CUMMINS INC
Form DEF 14A
April 05, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant x
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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))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §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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(3) Filing Party:

(4) Date Filed:

CUMMINS INC.

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Our Shareholders:

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of Cummins Inc. will be held at the Company s Columbus Engine Plant located at 500 Central Avenue, Columbus, Indiana, on Tuesday, May 8, 2007, at 11:00 a.m. Eastern Daylight Savings Time, for the following purposes:

1. to elect nine directors of the Company for the ensuing year;

2. to ratify the appointment of PricewaterhouseCoopers LLP as auditors for the year 2007;

3. to consider and amend the Company s 2003 Stock Incentive Plan to adjust the number of performance-based stock awards available under the Plan;

4. to consider and amend the Company s Restated Articles of Incorporation to increase the number of authorized shares of Common Stock following the April 9, 2007 two-for-one stock split announced on March 8, 2007;

5. to transact any other business that may properly come before the meeting or any adjournment thereof.

Only shareholders of Common Stock of the Company of record at the close of business on March 19, 2007 are entitled to notice of and to vote at the meeting.

Shareholders of Common Stock who do not expect to be present in person at the meeting are urged to vote their shares by telephone, via the Internet, or by completing, signing and dating the enclosed proxy and returning it promptly in the envelope provided.

The proxy may be revoked by the shareholder giving it 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 meeting who attend the meeting will be entitled to cast their votes in person.

MARYA M. ROSE,
Secretary

April 5, 2007

CUMMINS INC.
500 JACKSON STREET, BOX 3005, COLUMBUS, INDIANA 47202-3005
PROXY STATEMENT

This proxy statement is being furnished in connection with the solicitation by the Board of Directors of Cummins Inc. (the Company or Cummins) of proxies to be voted at the Annual Meeting of Shareholders to be held on Tuesday, May 8, 2007, and at any adjournment thereof (the Annual Meeting). This proxy statement, together with the enclosed proxy, is first being mailed to the shareholders of the Company on or about April 5, 2007.

Holders of the Company s Common Stock of record at the close of business on March 19, 2007 are entitled to vote at the Annual Meeting. On that date there were issued and outstanding 52,189,659 shares of Common Stock, each of which is entitled to one vote. **Since the record date for purposes of voting at the Annual Meeeting was prior to the March 26, 2007 record date for the April 9, 2007 two-for-one stock split referenced in the Notice of Annual Meeting, share voting will occur on a pre-split basis. In addition, all references throughout this proxy statement to numbers of shares or stock units beneficially owned or held by shareholders, including Directors, Executive Officers and others are stated herein on a pre-split basis**.

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

A shareholder may revoke the proxy at any time before it is voted by delivering to the Secretary of the Company written notice of such revocation. This notice must include the number of shares for which the proxy 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 the Company s 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 but is present at the Annual Meeting will be entitled to cast its vote in person instead of by proxy, thereby canceling the previously executed proxy.

PRINCIPAL SECURITY OWNERSHIP

The following table identifies those shareholders known to the Company to be the beneficial owners of more than five percent of the Common Stock of the Company and shows as to each such shareholder as of December 31, 2006 (i) the number of shares beneficially owned by such shareholder(s) and the nature of such beneficial ownership and (ii) the percentage of the entire class of Common Stock so beneficially owned:

	Amount and Nature of Beneficial Ownership	Percent of Class
Barclays Global Investors, NA. and related companies 45 Fremont Street San Francisco, CA 94105	6,892,340(1)	13.21%
State Street Bank and Trust Company 225 Franklin Street Boston, MA 02110	6,186,128(2)	11.85%

(1) The source of this information is a Schedule 13G dated January 9, 2007 disclosing beneficial ownership by Barclays Global Investors, NA. and its related companies. Barclays and its related companies state in the 13G that they have sole investment power for all of the shares, sole voting power for 6,121,697 shares, and no shared investment or voting power.

(2) The source of this information is a Schedule 13G dated February 12, 2007 disclosing beneficial ownership by State Street Bank and Trust Company. State Street discloses in its 13G that it has shared investment power for all of the shares, shared voting power for 3,715,110 shares, and sole voting power for 2,471,018 shares. State Street is the Trustee of certain employee benefit plans sponsored by the Company which are subject to ERISA. Shares of Common Stock are held in trust for the benefit of employees in the plans. As of December 31, 2006, the Trustee held 3,715,110 shares of Common Stock on behalf of the plans, some of which had not been allocated to plan participants. The plan Trustee votes unallocated shares and shares allocated to participants accounts as directed by participants. Shares of Common Stock held by the Trustee on behalf of the plans as to which participants have made no timely voting directions are voted by the plan Trustee in the same proportions as shares for which directions are received (subject to the Trustee s responsibilities under Section 404 of ERISA).

ELECTION OF DIRECTORS
(Items 1 through 9 on the Proxy Card)

Nine directors are to be elected at the Annual Meeting to hold office until the next annual meeting of shareholders, and until their successors are elected and qualified. The accompanying proxy will be voted in favor of the nominees named below to serve as directors unless the shareholder indicates to the contrary on the proxy. All of the nominees are current directors.

In December 2006, the Board of Directors acted to change the method by which directors are elected by amending the Company s By-Laws. The new procedures apply to an uncontested election, which is one in which the number of nominees does not exceed the number of directors to be elected. In an uncontested election, any nominee who does not receive a majority of the share votes cast shall promptly offer his or her resignation to the Board following certification of the shareholder vote. A vote of the majority of share votes cast means that the number of shares voted for exceeds the number of votes against that director. Under the amended By-Laws, abstentions and broker non-votes are not counted as a vote for or against a director. The Governance and Nominating Committee of the Board of Directors will promptly consider the resignation offer and make a recommendation to the Board. The Board will act on the Governance and Nominating Committee s recommendation within 90 days following certification of the shareholder vote. Thereafter, the Board will promptly disclose publicly its decision whether to accept the director s resignation offer. The director who tenders his or her resignation pursuant to this provision will not participate in the Governance and Nominating Committee s recommendation or Board decision whether to accept his or her resignation offer.

The Board of Directors expects that each of the nominees will be available for election, but if any of them is unable to serve at the time the election occurs, the proxy will be voted for the election of another nominee to be designated by the Board of Directors, unless the Board of Directors decides to reduce the number of directors.

The names of the nominees for directors, together with certain information regarding them, are set forth in the following table. Biographical sketches of these nominees, which include their business experience during the past five years and directorships of other corporations, are provided on pages 44 through 46 of this proxy statement.

Name and Occupation	Age	First Year Elected a Director	Amount and Nature of Beneficial Ownership as of March 19, 2007(1)		Percent of Class	Stock Units Held as of March 19, 2007(2)	Total
Robert J. Darnall Retired Chairman and Chief Executive Officer of Inland Steel Industries, basic steel manufacturer, processor and distributor	69	1989	8,718		*	3,418	12,136
John M. Deutch Institute Professor, Massachusetts Institute of Technology	68	1997	10,447	(3)	*	0	10,447
Alexis M. Herman Chairman and Chief Executive Officer of New Ventures, independent consulting firm	59	2001	5,188		*	0	5,188
F. Joseph Loughrey President and Chief Operating Officer of Cummins	57	2005	80,080		*	0	80,080
William I. Miller Chairman and Chief Executive Officer of Irwin Financial Corporation, financial services company	50	1989	20,805		*	851	21,656
Georgia R. Nelson President and Chief Executive Officer of PTI Resources, LLC, independent consulting firm	57	2004	2,201		*	0	2,201
Theodore M. Solso Chairman and Chief Executive Officer of Cummins	60	1994	121,169	(4)	*	0	121,169
Carl Ware Retired Executive Vice President, Public Affairs and Administration, The Coca-Cola Company	63	2004	2,079		*	0	2,079
J. Lawrence Wilson Retired Chairman and Chief Executive Officer, Rohm and Haas Company, specialty chemical manufacturing	71	1990	20,813		*	3,630	24,443

* Less than 1%

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

(2) Compensatory stock units payable only in cash. The value of each unit is equal to the value of one share of the Company s Common Stock. See director retirement plan discussion beginning at the bottom of page 8.

(3) Includes 300 shares that are held by Mr. Deutch s spouse.

(4) Includes 82,286 shares that are held by Mr. Solso s spouse.

CORPORATE GOVERNANCE

The Company has long believed that good corporate governance is important in ensuring that it is managed for the long-term benefit of its shareholders. It continuously reviews the Board s structure, policies and practices and compares them to those suggested by various authorities in corporate governance and to the practices of other public companies.

Independence

The Board is composed of a majority of directors who qualify as independent directors (Independent Directors) pursuant to the rules adopted by the Securities and Exchange Commission (SEC) applicable to the corporate governance standards for companies listed on the New York Stock Exchange.

