer, or Chief Risk Officer as necessary or appropriate, our Board and/or its respective appropriate committee then reviews such information, proposed mitigation strategies and plans, and monitors our progress on mitigating such risks. Our Board and its committees' roles in the oversight process of our identified material risks have not impacted our Board's leadership structure.

Board of Directors and Committees

Our Board held five meetings during 2010. 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 nine times during 2010. 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 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 2010. The Compensation Committee administers and determines eligibility for, and makes awards under, our stock 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.

In reviewing our compensation arrangements, the Committee engaged Meridian Compensation Partners LLC, or Meridian, as a compensation consultant to provide input and advice to the Committee. Meridian was instructed to provide market data and advice to the Committee in connection with the Committee's annual review of officer compensation, as well as specific selected peer group executive compensation data. Meridian does not provide any other services to our company and was therefore determined by our Committee to be an independent compensation advisor. Meridian'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;
- Reviews annually structural safeguards to assure the independence of the consultant;
- Conducts an annual formal review of the consultant's performance; and
- Is responsible for determining whether, and under what circumstances, the consultant participates in Committee meetings and executive sessions.

Governance and Nominating Committee. The current members of our Governance and Nominating Committee are A. M. Herman (Chairman), R. J. Bernhard, F. R. Chang-Diaz, 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 five times during 2010. 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 shareholders' 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. No such qualifying recommendations were received in 2010.

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 the stakeholders as a whole rather than special interest groups or individual constituencies. In particular, as it considers possible directors the Committee will seek out candidates who represent the diverse perspectives of all people. As discussed in the principles, each director nominee is chosen without regard to gender, race, religion, national origin or sexual orientation. The Committee will only consider 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 body of individuals 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 and should also 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 the candidate was recommended by a shareholder or not.

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

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

The deadline for written notice of a shareholder's intent to make a nomination with respect to the Annual Meeting was the close of business on December 1, 2010, 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 T. M. Solso (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 met one time during 2010.

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 2010.

Safety, Environment and Technology Committee. The members at 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 2010.

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 her designee to determine which communications are appropriate to be forwarded to the directors. All communications will be forwarded except those that are related to our products and services, are solicitations or otherwise relate to improper or irrelevant topics as determined in the sole discretion of the Secretary or her designee.

Our Secretary maintains and provides copies of all such communications, received and determined 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 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 2010 Annual Meeting of Shareholders were present in person. We currently expect all director nominees standing for election at the Annual Meeting to be present in person.

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

All ten of our directors are to be elected at the Annual Meeting to hold office until our 2012 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.

Nominee Stephen B. Dobbs was elected by our Board of Directors on October 1, 2010 upon the recommendation of our Governance and Nominating Committee to serve as a director until the Annual Meeting. Mr. Dobbs was recommended by the Committee and elected by the Board following a review of his qualifications under the standards of our corporate governance principles and a review of his independence. All other 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, 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 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 pursuant to this provision 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 for such nominee, for all nominees or containing 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 directors and then followed by our independent directors.

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

THEODORE M. SOLSO Chairman of the Board and Chief Executive Officer, Cummins Inc.

Director since 1994; Age 64

Mr. Solso was elected our Chairman of the Board and Chief Executive Officer in 2000 after serving as our President from 1995 to 2000, Chief Operating Officer from 1994 to 1995 and Executive Vice President Operations from 1992 to 1994. From 1988 to 1992, he was our Vice President and General Manager Engine Business after serving in various other executive positions with us. He has been a director of Ball Corp., Inc. since 2003 and Ashland Inc. since 1999. He also was a director of Irwin Financial Corporation from 1993 through 2006. Mr. Solso is a director of the American Transportation Research Institute, a member of the Business Roundtable and the Indiana Academy, and is a Principal of the American Energy Innovation Council. In addition, Mr. Solso is the U.S. Chairman of the U.S.- Brazil CEO Forum and serves on the Board of the Initiative of Global Development, Earth University and the Earth University Foundation. In 2011, Mr. Solso was appointed by President Barack Obama to the President's Management Advisory Board.

We believe that Mr. Solso is well qualified to be a director of our company because of his experience in our industry and in leadership positions with our company.

N. THOMAS LINEBARGER President and Chief Operating Officer, Cummins Inc.

Director since 2009; Age 48

Mr. Linebarger became our President and Chief Operating Officer in August 2008 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 has been a director of Harley-Davidson, Inc. since 2008 and also served as a director of Pactiv Corporation from 2005 to 2010.

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 familiarity with our company and our industry.

WILLIAM I. MILLER Chairman and CEO of Irwin Management Company

Director since 1989; Age 54

Will Miller is the Chairman of Irwin Management Company, a Columbus, Indiana private investment firm. 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). Mr. Miller also is a Trustee of Yale University and The John D. and Catherine T. MacArthur Foundation.

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 20 years of service as a director of our company.

