

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 September 24, 2000      Commission File Number 1-4949  
\_\_\_\_\_

Indiana      35-0257090  
\_\_\_\_\_  
(State or Other Jurisdiction of      (IRS Employer Identification No.)  
Incorporation or Organization)

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 September 24, 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  
FOR THE THIRD QUARTER AND NINE MONTHS  
ENDED SEPTEMBER 24, 2000 AND SEPTEMBER 26, 1999

Unaudited

Millions, except per share amounts	Third Quarter		Nine Months	
	2000	1999	2000	1999
Net sales	\$1,572	\$1,631	\$4,989	\$4,803
Cost of goods sold	1,262	1,270	3,993	3,770
Gross profit	310	361	996	1,033
Selling and administrative expenses	195	192	579	570
Research and engineering expenses	62	67	180	181
Net (income) expense from joint ventures and alliances	(3)	8	(7)	20
Interest expense	22	18	62	56
Other (income) expense, net	(5)	3	(5)	13
Earnings before income taxes	39	73	187	193
Provision for income taxes	9	19	48	54
Minority interest	5	1	11	4
Net earnings	\$ 25	\$ 53	\$ 128	\$ 135
Basic earnings per share	\$ .66	\$ 1.37	\$ 3.36	\$ 3.50
Diluted earnings per share	.66	1.35	3.36	3.48
Cash dividends declared per share	\$ .30	\$ .275	\$ .90	\$ .825

CUMMINS ENGINE COMPANY, INC.  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

Millions, except per share amounts	9/24/2000	12/31/1999
Assets		
Current assets:		
Cash and cash equivalents	\$ 94	\$ 74
Receivables, net of allowance of \$10 and \$9	1,097	1,026
Inventories	797	787
Other current assets	292	293
	2,280	2,180
Investments and other assets	375	274
Property, plant and equipment less accumulated depreciation of \$1,555 and \$1,490	1,595	1,630
Goodwill, net of amortization of \$36 and \$28	360	364
Other intangibles, deferred taxes and deferred charges	264	249
Total assets	\$4,874	\$4,697
Liabilities and shareholders' investment		
Current liabilities:		
Loans payable	\$ 125	\$ 113
Current maturities of long-term debt	9	10
Accounts payable	417	411
Other current liabilities	681	780
	1,232	1,314
Long-term debt	1,313	1,092

Other liabilities	802	788
Minority interest	68	74
Shareholders' investment:		
Common stock, \$2.50 par value, 48.7 and 48.3 shares issued	122	121
Additional contributed capital	1,139	1,129
Retained earnings	851	760
Accumulated other comprehensive income	(176)	(109)
Common stock in treasury, at cost, 7.2 & 6.8 shares	(290)	(274)
Common stock held in trust for employee benefit plans, 3.2 and 3.4 shares	(154)	(163)
Unearned compensation (ESOP)	( 33)	(35)
	1,459	1,429
Total liabilities & shareholders' investment	\$4,874	\$4,697

CUMMINS ENGINE COMPANY, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited

Millions	Nine Months Ended	
	9/24/2000	9/26/1999
Cash flows from operating activities:		
Net earnings	\$ 128	\$ 135
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization	180	172
Restructuring & other non-recurring actions	(16)	(23)
Accounts receivable	(115)	(277)
Inventories	(28)	(70)
Accounts payable and accrued expenses	(47)	216
Income taxes payable	(24)	12
Equity in losses of joint ventures and alliances	7	24
Other	(11)	(19)
Total adjustments	(54)	35
Net cash provided by operating activities	74	170
Cash flows from investing activities:		
Property, plant and equipment:		
Additions	(130)	(121)
Disposals	10	27
Investments in joint ventures & alliances	(76)	(40)
Acquisition and disposition of businesses	(42)	3
Other	-	6
Net cash used in investing activities	(238)	(125)
Net cash flows (used in) provided by operating and investing activities	(164)	45
Cash flows from financing activities:		
Proceeds from borrowings	226	53
Payments on borrowings	(8)	(26)
Net borrowings under short-term credit agreements	22	26
Repurchase of common stock	(16)	(30)
Dividend payments	(37)	(35)
Other	(1)	(11)
Net cash provided by (used in) financing activities	186	(23)
Effect of exchange rate changes on cash	(2)	-
Net change in cash and cash equivalents	20	22
Cash & cash equivalents at the beginning of year	74	38
Cash & cash equivalents at the end of quarter	\$ 94	\$ 60