In determining independence, each year the Board affirmatively determines whether directors have no material relationship with the Company. When assessing the materiality of a director s relationship with the Company, the Board considers all relevant facts and circumstances, not merely from the director s standpoint, but from that of the persons or organizations with which the director has an affiliation, and the frequency or regularity of the services, whether the services are being carried out at arm s length in the ordinary course of business and whether the services are being provided substantially on the same terms to the Company as those prevailing at the time from unrelated parties for comparable transactions. Material relationships can include commercial, banking, industrial, consulting, legal, accounting, charitable and familial relationships. Independence means (1) not being an employee of the Company within the past five years; (2) not personally receiving or having an immediate family member who receives more than $100,000 per year in direct compensation from the Company other than director and committee fees and pension or other forms of deferred compensation; (3) not being employed, or having an immediate family member employed as an executive officer of another company where any current executive officer of Cummins Inc. serves on that company s compensation committee; (4) not being employed by or affiliated with or having an immediate family member employed by or affiliated with a present or former internal or external auditor of the Company within the three previous years; and (5) not being a director who is an executive officer or employee, or whose immediate family member is an executive officer of a company that makes payments to, or receives payments from the Company for property or services in an amount which exceeds the greater of $1 million, or 2% of the other company s consolidated gross revenues.

In February 2007, the Secretary of the Company reviewed with the Governance and Nominating Commitee director responses to a questionnaire asking about their relationships with the Company (and those of their immediate family members) and other potential conflicts of interest, as well as material provided by management or otherwise known to the Secretary related to transactions, relationships, or arrangements between the Company and the directors or parties related to the directors. Following a discussion and applying the standards referenced above, the Committee determined that all Directors, except Mr. Solso, Chief Executive Officer and Mr. Loughrey, President and Chief Operating Officer of the Company qualify as independent. The Committee recommended this conclusion to the Board, and this conclusion was adopted by the full Board.

Board of Directors and Committees

The Board of Directors held six (6) meetings during 2006. All of the directors attended 75% or more meetings of the Board and Committees on which they served. The non-employee members of the Board also met in executive session without management present as part of each regular meeting. J. Lawrence Wilson, the Company s Lead Director, presided over these sessions.

Under the Company s Corporate Governance Principles, which are available on the Company s website <http://www.cummins.com> and are otherwise available in print to any shareholder who requests them, the Board of Directors has established seven standing committees. These Principles describe in detail how the Board must conduct its oversight responsibilities in representing and protecting the Company s stakeholders. The functions performed by certain of these committees and the members of the Board of Directors currently serving on these committees are as follows:

Audit Committee. The members of the Audit Committee are R. J. Darnall (Chairman), A. M. Herman, G. R. Nelson, C. Ware, and J. L. Wilson. All members are Independent Directors. The Board of Directors has determined that Mr. Darnall and Mr. Wilson are audit committee financial experts for purposes of the SEC s rules. The Committee reviews the accounting and auditing principles and procedures of the Company. The Audit Committee reviews the scope, timing, and fees for the annual audit and the results of audit examinations performed by the internal auditors and independent public accountants, including their recommendations to improve the system of accounting and internal controls. It also monitors the independence and performance of the external and internal auditors. The Audit Committee met seven (7) times in person or telephonically during 2006. The current Charter of the Audit Committee, as adopted by the Board of Directors, is available on the Company s website, is attached hereto as Appendix A, and is otherwise available in print to any shareholder who requests it.

Compensation Committee. The members of the Compensation Committee are A. M. Herman (Chairman), R. J. Darnall, G. R. Nelson, and J. L. Wilson. All members are Independent Directors. The Compensation Committee administers and determines eligibility for and makes awards under the Company s stock incentive plans. The Committee also reviews and evaluates the Company s 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 the Chief Executive Officer following a review of the CEO s performance, including input from all of the other Independent Directors as reported to it by the Governance and Nominating Committee. The Compensation Committee met four (4) times during 2006. The current Charter of the Compensation Committee, as adopted by the Board of Directors, is available on the Company s website and is also available in print to any shareholder who requests it.

Governance and Nominating Committee. The members of the Governance and Nominating Committee are J. L. Wilson (Chairman), R. J. Darnall, A. M. Herman, W. I. Miller, G. R. Nelson, and C. Ware. All members are Independent Directors. The Governance and Nominating Committee reviews and makes recommendations to the Board with respect to membership, size, composition, procedures and organization of the Board of Directors. 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 shareholders recommendations of nominees for election to the Board of Directors. 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 the Company s Board of Directors, must be submitted in writing to the Secretary of the Company in accordance with the procedures established in the Company s By-Laws. The Committee has not rejected a candidate recommended by any shareholder during the preceding year.

As required by the Corporate Governance Principles, the Committee must recommend directors such that the Board is comprised of a 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 constituencies. In particular, as it considers possible directors the Committee will seek out candidates who represent the diverse perspectives of all people. Each director will be chosen without regard to gender, race, religion, national origin or sexual orientation. The Committee will consider potential directors who demonstrate the attributes of the Company s core values: integrity, corporate responsibility, diversity, global involvement, innovation, and delivering superior results. Each candidate should have sufficient time available to devote to the affairs of the Company 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 also should possess substantial and significant experience that would be of particular importance to the Company 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.

Committee members and all other Independent Directors annually review the performance of the 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.

The Governance and Nominating Committee met four (4) times during 2006. The current By-Laws and Charter of the Governance and Nominating Committee, as adopted by the Board of Directors, are available on the Company s website. A copy of the charter of the Governance and Nominating Committee is also available in print to any shareholder who requests it. The Company also maintains a Code of Business Conduct which is available on its website and is also available in print to any shareholder who requests it.

Executive Committee. The members of the Executive Committee are T. M. Solso (Chairman), W. I. Miller and J. L. Wilson. The Executive Committee is authorized to exercise the powers of the Board of Directors in the management and direction of the business and affairs of the Company during the intervals between meetings of the Board of Directors. It also acts upon matters specifically delegated to it by the full Board of Directors. The Executive Committee did not meet during 2006.

Other Committees. In addition to the Committees described above, the Board of Directors has established the following committees: Finance Committee (W. I. Miller (Chairman), R. J. Darnall, J. M. Deutch, C. Ware and J. L. Wilson); Proxy Committee (J. L. Wilson (Chairman) and W. I. Miller); and Technology and Environment Committee (J. M. Deutch (Chairman), A. M. Herman, W. I. Miller, G. R. Nelson, and C. Ware). The current Charters of the Finance and Technology and Environment Committees, as adopted by the Board of Directors, are also available on the Company s website.

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

The Secretary shall maintain and provide 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 report to the Committee on the number and nature of communications that were not determined to be forwarded.

The Company has a practice of requiring all directors standing for election at an Annual Meeting of Shareholders to attend such meeting. All directors standing for election at the 2006 Annual Meeting of Shareholders were present.

The table on the following page sets forth information regarding the directors compensation during the Company s last completed fiscal year.

DIRECTOR COMPENSATION

Name	(1) Fees Earned or Paid in Cash ($)	(2) Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	(3) Change in Pension Value and Non Qualified Deferred Compensation Earnings	(4) All Other Compensation	Total
R. J. Darnall	$ 86,000	$ 75,000	$ 0	$ 0	$ 0	$ 0	$ 161,000
J. M. Deutch	$ 80,000	$ 75,000	$ 0	$ 0	$ 0	$ 106,639	$ 261,639
A. M. Herman	$ 83,500	$ 75,000	$ 0	$ 0	$ 9,939	$ 0	$ 168,439
W. I. Miller	$ 80,000	$ 75,000	$ 0	$ 0	$ 27,602	$ 0	$ 182,602
G. R. Nelson	$ 76,000	$ 75,000	$ 0	$ 0	$ 3,718	$ 0	$ 154,718
C. Ware	$ 75,000	$ 75,000	$ 0	$ 0	$ 3,500	$ 0	$ 153,500
J. L. Wilson	$ 88,500	$ 75,000	$ 0	$ 0	$ 29,920	$ 0	$ 193,420

Each director who was not an officer of the Company was paid a $150,000 annual fee, $75,000 of which was paid in cash and $75,000 of which was paid in the form of restricted Common Stock. The Stock Awards cannot be sold for three years. The Chairman of the Finance Committee, the Governance and Nominating Committee, and of the Technology and Environment Committee receive an additional annual fee of $5,000. The Audit Committee Chairman receives an additional $10,000 annual fee, and the Compensation Committee Chairman receives an additional $7,500 annual fee. The Lead Director receives an additional annual fee of $7,500. Committee members also receive $1,000 for attending a Committee meeting (other than a meeting of the Executive Committee) that is not held in connection with a regular or special meeting of the Board of Directors.

As part of the Company s overall support of charitable and educational institutions, the Company has established the Cummins Inc. Charitable Bequest Program in which directors first elected prior to 2004 are eligible to participate. Following the death of a director, the Company will donate ten equal annual installments of $100,000 to one or more qualifying institutions designated by such director. The Company has purchased life insurance policies on each participating director, the proceeds of which fund donations under the program. Directors will not receive any financial benefit from the program since all charitable deductions accrue to the Company.