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

Director since 2001; Age 63

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 Sodexho, 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 CEO of PTI Resources, LLC

Director since 2004; Age 61

Ms. Nelson became President and CEO of PTI Resources, LLC, an independent consulting firm, in 2005. Prior to this role, Ms. Nelson retired in 2005 from Edison International, where she had been President of Midwest Generation EME, LLC since 1999 and General Manager of Edison Mission Energy Americas since 2002. Her business responsibilities have included management of regulated and unregulated power operations and a large energy trading subsidiary as well as the construction and operation of power generation projects worldwide. She has had extensive experience in international business negotiations, environmental policy matters and human resources. She has served as a director of Ball Corp., Inc. since 2006, Nicor Inc. since 2005, and CH2M Hill since May 2010. She was a director of Tower Automotive from 2001 to 2007. 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 sustainability, energy policy, leadership and corporate governance.

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 67

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 also serves as a director of Coca-Cola Bottling Co. Consolidated, 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 62

Mr. Herdman has been Managing Director of Kalorama Partners LLC, a Washington, D.C. consulting firm specializing in providing advice regarding corporate governance, risk assessment, crisis management and related matters since 2004. He was the Chief Accountant of the SEC from October 2001 to November 2002 prior to joining Kalorama. Prior to joining the SEC, he was Ernst & Young's Vice Chairman of Professional Practice for its Assurance and Advisory Business Services (AABS) practice in the Americas and the Global Director of AABS Professional Practice for Ernst & Young International. He has been a member of the Board of Directors and currently chairs the Audit Committee of HSBC Finance Corporation (formerly Household International, Inc.) since 2004, of HSBC North America Holdings, Inc. since 2005 and of HSBC US, Inc. since 2010. Mr. Herdman also served as a director of Westwood One, Inc. from 2005 to 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 58

Mr. Bernhard has been Vice President for Research and Professor in the Department of Aerospace and Mechanical Engineering at the University of Notre Dame since 2007. Prior to that, he was Associate Vice President for Research at Purdue University from 2004 to 2007. 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 CEO of Ad Astra Rocket Company

Director since 2009; Age 61

Dr. Chang-Diaz is Chairman and CEO 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 54

Mr. Dobbs is Senior Group President over Fluor Corporation's Industrial & Infrastructure and Global Services business groups. Mr. Dobbs was previously group president of Industrial & Infrastructure, responsible for a wide diversity of the markets Fluor 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 since 1980 in numerous U.S. and international locations including Southern Africa, Europe and China. He is recognized for his work on project finance in Europe and the United States, particularly public private partnerships and private finance initiatives. He has served as an advisor on these issues to the Ministry of Finance of the Netherlands.

Dobbs earned his doctorate in engineering from Texas A&M University and holds an undergraduate degree 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.

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.

EXECUTIVE COMPENSATION
COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Our Compensation Discussion and Analysis, or CD&A, provides detailed information about compensation programs for our Chairman and Chief Executive Officer, our President and Chief Operating Officer, our Vice President and President Engine Business, our Vice President and President Distribution Business and our Vice President and Chief Financial Officer, whom we refer to as our "Named Executive Officers."

The sections of this CD&A that immediately follow focus principally on the 2010 compensation matters. Thereafter we have included a separate section of this CD&A that focuses on key decisions and changes made with respect to 2011 and subsequent period compensation matters.

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.

The Compensation Committee reviews our executive compensation programs on a regular basis, and has structured executive compensation programs to consist of three principal elements: base salary, annual bonus and longer-term compensation. We also provide to our officers, as part of a competitive compensation package, limited post-employment benefits and perquisites, and we have implemented mandatory stock ownership requirements to further align the interests of our officers with the interests of our shareholders. We generally target all of our base 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 and retain people with the skills required to achieve our performance goals in a competitive global business environment. Our intention is for the program to reflect each individual's relative contribution to 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, both in program design and in the specific awards.

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

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

- The concept of opportunity is important in our programs and as such our programs should provide a competitive compensation "opportunity." We believe our executives should have the opportunity to be well compensated if our company performs well and that their total compensation should vary in relation to our relative corporate performance.

- 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 program 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 executive compensation system should be transparent to our investors and employees and as simple and easily understood as possible.

Executive Compensation Decisions in Response to the 2009 and 2010 Economic Situation

As a result of the impact of the recessionary economic environment that started in late 2008, we took several actions that directly affected our executives and directors, including implementing a 10% base salary reduction for 2009 affecting all of our officers, including our Named Executive Officers. In addition, all non-employee directors agreed to waive 10% of the cash portion of their base director retainer fee for 2009. This reduction took effect in May 2009 when directors received their annual retainer fees. As economic conditions began to improve in early 2010, we reinstated pre-2009 salary levels for our officers, together with merit-based increases, and we reinstated the pre-2009 cash retainer amount for our non-employee directors.

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 (excluding benefits and perquisites) provided to our Chief Executive Officer and our other Named Executive Officers as a group in 2010.

