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CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

Unaudited

(Millions, Except per Share Amounts)

	Second Quarter		First Half	
	1994	1993	1994	1993
NET SALES	$1,204.9	$1,093.4	$2,304.1	$2,141.8
Cost of goods sold	907.2	832.8	1,735.8	1,630.2
GROSS PROFIT	297.7	260.6	568.3	511.6
Selling & administrative expenses	160.8	145.4	309.4	286.0
Research & engineering expenses	56.4	52.0	110.4	101.6
Interest expense	4.6	9.1	9.1	18.7
Other (income) expense, net	(.7)	(2.0)	(.7)	1.4
Earnings before income taxes	76.6	56.1	140.1	103.9
Provision for income taxes	10.4	7.9	19.3	14.6
NET EARNINGS	66.2	48.2	120.8	89.3
Preference stock dividends	-	2.0	-	4.1
EARNINGS AVAILABLE FOR COMMON SHARES	$ 66.2	$ 46.2	$ 120.8	$ 85.2
Primary earnings per common share	$ 1.58	$ 1.32	$ 2.94	$ 2.44
Fully diluted earnings per common share	1.58	1.25	2.94	2.32
Cash dividends declared per common share	1.25	.025	.25	.05

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Millions, Except per Share Amounts)

	7/3/94	12/31/93
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 150.1	$ 77.3
Receivables less allowances of $10.4 & $9.5	482.4	426.3
Inventories	508.9	440.2
Other current assets	136.3	127.9
	1,277.7	1,071.7
INVESTMENTS AND OTHER ASSETS	186.9	190.7
PROPERTY, PLANT & EQUIPMENT less accumulated depreciation of $1,263.1 & $1,222.3	977.3	958.2
INTANGIBLES, DEFERRED TAXES & DEFERRED CHARGES	169.5	170.0
TOTAL ASSETS	$2,611.4	$2,390.6
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Loans payable	$ 11.2	$ 13.4
Current maturities of long-term debt	32.5	32.6
Accounts payable	301.1	267.5
Other current liabilities	440.5	386.8
	785.3	700.3
LONG-TERM DEBT	188.4	189.6
OTHER LIABILITIES	687.7	679.6
SHAREHOLDERS' INVESTMENT:		
Convertible preference stock, no par value, .2 shares outstanding	-	112.2
Common stock, $2.50 par value, 43.7 & 40.6 shares issued	109.1	101.5
Additional contributed capital	923.0	822.8
Retained earnings	114.4	4.1
Common stock in treasury, at cost, 2.1 shares	(67.3)	(67.3)
Unearned ESOP compensation	(55.0)	(59.3)
Cumulative translation adjustments	(74.2)	(92.9)
	950.0	821.1
TOTAL LIABILITIES & SHAREHOLDERS' INVESTMENT	$2,611.4	$2,390.6

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited (Millions)

	First Half Ended 7/3/94	First Half Ended 7/3/93
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$120.8	$ 89.3
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization	62.0	63.8
Accounts receivable	(45.2)	(51.4)
Inventories	(60.3)	(20.6)
Accounts payable and accrued expenses	84.5	24.8
Other	8.6	3.3
Total adjustments	49.6	19.9
Net cash provided by operating activities	170.4	109.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment:		
Additions	(75.9)	(58.9)
Disposals	3.2	4.3
Investments in and advances to affiliates and unconsolidated companies	(6.4)	19.7
Acquisitions of new business activities	-	3.4
Net cash proceeds from the disposition of certain business activities	-	1.3
Net cash used in investing activities	(79.1)	(30.2)
NET CASH FLOWS FROM OPERATING & INVESTING ACTIVITIES	91.3	79.0

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	-	54.7
Payments on borrowings	(2.6)	(134.9)
Net borrowings under credit agreements	(2.7)	18.4
Dividend payments	(10.4)	(5.8)
Other	(4.6)	(5.8)
Net cash used for financing activities	(20.3)	(73.4)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1.8	.4
NET CHANGE IN CASH & CASH EQUIVALENTS	72.8	6.0
Cash & cash equivalents at beginning of year	77.3	54.2
CASH & CASH EQUIVALENTS AT END OF FIRST HALF	$150.1	$ 60.2

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

(Dollars in Millions, Unless Otherwise Stated)

NOTE 1. ACCOUNTING POLICIES: The Consolidated Financial Statements for the interim periods ended July 3, 1994 and July 4, 1993 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. In the first half of 1994 and 1993, the Company recognized approximately $25 and $22, respectively, related to a reduction in its valuation allowance for tax benefit carryforwards.