The Company has a Deferred Compensation Plan for Non-Employee Directors, pursuant to which directors may elect to defer receipt of all or any portion of their compensation while they serve as a director of the Company. Upon ceasing to be a director, the deferred compensation, plus accrued interest, is paid to the director or the director s beneficiary in a lump sum or in annual installments, not to exceed fifteen, as specified by the director. Upon a change of control, such deferred compensation and interest is paid in cash to the director in one lump sum. Accounts are credited with earnings based on each participant s selection among three alternatives: Standard & Poor s 500 Index, Lehman Bond Index, or 10 Year Treasury Bill + 4%. The latter option was revised to be 10-Year Treasury Bill + 2% effective January 1, 2006.

Each non-employee director will be required to maintain direct ownership of shares of Common Stock equal to or greater in value to three (3) times his or her annual retainer fee. This ownership requirement must be achieved by 2010 for directors who were first elected prior to 2004. Directors first elected after 2003 must comply with the requirement within six (6) years of becoming a member of the Board.

When future accruals under a retirement plan for non-employee directors were terminated several years ago, directors with vested benefits were given an option to have their accrued benefits retained in the plan for future payment or to convert the present value (using the same actuarial assumptions as are applicable to the payment of pension benefits to the Company s employees) of their accrued benefits into phantom units of Common Stock. The stock units, including additional stock units credited thereon as dividend equivalents, are evidenced by bookkeeping entries. Recipients have no voting or investment power with respect to the stock units. The value of each director s stock units will be payable only in cash after the director ceases to be a member of the Board or upon a change of control of the Company. The total number of units credited to each director as a result of retirement plan benefit conversion elections and dividend equivalent credits is listed in the director nominee table on page 4.

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

Director	Board Retainer	Special Meeting Fees	Lead Director Fee	Committee Chaired	Committee Chair Fees	Total
R. J. Darnall	$ 75,000	$ 1,000		Audit	$ 10,000	$ 86,000
J. M. Deutch	$ 75,000			Technology & Environment	$ 5,000	$ 80,000
A. M. Herman	$ 75,000	$ 1,000		Compensation	$ 7,500	$ 83,500
W. I. Miller	$ 75,000			Finance	$ 5,000	$ 80,000
G. R. Nelson	$ 75,000	$ 1,000				$ 76,000
C. Ware	$ 75,000					$ 75,000
J. L. Wilson	$ 75,000	$ 1,000	$ 7,500	Governance & Nominating	$ 5,000	$ 88,500

(2) 692.78 shares of restricted stock units were awarded to each director, comprising one-half the value of the annual retainer fee. The shares were granted May 11, 2006 with a market value of $108.26 per share, based on the twenty-day average of closing prices of the Corporation s Common Stock on the NYSE.

As of year-end 2006, the total outstanding shares of restricted stock, by director, was:

Director	Outstanding Restricted Stock Shares
R. J. Darnall	2,233.18
J. M. Deutch	2,233.18
A. M. Herman	2,233.18
W. I. Miller	2,233.18
G. R. Nelson	2,233.18
C. Ware	2,233.18
J. L. Wilson	2,233.18

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

(4) As the director with the greatest technical expertise, Mr. Deutch serves as Chairman of the Technology and Environment Committee. In this capacity he spends at least one day per quarter with the Company s senior technical managers to exercise Board oversight and collaborate with them on the Company s technical research, development and application strategies. He also serves as Chairman of the Company s Science and Technology Advisory Council, consisting of distinguished academic, research and other members of the scientific community, who regularly advise senior executive management and the full Board on the direction and implications of developments in science, technology and environmental issues that may have applicability to the Company s current and future business goals and objectives. For these services, as Chairman of the Technology and Environment Committee, Mr. Deutch was paid $62,000 during 2006, consisting of $30,000 for such technical oversight and collaboration and $32,000 for his services on the Council.

In addition, premiums totaling $44,639 were paid on life insurance policies in connection with Mr. Deutch s participation in the Cummins Inc. Charitable Bequest Program, as described above. Policies for all other non-employee directors who participate in the program are fully paid and, therefore, no premiums were payable in 2006.

EXECUTIVE COMPENSATION
COMPENSATION DISCUSSION AND ANALYSIS

Objectives and Principles of Cummins Executive Compensation

The Company s executive compensation is designed to attract, motivate, and retain people with the skills required to achieve the Company s performance goals in the competitive global business environment. The program is designed to reflect the individual s contribution and the performance of the Company. The program attempts to strike an appropriate balance between short-term and longer-term performance.

The Company is committed to the concept of pay for sustained performance. The Company evaluates performance over several periods of time. While the specific elements of executive compensation vary from time to time, the program focuses on this central principle of pay for performance, both in program design and the specific awards.

In addition to pay for performance, the Company and the Compensation Committee of the Board of Directors (the Compensation Committee or Committee) consider the following principles when designing and implementing compensation programs for the Company s officers.

- Programs should provide a competitive compensation opportunity; the concept of opportunity is important in our program. We believe the executive should have the opportunity to do well if the Company does well, and that total compensation should vary in relation to the Company s performance.

- Compensation opportunity should be at the median of the range when compared to the compensation of individuals in U.S. Manufacturing companies with similar sales volumes when financial performance meets certain targets established in the Annual Operating Plan and approved by the Board of Directors.

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

- The more senior a person s position, the more the compensation should be at risk dependent on the performance of the Company.

- The Company s stock should be an important part of the program in order to link the management s compensation with shareholders expectations; the greater the level of responsibility of the person, the more the compensation should be stock-based.

- The system should be transparent to our investors**,** and as simple and easily understood as possible.

Overview of How Compensation is Determined

Senior Management (the management Executive Committee) recommends compensation actions to the CEO for officers in the areas for which they are responsible. Taking these recommendations into consideration, the CEO makes recommendations to the Compensation Committee regarding each officer (including members of the Executive Committee). These recommendations are based on assessments of individual performance and potential to assume greater responsibility, as well as market data for each position. The CEO discusses the recommendations and performance of the officers with the Committee. As part of its review process, the Committee has access to advice of an independent consultant retained by the Committee. The Committee reviews the recommendations, may make modifications, and makes the final decisions regarding each officer s compensation.

The CEO, on an annual basis, discusses in detail his priorities and objectives with the Governance and Nominating Committee (the members and responsibilities of the Governance and Nominating Committee are described on page 6 of this Proxy Statement). The Governance and Nominating Committee formally reviews the CEO s performance annually. This review is based on how well the CEO performed against specific objectives, which include the progress made by the 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 in setting the CEO s compensation. The Committee meets in executive session to determine the compensation of the CEO. In this discussion, the Committee has access to data and advice from its Consultant. No recommendations are made by any members of management regarding the compensation of the CEO. The Committee makes the final decisions regarding the CEO s compensation.

During 2005 and early 2006, the Committee conducted a comprehensive analysis of all elements of the executive compensation program, and made changes it deemed appropriate. The review included a comparison against a broad group of U.S. manufacturing companies prepared by the Consultant, including selected market practices, for the following:

- Executive compensation principles
- Competitive pay objectives
- Supplemental Retirement Plan
- Deferred Compensation Plan
- Change in Control Compensation Protection program
- Annual Bonus Plan
- Long Term Grant strategy
- Stock Ownership Guidelines
- Executive perquisites
- Personal use of Company aircraft
- Severance practices for Officers

Tax Considerations

Section 162(m) of the Internal Revenue Code (Section 162(m)) limits the corporate tax deduction to one million dollars for compensation paid annually to any one of the Named Executive Officers, unless the compensation meets certain requirements. The Committee adopted changes to the compensation program, approved by shareholders in 1995, that qualify payments under the Senior Executive Bonus Plan and Senior Executive Medium Term Performance Plan for tax deductibility under Section 162(m). Payments under the Senior Executive Bonus Plan and the Senior Executive Medium Term Performance Plan each year are certified by the Committee.

Therefore, that portion of the CEO s Base Salary that exceeded one million dollars in 2006 will not qualify for tax deductibility under Section 162(m).

As explained below, the Base Salaries of the Named Executive Officers are set at the median of the range of the salaries of individuals with similar positions in companies of similar size to the Company. The Committee has indicated that it intends to continue this policy notwithstanding the provisions of Section 162(m).

Compensation Program Elements

The Company s executive compensation program consists of three elements: Base Salary, Annual Bonus, and Longer-term compensation. In total, they are designed to fulfill the Company s basic goals of

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linking pay to financial performance and paying competitively. All officers participate in each element of the program.

The Company and the Committee have used survey data provided by the Consultant to determine competitive levels of pay. The survey information includes one hundred seventy-seven U.S. manufacturing corporations, and the Company has chosen not to create a more specific compensation peer group.

Each of our officer positions is compared to the same job, using regression analysis to calculate median levels of Base Salary, target Annual Bonus participation, and Longer-term grant target value for the scope of responsibility for each of our positions among U.S. manufacturing companies in the Consultant s survey database.

