

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 October 1, 1995

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
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 October 1, 1995, the number of shares outstanding of the registrant's only class of common stock was 40.1 million.

TABLE OF CONTENTS

	Page No.

PART I. FINANCIAL INFORMATION	

Item 1. Financial Statements	
Consolidated Statement of Earnings for the Third Quarter and Nine Months Ended October 1, 1995 and October 2, 1994	3
Consolidated Statement of Financial Position at October 1, 1995 and December 31, 1994	4
Consolidated Statement of Cash Flows for the Nine Months Ended October 1, 1995 and October 2, 1994	5
Notes to Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Results of Operations, Cash Flow and Financial Condition	7

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K	11
Index to Exhibits	12

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF EARNINGS
FOR THE THIRD QUARTER AND NINE MONTHS ENDED
OCTOBER 1, 1995 AND OCTOBER 2, 1994

Unaudited

Millions, Except per Share Amounts	Third Quarter		Nine Months	
	1995	1994	1995	1994
Net sales	\$1,219	\$1,156	\$3,914	\$3,460
Cost of goods sold	943	861	2,955	2,597
Gross profit	276	295	959	863
Selling & administrative expenses	154	162	518	471
Research & engineering expenses	62	60	195	170
Interest expense	3	5	10	14
Other expense (income), net	2	(4)	4	(4)
Earnings before income taxes	55	72	232	212
Provision for income taxes	9	10	50	29
Net earnings	\$ 46	\$ 62	\$ 182	\$ 183
Earnings per share	\$ 1.14	\$ 1.48	\$ 4.47	\$ 4.43
Cash dividends declared per share	.25	.125	.75	.375

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

Millions, Except per Share Amounts	10/1/95	12/31/94
Assets		
Current assets:		
Cash and cash equivalents	\$ 77	\$ 147
Accounts and notes receivable	579	504
Inventories	569	515
Other current assets	138	132
	1,363	1,298
Investments and other assets	255	190
Property, plant and equipment less accumulated depreciation of \$1,351 & \$1,279	1,123	1,090
Intangibles, deferred taxes and deferred charges	137	128
Total assets	\$2,878	\$2,706
Liabilities and shareholders' investment		
Current liabilities:		
Loans payable	\$ 82	\$ 41
Current maturities of long-term debt	38	37
Accounts payable	296	322
Other current liabilities	504	440
	920	840
Long-term debt	148	155
Other liabilities	651	639
Shareholders' investment:		
Common stock, \$2.50 par value, 43.8 shares issued	109	109

Additional contributed capital	923	927
Retained earnings	384	232
Common stock in treasury, at cost, 3.7 & 2.2 shares	(135)	(72)
Unearned ESOP compensation	(51)	(55)
Cumulative translation adjustments	(71)	(69)
	<u>1,159</u>	<u>1,072</u>
Total liabilities & shareholders' investment	<u>\$2,878</u>	<u>\$2,706</u>

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited

Millions	Nine Months Ended 10/1/95	10/2/94
Cash flows from operating activities:		
Net earnings	\$ 182	\$ 183
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization	106	96
Accounts receivable	(74)	(59)
Inventories	(49)	(93)
Accounts payable and accrued expenses	31	97
Other	10	10
Total adjustments	<u>24</u>	<u>51</u>
Net cash provided by operating activities	<u>206</u>	<u>234</u>
Cash flows from investing activities:		
Property, plant and equipment:		
Additions	(130)	(131)
Disposals	3	5
Investments in and advances to affiliates and unconsolidated companies	(85)	(16)
Other	(1)	-
Net cash used for investing activities	<u>(213)</u>	<u>(142)</u>
Net cash flows from operating and investing activities	<u>(7)</u>	<u>92</u>
Cash flows from financing activities:		
Payments on borrowings	(8)	(8)
Net borrowings under credit agreements	42	24
Dividend payments	(30)	(16)
Repurchase of common stock	(69)	-
Other	1	(3)
Net cash used for financing activities	<u>(64)</u>	<u>(3)</u>
Effect of exchange rate changes on cash	1	2
Net change in cash and cash equivalents	<u>(70)</u>	<u>91</u>
Cash & cash equivalents at beginning of year	147	77
Cash & cash equivalents at the end of quarter	<u>\$ 77</u>	<u>\$ 168</u>

CUMMINS ENGINE COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1. Accounting Policies: The Consolidated Financial Statements for the interim periods ended October 1, 1995 and October 2, 1994 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 nine months of both 1995 and 1994, the Company recognized approximately \$31 million and \$32 million, respectively, related to a reduction in its valuation allowance for tax benefit carryforwards.