		At Risk Based on Performance:	
	Base Salary	Target Annual Bonus	Target Longer-Term Grants
T. M. Solso	16%	21%	63%
Other Named Executive Officers as a Group	27% 35%	18% 25%	44% 55%

Our executive compensation aligned well with the objectives of our programs and our corporate performance in 2010, driven by these factors:

Strong operational results

Strong financial results

Significant cost controls

Sustainable profitable growth

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) total shareholder return (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

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 recent years to:

- 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.

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- Eliminate tax gross-ups on all perquisites.
- Eliminate most perquisites.
- Temporarily reduce base salary levels during the 2009 recession to reflect our focus on pay for performance.
- Identify a survey group to use for benchmarking compensation levels and target setting.

Our executive compensation arrangements have also long included other elements considered best practices, such as the following:

- Benefits under our change in control arrangements with our executive officers, other than accelerated vesting of equity, are all subject to a "double trigger" rather than a "single trigger" (i.e., in addition to the change of control occurring, the executive officer's employment must be terminated in order for him or her to receive any benefits under the arrangement).
- 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 longer-term incentive program (performance cash awards, performance share awards and stock option awards) to address the motivational concerns associated with focusing on any one form of incentive compensation.
- We have capped payouts under our annual bonus and longer-term incentive plans at 200% of the target awards.
- We have adopted a compensation recoupment, or "clawback," policy in our corporate governance principles which provides that, if any of our financial statements are required to be materially restated resulting from the fraudulent actions of an officer, then 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 do not guarantee salary increases or bonuses for our executive officers.

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, Meridian, including the following market practices:

- Executive compensation policies and practices
- Competitive pay objectives
- Base salaries

Annual bonus plans

Long term grant strategy

Stock ownership guidelines

Executive perquisites

Personal use of company aircraft

Severance practices for officers

Supplemental retirement plans

Deferred compensation plans

Change in control compensation protection programs

The Compensation Committee has the flexibility to establish performance measures annually that are appropriate for our financial goals. The Compensation Committee periodically benchmarks the annual operating plan 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 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 2010 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 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 2010 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. No recommendations are made by any members of management regarding the compensation of our Chief Executive Officer. The Compensation Committee Chair presents its decisions to the Governance and Nominating Committee for its information.

Role of Our Officers in Setting Pay 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 each position. 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 Company 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 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, Meridian.

Tax Considerations

Section 162(m) of the Internal Revenue 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. We believe that payments under our Senior Executive Bonus Plan and Senior Executive Longer-Term Performance Plan qualify for tax deductibility under Section 162(m), although grants of stock options under our 2003 Stock Incentive Plan do not qualify for tax deductibility under Section 162(m) because they are not performance based.

As explained below, the base salaries of our Named Executive Officers are set at the median of the range of the salaries of similarly situated executives at companies among a broad group of major U.S. manufacturing companies where the data have been size-adjusted using statistical techniques to reflect our relative size. 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 2010 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 and longer-term compensation. In total, these elements are designed to fulfill our basic goals of linking pay to performance and paying competitively. All officers participate in each element of the program, but in varying degrees.

In determining compensation for 2010, we and the Compensation Committee used survey data provided by AonHewitt to determine competitive levels of pay. This aggregated survey information included 186 U.S. manufacturing corporations. The companies in the database had annual sales volumes ranging from $420 million to $265 billion, with average sales of $13 billion.

We compared each of our officer positions to the similar positions among U.S. manufacturing companies in AonHewitt's survey database using regression analysis to calculate and target median levels of base salary, targeted annual bonus participation, and targeted longer-term grant value for scope of responsibility for each position.

In determining compensation for 2010, we and the Compensation Committee believed that the broader survey base of major U.S. manufacturing companies provided a reasonable and more useful measure of market compensation and allowed consistent year-to-year market comparison. The survey's statistical tools calculated market compensation for the specific levels of responsibility for each position. For example, we use our total sales to calculate the market median compensation levels for officers who have overall responsibility relating to our entire company, while we use the sales for an operating segment for officers responsible for that business.

Base Salary

We review the base salary of our officers annually. Historically, we targeted 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 considers other factors beyond market and 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. In certain cases where we set an officer's base salary below the median level, we may then develop a plan to ensure that the employee is at or near the median in a reasonable amount of time, usually two to three years, assuming acceptable levels of performance are met. This is currently the situation with our Chief Financial Officer, P. J. Ward, who is below the market median due to his short tenure in this position. Other than Mr. Ward's base salary, none of the individual Named Executive Officers' base salaries differed materially from the median range of base salaries of similarly situated executives of similarly sized U.S. manufacturing companies, or at our peer group.

In 2010, the only adjustment to the base salaries of our Named Executive Officers, along with all other officers, was the restoration to the levels provided prior to the 10% decrease in 2009 described above in response to economic conditions, and market- and merit-based increases, consistent with our Company guidelines.