CUMMINS ENGINE COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1. Accounting Policies: The Consolidated Financial Statements for the interim periods ended September 24, 2000 and September 26, 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	Third Quarter			Nine Months		
	Net Earnings	Weighted Average Shares	Per- Share Amount	Net Earnings	Weighted Average Shares	Per- Share Amount
2000						
Basic	\$ 25	38.2	\$ .66	\$128	38.2	\$ 3.36
Options	-	-		-	-	
Diluted	\$ 25	38.2	\$ .66	\$128	38.2	\$ 3.36
1999						
Basic	\$ 53	38.3	\$ 1.37	\$135	38.4	\$ 3.50
Options	-	.6		-	.4	
Diluted	\$ 53	38.9	\$ 1.35	\$135	38.8	\$ 3.48

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

Millions	Third Quarter Ended		Nine Months Ended	
	9/24/2000	9/26/1999	9/24/2000	9/26/1999
Net income	\$ 25	\$ 53	\$128	\$ 135
Unrealized (loss) gain on securities, net of tax	(1)	1	(1)	2
Translation loss, net of tax	(17)	(2)	(66)	(9)
Comprehensive income	\$ 7	\$ 52	\$ 61	\$ 128

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

Millions	Engine	Power Generation	Filtration And Other	Total

Third Quarter Ended Sept. 24, 2000

Net sales	\$ 962	\$ 334	\$ 276	\$1,572
Earnings before interest and income taxes	6	25	30	61
Net assets	1,213	576	866	2,655

Third Quarter Ended Sept. 26, 1999

Net sales	\$1,032	\$ 352	\$ 247	\$1,631
Earnings before interest and income taxes	45	15	31	91
Net assets	996	557	830	2,383

Nine Months Ended Sept. 24, 2000

Net sales	\$3,114	\$1,031	\$ 844	\$4,989
Earnings before interest and income taxes	76	78	95	249

Nine Months Ended Sept. 26, 1999

Net sales	\$3,127	\$ 908	\$ 768	\$4,803
Earnings before interest and income taxes	131	28	90	249

Reconciliation to Consolidated Financial Statements:

Millions	Third Quarter Ended		Nine Months Ended	
	9/24/2000	9/26/1999	9/24/2000	9/26/1999
Earnings before interest & income taxes for reportable segments	\$ 61	\$ 91	\$249	\$249
Interest expense	22	18	62	56
Income tax expense	9	19	48	54
Minority interest	5	1	11	4
Net earnings	\$ 25	\$ 53	\$128	\$135
Net assets for reportable segments	\$2,655	\$2,383		
Liabilities deducted in arriving at net assets	1,880	2,139		
Deferred tax assets not allocated to segments	320	334		
Debt-related costs not allocated to segments	19	22		
Total assets	\$4,874	\$4,878		

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. In the third quarter of 2000, the Company reversed excess accruals of \$7 million and recorded \$7 million of charges related to new actions committed to during the quarter. As of September 24, 2000, approximately \$100 million has been charged against the liabilities associated with restructuring actions. The Company has funded the 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 complete in early 2001.

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

\$ Millions	Original Provision	Charges			Reversal Of Excess	Q3 2000 Provision	Balance 9/24/00
		1998	1999	2000			

Restructuring of majority-owned operations:							
Workforce reductions	\$ 38	\$ (12)	\$ (14)	\$ (5)	\$ (4)	\$ 2	\$ 5
Asset impairment loss	22	-	(7)	(8)	(3)	3	7
Facility consolidations and other	17	(8)	(4)	(6)	-	2	1
	<u>77</u>	<u>(20)</u>	<u>(25)</u>	<u>(19)</u>	<u>(7)</u>	<u>7</u>	<u>13</u>
Restructuring of joint venture operations:							
Workforce reductions	11	-	(10)	-	-	-	1
Tax asset impairment loss	7	-	(7)	-	-	-	-
Facility and equipment-related costs	5	-	(5)	-	-	-	-
	<u>23</u>	<u>-</u>	<u>(22)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Inventory write-downs associated with restructuring actions	14	(5)	(9)	-	-	-	-
Total restructuring charges	114	(25)	(56)	(19)	(7)	7	14
EPA penalty	25	-	(8)	(9)	-	-	8
Total	<u>\$139</u>	<u>\$(25)</u>	<u>\$(64)</u>	<u>\$(28)</u>	<u>\$(7)</u>	<u>\$ 7</u>	<u>\$22</u>