Note 3. Stock Repurchase Program: In October 1994, the Board of Directors authorized repurchase by the Company of up to 2,500,000 shares of its common stock. During the first nine months of 1995, the Company repurchased on the open market 1,575,400 shares at an aggregate purchase price of \$69 million, or average price of \$43.57 per share. The Company repurchased 103,100 shares at an aggregate purchase price of \$4 million, or average price of \$42.47 per share, in 1994.

Note 4. Earnings per Share: Earnings per share of common stock are computed by dividing net earnings by the weighted-average number of common shares outstanding during the period. The weighted-average number of shares, which includes the exercise of certain stock options granted to employees, was 40.4 million in the third quarter of 1995 and 40.8 million in the first nine months of 1995. The weighted-average number of shares was 41.7 million in the third quarter of 1994 and 41.3 million in the first nine months of 1994.

CUMMINS ENGINE COMPANY, INC.

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

OVERVIEW

The Company's net sales of \$1.2 billion in the third quarter of 1995 were \$63 million, or 5 percent, higher than the third quarter of 1994. In the first nine months of 1995, the Company's net sales were \$3.9 billion, compared to \$3.5 billion in the first nine months of 1994.

The Company shipped 256,900 engines in the first nine months of 1995, a 14-percent increase over the first nine months of 1994.

	Third Quarter		Nine Months	
	1995	1994	1995	1994
Midrange engines	49,000	46,900	167,500	144,500
Heavy-duty engines	25,000	24,500	82,400	73,400
High-horsepower engines	2,300	2,100	7,000	6,600
Total engine shipments	76,300	73,500	256,900	224,500

The Company's net earnings were \$46 million, or \$1.14 per share, in the third quarter of 1995, compared to \$62 million, or \$1.48 per share, in the third quarter of 1994. For the first nine months of 1995, net earnings were \$182 million, or \$4.47 per share, compared to \$183 million, or \$4.43 per share, in the first nine months of 1994.

Although sales exceeded the 1994 level, the Company's operating results were affected adversely by several factors, including increased product costs, higher discounting in the North American heavy-duty truck market, costs to close a facility in California and lower parts sales. The Company also experienced a reduction in sales of engines for North American heavy-duty trucks that is continuing into the fourth quarter. On October 30, the Company announced that it will take cost-reduction actions in the fourth quarter to improve long-term operating performance and respond to declining North American heavy-duty truck engine demand. The Company is evaluating the consolidation and disposal of certain assets and plans to reduce its worldwide work force by approximately 2,000 people. The Company expects to incur a charge in the fourth quarter for these actions. The amount of the charge will depend upon the specific decisions made by the Company.

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:

Percent of Net Sales	Third Quarter		Nine Months	
	1995	1994	1995	1994
Net sales	100.0	100.0	100.0	100.0
Cost of goods sold	77.4	74.5	75.5	75.1
Gross profit	22.6	25.5	24.5	24.9
Selling and administrative expenses	12.6	14.0	13.2	13.6
Research and engineering expenses	5.1	5.1	5.0	4.9
Interest expense	.2	.4	.3	.4
Other expense (income), net	.2	(.2)	.1	(.1)
Earnings before income taxes	4.5	6.2	5.9	6.1
Provision for income taxes	.7	.8	1.3	.8
Net earnings	3.8	5.4	4.6	5.3

Net Sales

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

Millions	Third Quarter		Nine Months	
	1995	1994	1995	1994
Heavy-duty truck	\$ 361	\$ 353	\$1,155	\$1,042
Midrange truck	143	134	446	365
Power generation	269	249	824	747
Bus and light commercial vehicles	139	138	502	440
Industrial products	141	121	471	388
Government	8	17	28	50
Marine	23	18	69	56
Fleetguard and Holset	135	126	419	372
Net sales	\$1,219	\$1,156	\$3,914	\$3,460

Heavy-duty truck engine sales of \$361 million in the third quarter and \$1.2 billion in the first nine months of 1995 were 2 percent and 11 percent higher than the respective periods of 1994. The increase in sales during 1995 was due to demand for engines for the North American heavy-duty truck market. Year-to-date, Cummins' share of the North American heavy-duty truck market was 35.4 percent. While this market is expected to have record sales in 1995, the Company experienced a decline in orders for engines late in the third quarter due to a downturn in the market, in addition to the traditional seasonal decline in sales. International engine shipments were significantly lower compared to the third quarter of 1994, primarily in Mexico, where engine sales have been at very low levels in 1995 due to economic conditions in that country.