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 annual operating plan for that year. 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 for the year
$264,000	Annual Bonus

Each participant'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 companies. The participation rates for 2010, expressed as a percentage of their 2010 base salary for our Named Executive Officers were:

T. M. Solso	125%
T. Linebarger	90%
P. J. Ward	65%
R. J. Freeland	65%
P. Carter	60%

The payout factor is calculated based on a formula annually approved by the Compensation Committee. For purposes of the payout factor, we measure our corporate performance based on our annual Return On Average Net Assets, or 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.

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 directly from our consolidated balance sheet and excludes debt and related financing accounts, deferred tax amounts and certain pension and post retirement liability accounts. Average Net Assets are then allocated to the appropriate operating segment.

Payout factors are determined using actual ROANA results compared to plan target ranges as described below. The payout factor for our consolidated corporate ROANA performance is equal to the weighted average of the payout factors from each of our four operating segments.

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 the annual operating plan, or 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. The payout factors range from 0 to a maximum of 2.0 in increments of 0.1. Payouts start at 0.1 resulting from meeting 60% of AOP, while 120% of AOP is required to earn a 2.0 payout factor. 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 annual operating plan targets against the performance of other similar companies. As evidence of the difficulty of the targets, over the last ten years the 1.0 target level has been achieved or exceeded only 40% of the time.

ROANA performance targets established for our 2010 annual bonus plan reflected 1.0 payout factors set at achieving our 2010 AOP, as approved by our Board. For the 2010 annual bonus plan, target ROANA was based on sales and EBIT levels that would have been relatively flat when compared to 2009 levels. At the time the targets were set, in February 2010, we expected lower demand for engine and component products in the U.S. to pressure our operating margins in 2010. The targets for the 2010 annual bonus plan were established taking into consideration these factors. A 1.0 payout factor required us to perform at higher EBIT margins than we had experienced in prior downturns on relatively flat sales compared to 2009.

Based on our actual corporate performance during 2010 as measured against AOP, the payout factor for the corporate weighted average formula was 2.0. For R. J. Freeland and P. Carter, who each have responsibility for supervising the operations of one of our operating segments, 50% of their 2010 annual bonus was based upon the ROANA performance of their respective specific operating unit and 50% of their bonus was based upon the payout factor for our consolidated corporate performance. The payout factor for the portion of Ms. Carter's 2010 annual bonus determined by the Distribution Business was 1.8, resulting in an overall payout factor of 1.9. The payout factor for the portion of Mr. Freeland's annual bonus determined by the Engine Business was 2.0, resulting in an overall payout factor of 2.0. The 2010 annual bonuses for T. M. Solso, T. Linebarger and P. J. Ward were based solely on the payout factor for our consolidated corporate performance.

Performance varied by operating segment, resulting in the 2010 payout factor for each of the Named Executive Officers varying between 1.9 and 2.0.

Operating Segment	**ROANA Target for 1.0 Payout Factor**	**Weightings for Calculating Corporate Bonus**
Engine Business	28.19%	36.1%
Power Generation Business	27.56%	21.3%
Distribution Business	29.46%	25.4%
Components Group	21.43%	17.2%
		100%

The components group segment ROANA represents the weighted average performance targets for the businesses within that segment.

In addition to the financial measures used to determine the payout factor, minimum levels of consolidated corporate performance, called "performance hurdles," are required, ensuring that certain cash flow and other commitments are met as a condition to annual bonus payouts being made regardless of our ROANA performance. For 2010, the performance hurdles were: (1) that our net income, including the bonus payout expense, must be greater than zero; and (2) that all payouts be reviewed by our Chief Financial Officer to confirm that such payments would not cause any company metric to be less than the credit metrics required for an investment grade credit rating or constitute a violation of any applicable loan covenants or other financial restrictions in existence.

Longer-Term Compensation

Our longer-term 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 their full 10-year term. The Compensation Committee believes that a 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.

In 2010, our longer-term grants were divided equally in target value between cash awards and stock-based grants with the target value of our stock-based grants also equally divided between performance shares and stock options.

Longer-Term Grant Methodology

In determining the appropriate grant sizes, the Compensation Committee uses a valuation methodology developed by its consultant to compare the targeted value of the grants to the market. This method calculates a market-based economic value for the targeted amount of the annual grants of performance cash, performance shares and stock options. A six-month average price of our stock is used in determining the number of performance shares for market comparisons. 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 are determined using the Black-Scholes model. In 2010, the projected value of the longer-term grants was evenly divided between cash and stock awards. Under our valuation model for the stock options, the ratio of stock options to performance shares awarded in 2010 was approximately 1.9:1.

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

Return on Equity, or ROE, as described below, 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, because it is a more meaningful measure of actions under the control of management than stock price, and because historical data have indicated a strong, positive correlation between our ROE and our stock price growth.

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 financial 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." Since 2003, the award cycles have been overlapping two-year periods, and the performance measure determining the actual payouts has been our consolidated return on equity, or ROE.