NOTE 3. PREFERENCE STOCK REDEMPTION: On January 24, 1994, the Company called for redemption, at a price of $51.05 per depositary share, plus accrued dividends, of its outstanding Convertible Exchangeable Preference Stock, which had a face value of $112.2 at December 31, 1993. Holders elected to convert their shares of preference stock into 2.9 million shares of common stock prior to the redemption date.

NOTE 4. EARNINGS PER COMMON SHARE: Primary earnings per share of common stock are computed by subtracting preference stock dividend requirements from net earnings and dividing that amount by the weighted average number of common shares outstanding during the period. The weighted average number of shares, which assumes the exercise of certain stock options granted to employees, was 41.7 million in the second quarter of 1994 and 41.1 million in the first half of 1994 and 34.9 million in both the second quarter and first half of 1993. Fully diluted earnings per share are computed by dividing net earnings by the weighted average number of shares assuming the exercise of stock options and conversion of debt and preference stock to common stock.

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

(Dollars in Millions, Unless Otherwise Stated)

OVERVIEW

Cummins continued to benefit from strong business conditions in most of its markets in the second quarter of 1994, which resulted in the highest quarterly sales and earnings in the Company's 75-year history. Net sales of $1.2 billion were 10 percent higher than in the second quarter of 1993. In the first half of 1994, the Company's net sales were $2.3 billion, compared to $2.1 billion in the first half of 1993.

The Company's net earnings were $66.2, or $1.58 per share, in the second quarter of 1994, compared to $48.2, or $1.32 per share, in the second quarter of 1993. For the first half of 1994, net earnings were $120.8, or $2.94 per share, compared to $89.3, or $2.44 per share, in the first half of 1993.

RESULTS OF OPERATIONS

The percentage relationships between net sales and other elements of the Company's Consolidated Statement of Earnings for the comparative reporting periods were:

	Second Quarter		First Half	
Percent of Net Sales	1994	1993	1994	1993
Net sales	100.0	100.0	100.0	100.0
Cost of goods sold	75.3	76.2	75.4	76.1
Gross profit	24.7	23.8	24.6	23.9
Selling and administrative expenses	13.3	13.3	13.4	13.3
Research and engineering expenses	4.7	4.8	4.8	4.7
Interest expense	.4	.8	.4	.9
Other (income) expense, net	(.1)	(.2)	-	.1
Earnings before income taxes	6.4	5.1	6.0	4.9
Provision for income taxes	.9	.7	.8	.7
Net earnings	5.5	4.4	5.2	4.2

Sales by Market

Sales for each of the Company's markets for the comparative reporting periods were:

	Second Quarter		First Half	
	1994	1993	1994	1993
Heavy-duty truck	$ 354	$ 336	$ 689	$ 660
Midrange truck	135	101	234	187
Power generation	268	237	497	450
Bus and light commercial vehicles	146	116	303	264
Industrial products	142	133	266	251
Government	15	27	30	55
Marine	21	21	38	38
Fleetguard, Holset and Cummins Electronics (a)	124	122	247	237
Net sales	$1,205	$1,093	$2,304	$2,142

(a) The second quarter and first half of 1993 included McCord's sales of $14.6 and $20.5, respectively.

Sales to the heavy-duty truck market in the second quarter and first half of 1994 were approximately 5 percent higher than the comparable periods of 1993. The increase in 1994 reflects the strength of the North American heavy-duty truck market, which is forecasted to produce at a record in excess of 200,000 units for the year. The Company continues to lead this market with a 35-percent year-to-date market share. Shipments of the Company's heavy-duty truck engines for international markets in the second quarter of 1994 also were higher than in the second quarter of 1993, as a result of improved market conditions in the United Kingdom.

Midrange truck engine sales in the second quarter of 1994 were 34 percent higher than in the second quarter of 1993 and 25 percent higher in the first half of 1994, compared to the first half of 1993. The increase in sales in 1994 was due to higher engine shipments in both North America and Europe.

Power generation sales in the second quarter of 1994 were $268, compared to $237 in the second quarter of 1993. The Company has benefited this year from strong demand in this market for industrial generator sets, particularly in the international markets, and for power units in recreational vehicles.

In the bus and light commercial vehicle market, the Company's sales were

$146 in the second quarter of 1994, compared to $116 million in the second quarter of 1993. The increase in sales during 1994 was due to sales of Cummins' midrange engines for light commercial vehicles in North America. Demand for the Company's midrange engines for these vehicles continued to be strong in the first half of 1994, with shipments up approximately 9 percent over the first half of 1993.

Sales to industrial markets increased approximately 6 percent in the second quarter and first half of 1994, compared to corresponding reporting periods of 1993. The increase in sales was due to improvements in both North American and international construction markets. Shipments for the agricultural market in North America also experienced modest gains in the second quarter of 1994, compared to the second quarter of 1993. The first half of the year traditionally is higher in these markets.

