

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

CUMMINS ENGINE COMPANY, INC.

For the Quarter Ended March 26, 2000 Commission File Number 1-4949

Indiana

35-0257090

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

500 Jackson Street, Box 3005

Columbus, Indiana

47202-3005

(Address of Principal Executive Offices)

(Zip Code)

812-377-5000

(Registrant's Telephone Number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months and (2) has been subject to such filing requirements for the past 90 days:

Yes
No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

As of March 26, 2000, the number of shares outstanding of the registrant's only class of common stock was 41.5 million.

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CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF EARNINGS
Unaudited

Millions, except per share amounts	First Quarter Ended	
	3/26/2000	3/28/99
Net sales	\$1,648	\$1,505
Cost of goods sold	1,313	1,204
Gross profit	335	301
Selling & administrative expenses	194	178
Research & engineering expenses	59	54
Net (income) expense from joint ventures and alliances	(1)	7
Interest expense	19	19
Other expense, net	2	7
Earnings before income taxes	62	36
Provision for income taxes	17	10
Minority interest	3	2
Net earnings	\$ 42	\$ 24
Basic earnings per share	\$ 1.09	\$.63
Diluted earnings per share	1.09	.63
Cash dividends declared per share	.30	.275

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Unaudited

Millions, except per share amounts	3/26/2000	12/31/99
Assets		
Current assets:		
Cash and cash equivalents	\$ 68	\$ 74
Receivables, net of allowance of \$9	1,159	1,026
Inventories	840	787
Other current assets	283	293
	2,350	2,180
Investments and other assets	335	274
Property, plant & equipment less accumulated depreciation of \$1,533 and \$1,490	1,617	1,630
Goodwill, net of amortization of \$30 and \$28	362	364
Other intangibles, deferred taxes & deferred charges	251	249
Total assets	\$4,915	\$4,697
Liabilities and shareholders' investment		
Current liabilities:		
Loans payable	\$ 66	\$ 113
Current maturities of long-term debt	9	10
Accounts payable	523	411
Other current liabilities	774	780
	1,372	1,314
Long-term debt	1,227	1,092
Other liabilities	794	788
Minority interest	78	74

Shareholders' investment:		
Common stock, \$2.50 par value, 48.7 and 48.3 shares issued	122	121
Additional contributed capital	1,140	1,129
Retained earnings	790	760
Accumulated other comprehensive income	(124)	(109)
Common stock in treasury, at cost, 7.2 & 6.8 shares	(290)	(274)
Common stock held in trust for employee benefit plans, 3.4 shares	(161)	(163)
Unearned compensation (ESOP)	(33)	(35)
	<u>1,444</u>	<u>1,429</u>
Total liabilities & shareholders' investment	<u>\$4,915</u>	<u>\$4,697</u>

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

Millions	First Quarter Ended	
	3/26/2000	3/28/99
Cash flows from operating activities:		
Net earnings	\$ 42	\$ 24
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization	57	56
Restructuring actions	(2)	(5)
Accounts receivable	(141)	(130)
Inventories	(42)	(2)
Accounts payable and accrued expenses	100	95
Income taxes payable	(5)	(5)
Equity in losses of joint ventures and alliances	2	11
Other	(2)	(12)
Total adjustments	<u>(33)</u>	<u>8</u>
Net cash provided by operating activities	<u>9</u>	<u>32</u>
Cash flows from investing activities:		
Property, plant and equipment:		
Additions	(31)	(37)
Disposals	7	4
Investments in joint ventures and alliances	(18)	(19)
Acquisition and disposition of businesses	(35)	7
Other	-	(1)
Net cash used in investing activities	<u>(77)</u>	<u>(46)</u>
Net cash flows used in operating and investing activities	<u>(68)</u>	<u>(14)</u>
Cash flows from financing activities:		
Proceeds from borrowings	138	88
Payments on borrowings	(4)	(11)
Net payments under short-term credit agreements	(46)	(43)
Repurchases of common stock	(16)	-
Dividend payments	(12)	(12)
Other	2	(1)
Net cash provided by financing activities	<u>62</u>	<u>21</u>
Net change in cash and cash equivalents	(6)	7
Cash & cash equivalents at the beginning of the year	74	38
Cash & cash equivalents at the end of the quarter	<u>\$ 68</u>	<u>\$ 45</u>

CUMMINS ENGINE COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

for the interim periods ended March 26, 2000 and March 28, 1999 have been prepared in accordance with the accounting policies described in the Company's Annual Report to Shareholders and Form 10-K. Management believes the statements include all adjustments of a normal recurring nature necessary to present fairly the results of operations for the interim periods. Inventory values at interim reporting dates are based upon estimates of the annual adjustments for taking physical inventory and for the change in cost of LIFO inventories.

