



Important Information About Investing in Cummins Stock Through the RSP

You have the ability to choose how to invest your savings in the Cummins Retirement and Savings Plan (RSP). One of your RSP options is to invest part of your contributions — plus any Cummins matching contributions — in the Cummins Stock Fund. In addition, you may have part of your savings in the Cummins ESOP. Cummins ESOP investments come from a portion of any Cummins matching contributions made between 1989 and 2010, unless you chose to transfer those contributions into other investment options in the RSP.

Because both of these investments are company stock funds that primarily invest in Cummins common stock, they have some unique characteristics that make them different from other RSP investments.

Special Tax Treatment for Distributions in Shares of Cummins Stock

When you invest in a company stock fund, like the Cummins Stock Fund or the Cummins ESOP, you have the option to take a portion of your distribution in Cummins shares after you leave Cummins. You can do this for the balances you have in the Cummins Stock Fund and the Cummins ESOP, but only if you are taking a total distribution of your account.

When you take your distribution in shares, your tax treatment may be different from the tax treatment of a cash distribution. On the portion you receive in shares, you pay tax on the lesser of the **cost basis** or the **market value** of the shares. Assuming your cost basis is less than the market value, this can lower your taxes at the time you take a distribution. Later, when you sell your stock, you will pay tax on any value received above the amount on which you already paid taxes.

Remember: You can only take a distribution in shares from your Cummins Stock Fund and Cummins ESOP if you take a full distribution of your account.

Cost Basis Calculation

When contributions (either your own contributions or the Cummins match) are made to your account, the money is used to purchase shares of Cummins stock. Those shares have a market value when they are made — that's your cost basis. Each time a contribution is made to the Cummins Stock Fund, the market price of those contributions is added to the cost basis.

Here's a simple example. Suppose you make two \$200 contributions to the Cummins Stock Fund:

| | Contribution Amount | Stock Price When Contribution Made | Equivalent Shares |
|-----------------|---------------------|------------------------------------|-------------------|
| Contribution 1: | \$200 | \$40 | 5 |
| Contribution 2: | \$200 | \$50 | 4 |
| Total | \$400 | | 9 |

Your cost basis is \$400 (the total of your contributions); and, at a stock price of \$50 per share, the value of your account would be \$450 (or \$50 times 9 shares). If the price of Cummins stock rises to \$60 a share, the value of your account would be \$540 (9 shares times \$60 a share), but your cost basis would still be \$400 — the cost at the time you purchased the shares.

What's Inside
This notice contains important information about:

- Special tax treatment for distributions in shares of Cummins stock
- Dividend payments on Cummins stock
- Reminders about investing in single company stock funds

Special Cost Basis for the Cummins ESOP

The value you may have in the Cummins ESOP comes from a portion of Cummins matching contributions that were made between 1989 and 2010. These contributions were made in Cummins stock that was purchased by the RSP in 1989 under a special tax provision available at the time. The purpose of these shares was to make contributions to the RSP. The shares were gradually released over the years, making up part of the Cummins match that participants received.

The cost basis for these shares is based on the market value when they were purchased in 1989. When you factor in stock splits and other activities that have happened since 1989, the cost basis is much lower than the current market price. As participants received matching contributions, a portion went in with a cost basis at the then-current market price, and another portion went in with this 1989 cost basis. The last of the 1989 shares were contributed to the RSP in 2010.

Understanding How a Distribution in Shares Is Taxed

Find Your Cost Basis

Go to the plan Web site at www.yourbenefitsresources.com/cummins. On the “Portfolio Performance” page in the “Review your Account” section, you will find a “Stock Fund Cost” (which is your cost basis) if you hold part of your account in the Cummins Stock Fund and/or the Cummins ESOP.

If you cannot access the Web site, call the Cummins Retirement Benefits Service Center at **1-800-682-8788** (or **1-847-883-2076** if outside the United States, Puerto Rico, or Canada) to find your cost basis.

When you elect to take your distribution from the Cummins Stock Fund and the Cummins ESOP in shares of Cummins stock rather than cash, you pay ordinary income taxes on the lesser of cost basis or market value. The difference between the market value and the cost basis is called the **Net Unrealized Appreciation** (or NUA). If the market value is higher than the cost basis, you can defer tax on the NUA by taking shares rather than cash.

If a portion of your account comes from after-tax contributions, then your ordinary income would be further reduced.

When you later sell your shares of Cummins stock, you'll pay capital gains tax on the difference between your selling price and the amount on which you've already paid taxes (including any after-tax contributions). In general, you will pay long-term capital gains tax on the appreciation. However, if you sell your stock within 12 months after distribution, you will pay:

- Short-term capital gains on any appreciation following your distribution, and
- Long-term capital gains on the remainder of the appreciation.

Please note: Tax laws are complex; you should talk to a tax advisor to fully understand the effect of any decisions you make.

