UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 June 28, 1998 Commission File Number 1-4949

Indiana	35-0257090
(State or Other Jurisdiction of Incorporation or Organization)	(IRS 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 [x]
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 June 28, 1998, the number of shares outstanding of the registrant's only class of common stock was 42.1 million.

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PART II. OTHER INFORMATION

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF EARNINGS
FOR THE SECOND QUARTER AND FIRST HALF
ENDED JUNE 28, 1998 AND JUNE 29, 1997
Unaudited

	Second Quarter		First Half	
Millions, except per share amounts	1998	1997	1998	1997
Net sales	$1,635	$1,396	$3,135	$2,700
Cost of goods sold	1,266	1,072	2,426	2,090
Special charge	-	-	43	-
Gross profit	369	324	666	610
Selling & administrative expenses	199	186	401	364
Research & engineering expenses	65	64	132	125
Net expense (income) from joint ventures and alliances	6	(2)	10	(9)
Interest expense	18	7	35	12
Other income, net	-	(5)	(7)	(12)
Earnings before income taxes	81	74	95	130
Provision for income taxes	24	21	28	36
Minority interest	4	-	7	-
Net earnings	$ 53	$ 53	$ 60	$ 94
Basic earnings per share	$ 1.39	$ 1.40	$ 1.57	$ 2.46
Diluted earnings per share	$ 1.38	$ 1.38	$ 1.55	$ 2.44
Cash dividends declared per share	$ .275	$ .275	$ .55	$ .525

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

Millions, except per share amounts	6/28/98	12/31/97
Assets		
Current assets:		
Cash and cash equivalents	$ 40	$ 49
Receivables	975	771
Inventories	767	677
Other current assets	199	213
	1,981	1,710
Investments and other assets	308	346
Property, plant & equipment less accumulated depreciation of $1,403 and $1,434	1,664	1,532
Goodwill, net of amortization of $11 and $5	384	12
Other intangibles, deferred taxes and deferred charges	191	165
Total assets	$4,528	$3,765
Liabilities and shareholders' investment		
Current liabilities:		
Loans payable	$ 57	$ 90
Current maturities of long-term debt	36	42
Accounts payable	399	386
Other current liabilities	634	537
	1,126	1,055
Long-term debt	1,168	522

Other liabilities	749	713
Minority interest	59	53
Shareholders' investment:		
Common stock, $2.50 par value, 47.9 and 48.1 shares issued	120	120
Additional contributed capital	1,114	1,119
Retained earnings	752	713
Common stock in treasury, at cost, 5.8 and 6.0 shares	(226)	(245)
Common stock held in trust for employee benefit plans, 3.6 and 3.7 shares	(176)	(175)
Unearned compensation (ESOP)	(38)	(42)
Cumulative translation adjustments	(120)	(68)
	1,426	1,422
Total liabilities and shareholders' investment	$4,528	$3,765

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

	First Half Ended	
Millions	6/28/98	6/29/97
Cash flows from operating activities:		
Net earnings	$ 60	$ 94
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization	98	80
Restructuring actions	(11)	(10)
Accounts receivable	(165)	(140)
Inventories	(48)	(49)
Accounts payable and accrued expenses	115	74
Income taxes payable	(6)	10
Equity in (earnings) losses of joint ventures and alliances	16	(4)
Other	17	12
Total adjustments	16	(27)
Net cash provided by operating activities	76	67
Cash flows from investing activities:		
Property, plant and equipment:		
Additions	(154)	(205)
Disposals	4	8
Investments in joint ventures and alliances	(6)	2
Acquisition and disposition of businesses	(466)	77
Other	1	-
Net cash used in investing activities	(621)	(118)
Net cash flows used for operating and investing activities	(545)	(51)
Cash flows from financing activities:		
Proceeds from borrowings	711	201
Payments on borrowings	(117)	(10)
Net payments under credit agreements	(37)	(52)
Repurchase of common stock	-	(58)
Dividend payments	(23)	(22)
Other	3	(4)
Net cash provided from financing activities	537	55
Effect of exchange rate changes on cash	(1)	(1)
Net change in cash and cash equivalents	(9)	3
Cash & cash equivalents at beginning of year	49	108

Cash & cash equivalents at end of first half	$ 40	$111

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

Note 1. Accounting Policies: The Consolidated Financial Statements for the interim periods ended June 28, 1998 and June 29, 1997 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. Acquisition: In January 1998, Cummins completed the acquisition of the stock of Nelson Industries, Inc., for $453 million. Nelson, a filtration and exhaust systems manufacturer, was consolidated from the date of its acquisition. Under APB Opinion No. 16, Nelson's net assets are to be recorded at fair value at the date of acquisition. Adjustments required to properly reflect the fair value of Nelson's assets and liabilities are not expected to have a material effect on the Company's financial statements. The purchase price in excess of net assets will be amortized over 40 years.