Note 2. Income Taxes: Income tax expense is reported during the interim reporting periods on the basis of the estimated annual effective tax rate for the taxable jurisdictions in which the Company operates.

Note 3. Earnings per Share: Basic earnings per share of common stock are computed by dividing net earnings by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net earnings by the weighted-average number of shares, assuming the exercise of stock options. Shares of stock held by the employee benefits trust are not included in outstanding shares for EPS until distributed from the trust.

Millions, except per share amounts	Net Earnings	Weighted Average Shares	Per-Share Amount
2000			
Basic	\$42	38.2	\$1.09
Options	-	.1	
Diluted	\$42	38.3	\$1.09
1999			
Basic	\$24	38.5	\$.63
Options	-	-	
Diluted	\$24	38.5	\$.63

Note 4. Comprehensive Income: Comprehensive income, which includes net income and all other nonowner changes in equity during a period, is as follows:

Millions	First Quarter Ended	
	March 26, 2000	March 28, 1999
Net income	\$ 42	\$ 24
Unrealized (loss) gain on securities	(1)	1
Translation loss	(14)	-
Comprehensive income	\$ 27	\$ 25

Note 5. Segment Information: Operating segment information is as follows:

Millions	Engine	Power Generation	Filtration And Other	Total
Quarter Ended March 26, 2000				
Net sales	\$1,045	\$329	\$274	\$1,648
Earnings before interest and income taxes	28	23	30	81
Net assets	1,108	565	854	2,527
Quarter Ended March 28, 1999				
Net sales	\$1,000	\$251	\$254	\$1,505
Earnings before interest and income taxes	27	2	26	55
Net assets	976	523	799	2,298

Reconciliation to Consolidated Financial Statements:

Millions	First Quarter Ended	
	3/26/2000	3/28/99
Earnings before interest and income taxes for reportable segments	\$ 81	\$ 55
Interest expense	19	19
Income tax expense	17	10
Minority interest	3	2
Net earnings	\$ 42	\$ 24
Net assets for reportable segments	\$2,527	\$2,298
Liabilities deducted in arriving at net assets	2,049	2,037
Deferred tax assets not allocated to segments	320	334
Debt-related costs not allocated to segments	19	22
Total assets	\$4,915	\$4,691

Note 6. Restructuring and Other Non-Recurring Charges: In the third quarter of 1998, the Company recorded charges of \$125 million, comprised of \$100 million for costs to reduce the worldwide workforce by approximately 1,100 people, as well as costs associated with streamlining certain majority-owned and international joint venture operations and \$25 million for a civil penalty to be paid by the Company as a result of an agreement reached with the U.S. Environmental Protection Agency (EPA) regarding diesel engine emissions. In addition, the Company recorded special charges of \$14 million for inventory write-downs associated with restructuring actions.

The Company is continuing the restructuring plan implemented in the third quarter of 1998. As of March 26, 2000, approximately \$88 million has been charged against the liabilities associated with these actions. The Company has funded the restructuring actions using cash generated from operations. The remaining actions to be completed consist primarily of the outsourcing of certain manufacturing operations and payment of severance commitments to terminated employees. The program is expected to be essentially complete in 2000 and the Company does not currently anticipate any material changes in the original charges recorded for these actions.

Activity in the major components of these charges is as follows:

\$ Millions	Original Provision	Charges			Balance 3/26/2000
		1998	1999	Q1 2000	
Restructuring of majority-owned operations:					
Workforce reductions	\$ 38	\$ (12)	\$ (14)	\$ (3)	\$ 9
Asset impairment loss	22	-	(7)	(2)	13
Facility consolidations and other	17	(8)	(4)	(2)	3
	77	(20)	(25)	(7)	25
Restructuring of joint venture operations:					
Workforce reductions	11	-	(10)	-	1
Tax asset impairment loss	7	-	(7)	-	-
Facility and equipment-related costs	5	-	(5)	-	-
	23	-	(22)	-	1
Inventory write-downs associated with restructuring actions	14	(5)	(9)	-	-
Total restructuring charges	114	(25)	(56)	(7)	26
EPA penalty	25	-	(8)	-	17
Total	\$139	\$ (25)	\$ (64)	\$ (7)	\$43

CUMMINS ENGINE COMPANY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS,
CASH FLOW AND FINANCIAL CONDITION

Overview

Net sales were \$1.65 billion in the first quarter of 2000, an increase of 10 percent from the first quarter of 1999. Earnings before interest and taxes in the first quarter of 2000 were \$81 million or 4.9 percent of sales compared to \$55 million or 3.7 percent of sales in the first quarter of 1999. Net earnings were \$42 million or \$1.09 per share compared to \$24 million or 63 cents per share in the first quarter of 1999.