Midrange truck engine sales of \$143 million in the third quarter and \$446 million in the first nine months of 1995 were 7 percent and 22 percent higher, respectively, than the comparable periods of 1994. Engine shipments to Ford, where Cummins is the exclusive diesel power for its medium-duty trucks, were 5 percent higher than the third quarter of 1994. Shipments for international markets, which represented approximately 30 percent of the Company's midrange truck engine sales, have been higher in 1995 due to demand in Europe and Brazil.

Sales to the power generation market represented approximately 20 percent of the Company's net sales. Sales of \$269 million to this market in the third quarter and \$824 million in the first nine months of 1995 were 8 percent and 10 percent higher than the respective periods of 1994. The increase in sales in 1995 was attributable to sales of Power Group International, a UK-based generator set assembler, which was acquired in the fourth quarter of 1994.

Sales for bus and light commercial vehicles were \$139 million in the third quarter of 1995, essentially level with the third quarter of 1994. In addition to the traditional seasonal decline for model year changeover, shipments for the Dodge Ram pickup truck were affected by the phasing out of production at Chrysler's Dodge City plant. In the first nine months of 1995, sales for this market were 14 percent higher than the prior year's level due to strong demand from Chrysler as well as engines for the North American bus market.

Sales to industrial markets, which traditionally are affected by a seasonal decline in the third quarter, were 17 percent higher, compared to the third quarter of 1994. The increase was due to strong sales in construction markets in North Asia and Europe and for North American agricultural customers. Sales in the first nine months of 1995 were \$471 million, 21 percent higher than the first nine months of 1994.

In the third quarter and first nine months of 1995, sales of Fleetguard and Holset were 7 percent and 13 percent higher, respectively, than the comparable periods of 1994. The increase in sales of these subsidiaries during 1995 was due primarily to demand in international markets.

Gross Profit

In the third quarter of 1995, the Company's gross profit percentage was 22.6 percent of net sales, compared to 25.5 percent in the third quarter of 1994. In the first nine months of 1995, the Company's gross profit percentage was 24.5 percent of net sales, compared to 24.9 percent in the first nine months of 1994.

The Company's gross profit was affected adversely by several factors, including increased product costs, higher discounting in the North American heavy-duty truck market, the lower level of parts sales in North America and a \$2 million charge to close a facility in California. The most significant factor contributing to the increase in product costs was the slowdown in the North American truck market late in the quarter, which resulted in lower overhead absorption. Product costs also were affected by material pricing pressures and higher technical spending. Product coverage expense was 2.6 percent of net sales in the third quarter of 1995, compared to 2.0 percent in 1994. In the third quarter of 1994, product coverage expense included a one-time favorable adjustment that did not occur in 1995. In the first nine months of 1995, product coverage expense was 2.5 percent of net sales, compared to 2.4 percent in the first nine months of 1994.

Operating Expenses

Selling and administrative expenses were \$154 million, 12.6 percent of net sales, in the third quarter of 1995, compared to \$162 million in the third quarter of 1994, due primarily to favorable accrual adjustments that will not recur. In the first nine months of 1995, selling and administrative expenses of \$518 million were 13.2 percent of net sales, compared to \$471 million, or 13.6 percent of net sales, in the first nine months of 1994. The increase in expenditures of \$47 million in 1995 was primarily attributable to variable operating expenses related to the higher sales volumes. Research and engineering expenses were approximately 5 percent of net sales in both the 1995 and 1994 reporting periods.

Interest and Other Income and Expense

Interest expense was \$3 million in the third quarter of 1995 and \$10 million in the first nine months of 1995, compared to \$5 million and \$14 million in the respective periods of 1994. Other income and expense includes foreign exchange gains and losses, interest income, earnings and losses of unconsolidated companies and royalty income. The increase in expense of \$8 million in 1995 was primarily due to technical spending and start-up costs of joint ventures.