The CEO makes compensation recommendations to the Committee in its February meeting for each officer, excluding himself. The recommendations are based on individual performance, assessment of each officer s capability to assume larger roles, and market data for each position. The Committee makes the final compensation determinations based on the market data and a discussion of individual and Company performance. The officer compensation review occurs annually at the February Compensation Committee meeting since this is the first Committee meeting after year-end and provides the earliest opportunity to review and assess performance for the previous year.

During the February meeting, the Committee also meets in executive session to determine compensation for the CEO, based on performance assessment and market data.

Each element of pay described below is intended to provide total compensation for each position at the median of the amounts companies of similar size in the survey would pay the same position.

1. Base Salary

Base Salary is reviewed annually. It is the only fixed portion of the executive s compensation. Base Salary is normally set in the median range of base salaries of individuals with similar positions in U. S. manufacturing companies of similar size to the Company.

Individual performance, assessments of each officer s capability to assume larger roles, and market data for each position are prime factors considered by the Committee each year in determining the amount of Base Salary increase, if any, to be provided.

2. Annual Bonus

This element is designed to link executive pay to the annual performance of the Company. The Payout Factor is calculated based on a formula approved by the Committee annually. Each participant is assigned a participation rate as a percent of salary. For purposes of this plan company performance is measured by Return On Average Net Assets as defined by the plan. The Annual Bonus is calculated as follows:

(Annual Bonus) equals (Annual Base Salary) times (participation percentage assigned to each job) times (Payout Factor)

For example:

$	550,000	Annual Base Salary paid during the year
×	60%	Participation Percentage
×	1.5	Payout Factor based on Company performance for the year
$	495,000	Annual Bonus

Participation rates are based on the same survey data as base salaries and are set at the median of the range for like positions in similarly-sized companies.

The participation rates for 2006, expressed as a percentage of Base Salary paid, were:

T. M. Solso	100 %
F. J. Loughrey	75 %
J. S. Blackwell	65 %
T. Linebarger	60 %
J. D. Kelly	60 %

For officers working outside the corporate staff, 50% of their annual bonus is based upon the performance of their specific operating unit and 50% of the bonus is based upon the consolidated Corporate Plan. The definition of performance is the same for both the operating and corporate elements of the plans. We believe that the measure of performance needs to balance both profit and stewardship of the Company s assets. As such, we use a defined ROANA measure on which to determine the payout factors in the operating plans.

In setting the financial targets for the Annual Bonus each year, the Committee reviews the levels of difficulty of the operating plan for each unit, considering the markets involved and the current economic environment. The Committee then establishes appropriate stretch targets to receive a 1.0 payout. The consolidated Company (Corporate) performance is the weighted average payout of the operating unit measures. Setting the targets with appropriate levels of difficulty underscores the importance of achieving or exceeding the 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. As evidence of the difficulty of the targets, over the last thirty years the 1.0 target level has been achieved or exceeded only 40% of the time.

The Annual Bonuses for T. M. Solso, F. J. Loughrey, and J. S. Blackwell were based on the Corporate weighted average formula. The Annual Bonuses for T. Linebarger and J. D. Kelly were based one-half on the Corporate weighted average formula and one-half on the performance of the Power Generation Operating Segment for Mr. Linebarger and one-half on the performance of the Engine Operating Segment for Mr. Kelly.

The Payout Factor for the Corporate weighted average formula was 1.6. The Payout Factor for the portion of Mr. Linebarger s Annual Bonus determined by the Power Generation Operating Segment performance was 1.6; the Payout Factor for the portion of Mr. Kelly s Annual Bonus determined by the Engine Operating Segment performance was 1.4.

The Committee has the flexibility to establish performance measures annually that are appropriate for the Company s financial goals, underscoring the principle of pay for performance. The Committee also determines certain exclusions from 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 they were not anticipated at the time targets were established, the pension plan contributions above required levels, convertible debt, and other such actions. Certain corporate expense allocations are also excluded from the individual operating unit performance calculations. In 2006, costs associated with debt reduction, hedging programs, pension contributions, certain corporate lease obligations and other acquisitions or divestitures not contemplated at the time the performance measures were established were excluded from the calculation.

In order to earn a 1.0 target Payout Factor for 2006, the targets set in the operating plan would have required Earnings Before Interest and Taxes (EBIT) as a percentage of Sales equal to the top decile of Company performance over the last forty years while prudently managing the Company s assets. Even while achieving record performance for the Company, the Payout Factor for each of the Named Executive Officers only varied between 1.4 and 1.6.

While emissions changes in 2007 have created a market dynamic dramatically affecting a number of the Company s markets, performance targets established for the Annual Bonus Plan for 2007 are well within the targeted ranges for the Company, and will require one of the best years in the Company s history.

The Payout Factors are capped at 2.0. Performance required for the maximum payouts represent levels that significantly exceed the target levels.

In addition to the financial measures used to determine the Payout Factor, minimum levels of consolidated performance called Performance Hurdles are required. Regardless of the financial performance with respect to the operating measures described above, the Performance Hurdles must be achieved in order for any Annual Bonus to be paid. For 2006, the Performance Hurdles required that the Corporation s Net Income, including the bonus payout expense, must be greater than zero; that the Corporation s Free Cash Flow, defined as cashflow from operations less capital, software and joint venture investments, must be equal to or greater than the Corporation s projected dividend payments; and that all payouts were subject to review and approval by the Corporation s Chief Financial Officer to ensure that such payments did not cause or constitute a violation of any loan covenants or other financial restrictions in existence.

For 2007, the Performance Hurdles require that the Corporation s Net Income, including the bonus payout expense, must be greater than zero; that the Corporation s Free Cash Flow, defined as cash flow from operations less capital, software and joint venture investments, must be equal to or greater than the Corporation s projected dividend payments; and that all payouts are subject to review and approval by the Corporation s Chief Financial Officer to ensure that any payments will not cause company metrics to fall below investment grade or cause or constitute a violation of any loan covenants or other financial restrictions in existence.

In order to comply with the requirements of Section 162 (m), designated officers (the Chief Executive Officer and six other senior officers in 2006) are compensated under a modified version of the Annual Bonus Plan, called the Senior Executive Bonus Plan. The Senior Executive Bonus Plan differs from the Annual Bonus Plan in that the Compensation Committee has no discretion to increase the payouts once it establishes the performance measures each year. All of the Named Executive Officers participate in this plan.

3. Longer-Term Compensation

The Company s Longer-term compensation program consists of performance cash awards and stock-based grants.

Performance Cash Awards

Performance cash awards are granted as Target Awards expressed as a dollar amount for each participant. Multiples of the Target Award are earned and paid in cash, ranging from zero to two times the Target Award, based on how well the Company achieves performance measures established by the Committee over a specified measurement period. Performance cash awards are granted under the Medium Term Performance Plan and the Senior Executive Medium Term Performance Plan.

Annually the Committee makes Target Awards to be earned based on Company 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 consolidated and reported Return on Equity (ROE). These Target Awards are expressed as a dollar amount, each reflecting one year of grant value.

The Target Award will be paid if the Company achieves the level of Return on Equity provided by achieving a target set based on (a) the Company s Annual Operating Plan for the first year and (b) an agreed target level for the second year of the Award Cycle, measured cumulatively for the two-year period. 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 (PAT) for the two-year period. The equity calculation is adjusted for changes to equity related to unrecognized Pension and Other Post Employment Benefit (OPEB) amounts and equity transactions not built into the Operating Plan such as the conversion of the Quarterly Income Preferred Securities into Common Stock and Common Stock share repurchases.

The degree of difficulty for achieving the Annual Operating Plan was discussed in the Annual Bonus discussion. As an indication of the difficulty of the targets, the Payout Factors have averaged .6 over the last twenty years.

The maximum that can be paid is 200% of the Target Award for performance that represents significant improvement above the 1.0 target level. For the 2006 - 2007 Award Cycle, performance equal to 130% of the target performance level would be required for a 2.0 Payout Factor.

The performance cash payouts made in 2006 were for the 2004 2005 Award Cycle. A 2.0 Payout Factor for that Award Cycle required performance equal to 147% of the target performance level.

As is the case with respect to the Annual Bonus Plan, the CEO and six other senior officers in 2006 are compensated under a modified version of the Medium Term Performance Plan, called the Senior Executive Medium Term Performance Plan. The plans are identical except that the Committee s discretion to adjust payments upward is eliminated in the Senior Executive Medium Term Performance Plan. All of the Named Executive Officers participate in this plan.

Stock Awards

In 2003 shareholders approved the 2003 Stock Incentive Plan. Annual grants awarded since 2004 have been comprised solely of Target Awards of performance shares. No stock options have been awarded to any of the Named Executive Officers since 2003.

The Target Award of performance shares granted to each participant in 2006 for the 2006 - 2007 Award Cycle is expressed as a number of shares of the Corporation s Common Stock. A percentage of the Target Award number of shares will be earned, ranging from zero to 200% of the Target Award, based on the same Return on Equity performance measures as the performance cash grants previously discussed (for grants prior to the 2006 grant, performance shares were capped at a 1.0 multiple). Any performance shares that are earned will remain restricted for one additional year, until February 2009. The shares would be forfeited if the participant ceased to be an employee of the Company during the restriction period, unless an exception were approved by the Committee. Such exceptions are rarely made.