Note 3. Special Charge: In the first quarter of 1998, the Company recorded a special charge for product coverage expense primarily attributable to the recent experience of higher-than-anticipated costs to repair certain automotive engines manufactured in previous years. The Company believed it was necessary to make a special charge of $43 million pre-tax to accrue for such product coverage costs expected to be incurred in the future on these engines currently in the field.

Note 4. 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 5. Long-term Debt: In January 1998, the Company's revolving credit agreement was amended, forming two $500 million agreements maturing in 1999 and 2003. In February 1998, the Company issued $765 million face amount of notes and debentures. Net proceeds were used to finance the acquisition of Nelson and pay down other indebtedness outstanding at December 31, 1997. The $500 million revolving credit agreement maturing in 1999 was terminated in March 1998, with the financing need being replaced by the debt issue.

NOTE 6. 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.

	Second Quarter		
Millions, except per share amounts	Net Earnings	Weighted Average Shares	Per-Share Amount
1998			
Basic	$53	38.5	$1.39
Options	-	.3	
Diluted	$53	38.8	$1.38
1997			
Basic	$53	38.3	$1.40
Options	-	.4	
Diluted	$53	38.7	$1.38

First Half

Millions, except per share amounts	Net Earnings	Weighted Average Shares	Per-Share Amount
1998			
Basic	$60	38.5	$1.57
Options	-	.3	
Diluted	$60	38.8	$1.55
1997			
Basic	$94	38.3	$2.46
Options	-	.3	
Diluted	$94	38.6	$2.44

Note 7. Comprehensive Income: Effective January 1, 1998, Cummins adopted SFAS No. 130, a new accounting rule on reporting comprehensive income. The new rule requires reporting of comprehensive income, which includes net income and all other nonowner changes in equity during a period.

Millions	Second Quarter Ended June 28, 1998	June 29, 1997
Net income	$ 53	$ 53
Foreign currency translation adjustment	(33)	11
Unrealized gains on securities	(1)	-
Comprehensive income	$ 19	$ 64

Millions	First Half Ended June 28, 1998	June 29, 1997
Net income	$ 60	$ 94
Foreign currency translation adjustment	(52)	(9)
Unrealized gains on securities	(1)	-
Comprehensive income	$ 7	$ 85

Note 8. Contingency: The Environmental Protection Agency, the U. S. Department of Justice and the California Air Resources Board (collectively the government agencies) have raised concerns with diesel engine manufacturers, including Cummins, about the level of Nitrogen Oxide (NOx) emissions from diesel engines under certain driving conditions. The government agencies also have raised concerns about the strategies that diesel manufacturers have employed to maximize fuel economy and lessen other pollutants, while also meeting Clean Air Act standards for NOx emissions. The government agencies have indicated that they may conclude that diesel manufacturers have been in violation of the Clean Air Act and have, therefore, issued conditional certificates of conformity on the 1998 heavy-duty, on highway diesel engine models. Cummins believes that it is in full compliance with all laws and regulations regarding emissions. The government agencies have not made any final determinations or allegations. The industry and Cummins are engaged in confidential discussions regarding these emissions, the technical challenges confronted if new emissions standards are imposed, the commercial impact of the government's policy and legal positions and related issues. Both the industry and the government agencies are taking these concerns and discussions very seriously and are working diligently toward an amicable resolution, but resolution of this matter could have a material effect on Cummins' results.

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

Overview

Earnings before interest and taxes in the second quarter of 1998 were a record $99 million, equal to 6.1 percent of sales. This was 22 percent higher than the second quarter of 1997 on a 17-percent increase in sales. After the higher interest expense for the acquisition of Nelson, income taxes and minority interest, the Company's net earnings were $53 million or $1.38 per share, equal to the second quarter of 1997. Net earnings for the first half of 1998, before the special charge taken in the first quarter, were $91 million or $2.34 per share compared to $94 million or $2.44 per share in the first half of 1997. Including the special charge, net earnings in the first half of 1998 were $60 million or $1.55 per share.

The Company continues to explore ways to further reduce costs over the long term. The Company expects to reduce its work force by 1,000 positions over the next 12 months through attrition, voluntary separations and further manufacturing restructuring. These and other potential cost-reduction measures will likely result in a significant charge in the third quarter.