Results of Operations

Net Sales:

Revenues from sales of engines, which were 55 percent of the Company's net sales in the first quarter of 2000, were 4 percent higher than first-quarter 1999. Revenues from non-engine products, which were 45 percent of net sales in the first quarter of 2000, were 16 percent higher than the first quarter of 1999. This increase was primarily due to growth in the power generation and filtration businesses and higher parts sales.

Unit Shipments	First Quarter	
	2000	1999
Midrange Engines	78,900	73,700
Heavy-duty Engines	27,400	26,800
High-horsepower Engines	2,500	2,000
	108,800	102,500

All three of the Company's business segments had higher sales in the first quarter of 2000 than in the year-ago quarter. The Company's sales for each of its key businesses during the comparative first quarters were:

\$ Millions	First Quarter	
	2000	1999
Automotive markets	\$ 776	\$ 760
Industrial markets	269	240
Engine Business	1,045	1,000
Power Generation Business	329	251
Filtration Business and Other	274	254
	\$1,648	\$1,505

In the first quarter of 2000, engine business revenues of \$1.05 billion increased 5 percent as compared to the first quarter of 1999, primarily due to the strength of the bus and light commercial vehicle market.

Sales of \$776 million in the first quarter of 2000 for automotive markets were 2 percent higher than the first quarter of 1999. Heavy-duty truck revenues were essentially flat compared to the first quarter of 1999, with the decline in sales of engines in North America offset by an increase in international heavy-duty truck revenues and parts sales.

Medium-duty truck revenues decreased 13 percent from the first quarter of 1999 with sales declines in both North American and international markets. Revenues from the sales of engines for medium-duty trucks in

the first quarter of 2000 were 8 percent lower than the prior year's quarter on a 15-percent decrease in units. This variance reflected a decline in sales of engines with a lower selling price and margin.

Revenues of the bus and light commercial vehicle market were 14 percent higher than the first quarter of 1999. In the first quarter of 2000,

Cummins shipped 30,000 engines to DaimlerChrysler, 18 percent higher than the first-quarter 1999 level. Shipments for the bus market in the first quarter of 2000 were up 38 percent in North America and 13 percent in international markets, primarily in Mexico. Sales of engines for recreational vehicles were 13 percent higher than the year-ago quarter.

Sales to industrial markets were 12 percent higher than the first quarter of 1999, due to increased volume and a shift in product mix. Engine revenues for this market were up 15 percent on a 10-percent increase in units. Construction equipment business increased 6 percent compared to first quarter 1999, while agricultural equipment demand remained flat with the prior year's quarter. Sales to marine markets increased 19 percent from the first quarter of 1999, with improvement in both Asia and North America. Mining market sales increased 25 percent as compared to the first quarter of 1999, reflecting some recovery in this market.

In the first quarter of 2000, sales for the Company's power generation business increased 31 percent compared to the first quarter of 1999. Sales of the Company's generator sets were 39 percent higher than first quarter last year due to increased sales in North America. Engine sales to generator set assemblers were up 40 percent and sales of alternators increased 25 percent from the first quarter of 1999, with growth in most international markets. Generator set sales for the recreational vehicle and mobile markets were 14 percent above the year-ago quarter.

Filtration business and other sales of \$274 million in the first quarter of 2000 were 8 percent higher than the first quarter of 1999. Within the filtration business, the sales increase was broadly distributed across markets worldwide, reflecting both new business penetration and market growth. Sales at company-owned distributors and Holset, the Company's turbocharger business, also increased as compared to the first quarter of 1999.

In total, international markets represented 41 percent of the Company's revenues in the first quarter of 2000. The Company experienced gains in all of the international markets in which it participates. Sales to Europe and the CIS, representing 13 percent of the Company's sales in the first quarter of 2000, were 15 percent higher than the prior year's quarter. Business in Mexico, Brazil and Latin America represented 6 percent of sales in the first quarter of 2000, with revenues 41 percent above the year-ago levels. Asia and Australian markets, in total, represented 12 percent of sales in the first quarter of 2000, increasing 23 percent from the prior year's quarter. Sales to Canada, representing 8 percent of sales in the first quarter of 2000, were 33 percent higher than the first quarter of 1999.

Gross Margin:

The Company's gross margin percentage was 20.3 percent in the first quarter of 2000, compared to 20.0 percent in the prior year's quarter. The increased margin in 2000 was due to higher volume and reduced costs related to new products, partially offset by higher product coverage costs.