Longer-term Grant Methodology

Longer-term grants have been made at the February meetings since 1997. The practice has been to make compensation decisions at the earliest Compensation Committee meeting after the end of the year, based on assessments of each officer s performance and ability to assume additional responsibility, and a review of market data for each position.

When stock options were components of the Longer-term grants (prior to 2004), they were priced as the average of the High and Low trading price of the Company s stock on the date the Committee made the grants at their February meeting. The regular annual grant date removed any subjectivity regarding the current market price of the Company s stock during the period when stock options were part of the grants.

In determining the appropriate market levels for Longer-term grants, the Company uses a valuation methodology developed by the Consultant to compare the value of the grants to the market. This method calculates a present value for the performance cash and performance shares. A six-month average price of the Company s stock is used in calculating the present value of the performance shares for market comparisons. The projected value of the Longer-term grants is evenly divided between performance cash and performance shares, each providing one-half.

Grant amounts under the Longer-term plan elements have been set to provide at target total compensation opportunity at the median of that provided by similarly-sized U.S.manufacturing companies in the survey base for similar positions and scope. The Committee reviews the proportion of total compensation that is dependent on Company 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 compensation opportunity dependent on Company performance than do less senior positions.

ROE has been the measure on which Longer-term grants are earned because we believe that it provides a measure of profitability relative to the shareholder s stake in the Company over the performance period, and historical data have indicated a strong, positive correlation between ROE and Stock Price growth at the Company.

We believe that the performance shares forge a strong linkage of interests between management and shareholders since the value participants actually receive is determined by both performance relative to the pre-established financial goal, as well as our stock price. We believe that a two-year performance measurement period provides the ability to set targets that are focused and more accurately planned than could be done for longer timeframes. Furthermore, the additional year of restriction for earned performance shares beyond the two-year performance period provides a longer retention time-frame for the participants, and ensures continued focus on stock price growth for that period.

Achieving the Performance-Based Principle

We indicated previously that our program strongly supports pay for performance, and that the more senior the position, the more pay should be at risk , dependent on Company performance.

To illustrate how the program achieves these objectives, following are the percentages of target total direct compensation opportunity provided to the CEO and the other Named Executive Officers in 2006 (excluding benefits and perquisites).

	Base Salary	**Target Annual Bonus**	**Target Longer term Grants**
T. M. Solso	17.3%	17.3%	65.4%
Other Named Executive Officers	24.9% 30.3%	16.6% 18.7%	51.4% 57.9%

Stock Ownership Requirements

The Committee believes that the Company s officers should own significant amounts of the Company s stock. To underscore this, we have adopted formal stock ownership guidelines requiring officers to own the Company s Common Stock with their shares total value equal to multiples of base salary as follows: CEO, five times base salary; other designated officers (including all of the Named Executive Officers other than the CEO), three times base salary; all other officers, one times base salary.

The ownership requirements are expressed as a set number of shares for defined bands of salary. The numbers of shares required are reviewed periodically and established by the Committee based on the average market price of the Company s stock over a three-year period

Officers who were officers in 2003 had until December 31, 2006 to achieve their ownership requirement. Subsequently-named officers have five years from the date of their 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 to achieve the new higher level.

All of the Named Executive Officers have met their stock ownership requirement.

We also adopted formal stock ownership guidelines for members of the Board of Directors, requiring Cummins stock ownership equal to three times the amount of their annual retainer fee.

Benefits and Perquisites

The Company s officers participate in the full range of benefits and are covered by the same plans as other exempt employees. The Company targets its total benefit package to be at the median of the market for U.S. manufacturing companies.

In addition to these benefits, the Company s officers participate in the Supplemental Life Insurance and Deferred Income Program. 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 the Company s regular retirement plans. The supplemental retirement provision tops up the pension available from the Company s regular pension plans to provide a total benefit based on a percentage of the officer s highest average consecutive sixty-month (five years) Base Salary and Annual Bonus received during the last ten years of employment. The total replacement formula is 2% for each of the first twenty years and 1% for each of the next ten years, with a maximum 50% total after thirty years of service. The highest compensated two Named Executive Officers (Messrs. Solso and Loughrey) receive an additional 10% benefit. For some officers who joined the Company mid-career, including Ms. Blackwell among the Named Executive Officers, retirement benefits under this program are accumulated at an accelerated rate: 4% for each of the first ten years, 2% for each of the next five years, with a maximum 50% total after fifteen years of service. Market data have indicated that this program provides competitive levels of life insurance and retirement benefits for these positions.

The Company s officers, including the Named Executive Officers, are eligible to participate in the Company s 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 and financial planning, and to meet competitive market practice.

Perquisites do not comprise a major element in our Executive Compensation Program.

The Company provides support for the services of a financial counselor. The financial counselor provides estate planning and tax planning advice and tax return preparation. The fee amounts for these services are detailed in the Summary Compensation Table. This program assists executives in making prudent financial planning for their future. It permits officers the support of financial planners who are familiar with the Company s plans, improving the accuracy of the financial planning and tax return preparation.

Company officers may use Company aircraft for reasonable personal use, following a prescribed approval process. The Committee reviews the level of usage annually. Ability to use a Company plane for limited personal use saves time and provides additional security for executives. The value reportable to the Securities and Exchange Commission is detailed in the Summary Compensation Table.

As a result of its recent comprehensive program review, the Committee added Executive Physical Examinations for all officers, considering this to be good corporate governance. These are available to officers at approved sites every two years.

Severance Arrangements

The Company does not have formal severance agreements with any of the Named Executive Officers,

All aspects of severance for officers whose employment terminates other than by standard retirement are reviewed with and approved by the Committee.

The Committee has established that any of the Named Executive Officers, if terminated other than for Cause, would receive twelve months Base Salary as severance, paid as salary continuation; pro-rated portion of Annual Bonus for the portion of the year prior to termination, payable at the normal time and using the same payout factors as for all other participants; release of any outstanding restricted stock, if release date occurs during the period of severance. All of these elements would require a signed Release of Claims Agreement.

Confidentiality and Non-Compete Agreements

Each officer has signed an Agreement neither to disclose the Company s Confidential Information nor to accept employment with certain competitors during, and for twelve months subsequent to, the time the officer is employed by the Company.

Change of Control Compensation Protection Provisions

The Committee in 2005 reviewed and revised the Company s Change of Control Compensation Protection Plans, reducing the benefits provided and reducing the number of employees participating, consistent with market practice.

The Company s Change of Control Compensation Protection Plans require the occurrence of two events to trigger payments: (1) a Change of Control of the Corporation, and (2) termination or reduction in responsibilities and circumstances of the officer within two years of the Change of Control.

In the event of a Change of Control, certain benefits would be provided to officers whose employment is terminated, or whose responsibilities and position are reduced, within two years of the event. Such officers would receive severance equal to one year s salary and Annual Bonus at a 1.0 Payout Factor. The Company would also provide for the full vesting of certain insurance and retirement benefits and the continuation for the one-year severance period of certain other employee benefits.

All of the Named Executive Officers (the five officers listed in the compensation tables in this proxy) plus five other senior officers are Designated Officers under the Change of Control Compensation Plan. As such, they would receive severance and benefit continuation equal to three years salary and Annual Bonus at a 1.0 Payout Factor, rather than for the one year described above for all other officers.

In addition to the severance provisions of the Change of Control Compensation Protection Plans, there are provisions within other plans that provide payment of outstanding awards in the event of a Change of Control, without requiring constructive termination of the officer.

The Senior Executive Medium Term Performance Plan would provide immediate pro-rated payouts for all grants outstanding. The amount would be calculated as (Target Dollar Award) × (1.0 Payout Factor) × (Pro-Rata Factor). The Pro-Rata Factor would be calculated as the percentage of the years of the Award Cycle that had commenced when the Change of Control occurred. For example, if the Award Cycle was for 2007 - 2008, and a Change of Control took place in 2007, the Pro-Rata Factor would be one-half.

The 2003 Stock Incentive Plan provides that, in the event of a Change of Control, outstanding awards become immediately vested or exercisable.

We hope this general discussion and the following tables and graphs help you understand the Company s executive compensation philosophy and program.

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 fiscal year ended December 31, 2006.

