

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

FORM 10-Q

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

CUMMINS ENGINE COMPANY, INC.  
\_\_\_\_\_

For the Quarter Ended March 31, 1996      Commission File Number 1-4949  
\_\_\_\_\_

Indiana

35-0257090

(State or Other Jurisdiction of  
Incorporation or Organization)

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

500 Jackson Street, Box 3005

\_\_\_\_\_

Columbus, Indiana

47202-3005

(Address of Principal Executive Offices)

(Zip Code)

812-377-5000

Registrant's Telephone Number

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

Yes   
No

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

As of March 31, 1996, the number of shares outstanding of the registrant's only class of common stock was 40.1 million.

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CUMMINS ENGINE COMPANY, INC.  
CONSOLIDATED STATEMENT OF EARNINGS  
Unaudited

Millions, Except per Share Amounts	First Quarter Ended	
	3/31/96	4/2/95
Net sales	\$1,316	\$1,334
Cost of goods sold	1,000	991
Gross profit	316	343
Selling & administrative expenses	180	183
Research & engineering expenses	62	66
Interest expense	4	4
Expense (income) from joint ventures & alliances	2	(1)
Other (income) expense, net	(3)	4
Earnings before income taxes	71	87
Provision for income taxes	22	20
Net earnings	\$ 49	\$ 67
Earnings per share	\$ 1.21	\$ 1.63
Cash dividends declared per share	.25	.25

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

Millions, Except per Share Amounts	3/31/96	12/31/95
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 153	\$ 60
Receivables	602	597
Inventories	542	513
Other current assets	219	218
	1,516	1,388
Investments and other assets	288	326
Property, plant & equipment less accumulated depreciation of \$1,327	1,134	1,148
Intangibles, deferred taxes & deferred charges	198	194
Total assets	\$3,136	\$3,056
<b>Liabilities and shareholders' investment</b>		
Current liabilities:		
Loans payable	\$ 29	\$ 60
Current maturities of long-term debt	38	42
Accounts payable	379	376
Other current liabilities	548	575
	994	1,053
Long-term debt	222	117
Other liabilities	710	703
Shareholders' investment:		
Common stock, \$2.50 par value, 43.9 shares issued	110	110
Additional contributed capital	926	926
Retained earnings	444	406
Common stock in treasury, at cost, 3.8 & 3.7 shares	(139)	(135)

Unearned ESOP compensation	( 46)	(51)
Cumulative translation adjustments	( 85)	(73)
	<u>1,210</u>	<u>1,183</u>
Total liabilities & shareholders' investment	<u>\$3,136</u>	<u>\$3,056</u>
	<u>          </u>	<u>          </u>

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

Millions	First Quarter Ended 3/31/96	4/2/95
Cash flows from operating activities:		
Net earnings	\$ 49	\$ 67
Adjustments to reconcile net earnings to net cash from operating activities:		
Payments on restructuring actions	(18)	-
Depreciation and amortization	38	35
Accounts receivable	(13)	(105)
Inventories	(35)	(32)
Accounts payable and accrued expenses	( 3)	60
Income taxes payable	13	4
Other	( 6)	9
Total adjustments	<u>( 24)</u>	<u>(29)</u>
Net cash provided by operating activities	<u>25</u>	<u>38</u>
Cash flows from investing activities:		
Property, plant and equipment:		
Additions	( 36)	(32)
Disposals	2	1
Investments in and advances from (to) joint ventures and alliances	26	( 4)
Disposition of business activities	6	-
Other	14	( 1)
Net cash provided from (used in) investing activities	<u>12</u>	<u>(36)</u>
Net cash flows from operating & investing activities	<u>37</u>	<u>2</u>
Cash flows from financing activities:		
Proceeds from borrowings	109	-
Payments on borrowings	( 7)	( 2)
Net borrowings under credit agreements	( 30)	( 2)
Payments of dividends	( 10)	(10)
Repurchases of common stock	( 4)	(37)
Other	( 1)	( 4)
Net cash provided from (used for) financing activities	<u>57</u>	<u>(55)</u>
Effect of exchange rate changes on cash	<u>(1)</u>	<u>1</u>
Net change in cash and cash equivalents	<u>93</u>	<u>(52)</u>
Cash & cash equivalents at beginning of the year	60	147
Cash & cash equivalents at the end of the quarter	<u>\$ 153</u>	<u>\$ 95</u>
	<u>          </u>	<u>          </u>

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

Note 1. Accounting Policies: The Consolidated Financial Statements for the interim periods ended March 31, 1996 and April 2, 1995 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 quarter of 1995, the Company recognized approximately \$11 million related to a reduction in its valuation allowance for tax benefit carryforwards.

