

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 July 2, 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 July 2, 1995, the number of shares outstanding of the registrant's only class of common stock was 40.5 million.

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CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF EARNINGS
FOR THE SECOND QUARTER AND FIRST HALF ENDED JULY 2, 1995 AND JULY 3, 1994
Unaudited
(Millions, Except per Share Amounts)

	Second Quarter		First Half	
	1995	1994	1995	1994
NET SALES	\$1,361	\$1,205	\$2,695	\$2,304
Cost of goods sold	1,021	908	2,012	1,736
GROSS PROFIT	340	297	683	568
Selling & administrative expenses	181	160	364	309
Research & engineering expenses	67	56	133	110
Interest expense	3	5	7	9
Other (income) expense, net	(1)	-	2	-
Earnings before income taxes	90	76	177	140
Provision for income taxes	21	10	41	19
NET EARNINGS	\$ 69	\$ 66	\$ 136	\$ 121
Earnings per share	\$ 1.69	\$ 1.58	\$ 3.32	\$ 2.94
Cash dividends declared per share	.25	.125	.50	.25

CUMMINS ENGINE COMPANY, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Unaudited
(Millions, Except per Share Amounts)

	7/2/95	12/31/94
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 93	\$ 147
Receivables less allowances of \$11 & \$10	613	504
Inventories	580	515
Other current assets	131	132
	1,417	1,298
INVESTMENTS AND OTHER ASSETS	221	190

PROPERTY, PLANT & EQUIPMENT less accumulated depreciation of \$1,330 and \$1,279	1,113	1,090
INTANGIBLES, DEFERRED TAXES & DEFERRED CHARGES	128	128
TOTAL ASSETS	<u>\$2,879</u>	<u>\$2,706</u>
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Loans payable	\$ 25	\$ 41
Current maturities of long-term debt	37	37
Accounts payable	357	322
Other current liabilities	513	440
	<u>932</u>	<u>840</u>
LONG-TERM DEBT	<u>154</u>	<u>155</u>
OTHER LIABILITIES	<u>651</u>	<u>639</u>
SHAREHOLDERS' INVESTMENT:		
Common stock, \$2.50 par value, 43.8 shares issued	109	109
Additional contributed capital	923	927
Retained earnings	348	232
Common stock in treasury, at cost, 3.3 and 2.2 shares	(119)	(72)
Unearned ESOP compensation	(51)	(55)
Cumulative translation adjustments	(68)	(69)
	<u>1,142</u>	<u>1,072</u>
TOTAL LIABILITIES & SHAREHOLDERS' INVESTMENT	<u>\$2,879</u>	<u>\$2,706</u>

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

	First Half Ended	
	7/2/95	7/3/94
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$136	\$121
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization	70	62
Accounts receivable	(110)	(45)
Inventories	(60)	(60)
Accounts payable and accrued expenses	101	84
Income taxes payable	8	-
Other	19	9
Total adjustments	<u>28</u>	<u>50</u>
Net cash provided by operating activities	<u>164</u>	<u>171</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment:		
Additions	(84)	(76)
Disposals	2	3
Investments in and advances to affiliates and unconsolidated companies	(45)	(6)
Other	(1)	-
Net cash used in investing activities	<u>(128)</u>	<u>(79)</u>
NET CASH FLOWS FROM OPERATING & INVESTING ACTIVITIES	<u>36</u>	<u>92</u>

CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on borrowings	(3)	(3)
Net borrowings under credit agreements	(16)	(3)
Payments of dividends	(20)	(10)
Repurchases of common stock	(53)	-
Other	1	(5)
Net cash used for financing activities	(91)	(21)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1	2
NET CHANGE IN CASH & CASH EQUIVALENTS	(54)	73
Cash & cash equivalents at beginning of year	147	77
CASH & CASH EQUIVALENTS AT END OF FIRST HALF	\$ 93	\$150

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

NOTE 1. ACCOUNTING POLICIES: The Consolidated Financial Statements for the interim periods ended July 2, 1995 and July 3, 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 half of 1995 and 1994, the Company recognized approximately \$21 million and \$25 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 half of 1995, the Company repurchased on the open market 1,177,000 shares at an aggregate purchase price of \$53 million, or average price of \$44.86 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 40.8 million in the second quarter of 1995 and 41.0 million in the first half of 1995. The weighted-average number of shares was 41.7 million in the second quarter of 1994 and 41.1 million in the first half of 1994.

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

OVERVIEW

Cummins continued to benefit from strong demand in most markets in the second quarter of 1995, which resulted in record sales of \$1.4 billion, 13 percent higher than the second quarter of 1994. In the first half of 1995, the Company's net sales were \$2.7 billion, 17 percent higher than the first half of 1994.

The Company shipped 180,600 engines in the first half of 1995, a 20-percent increase over first-half 1994.

	Second Quarter		First Half	
	1995	1994	1995	1994
Midrange engines	60,400	52,600	118,500	97,600
Heavy-duty engines	28,900	25,900	57,300	48,900
High-horsepower engines	2,400	2,600	4,800	4,500
Total engine shipments	91,700	81,100	180,600	151,000

The Company also had record earnings before income taxes of \$90 million in the second quarter of 1995, \$14 million (18 percent) higher than the second quarter of 1994. The Company's net earnings were \$69 million, or \$1.69 per share, in the second quarter of 1995, compared to \$66 million, or \$1.58 per share, in the second quarter of 1994. For the first half of 1995, net earnings were \$136 million, or \$3.32 per share, compared to \$121 million, or \$2.94 per share, in the first half of 1994.