Engine shipments for all markets in the second quarter and first half of 1994 were 81,100 and 151,000, respectively, compared to 68,100 and 136,000 in the respective periods of 1993:

	Second Quarter		First Half	
	1994	1993	1994	1993
Midrange engines	52,600	43,100	97,600	87,400
Heavy-duty engines	25,900	22,700	48 900	44,300
High-horsepower engines	2,600	2,300	4,500	4,300
Total engine shipments	81,100	68,100	151,000	136,000

Sales of Fleetguard, Holset and Cummins Electronics were approximately 15 percent higher in both the second quarter and first half of 1994, compared to the same periods of 1993. The increase in sales of these subsidiaries during 1994 was due primarily to demand for the Company's filter products in international markets.

Gross Profit

In the second quarter of 1994, the Company's gross profit percentage was 24.7 percent of net sales, compared to 23.8 percent in the second quarter of 1993. In the first half of 1994, gross profit percentage was 24.6 percent of net sales, compared to 23.9 percent in the first half of 1993. The key factor contributing to the improved margin in 1994 was the increase in demand for the Company's products in all key domestic and international markets. The cost of product coverage programs was 2.5 percent of net sales in both the second quarter of 1994 and 1993. In the first half of 1994, the cost of product coverage programs was 2.6 percent of net sales, compared to 2.4 percent in the first half of 1993.

Operating Expenses

Selling and administrative expenses of $160.8 in the second quarter of 1994 and $309.4 in the first half of 1994 were $15.4 and $23.4 higher, respectively, than the corresponding periods of 1993. The increase in expenditures in 1994 was primarily attributable to variable operating expenses related to the higher sales volumes. The increase of $4.4 and $8.8 in research and engineering expenses in the second quarter and first half of 1994, compared to the respective periods of 1993, was due to continued expenditures for fuel systems and for ongoing product development.

Interest Expense

Interest expense of $4.6 in the second quarter of 1994 and $9.1 in the first half of 1994, compared to $9.1 and $18.7 in the respective periods of 1993. The decrease in interest expense in 1994 was due to the Company's early retirement and redemption of debt obligations during 1993.

Provision for Income Taxes

As disclosed in Note 2 to the Consolidated Financial Statements, the Company reduced its valuation allowance for tax benefit carryforwards approximately $25 in the first half of 1994 and $22 in the first half of 1993.

FINANCIAL CONDITION AND CASH FLOW

Key elements of the Consolidated Statement of Cash Flows were:

	First Half 1994	First Half 1993
Net cash provided by operating activities	$170.4	$109.2
Net cash used for investing activities	(79.1)	(30.2)
Net cash flows from operating and investing activities	91.3	79.0
Net cash used for financing activities	(20.3)	(73.4)
Effect of exchange rate changes on cash	1.8	.4
Net change in cash and cash equivalents	$ 72.8	$ 6.0

Cash reserves increased by $72.8 during the first half of 1994 to $150.1. During the first half of 1994, the Company generated cash flows from operating activities of $170.4, compared to $109.2 in the first half of 1993, due to improved earnings and net working capital requirements. Investing activities required net cash resources of $79.1 for capital expenditures and investments in and advances to affiliates and unconsolidated companies in the first half of 1994.

As more fully disclosed in Note 3 to the Consolidated Financial Statements, the Company called for redemption of its preference stock on January 24, 1994. In lieu of accepting the cash redemption price, holders elected to convert their shares of preference stock into common stock of the Company.

Total indebtedness (including the guaranteed notes of the ESOP Trust) was $232.1 at the end of the second quarter of 1994. The Company's debt-to-capital ratio was 19.6 percent at the end of the second quarter of 1994, compared to 22.3 percent at December 31, 1993.

On January 25, 1994, Moody's Investors Service upgraded the ratings of the senior debt of the Company to investment grade (from Ba1 to Baa2). Moody's stated that the action reflected the favorable intermediate-term outlook for the Company's sales and operating performance as a result of the Company's stronger and more diversified customer base, the expansion of its international presence and better cost controls.

PART II. OTHER INFORMATION

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

(a) See the Index to Exhibits on Page 12 for a list of exhibits filed herewith.

(b) The Company was not required to file a Form 8-K during the second quarter of 1994.