CUMMINS ENGINE COMPANY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS,  
CASH FLOW AND FINANCIAL CONDITION

Overview

Net sales were \$1.57 billion in the third quarter of 2000, 4 percent lower than the third quarter of 1999. Earnings before interest and taxes in the third quarter of 2000 were \$61 million, or 3.9 percent of sales, compared to \$91 million, or 5.6 percent of sales, in the third quarter of 1999. Net earnings were \$25 million, or \$.66 per share, compared to \$53 million, or \$1.35 per share, in the third quarter of 1999. Net earnings for the first nine months of 2000 were \$128 million, or \$3.36 per share, compared to \$135 million, or \$3.48 per share, in the first nine months of 1999.

Results of Operations

Net Sales:

Revenues from sales of engines were 51 percent of the Company's net sales in the third quarter of 2000, with engine revenues 9 percent lower than third-quarter 1999 and unit shipments flat compared to the year-ago quarter. Revenue decreased due to lower heavy-duty engine sales, primarily in the North American heavy-duty truck market.

Unit Shipments	Third Quarter		Nine Months	
	2000	1999	2000	1999
Midrange Engines	79,000	68,400	247,000	218,700
Heavy-duty Engines	19,600	30,500	72,800	87,900
High-horsepower Engines	2,800	2,500	8,300	6,700
	<u>101,400</u>	<u>101,400</u>	<u>328,100</u>	<u>313,300</u>

Revenues from non-engine products, which were 49 percent of net sales in the third quarter of 2000, were 3 percent higher than the third quarter of 1999. The major increases included higher revenues from international distributors and parts sales, partially offset by a decrease in genset sales.

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

\$ Millions	Third Quarter		Nine Months	
	2000	1999	2000	1999
Automotive markets	\$ 693	\$ 792	\$2,279	\$2,372
Industrial markets	269	240	835	755
Engine Business	962	1,032	3,114	3,127
Power Generation Business	334	352	1,031	908
Filtration Business and Other	276	247	844	768
	\$1,572	\$1,631	\$4,989	\$4,803

In the third quarter of 2000, engine business revenues of \$962 million decreased 7 percent as compared to the third quarter of 1999, due primarily to a 49-percent decrease in shipments to the North American heavy-duty truck market.

Sales of \$693 million in the third quarter of 2000 for automotive markets were 13 percent lower than the third quarter of 1999. Heavy-duty truck revenues decreased 33 percent from the third quarter of 1999, due to the market decline in North America.

Medium-duty truck revenues were 4 percent higher than the third quarter of 1999 on a 2-percent increase in unit shipments. Unit shipments to North America declined 23 percent, while international shipments increased 23 percent, primarily in Brazil.

Revenues of the bus and light commercial vehicle market were 23 percent higher than the third quarter of 1999. In the third quarter of 2000, Cummins shipped 31,000 engines to DaimlerChrysler, 35 percent higher than the third-quarter 1999 level. Shipments to the bus and recreational vehicle market were 9 percent higher than the year-ago quarter, with a 31-percent increase in shipments to the North American bus market and a 77-percent increase in shipments for international bus markets, primarily in China, partially offset by a 31-percent decrease in units for the recreational vehicle market.

Sales to industrial markets were 12 percent higher than the third quarter of 1999, due to increased volume and a shift in product mix. Engine revenues for this market were up 16 percent on an 11-percent increase in units. Construction equipment business was 4 percent higher compared to third quarter 1999, and agricultural equipment demand increased 25 percent from the prior year's quarter. Sales to marine markets increased 12 percent from third quarter 1999, with the recovery of business in Southeast Asia. Mining market sales increased 35 percent as compared to the third quarter of 1999, reflecting higher high-horsepower engine volumes.

In the third quarter of 2000, sales for the Company's power generation business decreased 5 percent compared to third quarter 1999. Sales of the Company's generator sets were 6 percent below third quarter last year, and engine and alternator sales to generator set assemblers were down 5 percent from the third quarter of 1999. Generator set sales for the recreational vehicle and mobile markets in North America were down 6 percent compared to the year-ago quarter.