The target amounts of the performance cash award will be paid in cash if we achieve target ROE for the award cycle. Target ROE for the award cycle is the average of the ROE for the two-year award cycle period based on (1) our AOP for the first year and (2) an agreed target level for the second year of the award cycle.

The ROE for each award cycle is calculated as the cumulative net income for the two-year period divided by the average equity for the two-year period, divided by two. The average equity for the two-year award cycles is calculated using nine points: the beginning of the first year of the award cycle and each of the eight quarter ending values. The numerator is profit after tax, or PAT, for the two-year 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. 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 2010 Annual Operating Plan (AOP) was discussed as part of the Compensation Committee's annual bonus discussion. The Compensation Committee considered the performance of other industrial companies, including those in our peer group, in setting these targets. As an indication of the difficulty of the awards cycle targets, the payout factors have averaged 0.91 over the last 15 years, and have met or exceeded the 1.0 target less than 50% of the time.

The table below summarizes the ROE targets and performance for award cycles from 2008 2009 through 2010 2011.

Award Cycle (Performance Period)	ROE Target for 1.0 Payout	Actual ROE Achieved	Payout Factor
2008 2009	20.83%	14.69%	0.3
2009 2010	15.38%	16.05%	1.2
2010 2011	11.69%	ROE calculated at the end of the performance period for payout in 2012	TBD

For all award cycles, 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.

Stock and Option Awards

The target grant value of the stock-based grants made in 2010 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. However, any performance shares from our 2010 grant that are earned after the two-year awards cycle remain restricted for one additional year. Any earned performance shares from our 2010 grant will be forfeited if the participant ceases to be an employee during the restriction period, unless an exception is approved by the Compensation Committee. Such exceptions are rarely made, except in the instance of retirement.

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 have adopted formal stock ownership guidelines requiring 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 salary: 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.

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.

All of our Named Executive Officers are in compliance with their stock ownership requirement 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.

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 our survey group of 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) receive an additional benefit, exceeding the benefit for other participants by 10%.

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.

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.

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.

2011 Executive Compensation Matters

Executive Compensation Program Changes Starting in 2011

Beginning in 2011, we made the following changes to our executive compensation programs:

1. Increased the length of the performance period for our longer-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.

2. Increased the equity component of our longer-term incentive elements. Previously, cash and equity were split equally. The new mix of elements is performance cash (34%), performance shares (33%), and stock options (33%). This increase in equity more closely aligns our program with the interests of our shareholders. We made these changes to our longer-term incentive plan to better reflect our longer-term focus. We believed it was appropriate to change our longer-term incentive compensation plan for leaders so that their interests remain aligned with our strategy and the interests of our shareholders who want us to achieve both our short-term targets and deliver sustainable profitable growth in the long term. We believe these changes provide a good balance between rewards for achievement of our annual ROANA-based plan and our longer-term three-year ROE-based 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 longer-term incentive targets against the median levels of such compensation elements at a selected peer group of 17 similarly situated companies, as well as against broad manufacturing industry survey data. Following are the companies included in our custom 2011 peer group:

Borg Warner Incorporated
Caterpillar Incorporated
Daimler AG
Danaher Corporation
Deere and Company
Donaldson Company Incorporated
Eaton Corporation
Emerson Electric Company
Grainger (W W) Incorporated
Honeywell International Incorporated
Illinois Tool Works
Ingersoll-Rand PLC
Navistar International Corporation
Paccar Incorporated
Parker-Hannifin Corporation
Textron Incorporated
Volvo AB

This 2011 peer group was selected based on industry, reputation, revenue size, investor comparisons, and competition for customers and talent.

Benchmarking Compensation Elements for 2011

In determining compensation for 2011, we and the Compensation Committee used both survey data provided by AonHewitt, as well as selected 2011 peer group data, to determine competitive levels of pay. This 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. The methodology used to compare each officer position was consistent with the methodology used in 2010.

In determining compensation for 2011, we and the Compensation Committee believed that using both a broader survey base of major U.S. manufacturing companies, as well as our selected 2011 peer group, provided a reasonable and useful measure of market compensation. The market compensation data reflected the specific scope, mainly 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.

Annual Bonus

ROANA performance targets established for our 2011 annual bonus plan reflect targets set in our 2011 AOP, as approved by our Board. For the 2011 annual bonus plan, target ROANA is based on sales and EBIT levels that are at least 20% higher than 2010 levels. The Compensation Committee considered the performance of other industrial companies, including those in our 2011 peer group, in setting these targets.

Longer-Term Compensation

Beginning with grants for 2011, the Compensation Committee decided that our longer-term grants should be equally balanced among each of the three elements of our longer-term grants. As a result, for 2011, two-thirds of the targeted value of our longer-term grants was stock based, with the remaining one-third in performance-based cash awards. Our Committee believed this reallocation for 2011 would help to further increase the linkage of the compensation of our Named Executive Officers to our share performance over time.