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/John McLachlan

John McLachlan
Vice President - Corporate Controller
(Chief Accounting Officer)

August 1, 1994

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES

INDEX TO EXHIBITS

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES

EXHIBIT 4(b)

FIRST AMENDMENT TO REVOLVING CREDIT AGREEMENT

FIRST AMENDMENT, dated as of March 31, 1994 (this "Amendment"), to the Credit Agreement dated as of June 4, 1993, among CUMMINS ENGINE COMPANY, INC., an Indiana corporation (the "Company"), the banks and other financial institutions listed in Schedule I thereto (the "Banks"), CHEMICAL BANK, a New York banking corporation, as administrative agent for the Banks, and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, a New York banking corporation, as co-agent for the Banks (the "Credit Agreement").

W I T N E S S E T H:

WHEREAS, the Company has requested, and upon this Amendment becoming effective, the Banks have agreed, that certain provisions of the Credit Agreement be amended to provide for the resignation of Chemical Bank ("Chemical") as Administrative Agent and the appointment of Morgan Guaranty Trust Company of New York ("Morgan") as successor Administrative Agent, in the manner hereinafter set forth:

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Defined Terms. Terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

2. Resignation of Administrative Agent, etc. Pursuant to the provisions of Article VIII of the Credit Agreement, effective on the Effective Date (as hereinafter defined):

    a) Chemical hereby resigns as Administrative Agent under the Credit Agreement and hereby notifies Morgan, the Banks and the Company thereof;

    b) The Banks hereby appoint Morgan as successor Administrative Agent under the Credit Agreement; and

    c) Morgan hereby accepts such appointment as successor Administrative Agent under the Credit Agreement.

3. Amendment of Credit Agreement. The Credit Agreement is hereby amended, effective on the Effective Date, as follows:

    a) All references in the Credit Agreement (including Exhibits) to the Administrative Agent shall be deemed to refer to Morgan in its capacity as successor Administrative Agent;

    b) All references in the Credit Agreement (including Exhibits) to Chemical in the capacity of Administrative Agent shall be deemed to be deleted;

    c) All references to Morgan in the capacity of Co-Agent, and to the term "Co-Agent", shall be deemed to be deleted;

    d) All references to the plural term "Agents" shall be deemed to refer instead to the singular term "Administrative Agent";

    e) The first sentence of Article VIII of the Credit Agreement shall be amended to give effect to the provisions of Section 2 of this Amendment;

    f) The last sentence of the first paragraph of Article VIII shall be deemed to be deleted; and

    g) Section 9.1 of the Credit Agreement ("Notices") is hereby amended by deleting paragraphs (b), (c) and (d) thereof and substituting in lieu thereof the following:

        "(b) if to the Administrative Agent, to it at 60 Wall Street, New York, New York 10260, Attention of Kit C. Wong, Associate (Telecopy No. 212-648-5336); and

(c) if to a Bank, to it at its address (or telecopy number) set forth in Schedule I."

4. Amendments to Promissory Notes. Each Competitive Note, dated June 4, 1993, and each Standby Note, dated June 4, 1993, is hereby amended, effective on the Effective Date, by deleting the words "at the office of Chemical Bank (the "Administrative Agent"), at 270 Park Avenue, New York, New York 10017" and by substituting, in lieu thereof, the words "at the office of Morgan Guaranty Trust Company of New York (the "Administrative Agent"), at 60 Wall Street, New York, New York 10260."

5. Conditions to Effectiveness. This Amendment shall become effective on the date the Company, Chemical, Morgan and the Required Banks shall have executed and delivered this Amendment (the "Effective Date").

6. General.

    a) No Other Amendment; Confirmation. Except as expressly amended, modified and supplemented hereby, the provisions of the Credit Agreement and the Notes shall remain in full force and effect.

    b) Governing Law; Counterparts. (i) This Amendment and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York. (ii) This amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

CUMMINS ENGINE COMPANY, INC.

by: /s/ Robert L. Fealy
~~~~~~~~~~~~~~~~~~~
Vice President - Treasurer

CHEMICAL BANK, in its capacities as a Bank and as resigning Administrative Agent

By: /s/ Rosemary Bradley
~~~~~~~~~~~~~~~~~~~~
Vice President

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, in its capacities as a Bank, as successor Administrative Agent and as former Co-Agent.

By: /s/ Kit C. Wong
~~~~~~~~~~~~~~~
Associate

THE CHASE MANHATTAN BANK, N.A.

By: /s/ George Hansen
~~~~~~~~~~~~~~~~~
Vice President

CONTINENTAL BANK, N.A.

By: /s/ Mike Healy
~~~~~~~~~~~~~~
Vice President

THE BANK OF NOVA SCOTIA

By: /s/ F.C.H. Ashby
~~~~~~~~~~~~~~~~
Senior Manager Loan Operations

THE NORTHERN TRUST COMPANY

By: /s/ W. Sullivan
~~~~~~~~~~~~~~~
~~~~~~~~~~~~~~~

Vice President

THE BANK OF NEW YORK

By: /s/ Bruce C. Miller
~~~~~~~~~~~~~~~~~~~
Vice President

NBD BANK, N.A.

By: /s/ William Sullivan
~~~~~~~~~~~~~~~~~~~~
Second Vice President

CITICORP USA, INC.