Results of Operations

Net Sales:

Revenues from sales of engines were 56 percent of the Company's net sales in the second quarter of 1998, with engine revenues 19 percent higher than second-quarter 1997 and record unit shipments 22 percent higher. This variance reflected a mix shift from heavy-duty to midrange engines in the second quarter of 1998:

	Second Quarter		First Half	
Unit Shipments	1998	1997	1998	1997
Midrange Engines	77,300	62,800	142,300	125,800
Heavy-duty Engines	27,400	23,000	54,300	43,800
High-horsepower Engines	2,700	2,600	4,900	4,900
	107,400	88,400	201,500	174,500

Revenues from non-engine products, which were 44 percent of net sales in the second quarter of 1998, were 15 percent higher than the second quarter of 1997. The major changes within non-engine revenues were in filtration, with the sales of Nelson included from the date of acquisition by Cummins, and PowerCare (which includes sales of new parts and remanufactured parts and engines).

The Company's sales for each of its key markets during the comparative reporting periods were:

	Second Quarter		First Half	
$ Millions	1998	1997	1998	1997
Automotive	$ 755	$ 626	$1,439	$1,224
Power Generation	313	302	604	577
Industrial	294	263	563	520
Filtration and Other	273	205	529	379
	$1,635	$1,396	$3,135	$2,700

Sales of $755 million in the second quarter of 1998 for automotive markets were 21 percent higher than the second quarter of 1997. Heavy-duty truck engine revenues were 27 percent higher than the second quarter of 1997 on a 28-percent increase in units. In the first half of 1998, heavy-duty truck engine revenues increased 33 percent over the year-ago level on a 34-percent increase in units. The higher level of sales was due to both the strong market and the Company's higher market share in North America, as well as continued strong demand in Mexico and European automotive markets. In the second quarter of 1998, the Company began limited production of the Signature 600, a new electronic engine designed to capture a larger share of the heavy-duty truck market.

Revenues from the sales of engines for medium-duty trucks in the second quarter of 1998 were 6 percent lower than the prior year's quarter on a 9-percent decrease in units. Compared to the first half of 1997, medium-duty truck engine sales were 12 percent lower in 1998 on a 13 percent decrease in units. In North America, the Company continued to be affected by Ford's relocation of its production facilities. The effect of this shutdown was partially offset by higher demand in international markets, for which second quarter 1998 unit shipments were 32 percent higher than the year-ago level, primarily in Brazil.

Engine revenues of the bus and light commercial vehicle market were 45 percent higher than the second quarter of 1997 and 26 percent higher than the first half of 1997. In January, Cummins jointly announced with Chrysler a new, fully electronic engine -- the ISB -- for the Dodge Ram pickup. In the second quarter, Cummins shipped 25,600 engines to Chrysler, 9,600 units higher than the year-ago level, due to both a temporary shutdown at Chrysler in the second quarter of 1997 and the success of the Company's new turbo diesel engine for the Dodge Ram.

In the second quarter of 1998, the Company's power generation markets benefited from the consolidation of Cummins India Limited. Without this, power generation revenues would have been down 6 percent compared to second quarter 1997 and four percent less than the first half of 1997. Sales of the Company's generator sets continued to reflect growth in North America, which offset declines in demand for generator sets in Southeast Asia. Engine sales to generator set assemblers were down 40 percent in the second quarter due primarily to lower demand in Asia. Genset sales for the RV market, however, were 15 percent higher than in the second quarter of 1997.

Sales of engines to industrial markets were 13 percent higher than the second quarter of 1997, on a 23-percent increase in unit shipments. The variance between revenues and units resulted from all of the growth coming from midrange engines. The increased level of sales was due to continued strong construction volumes in North America and Europe and higher international sales for agricultural markets.

Filtration and other sales were $68 million higher than the second quarter of 1997, with Nelson, acquired in January, contributing sales of $77 million.

In total, international markets represented 46 percent of the Company's revenues in the second quarter of 1998. The Company continued to benefit from recovery in European automotive markets and strong industrial business in the second quarter, with Europe, Africa and the Middle East representing 15 percent of sales. Business in the Americas (Canada, Mexico, Brazil and Latin America) also continued to be strong and represented 18 percent of sales in the second quarter. Asian and Australian markets, in total, represented 13 percent of the Company's sales in the second quarter. In Australia, sales are primarily for automotive, power generation and mining markets. In Asia, sales for India, China and Japan were flat with the second quarter of 1997. Revenues in Korea decreased over 70 percent and Southeast Asia was 53 percent below the year-ago quarter.