Historically, the performance cash and performance share elements of our longer-term compensation grants were tied to two-year performance cycles. However, beginning in 2011, our longer-term grants are being transitioned to three-year performance cycles. Our Compensation Committee made this change in order to further link our longer-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 longer-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 performance period for payout in 2013	TBD
2011 2013	21.10%	ROE calculated at the end of the performance period for payout in 2014	TBD

In 2011, the relative targeted value of our stock-based grants compared to the targeted value of our performance cash grants increased from 50% in 2010 to 66%. The stock-based grants are split 50/50 between performance shares and stock options. Our Compensation Committee believes this 50/50 split provides a balanced time horizon of from two to 10 years to realize value from our stock-based compensation.

Effective with the 2011 2013 longer-term grants of performance shares, the one-year restriction period on vested performance shares will no longer be required because the performance period is now three years.

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 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 give 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 plans require the occurrence of two events to trigger payments: (1) a "change in control", and (2) termination without "cause" by the company or termination by the officer for "good reason" within two years of the change in control.

Upon the occurrence of both triggering events, certain benefits would be provided to all of our Named Executive Officers plus five other senior officers, including 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 addition to the severance provisions of our executive retention plan, there are provisions within our longer-term compensation plans that provide payment of outstanding awards in the event of a change in control, without requiring constructive termination of the officer.

Because of the application of the "golden parachute" excise tax provisions of Internal Revenue Code Sections 280G and 4999, we have, under our long-standing executive retention plan, provided our Named Executive Officers with a gross-up payment if necessary so that the executive will receive the same economic terms as if there were no excise tax. The effects of Sections 280G and 4999 generally are unpredictable and can have different impacts on the executive based on his or her personal compensation history. To provide an equal and predictable level of benefits across individuals, the Compensation Committee has determined it is appropriate and consistent with competitive pay packages to pay the cost of the excise tax plus an amount needed to pay income taxes due on such additional payment.

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, 2010.

Respectfully submitted,

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

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.

2010 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 Compensation Earnings	(6) All Other Compensation	Total Compensation
T. M. Solso, Chairman and CEO	2010	$ 1,285,000	$ 0	$ 1,615,960	$ 1,383,674	$ 4,094,800	$ 620,078	$ 112,215	$ 9,111,727
	2009	$ 1,139,250	$ 0	$ 610,447	$ 642,637	$ 4,452,000	$ 1,489,788	$ 96,215	$ 8,430,337
	2008	$ 1,210,000	$ 0	$ 2,338,881	$ 0	$ 5,390,800	$ 3,078,182	$ 168,907	$ 12,186,770
T. Linebarger, President and	2010	$ 787,500	$ 0	$ 484,788	$ 415,204	$ 1,682,100	$ 631,544	$ 27,922	$ 4,029,058
Chief Operating Officer	2009	$ 678,125	$ 0	$ 183,152	$ 192,830	$ 1,236,800	$ 2,134,478	$ 21,195	$ 4,446,580
	2008	$ 695,000	$ 0	$ 784,022	$ 0	$ 1,473,400	$ 745,281	$ 22,107	$ 3,719,810
P. J. Ward, Vice President and	2010	$ 450,000	$ 0	$ 323,192	$ 276,633	$ 673,200	$ 413,101	$ 15,504	$ 2,151,630
Chief Financial Officer	2009	$ 361,667	$ 0	$ 91,576	$ 96,376	$ 329,200	$ 468,359	$ 19,776	$ 1,366,954
	2008	$ 351,667	$ 0	$ 234,035	$ 0	$ 289,492	$ 329,886	$ 21,745	$ 1,226,825
R. J. Freeland, Vice President and	2010	$ 551,667	$ 0	$ 323,192	$ 276,633	$ 862,667	$ 192,356	$ 20,904	$ 2,227,419
President Engine Business	2009	$ 461,125	$ 0	$ 100,679	$ 106,006	$ 854,600	$ 950,095	$ 19,860	$ 2,492,365
P. Carter, Vice President and President Distribution Business	2010	$ 485,000	$ 0	$ 201,995	$ 173,086	$ 663,300	$ 194,214	$ 84,334	$ 1,801,929

(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 16 to the Consolidated Financial Statements for 2010, 2009 and 2008. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Performance shares are earned and converted to shares of restricted stock based on our financial performance over a two-year period. The shares of restricted stock so earned remain restricted for one additional year. The maximum values of the 2010 awards at the grant date assuming that the highest level of performance conditions are attained, are as follows: T. M. Solso $3,231,920; T. Linebarger $969,576; P. J. Ward $646,384; R. J. Freeland $646,384; P. Carter $403,990.