By: /s/ Robert G. Harrity
~~~~~~~~~~~~~~~~~~~~~
Vice President

BANK OF AMERICA NATIONAL
TRUST AND SAVINGS ASSOCIATION

By: /s/ Patricia DelGrande
~~~~~~~~~~~~~~~~~~~~~~
Vice President

CUMMINS ENGINE COMPANY, INC.

EXHIBIT 10(a)

TARGET BONUS PLAN

Adopted February 11, 1992

OBJECTIVES:

The Target Bonus Plan is designed to:

. Reinforce in the minds of Cummins management and other employees the financial objectives of the Corporation.

. Attain and maintain a leadership position for the Corporation in its method of compensating employees consistent with the relative size of the business, the industry in which the business competes and the relative performance of employees.

. Recognize the performance of the Corporation as a whole, maximizing the contributions of the Corporation's various businesses.

. Reward performance, both team and individual.

The Target Bonus Plan is an incentive plan providing compensation which varies with the financial results of the Corporation.

PHILOSOPHY:

Bonus payments will relate to the importance of the position in influencing Corporate performance, the performance of the Corporation in the fiscal quarter and the performance of the individual in that quarter. Bonus payments are to encourage and promote outstanding decisions and efforts by teams and individuals for the benefit of the Corporation. If the employee team involved in the Target Bonus Plan is successful in obtaining good profitability for the Corporation, they, as a group, should share in their success. The incentive of bonus payments encourages and rewards profitable performance.

DEFINITIONS:

1. "Base Salary" means the accumulated salary paid to the participant during the applicable Quarter (exclusive of allowances, incentive pay, reimbursed expenses, etc.) as determined in accordance with rules established by the Compensation Committee.

2. "Compensation Committee" means the Committee of the Board of Directors of the Corporation designated to review compensation of officers and directors.

3. "Corporation" means Cummins Engine Company, Inc.

4. "Participants" means the officers designated by the Compensation Committee and/or other employees as designated by the President or his designee.

5. "PBT" means the net income before interest expense of the Corporation for the quarter as calculated by the Corporate Accounting department.

6. "PBT ROS" means PBT divided by net sales of the Corporation for the quarter.

7. "Plan" means the Target Bonus Plan described herein.

8. "Plan Year" means the Corporation's fiscal year.

9. "Return on Equity (ROE)" means Profit After Tax divided by Average Net Worth.

10. "Average Net Worth" means the Net Worth of the Corporation as of January 1 of the Plan Year, plus Net Worth of the Corporation as of December 31 of that Plan Year, divided by two (2).

11. "Profit After Tax" means the Profit After Tax of the Corporation for the Plan Year as presented in quarterly or year-end statements prepared for communication with shareholders, and adjusted as deemed appropriate by the President for purposes of calibrating this Plan.

ELIGIBILITY:

Based on recommendations from management, the Compensation Committee will designate certain officers of the Corporation each year who shall be participants in the Plan, and shall designate the Target Bonus Percentage applicable to such Participants. The Compensation Committee, upon a recommendation from management, shall have the power to change the Target Bonus Percentage of a Participant or remove one or more Participants from the Plan.

Regarding employees other than officers, the Compensation Committee delegates authority as specified in the foregoing paragraph to the President of the Corporation.

TARGET BONUS PERCENTAGE:

Each Participant in the Plan shall be assigned a distinct Target Bonus Percentage by the Compensation Committee (if an Officer) or the President (if not an officer) based on the following criteria:

1. Scope and breadth of the Participant's position.

2. Opportunity for independent thought and action.

3. Effect on the Corporation's performance.

4. Structure of decision making.

5. Working relationships.

6. Level of incentive compensation prevailing in the industry in which the Corporation competes.

BONUS PAYOUT SCHEDULES:

Annually a Bonus Payout Schedule will be calculated and made available to Participants. The Bonus Payout Schedule will be calculated to provide PBT ROS which translate to the following levels of Return on Equity (ROE) for that Plan Year:

	Target ROE Equivalents	Payout Factor
	.07	.1
Target:	13.8	1.0
	19.2	2.0

The Target ROE levels and the equivalent PBT ROS Bonus Payout Schedule may be changed by the Compensation Committee.

The Target ROE Equivalents will be checked periodically to determine if they remain competitively appropriate.