Respectfully submitted,
ALEXIS M. HERMAN, CHAIR
ROBERT J. DARNALL
GEORGIA R. NELSON
J. LAWRENCE WILSON

Summary Compensation Table and Supplemental Tables

A summary compensation table and supplemental tables on the following pages disclose compensation information for the Named Executive Officers during the Company s last completed fiscal year.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Salary	Bonus	Stock Awards (1)	Option Awards	Non-Equity Incentive Plan Compensation (2)	Change in Pension Value and NQ Deferred Compensation Earnings (3)	All Other Compensation (4)	Total Compensation
T. M. Solso, Chairman and CEO	2006	$ 1,022,500	$ 0	$ 2,271,958	$ 0	$ 5,524,000	$ 4,604,073	$ 158,870	$ 13,581,401
J. S. Blackwell, Executive Vice President and Chief Financial Officer	2006	$ 525,000	$ 0	$ 631,211	$ 0	$ 1,546,000	$ 815,585	$ 91,296	$ 3,609,092
F. J. Loughrey, President and COO	2006	$ 750,000	$ 0	$ 887,962	$ 0	$ 2,234,000	$ 2,598,194	$ 93,360	$ 6,563,516
T. Linebarger, Executive Vice President and President Power Generation	2006	$ 565,000	$ 0	$ 810,930	$ 0	$ 1,542,400	$ 616,336	$ 21,021	$ 3,555,687
J. D. Kelly, Vice President and President Engine Business	2006	$ 475,000	$ 0	$ 701,535	$ 0	$ 1,093,500	$ 1,276,473	$ 35,403	$ 3,581,911

(1) The Stock Awards represent the dollar amounts recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with FAS 123R of awards pursuant to the 2003 Stock Incentive Plan. Included are the recognized expenses for grants of performance shares made in February 2003, February 2004, February 2005, and February 2006 to each of the Named Executive Officers, and for grants of restricted stock made to Messrs. Linebarger and Kelly in March 2006. There were no forfeitures in 2006 regarding any of these grants to the Named Executive Officers. Performance shares are earned and converted to shares of restricted stock based on the Company s performance over a two-year period. The shares of restricted stock so earned remain restricted for one additional year.

The grants of restricted stock made in 2006 to Messrs. Linebarger and Kelly become vested in one-third annual increments in March 2008, 2009, and 2010.

(2) The amounts shown in this column consist of (i) payments made in February 2007 under the Senior Executive Target Bonus Plan for 2006 performance and (ii) payments made in 2006 for the Senior Executive Medium Term Performance Plan based on the 2004-2005 Award Cycle. The payments for each Named Executive Officer from these sources were:

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	T. M. Solso	J. S. Blackwell	F. J. Loughrey	T. Linebarger	J. D. Kelly
Senior Executive Target Bonus Plan	$ 1,636,000	$ 546,000	$ 900,000	$ 542,400	$ 427,500
Senior Executive Medium Term Performance Plan	$ 3,888,000	$ 1,000,000	$ 1,334,000	$ 1,000,000	$ 666,000
TOTAL	$ 5,524,000	$ 1,546,000	$ 2,234,000	$ 1,542,400	$ 1,093,500

(3) The aggregate changes during 2006 in the actuarial present value of each Named Executive Officer s pension plans are as follows:

	T. M. Solso	J. S. Blackwell	F. J. Loughrey	T. Linebarger	J. D. Kelly
Cummins Inc., Pension Plan A (Qualified)	$ 66,097	$ 19,960	$ 60,506	$ 22,118	$ 54,132
Cummins Excess Benefit Plan (Non-qualified)	$ 133,348	$ 62,388	$ 73,181	$ 59,838	$ 34,711
Supplemental Life Insurance and Deferred Income Program (Non-qualified)	$ 4,259,867	$ 645,557	$ 2,373,661	$ 516,441	$ 1,115,508
Total	$ 4,459,312	$ 727,905	$ 2,507,348	$ 598,397	$ 1,204,351
Above-market earnings on non-qualified deferred compensation:	$ 144,761	$ 87,680	$ 90,846	$ 17,939	$ 72,122

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

(4) This column consists of the following:

	T. M. Solso	J. S. Blackwell	F. J. Loughrey	T. Linebarger	J. D. Kelly
Financial Counseling	$ 12,765	$ 11,981	$ 9,051	$ 12,420	$ 9,051
Personal use of Company Aircraft	$ 124,337	$ 68,440	$ 69,100	$ 0	$ 15,184
Life Insurance Premiums	$ 15,168	$ 4,275	$ 8,608	$ 2,000	$ 4,567
Company Match in the Retirement and Savings Plan	$ 6,600	$ 6,600	$ 6,600	$ 6,600	$ 6,600
TOTAL	$ 158,870	$ 91,296	$ 93,360	$ 21,021	$ 35,403

The Financial Counseling amounts include gross-ups to offset a portion of the taxable amount.

Personal Use of Company Aircraft was calculated using an average indicated hourly cost of $2,200.65 which is the incremental cost incurred by the Company.

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

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			(3)		(4)
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**All Other Stock Awards: Number of Shares or Units (#)**	**All Other Option Awards: Number of Securities Underlying Options (#)**	**Grant Date Fair Value of Stock and Option Awards**
T.M. Solso	2/13/06	$216,300	$2,163,000	$4,326,000	2,538	25,380	50,760	0	0	$2,525,310
J.S. Blackwell	2/13/06	$67,600	$676,000	$1,352,000	793	7,930	15,860	0	0	$789,035
F.J. Loughrey	2/13/06	$94,600	$946,000	$1,892,000	1,110	11,100	22,200	0	0	$1,104,450
T. Linebarger	2/13/06	$54,100	$541,000	$1,082,000	635	6,350	12,700	10,000	0	$1,709,825
J.D. Kelly	2/13/06	$48,700	$487,000	$974,000	571	5,710	11,420	10,000	0	$1,646,145

(1) The Company made Target Awards, expressed as dollar amounts, under its Medium Term Performance Plan and Senior Executive Medium Term Performance Plan in 2006. A multiple of the Target Award is earned based on the Company s Return on Equity (ROE) performance during 2006-2007. 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 2006-2007 is equal to the targeted ROE level established for that period as described in the Compensation Discussion and Analysis. The Maximum Payment (200% of the Target Award) will be earned if the Company s ROE is 30% above the targeted ROE for the period. The payments would be made in February 2008.

(2) The Company made Target Awards of performance shares under its 2003 Stock Incentive Plan in 2006. 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 2006-2007. 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 2006-2007 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 2006-2007 period become restricted stock for an additional year, with distribution occurring in February, 2009, if the participant remains an employee of the Company. Dividends become payable after the shares become earned, including the year they are restricted stock.

(3) Shares of restricted stock were awarded as special grants. The shares become vested in one-third annual increments March of 2008, 2009, and 2010. Remaining restricted shares are forfeited if the officer is not employed by the Company on the vesting dates. Dividends are paid on the shares while they are restricted.

(4) The Grant Date Fair Value reflects the full market value (the closing price of Common Stock on the NYSE) on the date of grants.

In addition to these grants of plan-based awards, each Named Executive Officer participates in the Annual Bonus Plan, as described in the Compensation Discussion and Analysis. The Annual Bonus is designed to link executive pay to the annual performance of the Company. 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 Return on Average Net Assets as defined by the Plan. The Annual Bonus is calculated as follows.

(Annual Bonus) equals (Annual Base Salary) times (participation percentage assigned to each job) times (Payout Factor)

The Payout Factors could range from zero to 2.0, in increments of .1.

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 fiscal year as a result of the vesting or exercise of equity awards.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

			Option Awards				**Stock Awards**		
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**(1) Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**	**(2) Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**(3) Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
T.M. Solso	0	0	0	N/A	N/A	42,000	$ 4,963,560	53,780	$ 6,355,720
J.S. Blackwell	0	0	0	N/A	N/A	10,800	$ 1,276,344	15,510	$ 1,832,972
F.J. Loughrey	0	0	0	N/A	N/A	14,400	$ 1,701,792	22,470	$ 2,655,505
T. Linebarger	0	0	0	N/A	N/A	20,800	$ 2,458,144	13,930	$ 1,646,247
J.D. Kelly	0	0	0	N/A	N/A	17,200	$ 2,032,696	12,530	$ 1,480,795

(1) Target Awards of performance shares were granted in February 2004 to be earned in a multiple ranging from zero to one times the Target Award, based on the Company s performance during 2004-2005 The performance shares became earned and converted to shares of restricted stock in February 2006, based on the Company s 2004-2005 performance. These restricted stock shares are shown in this column. The vesting date for the shares of restricted stock in this column was February 9, 2007. Also, Mr. Linebarger and Mr. Kelly each received a grant of 10,000 shares of restricted stock in 2006. These shares become vested in one-third annual increments March 17, 2008, March 17, 2009, and March 17, 2010. They are included in the totals in this column.

(2) Target Awards of performance shares were granted in February 2005 and February 2006 to be earned in a multiple ranging from zero to one times the target awards for the 2005 grants, and zero to two times the target awards for the 2006 grants, based on Company performance during 2005-2006 and 2006-2007, respectively. Earned shares will be converted to shares of restricted stock for one additional year.