(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 16 to the Consolidated Financial Statements for our fiscal year ended December 31, 2010. 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 2010 consist of (i) payments made in March 2011 under the Senior Executive Target Bonus Plan for 2010 performance and (ii) payments-for the Senior Executive Longer-term Performance Plan, which became earned and were paid in March 2010 based on our 2008-2009 performance. The payments for each Named Executive Officer from these sources were:

	T. M. Solso	T. Linebarger	P. J. Ward	R. J. Freeland	P. Carter
Senior Executive Target Bonus Plan	$ 3,212,500	$ 1,417,500	$ 585,000	$ 717,167	$ 552,900
Senior Executive Longer-Term Performance Plan	$ 882,300	$ 264,600	$ 88,200	$ 145,500	$ 110,400
TOTAL	$ 4,094,800	$ 1,682,100	$ 673,200	$ 862,667	$ 663,300

(5)

The aggregate changes during 2010 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)	$ 79,491	$ 31,212	$ 47,004	$ 28,990	$ 23,834
Cummins Excess Benefit Plan (Non-qualified)	$ 354,849	$ 91,611	$ 27,216	$ 65,664	$ 46,070
Supplemental Life Insurance and Deferred Income Program (Non-qualified)	$ 0	$ 483,068	$ 334,984	$ 50,044	$ 123,730
Sub-total	$ 434,340	$ 605,891	$ 409,204	$ 144,698	$ 193,634
Above-market earnings on non-qualified deferred compensation:	$ 185,738	$ 25,653	$ 3,897	$ 47,658	$ 580
TOTAL	$ 620,078	$ 631,544	$ 413,101	$ 192,356	$ 194,214

"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 2010:

	T. M. Solso	T. Linebarger	P. J. Ward	R. J. Freeland	P. Carter
Financial Counseling	$ 9,999	$ 9,861	$ 5,500	$ 9,545	$ 10,245
Personal use of Company Aircraft	$ 75,593	$ 6,953	$ 0	$ 0	$ 62,043
Life Insurance Premiums	$ 18,048	$ 2,533	$ 1,429	$ 2,784	$ 3,471
Company Match in the Retirement and Savings Plan	$ 8,575	$ 8,575	$ 8,575	$ 8,575	$ 8,575
TOTAL	$ 112,215	$ 27,922	$ 15,504	$ 20,904	$ 84,334

Personal Use of Company Aircraft was calculated using an average indicated hourly cost of $1,782.85 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.

The following table complements the disclosures set forth in columns captioned Stock Awards and Option Awards of the Summary Compensation Table.

GRANTS OF PLAN-BASED AWARDS IN 2010

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares or Units	All Other Option Awards Number of Securities Underlying Options	(5) Exercise or Base Price of Option Awards	(6) Grant Date Fair Value of Stock and Option Awards
Name	**Grant Date**	**Date of Committee Action**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**(#)**	**(#)**	**($)**	
T. M. Solso	2/8/10	2/8/10(1)	$ 160,625	$ 1,606,250	$ 3,212,500							
	2/8/10	2/8/10(2)	$ 274,700	$ 2,747,000	$ 5,494,000							
	3/1/10	2/8/10(3)				2,840	28,400	56,800				$ 1,615,960
	3/1/10	2/8/10(4)							0	54,520	58.115	$ 1,383,674
T. Linebarger	2/8/10	2/8/10(1)	$ 70,875	$ 708,750	$ 1,417,500							
	2/8/10	2/8/10(2)	$ 82,400	$ 824,000	$ 1,648,000							
	3/1/10	2/8/10(3)				852	8,520	17,040				$ 484,788
	3/1/10	2/8/10(4)							0	16,360	58.115	$ 415,204
P. J. Ward	2/8/10	2/8/10(1)	$ 29,250	$ 292,500	$ 585,000							
	2/8/10	2/8/10(2)	$ 54,900	$ 549,000	$ 1,098,000							
	3/1/10	2/8/10(3)				568	5,680	11,360				$ 323,192
	3/1/10	2/8/10(4)							0	10,900	58.115	276,633
R. J. Freeland	2/8/10	2/8/10(1)	$ 35,858	$ 358,584	$ 717,167							
	2/8/10	2/8/10(2)	$ 54,900	$ 549,000	$ 1,098,000							
	3/1/10	2/8/10(3)				568	5,680	11,360				$ 323,192
	3/1/10	2/8/10(4)							0	10,900	58.115	$ 276,633
P. Carter	2/8/10	2/8/10(1)	$ 29,100	$ 291,000	$ 582,000							
	2/8/10	2/8/10(2)	$ 34,300	$ 343,000	$ 686,000							
	3/1/10	2/8/10(3)				355	3,550	7,100				$ 201,995
	3/1/10	2/8/10(4)							0	6,820	58.115	$ 173,086

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(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, Company 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 Factors could range from zero to 2.0, in increments of 0.1.

(2)

The Company made target awards, expressed as dollar amounts, under its Longer-Term Performance Plan and Senior Executive Longer-Term Performance Plan in 2010. A multiple of the target award is earned based on the Company's Return on Equity (ROE) performance during 2010-2011. The amount earned and paid would range from zero to 200% of the target award amount. The target award will be earned if the Company's ROE for 2010-2011 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 the Company's ROE is 60% of the targeted ROE for the period. The Maximum Payment (200% of the target award) will be earned if the Company's ROE is 20% above the targeted ROE for the period. The payments would be made in March 2012.