Note 3. Common 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 quarter of 1996, the Company repurchased on the open market 96,100 shares at an aggregate purchase price of \$4 million, or average price of \$40.75 per share. The Company repurchased 1,575,400 shares at an aggregate purchase price of \$69 million, or average price of \$43.57 per share in 1995 and 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 40.3 million in the first quarter of 1996 and 41.3 million in the first quarter of 1995.

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

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OVERVIEW

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Sales of \$1.32 billion in the first quarter of 1996 were essentially level with net sales in the first quarter of 1995. Sales in the first quarter of 1996 reflected lower demand for heavy-duty truck engines, particularly in North America, that was offset by strong demand for the Company's midrange engines. The Company expects a further softening in the heavy-duty truck market in the second half of 1996 but anticipates that sales in other markets will help offset the decline in heavy-duty engines. Shipments by engine family for the comparative periods were:

Engine Shipments	First Quarter	
	1996	1995
Midrange engines	62,600	58,100
Heavy-duty engines	24,600	28,500
High-horsepower engines	2,000	2,300
Total	89,200	88,900

Net earnings were \$49 million, or \$1.21 per share, in the first quarter of 1996, compared to \$67 million, or \$1.63 per share, in the first quarter of 1995.

RESULTS OF OPERATIONS

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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	First Quarter	
	1996	1995
Net sales	100.0	100.0
Cost of goods sold	76.0	74.3
Gross profit	24.0	25.7
Selling and administrative expenses	13.7	13.7
Research and engineering expenses	4.7	4.9
Interest expense	.3	.3
Expense (income) from joint ventures & alliances	.1	(.1)
Other (income) expense, net	(.2)	.4

Earnings before income taxes	5.4	6.5
Provision for income taxes	1.7	1.5
Net earnings	<u>3.7</u>	<u>5.0</u>

#### Net Sales

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

	First Quarter 1996		First Quarter 1995	
	Dollars	Percent	Dollars	Percent
Heavy-duty truck	346	26	396	30
Midrange truck	163	12	144	11
Power generation	260	20	277	21
Bus & light commercial vehicles	202	15	183	13
Industrial products	174	13	169	13
Marine	32	3	21	1
Fleetguard and Holset	139	11	144	11
Net sales	<u>1,316</u>	<u>100</u>	<u>1,334</u>	<u>100</u>

First-quarter 1996 sales of \$346 million to the heavy-duty truck market were 13 percent lower than the first quarter of 1995, due to the reduced market size in North America.

Midrange truck engine sales of \$163 million in the first quarter of 1996 were 13 percent higher than the first quarter of 1995 due to shipments for North American markets. International markets were essentially level with the first quarter of 1995.

In the first quarter of 1996, power generation sales of \$260 million were 6 percent lower than the first quarter of 1995. Both recreational vehicle and alternator markets were strong in the first quarter of 1996, while sales of generator sets to industrial and power generation markets declined.

In the bus and light commercial vehicles market, sales of \$202 million in the first quarter of 1996 were 10 percent higher than the first quarter of 1995. The increase in sales in the first quarter of 1996 was due to higher shipments to Chrysler, which are expected to exceed the 1995 record. In the first quarter of 1996, engine shipments for bus markets were essentially level with the first quarter of 1995.

Sales of \$174 million to industrial markets in the first quarter of 1996 were 3 percent higher than first-quarter 1995, reflecting strong sales for construction equipment in North America. International sales in the first quarter of 1996 were essentially flat compared to the first quarter of 1995.

In the first quarter of 1996, sales of filtration products and turbochargers were \$139 million, 3 percent lower than the first quarter of 1995 due primarily to the softer demand in North American heavy-duty markets.

#### Gross Profit

The Company's gross profit percentage in the first quarter of 1996 was 24.0 percent of net sales compared to 25.7 percent in the first quarter of 1995. The reduction in gross margin in the first quarter of 1996 was due to several factors, the most significant of which was the decline in heavy-duty engine production that resulted in lower fixed cost absorption. Gross margin also was affected by expenses associated with the restructuring actions announced in the fourth quarter of 1995 and material cost increases. Depreciation expense in the first quarter of 1996 was \$3 million higher than first-quarter 1995, reflecting capital spending levels during the last two years to fund new products and fuel systems. Product coverage expense was 2.5 percent of sales in both first-quarter periods.

#### Operating Expenses

Selling and administrative expenses of \$180 million in the first quarter of 1996 were 13.7 percent of net sales, level with the first quarter of 1995 as a percent of net sales. Expenditures associated with the restructuring actions to relocate and consolidate operations

in the first quarter of 1996 offset a decrease in salaries and wages as a result of employee separations.

Research and engineering expenses were \$62 million in the first quarter of 1996, compared to \$66 million in the first quarter of 1995. The lower level of expenditures was primarily due to timing but also reflected a reduction in the number of employees and lower costs.