TARGET BONUS:

A Target Bonus is obtained for each Participant by multiplying the Base Salary times the Target Bonus Percentage of the Participant. During each Plan Year, the Participant will be informed of his/her Target Bonus Percentage and Base Salary for purposes of the Plan for that Plan Year.

EARNED BONUS:

Corporate performance for each quarter in excess of the Target PBT ROS or performance less than the Target PBT ROS will result in an increased or diminished bonus, respectively, from the Target Bonus communicated to the Participant. Earned Bonus will be calculated by multiplying the Target Bonus Percentage times the Base Salary earned in the quarter times the Bonus Factor associated with the actual PBT ROS for that quarter as specified in the Bonus Payout Schedule in effect for that Plan Year.

EXTRAORDINARY CHARGES AND CREDITS:

For purposes of determining the Bonus Factor, the Corporate PBT will exclude certain extraordinary charges and credits which occur infrequently and are not a part of normal operating activities. Some examples of extraordinary charges and credits which would not have an effect on Corporate PBT in calculating Bonus Factor are:

- Gain or loss from disposal of principal operating location or investment;
- Cost of Early Retirement Incentive programs;
- One-tine, cumulative Accounting adjustments;
- Cost of plant closings and operation restructurings.

Some examples of items that are recurrent and normal elements of operating activities and WOULD BE included in Corporate PBT in calculating Bonus Factor are:

- Write-down or write-off of receivables, inventories, equipment leased to others or other intangible assets;
- Gains or losses from exchange or translation of foreign currencies, including those related to major devaluations or revaluations;
- Effects of a layoff of employees and benefits extended as part of a layoff;
- Adjustments of accruals on long-term contracts.

The President of the Corporation is authorized to make final determination of whether an extraordinary charge or credit is to be included in PBT for purposes of calculating the Bonus Factor, within the above guidelines.

ADJUSTMENT FOR INDIVIDUAL PERFORMANCE:

The Earned Bonus will be the bonus paid except in unusual circumstances where poor individual performance justifies a reduced bonus. Unusually outstanding, one-time performance may be rewarded outside of the Plan with monetary citation at the time the outstanding performance is made. These variances must be approved by the President of the Corporation.

OTHER ADJUSTMENTS:

A Participant during any quarter, as approved by the Compensation Committee (if an officer) or the President (if not an officer), will be eligible for an Earned Bonus that will be calculated on the basis of the amount of his/her Base Salary earned in that quarter and the Target Bonus Percentage in effect at the end of that quarter.

TERMINATION OF EMPLOYMENT:

During any quarter that a Participant's employment is voluntarily or involuntarily terminated, including termination due to death, disability or retirement, the amount of the Earned Bonus for that quarter will be paid to the Participant or his/her legal representative or estate, whichever is applicable, at the Bonus Distribution Date next following that quarter.

BONUS DISTRIBUTION DATE:

Any bonus earned pursuant to this Plan will be distributed as soon as practicable following the determination of PBT ROS. In general, the Bonus Distribution Date should be approximately six (6) weeks following the end of the quarter in which the bonus is earned.

AMENDMENT AND TERMINATION:

The Board of Directors may at any time amend, modify, alter or terminate this Plan.

MISCELLANEOUS:

There shall be no bonus pool or cumulative bonus pool. This Plan is based upon the number of Participants, the Target Bonus Percentages assigned and the number of Participants therein, the PBT ROS and the Bonus Factors assigned thereto and the Base Salaries of the Participants.

Nothing in this Plan shall be deemed to confer on any Participant the right to continue in the employ of the Corporation or affect the right of the Corporation to terminate the employment of any Participant with or without cause.

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES

EXHIBIT 10(c)

CUMMINS KEY EMPLOYEE STOCK INVESTMENT PLAN

AS AMENDED FEBRUARY 14, 1989

1. Objectives of Plan

This Cummins Key Employee Stock Investment Plan (herein called the Plan) is intended to encourage ownership of common stock of the Company by eligible key employees, including officers of the Company and its affiliates. Through the proprietary interests thus created, the Plan is expected to benefit the Company and its affiliates by attracting and retaining the best available executive talent.

2. Definitions

(a) Company: The term "Company", as used herein, means Cummins Engine Company, Inc., and any successor corporation, whether by merger, consolidation, purchase or otherwise, including the corporation issuing any shares distributed to all the holders of the common stock of the Company resulting from a sale of assets or similar transaction.

(b) Affiliate: The term "affiliate", as used herein, means any corporation controlling, controlled by or under common control with the Company. The term "control", as applied to a particular corporation, means the ownership of more than 50% of the issued and outstanding voting stock of such corporation, not including treasury shares.

(c) Committee: The term "Committee" means the Compensation Committee of the Board of Directors.