The outstanding Target Awards of performance shares as of 12/31/2006 for the 2005-2006 and 2006-2007 Award Cycles:

Name	Number of Units of Performance Shares	Date Earned and Converted to Restricted Stock	Vesting Date for Shares of Restricted Stock
T. M. Solso	28,400	2/14/2007	2/14/2008
	25,380	2/13/2008	2/13/2009
J. S. Blackwell	7,580	2/14/2007	2/14/2008
	7,930	2/13/2008	2/13/2009
F. J. Loughrey	11,370	2/14/2007	2/14/2008
	11,100	2/13/2008	2/13/2009
T. Linebarger	7,580	2/14/2007	2/14/2008
	6,350	2/13/2008	2/13/2009
J. D. Kelly	6,820	2/14/2007	2/14/2008
	5,710	2/13/2008	2/13/2009

(3) The price used to calculate the Market Value of outstanding shares was $118.18, the closing price of the Common Stock on the NYSE on December 29, 2006, the last trading day of the year.

OPTION EXERCISES AND STOCK VESTED

Name	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	(1) Stock Awards Number of Shares Acquired on Vesting (#)	(2) Value Realized on Vesting ($)
T. M. Solso	0	$ 0	55,400	$ 5,533,352
J. S. Blackwell	0	$ 0	14,300	$ 1,428,284
F. J. Loughrey	0	$ 0	19,000	$ 1,897,720
T. Linebarger	0	$ 0	14,300	$ 1,428,284
J. D. Kelly	0	$ 0	9,500	$ 948,860

(1) Target Awards of performance shares were granted in February 2003 to be earned in a multiple ranging from zero to one times the Target Award, based on the Company s performance during 2003-2004. The performance shares became earned and converted to shares of restricted stock in February 2005, based on the Company s 2003-2004 performance. These restricted stock shares became vested and were distributed February 10, 2006.

(2) The values realized on vesting are calculated using the closing price of Common Stock on February 10, 2006.

The following three (3) tables disclose retirement benefits and other post-termination compensation for the Company s Named Executive Officers.

PENSION BENEFITS

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
T. M. Solso	Cummins Inc., And Affiliates Pension Plan	35	$ 1,011,568	$ 0
	Excess Benefit Plan		$ 3,358,164	$0
	Supplemental Life Insurance Plan		$10,074,900	$0
J. S. Blackwell	Cummins Inc., and Affiliates Pension Plan	10	$ 133,000	$ 0
	Excess Benefit Plan		$ 205,487	$0
	Supplemental Life Insurance Plan		$ 1,767,326	$0
F. J. Loughrey	Cummins Inc., and Affiliates Pension Plan	33	$ 907,684	$ 0
	Excess Benefit Plan		$ 1,600,467	$0
	Supplemental Life Insurance Plan		$ 5,764,904	$0
T. Linebarger	Cummins Inc., and Affiliates Pension Plan	14	$ 186,760	$ 0
	Excess Benefit Plan		$ 181,645	$0
	Supplemental Life Insurance Plan		$ 1,271,425	$0
J. D. Kelly	Cummins Inc., and Affiliates Pension Plan	30	$ 789,358	$ 0
	Excess Benefit Plan		$ 322,616	$0
	Supplemental Life Insurance Plan		$ 2,837,433	$0

The Cummins Inc. and Affiliates Pension Plan A is a Cash Balance Pension Plan (Plan A). Participants receive Pay Credits equal to 6% of Total Monthly Pay, defined as Base Salary and Annual Bonus payments. Individual accounts are maintained for each participant. The accounts receive Interest Credits equal to Thirty-Year Treasury Bond rate plus 1%. Participants are 100% vested in the Plan A benefit upon attaining five years of service.

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

The Supplemental Life Insurance and Deferred Income Plan provides a Supplemental Executive Retirement Plan (SERP) Life Annuity benefit to Officers of the Corporation who participate in the U.S. Plan A.

The SERP benefit is based on a percentage of the highest five consecutive years of Total Compensation during the final ten years of the participant s career (referred to hereafter as Five Year Average Pay). Total Compensation for calculation of Five Year Average Pay is defined as Base Salary and Annual Bonus payments.

The percentage is calculated as 2% of the participant s Five Year Average Pay for each of the first twenty years of service plus 1% of the participant s Five Year Average Pay for each of the next ten years of service. The maximum is a 50% benefit after thirty years of service, except that an Officer who is among the Company s two highest paid Named Executive Officers at the time of retirement will receive an annual benefit equal to an additional 10%.

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

Officers whose service and age total eighty (minimums of age 55 and 20 years service), or who were participants in the plan prior to 1997 and have at least thirty years of service, regardless of age would qualify for immediate unreduced commencement of Life Annuity benefits. Therefore, Messrs. Solso, Loughrey, and Kelly qualify for immediate commencement of unreduced benefits.

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

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

The Life Annuity Benefit has a fifteen-year certain payment, with a 50% benefit for surviving spouse or domestic partner.

The SERP benefit accrued for service prior to 2005 may be elected as a Lump Sum payment. Benefits accrued after 2005 are subject to the provisions of Internal Revenue Code 409(A), which preclude lump sum distributions of such benefits.

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

Accelerated Formula for Executives Hired Mid-Career

For some Officers who joined the Company mid-career, including Ms. Blackwell, the SERP benefit is calculated at an accelerated rate, requiring one-half the service necessary for other participants.

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

Full vesting occurs upon five years of service.

NON-QUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in Last Fiscal Year	Registrant Contributions in Last Fiscal Year ($)	(1) Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)
T. M. Solso	$ 0	$ 0	$ 427,092	$0	$ 5,057,511
J. S. Blackwell	$ 996,552	$ 0	$ 258,685	$0	$ 3,227,715
F. J. Loughrey	$ 240,000	$ 0	$ 272,567	$(253,042)	$ 3,380,446
T. Linebarger	$ 100,008	$ 0	$ 54,819	$0	$ 712,818
J. D. Kelly	$ 302,750	$ 0	$ 215,840	$(418,424)	$ 2,676,744

(1) Amounts included in the above table that were also reported in the Change in NQ Deferred Compensation Earnings column of the Summary Compensation Table as Above-market earnings for the Non-Qualified Deferred Compensation Plan for each Named Executive Officer are: T. M. Solso $144,761; J. S. Blackwell $87,680; F. J. Loughrey $90,846; T. Linebarger $17,939; J. D. Kelly $72,122.

The Company s 1994 Deferred Compensation Plan permits deferral of up to 100% of Base Salary, Annual Bonus, and/or payments from the Senior Executive Medium Term Performance Plan.

Accounts are credited with earnings based on each participant s selection among three alternatives: Standard & Poor s 500 Index, Lehman Bond Index, or 10 Year Treasury Bill + 4%. The latter option was revised to be 10-Year Treasury Bill + 2% effective January 1, 2006.

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

Payments Upon a Qualified Termination Following a Change in Control of the Corporation

In the event of termination of employment within two years subsequent to a Change of Control of the Company, as defined below, the Company will provide benefits to certain executives, including the Named Executive Officers. Certain specified officers, including the Named Executive Officers, would be entitled to three year s salary plus three Annual Bonus payments calculated using a 1.0 Payout Factor.

The Company would also provide for the full vesting of certain insurance and retirement benefits. Stock options previously granted would become fully exercisable.

Outstanding awards of performance shares and performance cash would be paid on a pro-rated basis, calculated as the percentage of days of each respective Award Cycle that had elapsed as of the date of the Change of Control, and assuming a 1.0 Payout Factor.

The value of supplemental and excess retirement (non-qualified) benefits will also be paid in cash.

All amounts of compensation deferred under the Company s Deferred Compensation Plan will be paid in cash.

Definition of Change in Control:

The occurrence of any of the following: (i) there shall be consummated (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted in whole or in part into cash, other securities or other property, other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (B) any sale, lease, exchange or transfer (in one transfer or a series of related transactions) of all or substantially all the assets of the Company; or (ii) the stockholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company; or (iii) any person (as such term is used in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the Exchange Act)), other than the Company or a subsidiary thereof or any employee benefit plan sponsored by the Company or a subsidiary thereof, shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 25% or more of the combined voting power of the Company s then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise; or (iv) at any time during a period of two consecutive years, individuals who, at the beginning of such period constituted the Board, shall cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company s stockholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period; or (v) any other event shall occur that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A of Regulation 14A promulgated under the Exchange Act.

The payments to each of the Named Executive Officers are estimated to be the following:

Payments Upon a Qualified Termination Following a Change in Control of the Corporation

Payments		**T. M. Solso**		**J. S. Blackwell**		**F. J. Loughrey**		**T. Linebarger**		**J. D. Kelly**	
Severance	(1)	$	6,360,000	$	2,722,500	$	4,068,750	$	2,832,000	$	2,400,000
Unvested Stock Option Spread		$	0	$	0	$	0	$	0	$	0
Unvested Restricted Stock	(2)	$	4,963,560	$	1,276,344	$	1,701,792	$	2,458,144	$	2,032,696
Long Term Incentive Plan Payment	(3)	$	7,964,516	$	2,243,388	$	3,283,606	$	2,082,526	$	1,792,892
Retirement Benefit Payment	(4)	$	3,704,334	$	1,197,938	$	2,667,273	$	1,042,258	$	1,550,108
Welfare Benefit Values	(5)	$	23,334	$	23,334	$	23,334	$	23,334	$	23,334
Financial Counseling		$	36,000	$	36,000	$	36,000	$	36,000	$	36,000
401(K) Benefit		$	19,800	$	19,800	$	19,800	$	19,800	$	19,800
Excise Tax & Gross-Up	(6)	$	6,414,678	$	2,635,805	$	3,664,659	$	2,896,871	$	2,657,232
Aggregate Payments		$	29,486,222	$	10,155,109	$	15,465,214	$	11,390,933	$	10,512,062

(1) Severance payment equal to three (3) times the Named Executive Officer s annual base salary at the time of the termination, plus three Annual Bonus Payments at a 1.0 Payout Factor.