Expense of \$2 million from joint ventures and alliances primarily was associated with product development and start-up costs of the joint venture with Wartsila. The Company entered this joint venture in the second quarter of 1995.

#### Interest and Other Income and Expense

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Interest expense of \$4 million in the first quarter of 1996 was level with the first quarter of 1995. Other income and expense includes a variety of items, such as foreign currency exchange gains and losses, royalty and technical fees, interest income, and gains and losses associated with fixed asset dispositions. In the first quarter of 1996, income of \$3 million was due to technical fee income and proceeds from the sale of excess property.

#### Provision For Income Taxes

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Income tax expense is based upon the estimated annual effective tax rate for the taxable jurisdictions in which the Company operates. The estimated effective tax rate for 1996 is 31.5 percent. In the first quarter of 1995, the Company recognized approximately \$11 million related to a reduction in its valuation allowance for tax benefit carryforwards.

#### CASH FLOW AND FINANCIAL CONDITION

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Key elements of the Consolidated Statement of Cash Flows were:

Dollars in Millions	1996	1995
Net cash provided by operating activities	\$25	\$ 38
Net cash provided from (used in) investing activities	12	(36)
Net cash flows from operating and investing activities	37	2
Net cash provided from (used for) financing activities	57	(55)
Effect of exchange rate changes on cash	(1)	1
Net change in cash and cash equivalents	\$93	\$(52)

Cash increased \$93 million in the first quarter of 1996 to \$153 million. Capital expenditures of \$36 million in the first quarter of 1996 were slightly higher than the first quarter of 1995. The Company expects a significant increase in these expenditures during the remainder of 1996. Net cash from joint ventures and alliances of \$26 million in the first quarter of 1996 included \$39 million from Consolidated Diesel Company for repayment of a temporary advance.

Total indebtedness (including the guaranteed notes of the ESOP Trust) was \$289 million at the end of the first quarter of 1996, compared to \$219 million at December 31, 1995. The Company's debt-to-capital ratio was 19 percent at March 31, 1996 and 16 percent at December 31, 1995.

#### PART II. OTHER INFORMATION

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##### Item 1. Legal Proceedings

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On April 18, 1996, the United States District Court for the Southern District of Indiana entered an order preliminarily approving the settlement of Warkel v. Cummins Engine Company, et al., and setting a schedule for the procedural steps leading to a decision by the Court on final approval.

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

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The Company held its annual meeting of security holders on April 9,

1996 at which security holders: (a) elected 14 directors of the Company for the ensuing year and (b) ratified the appointment of Arthur Andersen LLP as auditors for the year 1996.

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

Voting on Directors:

	For	Withheld
H. Brown	34,258,919	1,861,626
K. R. Dabrowski	34,431,230	1,689,315
R. Darnall	34,467,220	1,653,325
W. Y. Elisha	34,462,725	1,657,820
H. H. Gray	34,438,600	1,681,945
J. A. Henderson	34,451,723	1,668,822
J. I. Miller	34,455,772	1,664,773
W. I. Miller	34,459,804	1,660,741
D. S. Perkins	34,458,426	1,662,119
W. D. Ruckelshaus	34,449,938	1,670,607
H. B. Schacht	34,283,196	1,837,349
T. M. Solso	34,441,938	1,678,607
F. A. Thomas	34,459,103	1,661,442
J. L. Wilson	34,466,625	1,653,920

Ratify Appointment of Auditors:

For	Against	Abstain
34,900,594	131,419	88,532

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

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

- (a) See the Index to Exhibits on Page 13 for a list of exhibits filed herewith.
- (b) The Company was not required to file a Form 8-K during the first quarter of 1996.

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

April 29, 1996

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

CUMMINS ENGINE COMPANY, INC.

INDEX TO EXHIBITS

- 11 Schedule of Computation of Per Share Earnings  
for the First Quarter ended March 31, 1996 and  
April 2, 1995 (filed herewith)
  
- 27 Financial Data Schedule (filed herewith)



CUMMINS ENGINE COMPANY, INC.  
EXHIBIT 11  
SCHEDULE OF COMPUTATION OF PER SHARE EARNINGS  
FOR THE FIRST QUARTER ENDED MARCH 31, 1996 and APRIL 2, 1995  
Unaudited

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Millions, Except per Share Amounts	Weighted Average Shares	Net Earnings	Calculated Per Share
<u>1996</u>			
Net earnings	40.2	\$49	\$1.21
Options	.1	-	
Primary and fully diluted earnings per common share	40.3	\$49	\$1.21
	—	—	
	—	—	
<u>1995</u>			
Net earnings	41.2	\$67	\$1.63
Options	.1	-	
Primary and fully diluted earnings per common share	41.3	\$67	\$1.63
	—	—	
	—	—	

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