3. The Shares of Stock

Shares of the Company's common stock may be acquired by the Company, either in the open market or in private transactions, and sold under the Plan from time to time while the Plan is in effect. The amount that may be expended from time to time for the acquisition of shares for the Plan shall be determined by the Board of Directors; but the amount expended on any such acquisition, when added to the aggregate amount theretofore expended by the Company for purchases of shares for the Plan, less the aggregate amount (not including interest) theretofore received by the Company upon disposition of such shares, shall in no event exceed 4% of a figure derived by multiplying the number of shares then outstanding including treasury shares, by the price of such shares determined as set forth in paragraph 5 hereof as of the last business day preceding the date of such acquisition. The Plan will expire April 1, 1999 or earlier at the option of the Board of Directors. Upon expiration of the Plan no further shares shall be sold thereunder but the Plan will continue in effect for the purpose of collecting installments remaining due on shares theretofore sold.

4. Persons to Whom Shares of Stock may be Offered

Shares of stock may be offered under the Plan to such present or future officers and employees of the Company or of any of its affiliates as the Board of Directors may designate, and purchases by officers and employees pursuant to such offers shall be covered by separate purchase agreements entered into pursuant hereto. No member of the Committee, nor any person who is a director but not an officer of the Company or of an affiliate of the Company shall be eligible to participate in the Plan. The Board of Directors shall determine the number of shares to be offered to each individual under the Plan; provided, however, that, on the date of the execution and delivery of any such agreement with a purchaser and after giving effect to such agreement, the aggregate of the unpaid installments on all purchase agreements of such purchaser shall not exceed the annual salary then in effect for such purchaser. In determining the number of shares to be offered to an officer or employee, the

Board may take into account the nature of the services rendered by him, his present and potential contributions to the Company's success, the responsibility involved in his employment and such other factors as the Board shall deem relevant.

5. Price and Terms of Payment

The terms of payment for all shares sold under the Plan shall be those specified by the Board of Directors and set forth in the written agreement entered into with each purchaser, subject, however, to the limitations herein set forth. The price of all shares sold under the Plan shall be the closing price of the shares on the New York Stock Exchange on the last business day preceding the date of purchase (or, if there were no such sales on such day, the fair market value of such shares determined by the Board of Directors in any reasonable manner). Provision will be made for the payment of the purchase price for shares in installments; provided, however, that (a) the purchaser at his option may repay any or all such installments any time, (b) the provisions of the agreement of purchase shall be such as to comply with credit regulations, if any, then in effect and issued or enacted by governmental authority having jurisdiction, including Regulation G of the Board of Governors of the Federal Reserve System if such Regulation is then in effect, and (c) no more than ten years shall be allowed in which to complete payment for the shares purchased pursuant to each such agreement. Each agreement shall provide for interest at the rate of 4% per annum on unpaid installments or such higher or lower rate as the Board of Directors shall fix from time to time.

6. Delivery of Shares -- Title Thereto

Upon the making of a purchase hereunder, certificates for the shares of stock purchased will be delivered to the purchaser, who shall take title to such shares and be entitled to all voting rights with respect thereto and all cash dividends paid thereon. The certificates for such shares, together with a properly executed stock power, will be immediately deposited by the purchaser with the Company to be held by the Company as security for the payment of the installments of the purchase price, including interest. In the event of the payment by the Company of a stock dividend on any of its shares held as security pursuant to a purchase agreement hereunder, the pledge under such agreement shall extend to the shares issued in payment of such stock dividend. The purchaser shall promptly after the payment of any such stock dividend deliver to the Company the certificates representing the dividend shares, with a properly executed stock power. In the event that the shares held as security pursuant to a purchase agreement hereunder shall be changed or reclassified as a result of any charter amendment, recapitalization, reorganization, merger, consolidation, sale of assets or similar transaction, the changed or reclassified shares or other assets or both received as a result of such transaction shall be substituted for the shares pledged under such agreement, and the purchaser shall promptly deliver to the Company any certificates issued to represent the shares so changed or reclassified and any such other assets, together with a properly executed stock power. If there shall be issued to holders of shares held as security pursuant to purchase agreement hereunder, rights to subscribe for or purchase agreement hereunder, rights to subscribe for or purchase stock or other securities, such rights shall belong to the purchaser free from pledge. If at the time of a purchase pursuant to the Plan the Company does not have in effect under the Securities Act of 1933 a registration statement covering the shares purchased, the Company may, as a condition of accepting the purchase, require the purchaser to represent to the Company that he is purchasing the shares for investment and not with a view to resale or distribution. Upon completion of payment for such shares, including interest to the date of payment, and subject to any requirements necessary to comply with Regulation G or other applicable credit regulation, the purchaser shall be entitled to re-delivery from the Company of the certificates so pledged.