Provision For Income Taxes

Income taxes of \$9 million in the third quarter of 1995 reflect an adjustment to reduce the annual effective tax rate to 21.5 percent for 1995. The Company had estimated 1995 taxes would be 23 percent. The adjustment to reduce tax expense to 21.5 percent for the first half of the year resulted in an effective tax rate of 16.4 percent for the third quarter. The Company also recognized approximately \$31 million in the first nine months of 1995 and \$32 million in the first nine months of 1994 related to a reduction in its valuation allowance for tax benefit carryforwards.

CASH FLOW AND FINANCIAL CONDITION

Key elements of the Consolidated Statement of Cash Flows were:

Millions	First Nine Months 1995	1994
Net cash provided by operating activities	\$206	\$234

Net cash used for investing activities	(213)	(142)
Net cash flows from operating and investing activities	(7)	92
Net cash used for financing activities	(64)	(3)
Effect of exchange rate changes on cash	1	2
Net change in cash and cash equivalents	<u>\$ (70)</u>	<u>\$ 91</u>

During the first nine months of 1995, the Company generated cash flows from operating activities of \$206 million, compared to \$234 million in the first nine months of 1994. A higher level of working capital was required in 1995 due to the increase in demand for the Company's products. Investing activities required net cash resources of \$213 million, including \$130 million for capital expenditures and \$85 million for investments in joint ventures and unconsolidated companies in the first nine months of 1995.

Total indebtedness (including the guaranteed notes of the ESOP Trust) was \$268 million at the end of the third quarter of 1995, including \$30 million outstanding under the Company's revolving credit agreement. The Company's debt-to-capital ratio was 19 percent at the end of the third quarter of 1995 and 18 percent at December 31, 1994. In March 1995, Standard & Poor's upgraded the ratings of the Company's senior debt to BBB+ from BBB. In June 1995, Moody's upgraded its rating of the Company's senior debt to Baa1 from Baa2.

As disclosed in Note 3 to the Consolidated Financial Statements, the Company repurchased on the open market 1,575,400 shares of its common stock at an average price of \$43.57 per share in the first nine months of 1995.

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 third quarter of 1995.

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)

November 6, 1995

CUMMINS ENGINE COMPANY, INC.

INDEX TO EXHIBITS

	Page No.
11	Schedule of Computation of Per Share Earnings for the Third Quarter and Nine Months Ended October 1, 1995 and October 2, 1994 (filed herewith) 13
27	Financial Data Schedule (filed herewith) 14

CUMMINS ENGINE COMPANY, INC.

EXHIBIT 11

SCHEDULE OF COMPUTATION OF PER SHARE EARNINGS
FOR THE THIRD QUARTER ENDED OCTOBER 1, 1995 AND OCTOBER 2, 1994

Millions, Except per Share Amounts	Third Quarter		Nine Months	
	Weighted Average Shares	Net Earnings	Weighted Average Shares	Net Earnings
1995				
Shares outstanding & net earnings	40.3	\$ 46	40.7	\$182
Options	.1	-	.1	-
Used in the determination of primary and fully diluted earnings per share	40.4	\$ 46	40.8	\$182
Primary and fully diluted earnings per share		\$1.14		\$4.47
1994				
Shares outstanding & net earnings	41.6	\$ 62	41.1	\$183
Options	.1	-	.2	-
Used in the determination of primary and fully diluted earnings per share	41.7	\$ 62	41.3	\$183
Primary and fully diluted earnings per share		\$1.48		\$4.43

<TABLE> <S> <C>

<ARTICLE> 5

<MULTIPLIER> 1,000,000

<S>

<C>

<PERIOD-TYPE>	9-MOS	
<FISCAL-YEAR-END>		DEC-31-1995
<PERIOD-END>		OCT-01-1995
<CASH>		77
<SECURITIES>		0
<RECEIVABLES>		582
<ALLOWANCES>		0
<INVENTORY>		569
<CURRENT-ASSETS>		1,363
<PP&E>		2,474
<DEPRECIATION>		1,351
<TOTAL-ASSETS>		2,878
<CURRENT-LIABILITIES>		920
<BONDS>		148
<COMMON>		109
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<OTHER-SE>		1,050
<TOTAL-LIABILITY-AND-EQUITY>		2,878
<SALES>		3,914
<TOTAL-REVENUES>		3,914
<CGS>		2,955
<TOTAL-COSTS>		713
<OTHER-EXPENSES>		0
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		10
<INCOME-PRETAX>		232
<INCOME-TAX>		50
<INCOME-CONTINUING>		182
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		182
<EPS-PRIMARY>		4.47
<EPS-DILUTED>		4.47

</TABLE>