Operating Expenses:

Selling and administrative expenses as a percent of sales were 11.8 percent in the first quarters of 2000 and 1999. Research and engineering expenses were 3.6 percent of sales in the first quarter of 2000 compared to 3.5 percent in the first quarter of 1999.

The Company is continuing the restructuring plan implemented in the third quarter of 1998. During the first quarter of 2000, \$7 million was charged against the liabilities associated with these actions. The Company expects to complete the restructuring in 2000 and does not anticipate any material changes in the original charges recorded for these actions.

The Company had income from joint ventures and alliances of \$1 million in the first quarter of 2000, compared to losses of \$7 million in the first quarter of 1999. This improvement resulted from the termination of the Company's joint venture with Wartsila at the end of 1999.

Other:

Interest expense was \$19 million in the first quarter of 2000, flat with the prior year's quarter. Other expense decreased \$5 million from the first quarter of 1999, due to Brazilian currency translation losses

and losses on various asset dispositions recorded in the first quarter of 1999.

Provision for Income Taxes:

The Company's income tax provision in the first quarter of 2000 was \$17 million, reflecting an effective tax rate of 27 percent for the year.

Cash Flow and Financial Condition

Key elements of cash flows were:

\$ Millions	First Quarter	
	2000	1999
Net cash provided by operating activities	\$ 9	\$ 32
Net cash used in investing activities	(77)	(46)
Net cash provided by financing activities	62	21
Net change in cash and cash equivalents	\$ (6)	\$ 7

In the first quarter of 2000, net cash provided by operating activities was \$9 million, with the Company's earnings and the non-cash effect of depreciation and amortization reduced by increases in working capital. Net cash used in investing activities included \$31 million of planned capital expenditures and \$35 million related to the business assumed by the Company following the termination of the Cummins Wartsila joint venture. Net cash provided by financing activities in the first quarter of 2000 included net borrowings of \$88 million primarily to fund increases in working capital, partially offset by cash used to pay dividends and repurchase shares of the Company's stock.

FORWARD-LOOKING STATEMENTS

When used herein, the terms "expect, plan, anticipate, believe" or similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements.

The Company has included certain forward-looking statements in this Management's Discussion and Analysis of Results of Operations, Cash Flow and Financial Condition and in the Company's press releases, teleconferences and other external communications. These statements are based on current expectations, estimates and projections about the industries in which the Company operates, management's beliefs and various assumptions made by management which are difficult to predict. Among the factors that could affect the outcome of the statements are general industry and market conditions and growth rates. Therefore, actual outcomes and their impact on the Company may differ materially from what is expressed or forecasted. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its annual meeting of security holders on April 4, 2000 at which security holders elected 10 directors of the Company for the ensuing year and ratified the appointment of Arthur Andersen LLP as auditors for the year 2000.

Results of the voting in connection with each of the items were as follows:

Voting on Directors:

	For	Withheld
R. Darnall	38,044,402	1,181,968
J. M. Deutch	37,803,520	1,422,850
W. Y. Elisha	37,956,865	1,269,505
H. H. Gray	37,915,804	1,310,566
J. A. Johnson	38,087,243	1,139,127
W. I. Miller	38,069,076	1,157,294
W. D. Ruckelshaus	37,912,621	1,313,749

T. M. Solso	37,704,868	1,521,502
F. A. Thomas	37,955,056	1,271,314
J. L. Wilson	38,142,414	1,083,956

Ratify Appointment of Auditors:

For	Against	Abstain
<u>37,490,483</u>	<u>1,370,007</u>	<u>365,880</u>

With regard to the election of directors, votes were cast in favor of or withheld from each nominee; votes that were withheld were excluded entirely from the vote and had no effect. Abstentions on the ratification of the appointment of Arthur Andersen LLP were counted as present for purposes of determining the existence of a quorum. Under the rules of the New York Stock Exchange, brokers who held shares in street names had the authority to vote on certain items when they did not receive instructions from beneficial owners. Brokers who did not receive instructions were entitled to vote on the election of directors. Under applicable Indiana law, a broker non-vote had no effect on the outcome of the election of directors.

Item 6. Exhibits and Reports on Form 8-K:

- (a) See the Index to Exhibits on Page 14 for a list of exhibits filed herewith.
- (b) The Company was not required to file a Form 8-K during the first quarter of 2000.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CUMMINS ENGINE COMPANY, INC.

By: /s/Robert C. Crane April 25, 2000

Robert C. Crane
 Vice President - Corporate Controller
 (Chief Accounting Officer)

CUMMINS ENGINE COMPANY, INC.

INDEX TO EXHIBITS

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