Example

Assume you have left Cummins and have part of your account in the Cummins Stock Fund:

| | |
|---------------------------------|----------|
| ■ Cummins Stock Fund value | \$10,000 |
| ■ Cummins Stock Fund cost basis | \$8,000 |
| ■ Net Unrealized Appreciation | \$2,000 |

If you take money out of the plan and request a distribution in shares, you will pay ordinary income tax on the cost basis — or \$8,000 — and can continue to hold the Cummins stock. **Remember:** If your balance in the Cummins Stock Fund was due to investment of after-tax contributions, your taxes will be reduced.

Suppose you continue to hold that Cummins stock for at least a year and it continues to appreciate in value until you sell it. At that time, your tax will be calculated as follows:

| | |
|---|----------------|
| ■ Value of Cummins stock when sold | \$11,000 |
| ■ Less cost basis on which you already paid tax | <u>\$8,000</u> |
| ■ Amount subject to long-term capital gains tax | \$3,000 |

Since capital gains tax rates tend to be lower than ordinary income tax rates, this can provide you with both a tax deferral and lower taxes.

Requesting a Distribution in Shares

If you want to receive a portion of your distribution in shares of Cummins stock, you should make that election at the time you request a total distribution. You can do so online at www.yourbenefitsresources.com/cummins by going to the section “Withdraw or Roll Over Money” and requesting a final settlement. You will be given the option to select your distribution in either all cash or cash and share equivalents. Choose cash and share equivalents and then specify the number of shares you wish to receive, up to the maximum available.

You can also make your election by calling the Cummins Retirement Benefits Service Center at **1-800-682-8788** (or **1-847-883-2076** if outside the United States, Puerto Rico, or Canada). Please make sure to identify that you want to take a portion of your distribution in shares.

Rollover Options with Shares of Stock

If you take a total distribution that includes shares of Cummins stock, you may be able to roll the shares into an IRA **and** defer taxes until a later date. However, you will not carry forward your cost basis into the IRA. The special NUA treatment is only provided for shares directly paid to participants from employer plans such as the RSP. If you subsequently receive a payment of shares from your IRA, different tax rules will apply. Not all institutions will accept rollovers that include shares of stock. Please check with the IRA provider of your choosing before you request a rollover.

Even if you do not roll over the shares of Cummins stock, you can roll over the cash portion of your distribution into an IRA. In that case, you would pay taxes on the cost basis (or the market value, if lower) of the shares at the point of distribution and defer taxes on the cash portion of your distribution.

Dividend Payments on Cummins Stock

Many companies pay dividends on their stock. A dividend is one way to provide return to the shareholders. Periodically — often once a quarter — the company may decide to give shareholders a payment for each share of stock they own. This payment is made from earnings or retained earnings. For instance, in August 2010, Cummins paid shareholders a dividend of 26.3 cents for each of their shares of Cummins stock.

Cummins stock that is held in the Cummins Stock Fund and the Cummins ESOP also receives dividend payments. In general, these dividends are paid back into the funds and used to purchase additional shares of Cummins stock. If you hold part of your savings in the Cummins Stock Fund or the Cummins ESOP, you will see an increase in the equivalent shares held in your account each quarter that reflects the quarterly dividend payment.

You can choose to have your dividends paid out of the plan rather than have them reinvested (i.e., used to purchase additional shares of Cummins stock in the Cummins Stock Fund or Cummins ESOP). If you decide to take the dividends in cash, you will receive a check each quarter and will be required to pay current taxes on any dividends received. In addition, you will not experience the same increase in value of your Cummins Stock Fund and Cummins ESOP as participants who leave the dividends to be reinvested. Please consult a tax advisor to understand how receiving Cummins dividends in cash could impact your tax situation.

No action is necessary if you wish to have your dividends reinvested. You can make an election to receive your dividend payments in cash online at www.yourbenefitsresources.com/cummins. On the Web site, in the Retirement section, go to “Make a Dividend Choice” under “Review Investments.” You can also make this election by calling the Cummins Retirement Benefits Service Center at **1-800-682-8788** (or **1-847-883-2076** if you are outside the United States, Puerto Rico, or Canada).

Reminders About Investing in Single Company Stock Funds

Both the Cummins Stock Fund and the Cummins ESOP primarily invest in Cummins stock. This means that they are single company stock funds and, unlike the other investments available in the RSP, are not diversified.

When a fund is diversified, it invests in many different investments. That way, if one specific investment loses significant value, other investments may hold up better and offset some of the loss. Financial experts encourage diversification of any long-term savings in order to protect against the possibility — even if the possibility is remote — that a single investment is disproportionately affected by adverse market conditions. In general, you may not be considered diversified if more than 20% of your total savings (in and outside the RSP) is invested in a single company.

Please note: The investments held by other funds may be of a similar type (for instance, the stocks of large companies) and continue to carry the risk of that type of investment going up or down. To get added diversification, you should consider your asset allocation — how you spread your savings across types of investments.

Although this document contains information about Cummins benefit plans, it is not intended to provide every detail. Details are included in the Plan documents and the related contracts under which benefits are provided. If there is any difference between the information provided in this document and the Plan documents and/or related contracts, the Plan documents and/or related contracts will govern. The Company reserves the right to adjust, amend, modify, suspend, or terminate benefit plans and/or programs, at any time and for any reason. This document is not a contract of employment and is not intended to affect the employment-at-will status of any employee in any way whatsoever.