(3)

The Company made target awards of performance shares under its 2003 Stock Incentive Plan in 2010. The awards are expressed as a target number of shares of the Company's Common Stock. Shares are earned based on the Company's ROE performance during 2010-2011, 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 the Company's ROE for 2010-2011 is equal to the targeted ROE established for the period as described in the Compensation Discussion and Analysis. The shares that are earned based on the Company's ROE performance for the 2010-2011 period become restricted stock for an additional year, with the restrictions lapsing in March 2013, if the participant remains an employee of the Company. Dividends become payable after the shares become earned, including the year they are restricted stock.

(4)

The Company awarded stock options under its 2003 Stock Incentive Plan. The options were granted on March 1, 2010 at a Grant Price of $58.115. The options are not exercisable until March 1, 2012 (or upon the recipient's earlier retirement, death or disability) so long as the recipient is continuously employed by the Company or a subsidiary until such date, vest on the same schedule and expire on the earliest of March 1, 2020, five years after retirement or disability, or one year after death.

(5)

The exercise 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, which is lower than the closing market price of our Common Stock on the grant date ($58.96).

(6)

The Grant Date Fair Value for performance shares, based upon probable outcome of the performance conditions to which they are subject, is $56.90/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 is the Black-Scholes value at grant date which is $25.3792/share.

The following two tables are intended to enhance understanding of equity compensation that has been previously awarded and remains outstanding, 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 2010 YEAR-END

	Option Awards				Stock Awards			
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**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	0	54,520(1)	$ 58.115	3/1/2020	14,301(2)	$ 1,573,253(3)	61,930(4)	$ 6,812,919(3)
	0	82,750(5)	$ 19.42	3/2/2019				
T. Linebarger	0	16,360(1)	$ 58.115	3/1/2020	4,290(2)	$ 471,943(3)	18,580(4)	$ 2,043,986(3)
	0	24,830(5)	$ 19.42	3/2/2019				
P. J. Ward	0	10,900(1)	$ 58.115	3/1/2020	1,431(2)	$ 157,424(3)	10,710(4)	$ 1,178,207(3)
	0	12,410(5)	$ 19.42	3/2/2019				
R. J. Freeland	0	10,900(1)	$ 58.115	3/1/2020	2,361(2)	$ 259,734(3)	11,210(4)	$ 1,233,212(3)
	0	13,650(5)	$ 19.42	3/2/2019				
P. Carter	0	6,820(1)	$ 58.115	3/1/2020	1,788(2)	$ 196,698(3)	7,740(4)	$ 851,477(3)
	0	10,340(5)	$ 19.42	3/2/2019				

(1) These 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 upon the recipient's earlier retirement, death, or disability, so long as the recipient is continuously employed by us or a subsidiary until such a date or event.

(2) Target awards of performance shares were granted in February 2008 to be earned in a multiple ranging from zero to two times the target award, based on the Company's performance during 2008-2009. The performance shares became earned and converted to shares of restricted stock in March 2010, based on the Company's 2008-2009 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, 2011.

(3) The price used to calculate the Market Value of outstanding shares was $110.01, the closing price of the Company's stock on the New York Stock Exchange on December 31, 2010, the last trading day of the year.

(4) Target awards of performance shares were granted in February 2009 and February 2010 to be earned in a multiple ranging from zero to two times the target awards, based on Company performance during 2009-2010 and 2010-2011, respectively. Earned shares will be converted to shares of restricted stock for one additional year. Performance during the previous award cycle exceeded threshold; therefore, target amounts are shown.

(5) These stock options were granted on March 2, 2009 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.

The outstanding target awards of performance shares as of December 31, 2010 for the 2009-2010 and 2010-2011 awards cycles:

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	2009	33,530	3/2/2011	3/1/2012
	2010	28,400	3/2/2012	3/1/2013
T. Linebarger	2009	10,060	3/2/2011	3/1/2012
	2010	8,502	3/2/2012	3/1/2013
P. J. Ward	2009	5,030	3/2/2011	3/1/2012
	2010	5,680	3/2/2012	3/1/2013
R. J. Freeland	2009	5,530	3/2/2011	3/1/2012
	2010	5,680	3/2/2012	3/1/2013
P. Carter	2009	4,190	3/2/2011	3/1/2012
	2010	3,550	3/2/2012	3/1/2013

OPTION EXERCISES AND STOCK VESTED IN 2010

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)(1)	Value Realized on Vesting ($)(2)
T. M. Solso	0	$ 0	120,848	$ 7,125,198
T. Linebarger	0	$ 0	28,448	$ 1,677,294
			13,333	$ 802,247
P. J. Ward	0	$ 0	4,984	$ 293,857
R. J. Freeland	0	$ 0		