Gross Margin:

The Company's gross margin percentage was 22.6 percent in the second quarter of 1998, compared to 23.2 percent in the prior year's quarter. The Company's gross margin percentage decreased due to higher product coverage and new product costs as well as certain production inefficiencies. This decrease was partially offset by the benefit from higher volume and parts pricing. In addition, the acquisition of Nelson and consolidation of Cummins India Limited added $35 million. For the first half of 1998, gross margin percentage before the special charge was 22.6 percent, equal to the comparable period in 1997. Gross margin percentage after the special charge was 21.2 percent in the first half of 1998.

Operating Expenses:

Selling and administrative expenses were 12.2 percent of sales in the second quarter of 1998 and 12.8 percent in the first half of 1998, compared to 13.3 percent in the second quarter and 13.5 percent in the first half of 1997. The $13 million incremental cost in the second quarter was due primarily to Nelson and Cummins India Limited, with costs of new products, information systems and Year 2000 offset by spending containment. Research and engineering expenses were 4.0 percent of sales in the second quarter of 1998, compared to 4.6 percent in the prior year's quarter as a result of new engines moving into production.

The Company's losses from joint ventures and alliances were $6 million in the second quarter of 1998 and $10 million in the first half of 1998, compared to income of $2 million in the second quarter of 1997 and $9 million in the first half of 1997. The difference was primarily caused by the consolidation of Cummins India Limited and higher start-up costs at the Company's joint venture with Wartsila.

Year 2000:

The Company is continuing its Year 2000 Program efforts to prepare our computer systems, applications, and products for the Year 2000. Our Year 2000 Program efforts began in late 1996 and include the use of existing information technology resources and external consulting services. The Year 2000 Program is a centrally coordinated, enterprise-wide effort under the leadership of the Cummins Year 2000 Team. The Company expects to substantially complete its Year 2000 remediation efforts by the end of the second quarter of 1999.

Complementing our ongoing communication with our suppliers, the Company has joined the Automotive Industrial Action Group's Year 2000 Evaluation Program. The AIAG is an industry established organization that has produced Year 2000 Compliance standards and streamlined the process of evaluating the Year 2000 readiness of suppliers and others in the industry. Through the AIAG, the Company has formalized our inquiries and evaluation of the Year 2000 Compliance status of those entities with whom we do business. It is already clear that we can assure our customers that all our electronically controlled engines and generator sets will transition without disruption in function across the millennial transition, and continue to operate in 2000 as they did in 1999.

The Company expects to incur total expenditures of about $45 million to remedy the Year 2000 problem. To date the Company has expensed about $10 million, and the Company estimates an expense of about $8 to $10 million for the rest of 1998.

The Company is confident that it will more than meet the challenge presented by the Year 2000, however the magnitude of the Year 2000 problem and its impact on products, software and embedded technology is unpredictable and investors are encouraged to keep apprised of developments during this evolving process.

Other:

Interest expense of $18 million in the second quarter of 1998 and $35 million in the first half of 1998 was higher than the comparable periods of 1997 due to the increased level of borrowings to support working capital on the higher sales level and to complete the acquisition of Nelson. Other income decreased $5 million when comparing both the second quarter and the first half of 1998 to the year-ago periods. Such decrease is due to the Nelson goodwill amortization and lower royalty income.

Provision for Income Taxes:

The Company's income tax provision in the second quarter of 1998 was $24 million and $28 million in the first half of 1998, reflecting an estimated effective tax rate of 29 percent for the year.

Cash Flow and Financial Condition

Key elements of cash flows were:

	First Half	
$ Millions	1998	1997
Net cash used for operating and investing activities	$(545)	$(51)
Net cash from financing activities	537	55
Effect of exchange rate changes on cash	(1)	(1)
Net change in cash and cash equivalents	$(9)	$ 3

In the first half of 1998, net cash used for operating and investing activities was $545 million. The higher level of net cash requirements was due primarily to the acquisition of Nelson and planned capital expenditures of $154 million. In the first quarter of 1998, the Company issued $765 million face amount of notes and debentures to support working capital and to complete the acquisition of Nelson.

As disclosed in Note 8, diesel engine manufacturers, including Cummins, are involved in discussions with the Environmental Protection Agency, the US Department of Justice and the California Air Resources Board regarding diesel engine emissions.

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

(a) See the Index to Exhibits on page 13 for a list of exhibits filed herewith.

(b) The Company was not required to file a Form 8-K during the second quarter of 1998.

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/Rick J. Mills

Rick J. Mills
Vice President - Corporate Controller
(Chief Accounting Officer) July 20, 1998

CUMMINS ENGINE COMPANY, INC.

INDEX TO EXHIBITS

27 Financial Data Schedule (filed herewith)

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