7. Sale of Shares After Purchase-Effect

In the event that, after a purchase of shares under the Plan, the purchaser sells any common stock of the Company, he shall not, for a period of six months following such sale, be entitled to make any additional purchase of shares under the Plan or make any borrowing under paragraph 11; provided, however, that the Committee may waive the provisions of this paragraph 7 in cases in which it determines that an unforeseen hardship necessitated the sale of such common stock by such purchaser.

8. Termination of Employment or Death of Employee

Upon the death of an employee or upon his ceasing to be an employee of the Company or an affiliate of the Company (not including a transfer of employment from the Company to an affiliate, from an affiliate to the Company or among affiliates), all remaining unpaid installments for the purchase of shares of stock under the Plan or of a loan under paragraph 11 hereof shall become immediately due and payable, with interest to the date of payment; provided, however, upon the death of an employee, the Committee in its discretion may permit such employee's estate, herein or personal representative to continue payment of such purchase price or of such loan in installments.

9. Amendment of Plan

The Board of Directors at any time may make such changes in the Plan, and in any agreements subsequently entered into thereunder, as it may deem necessary or advisable; provided, however, that no such amendment shall (i) increase the maximum amount that may be expended by the Company for shares for purposes of the Plan, (ii) reduce the price at which shares are to be sold to employees under the Plan, or (iii) extend the period for the completion of payment for shares purchased by employees under the Plan or of loans pursuant to paragraph 11 hereof. Neither the termination of the Plan nor any amendment thereof will affect any then existing purchase agreement or loan agreement entered into under paragraph 11 without the consent of the purchaser.

10. Effectiveness of the Plan

Subject to securing any necessary rulings of regulatory authorities having jurisdiction in the premises, the Plan shall become effective on the date when it is approved by the vote of the holders of a majority of the outstanding common stock of the Company voting at a meeting of stockholders. No employee or other person shall have any rights in or under the Plan except as expressly granted in an agreement entered into pursuant to the terms thereof.

11. Loans for Purchase of Common Stock of the Company

As an alternative to the sale of shares to key employees pursuant to the foregoing provisions of this Plan, the Company may make loans to such employees, to the extent permitted by law for the purpose of purchasing shares of the Company's common stock; provided, however, that (a) the unpaid balance of the aggregate principal amount of such loans shall be deducted from the amount that may be expended by the Company pursuant to paragraph 3 hereof, (b) the amount of each loan shall not be greater than the purchase price, determined as provided in paragraph 5 hereof, of the number of shares that might have been then offered to the key employee involved pursuant to the provisions of paragraph 4 hereof, (c) each such loan shall be payable in installments or in a single payment of principal with the last installment or single payment payable not later than ten years from the date of the making of the loan, and the other provisions of paragraph 5 hereof, regarding prepayment of principal, interest, and credit regulations, shall be applicable to such loan, and (d) the shares purchased by the employee shall be pledged with the Company as security for the repayment of such loan, in accordance with and subject to the provisions of paragraph 6.

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES

EXHIBIT 10(e)

DESCRIPTION OF FINANCIAL COUNSELING PROGRAM

The financial counseling program, initiated in 1975, is available to officers of the Company. Under this program a participant may receive personal financial, estate planning and tax planning advice from outside consultants. The amount of fees paid by the Company is included as income to the participant.

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES

EXHIBIT 11

SCHEDULE OF COMPUTATION OF PER SHARE EARNINGS
FOR THE SECOND QUARTER & FIRST HALF ENDED JULY 3, 1994 & JULY 4, 1993
(Millions, Except per Share Data)

	Second Quarter		First Half	
	Weighted Average Shares	Net Earnings	Weighted Average Shares	Net Earnings
1994				
Shares outstanding & earnings available for common stock shareholders	41.6	$66.2	40.9	$120.8
Options	.1	-	.2	-
Used in the determination of primary and fully diluted earnings per common share	41.7	$66.2	41.1	$120.8
Primary and fully diluted earnings per share		$1.58		$ 2.94
1993				
Shares outstanding & earnings available for common stock shareholders	34.7	$46.2	34.6	$ 85.2
Options	.2	-	.3	-
Used in the determination of primary earnings per common share	34.9	46.2	34.9	85.2
Liquid yield option notes	1.0	.8	1.0	1.7
Convertible preference stock	3.0	2.0	3.0	4.1
Other	-	(.4)	-	(.8)
Used in the determination of fully diluted earnings per common share	38.9	$48.6	38.9	$ 90.2
Earnings per share:				
Primary		$1.32		$ 2.44
Fully diluted		$1.25		$ 2.32