(2) Total value of unvested restricted stock that would become vested upon a Change of Control, assuming a share price of $118.18 as of December 29, 2006.

(3) Pro-rated payouts of outstanding performance cash and performance share Target Awards for the 2005-2006 and 2006-2007 Award Cycles, at target level, assuming a $118.18 share price for the performance shares.

(4) Incremental actuarial value attributable to retirement for three years of additional service.

(5) Estimated value associated with the continuation of life insurance, medical, dental, and disability benefits for three years following termination.

(6) Gross-up covering the full cost of excise tax under IRC Sections 280G and 4999.

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

The following tables summarize the estimated payments to be made to Named Executive Officers under provisions of plans or established practice in the event of termination of employment including resignation, involuntary termination, involuntary termination for Cause, retirement, death and disability.

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

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

The amounts shown assume the terminating event occurred on the last business day of 2006, and that the price per share of the Company s common stock is the closing price as of that date, $118.18.

Severance

None of the Named Executive Officers has an employment agreement. However, the Compensation Committee has established the practice of providing twelve months of severance for Officers whose employment is terminated. It is Company policy not to provide severance in the event of termination for Cause.

Payment of Annual Bonus

Annual Bonus is payable for the portion of the year a participant is an employee, except in cases of termination for Cause. No amounts are shown in the tables for Annual Bonus since there would be no special treatment or acceleration of the payment to the Named Executive Officers.

Accelerated Vesting of Longer-term Grants

As described elsewhere in this proxy statement, currently we provide annual Target Award grants of performance cash and performance shares.

- Performance Cash:

The Plan provides that if a participant s employment with the Company terminates during the first year of an Award Cycle, other than by reason of retirement, death or disability, the participant will not receive any payout for that Award Cycle. If a participant s employment terminates during subsequent years of an Award Cycle, the Compensation Committee, in its discretion, shall determine whether the Participant will receive a proportionate payout of any payment with respect to the Award Cycle based on the period of employment during the cycle.

If a participant retires, dies or becomes disabled during an Award Cycle, the participant or such participant s estate, as the case may be, shall receive a proportionate share of any payment with respect to the Award Cycle based on the period of employment during the cycle, regardless of the length of time of such employment.

2005-2006 Award Cycle grants: since the entire Award Cycle had been completed at the time of the termination, all participants would be entitled to the payment at the normal time in February 2007. There would be no special acceleration; therefore, the amounts of these payments are not shown on the tables.

2006-2007 Award Cycle grants:

Since the termination event is assumed to occur at the end of the first year of the Award Cycle, the Committee has the discretion to award one-half of the Target Award for the 2006-2007 Award Cycle. For purposes of this table, one-half of the Target Awards, assuming a Payout Factor of 1.0, is shown as payable under Retirement, Death, and Disability.

- Performance Shares

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

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

2004-2005 Award Cycle grants

Target Awards of shares were earned based on Company performance during 2004-2005 and converted to restricted stock in February 2006. The shares would have become vested in February 2007, so it is assumed that the Committee would accelerate the vesting of these shares in all of the termination events, except voluntary termination and termination for Cause.

2005-2006 Award Cycle grants

Performance shares would have been earned based on Company performance during 2005-2006 and converted to restricted stock in February 2007, and remained restricted until February 2008. No shares would be payable in the event of termination for Cause or voluntary termination. However the Committee would have the discretion to accelerate payment in the event of involuntary termination without cause, retirement, disability or death.

2006-2007 Award Cycle grants

Performance shares would become earned based on Company performance during 2006-2007 and converted to restricted stock in February 2008, and would remain restricted until February 2009. Since the shares were not earned, it is assumed no payments were accelerated.

- Restricted Stock

Messrs. Linebarger and Kelly received 10,000 shares of restricted stock in 2006. The first one-third of these grants would become vested in March 2008. It is assumed that these grants would be forfeited under all of the termination events shown on the tables.

Executive Life Insurance

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

Disability

The Company has no special disability income replacement program, other than that provided for generally all exempt U.S. employees. Therefore, no amounts are shown for income replacement in the disability section of the tables.

Retirement and Deferred Compensation Plans

Benefits under the Company s retirement plans and deferred compensation plans are not enhanced under any of the termination events. Therefore, reference is made to the Retirement Plan and Deferred Compensation Plan tables and no incremental amounts are shown in the following tables.

	Voluntary Termination	Involuntary Not-for-Cause Termination	Termination For Cause	Retirement	Death	Disability
T. M. Solso						
Severance	$ 0	$ 1,060,000	$ 0	$ 0	$ 0	$ 0
Accelerated Vesting of Longer-term Grants:						
Performance Cash						
2006-2007 Award Cycle	$ 0	$ 0	$ 0	$ 1,081,500	$ 1,081,500	$ 1,081,500
Performance Shares						
2004-2005 Award Cycle	$ 0	$ 4,963,560	$ 0	$ 4,963,560	$ 4,963,560	$ 4,963,560
Outplacement	$ 0	$ 15,000	$ 0	$ 0	$ 0	$ 0
Welfare Benefits	$ 0	$ 7,800	$ 0	$ 0	$ 0	$ 0
Financial Counseling	$ 0	$ 12,000	$ 0	$ 12,000	$ 0	$ 12,000
Life Insurance (Supplemental Life Insurance Program only)	$ 0	$ 0	$ 0	$ 0	$ 3,180,000	$ 0

	Voluntary Termination	Involuntary Not-for-Cause Termination	Termination For Cause	Retirement	Death	Disability
J. S. Blackwell						
Severance	$ 0	$ 550,000	$ 0	$ 0	$ 0	$ 0
Accelerated Vesting of Longer-term Grants:						
Performance Cash						
2006-2007 Award Cycle	$ 0	$ 338,000	$ 0	$ 338,000	$ 338,000	$ 338,000
Performance Shares						
2004-2005 Award Cycle	$ 0	$ 1,276,344	$ 0	$ 1,276,344	$ 1,276,344	$ 1,276,344
Outplacement	$ 0	$ 15,000	$ 0	$ 0	$ 0	$ 0
Welfare Benefits	$ 0	$ 7,800	$ 0	$ 0	$ 0	$ 0
Financial Counseling	$ 0	$ 12,000	$ 0	$ 12,000	$ 0	$ 12,000
Life Insurance (Supplemental Life Insurance Program only)	$ 0	$ 0	$ 0	$ 0	$ 1,650,000	$ 0

	Voluntary Termination	Involuntary Not-for-Cause Termination	Termination For Cause	Retirement	Death	Disability
F. J. Loughrey						
Severance	$ 0	$ 775,000	$ 0	$ 0	$ 0	$ 0
Accelerated Vesting of Longer-term Grants:						
Performance Cash						
2006-2007 Award Cycle	$ 0	$ 473,000	$ 0	$ 473,000	$ 473,000	$ 473,000
Performance Shares						
2004-2005 Award Cycle	$ 0	$ 1,701,792	$ 0	$ 1,701,792	$ 1,701,792	$ 1,701,792
Outplacement	$ 0	$ 15,000	$ 0	$ 15,000	$ 15,000	$ 15,000
Welfare Benefits	$ 0	$ 7,800	$ 0	$ 0	$ 0	$ 0
Financial Counseling	$ 0	$ 12,000	$ 0	$ 12,000		$ 12,000
Life Insurance (Supplemental Life Insurance Program only)	$ 0	$ 0	$ 0	$ 0	$ 2,325,000	$ 0

	Voluntary Termination	Involuntary Not-for-Cause Termination	Termination For Cause	Retirement	Death	Disability
T. Linebarger						
Severance	$ 0	$ 590,000	$ 0	$ 0	$ 0	$ 0
Accelerated Vesting of Longer-term Grants:						
Performance Cash						
2006-2007 Award Cycle	$ 0	$ 270,500	$ 0	$ 270,500	$ 270,500	$ 270,500
Performance Shares						
2004-2005 Award Cycle	$ 0	$ 1,276,344	$ 0	$ 1,276,344	$ 1,276,344	$ 1,276,344
Outplacement	$ 0	$ 15,000	$ 0	$ 0	$ 0	$ 0
Welfare Benefits	$ 0	$ 7,800	$ 0	$ 0	$ 0	$ 0
Financial Counseling	$ 0					