Filtration business and other sales were \$276 million in the third quarter of 2000, an increase of 12 percent from the third quarter of 1999. Sales of filtration products were up slightly compared to the year-ago level due to higher sales in North America. Sales of international company-owned distributors were at record levels in the third quarter and the Holset turbocharger business included in this segment also increased compared to the third quarter of 1999.

In total, international markets represented 44 percent of the Company's revenues in the third quarter of 2000, with increases in most of the international markets in which the Company participates. Sales to Europe and the CIS, representing 13 percent of the Company's sales in the third quarter of 2000, were 8 percent higher than the prior year's quarter. Business in Mexico, Brazil and Latin America represented 7 percent of sales in the third quarter of 2000, with revenues 13 percent above the year-ago levels. Asia and Australian markets, in total, representing 15 percent of sales in the third quarter of 2000, were 12 percent higher than the prior year's quarter. Sales to Canada, representing 6 percent of sales in the third quarter of 2000, were 13 percent lower than the third quarter of 1999 due to the decline in the heavy-duty truck market.

Gross Margin:

The Company's gross margin percentage was 19.7 percent in the third quarter of 2000, compared to 22.1 percent in the prior year's quarter. The decreased margin in 2000 was due primarily to lower volume, higher product coverage costs and lower cost absorption at the Company's heavy-duty engine plants. For the first nine months of 2000, gross margin percentage was 20.0 percent compared to 21.5 percent for the first nine months of 1999.

Operating Expenses:

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Selling and administrative expenses as a percent of sales were 12.4 percent in the third quarter of 2000, compared to 11.8 percent in the third quarter of 1999, with total spending increasing \$3 million. Research and engineering expenses declined from 4.1 percent of sales in the third quarter of 1999 to 3.9 percent in the third quarter of 2000.

The Company is continuing the restructuring plan implemented in the third quarter of 1998. During the third quarter of 2000, the Company reversed \$7 million in excess accruals and recorded \$7 million of charges related to new actions committed to during the quarter. The Company expects to complete the restructuring in early 2001.

The Company's income from joint ventures and alliances was \$3 million in the third quarter of 2000 as compared to losses of \$8 million in the third quarter of 1999, due to the termination of the Company's joint venture with Wartsila, which had losses of \$11 million in the third quarter of 1999.

Other:

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Interest expense was \$22 million in the third quarter of 2000, compared to \$18 million in the prior year's quarter, due to increased levels of borrowings. Other income was \$5 million in the third quarter of 2000 compared to expense of \$3 million in the third quarter of 1999, with the variance resulting primarily from interest income on tax refunds and from non-recurring transactions recorded in the prior year.

Provision for Income Taxes:

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In the third quarter, the estimated effective tax rate for 2000 was reduced to 25.5 percent for the year. The Company's tax rate for the third quarter was 23.6 percent to reflect the year-to-date adjustment to the lower 2000 effective tax rate. The effective tax rate was 26 percent for the third quarter of 1999 and 28 percent for the first nine months of 1999.

Cash Flow and Financial Condition

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Key elements of cash flows were:

\$ Millions	Nine Months	
	2000	1999
Net cash provided by operating activities	\$ 74	\$ 170
Net cash used in investing activities	(238)	(125)
Net cash provided by (used in) financing activities	186	(23)
Effect of exchange rate changes on cash	(2)	-
Net change in cash and cash equivalents	\$ 20	\$ 22

In the first nine months of 2000, net cash provided by operating activities was \$74 million, with the Company's net earnings and the non-cash effect of depreciation and amortization, reduced by increases in working capital. Net cash requirements for investing activities of \$238 million included capital expenditures of \$130 million in the first nine months of 2000, compared to capital expenditures of \$121 million in the first nine months of 1999. Net cash provided by financing activities was \$186 million in the first nine months of 2000. This included proceeds from increased borrowings, reduced by cash used for dividend payments and repurchases of the Company's stock.

FORWARD-LOOKING STATEMENTS

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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

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

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- (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 third quarter of 2000.

Signatures

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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

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

November 2, 2000

CUMMINS ENGINE COMPANY, INC.

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INDEX TO EXHIBITS

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