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	Second Quarter		First Half	
	1995	1994	1995	1994
Net sales	100.0	100.0	100.0	100.0
Cost of goods sold	75.0	75.3	74.7	75.3
Gross profit	25.0	24.7	25.3	24.7
Selling and administrative expenses	13.3	13.3	13.5	13.4
Research and engineering expenses	4.9	4.6	4.9	4.8
Interest expense	.2	.4	.3	.4
Other (income) expense, net	-	-	.1	-
Earnings before income taxes	6.6	6.4	6.5	6.1
Provision for income taxes	1.5	.9	1.5	.9
Net earnings	5.1	5.5	5.0	5.2

Net Sales

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

Millions	Second Quarter		First Half	
	1995	1994	1995	1994
Heavy-duty truck	\$ 398	\$ 354	\$ 794	\$ 689
Midrange truck	159	133	303	231
Power generation	278	268	555	498

Bus and light commercial vehicles	180	146	363	302
Industrial products	172	143	330	267
Marine	25	21	46	38
Government	9	16	20	33
Fleetguard, Holset and Cummins Electronics	140	124	284	246
Net sales	<u>\$1,361</u>	<u>\$1,205</u>	<u>\$2,695</u>	<u>\$2,304</u>

Heavy-duty truck engine sales of \$398 million in the second quarter and \$794 million in the first half of 1995 were 12 percent and 15 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 this market was above 35 percent. Demand was strong in other markets, with the exception of Mexico, where engine sales have been at very low levels in 1995 due to economic conditions in that country.

Midrange truck engine sales of \$159 million in the second quarter and \$303 million in the first half of 1995 were 20 percent and 31 percent higher, respectively, than the comparable periods of 1994. Engine shipments to Ford, where Cummins is the exclusive diesel power in its medium-duty trucks, were at record levels in the second quarter. Shipments for international markets, which represented approximately 30 percent of the Company's midrange truck engine sales, have been higher in the first half of 1995 due to increased demand in the United Kingdom and in Brazil.

Sales to the power generation market continued to represent 20 percent of the Company's net sales. Sales of \$278 million to this market in the second quarter and \$555 million in the first half of 1995 were 4 percent and 11 percent higher than the respective periods of 1994. The increase in sales in 1995 was due to sales of Power Group International, which was acquired at the beginning of the fourth quarter of 1994.

In the bus and light commercial vehicle market, the Company's sales of \$180 million in the second quarter of 1995, were 23 percent higher than second-quarter 1994. Engines for the Chrysler Dodge Ram pickup have been at record levels in the first half of 1995. Engine shipments for bus markets were 26 percent higher than the first-half 1994 level, primarily due to demand for transit buses worldwide.

Sales to industrial markets were 20 percent higher in the second quarter and 24 percent higher in the first half of 1995, compared to corresponding reporting periods of 1994. The increase in sales in 1995 was due to strong demand in worldwide construction markets and for US agricultural markets.

Sales of Fleetguard, Holset and Cummins Electronics were approximately 15 percent higher in the first half of 1995, compared to the first half of 1994. The increase in sales of these subsidiaries during 1995 was due primarily to demand for the Company's filter products and turbochargers in international markets.

Gross Profit

In the second quarter of 1995, the Company's gross profit percentage was 25.0 percent of net sales, compared to 24.7 percent in the second quarter of 1994. In the first half of 1995, the gross profit percentage was 25.3 percent of net sales, compared to 24.7 percent in the first half of 1994. The key factor contributing to the improved margin in 1995 was the increase in demand for the Company's products, which represented more than 60 percent of the increase in gross profit. Other factors included the effects of cost-improvement measures and the full-year effect of price increases subsequent to the first quarter of 1994. Product coverage expense was 2.5 percent of sales in the second quarter and first half of 1995, compared to 2.5 percent in the second quarter and 2.6 percent in the first half of 1994.

Operating Expenses

Selling and administrative expenses of \$181 million in the second quarter of 1995 and \$364 million in the first half of 1995 were \$21 million and \$55 million higher, respectively, than the corresponding periods of 1994. The increase in expenditures in 1995 was primarily attributable to expenses related to the higher sales volumes. Research and engineering expenses were 4.9 percent of net sales in the second quarter and first half of 1995, compared to 4.6 percent in the second quarter and 4.8 percent in the first half of 1994. The increase in the first half of 1995 was associated with investments in fuel systems and new products.

Interest and Other Income Expense

Interest expense in the second quarter and first half of 1995 was \$2 million lower than the comparable periods of 1994 due to the lower level of short-term borrowings. Other income and expense includes foreign exchange gains and losses, interest income, earnings and losses of unconsolidated companies and royalty income.

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 \$21 million in the first half of 1995 and \$25 million in the first half of 1994.

CASH FLOW AND FINANCIAL CONDITION

Key elements of the Consolidated Statement of Cash Flows were:

Millions	First Half	
	1995	1994
Net cash provided by operating activities	\$164	\$171
Net cash used for investing activities	(128)	(79)
Net cash flows from operating and investing activities	36	92
Net cash used for financing activities	(91)	(21)
Effect of exchange rate changes on cash	1	2
Net change in cash and cash equivalents	<u>\$ (54)</u>	<u>\$ 73</u>

During the first half of 1995, the Company generated cash flows from operating activities of \$164 million, compared to \$171 million in the first half 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 \$128 million for capital expenditures and investments in unconsolidated companies. Cash and cash equivalents at the end of the first half totaled \$93 million.

Total indebtedness (including the guaranteed notes of the ESOP Trust) was \$154 million at the end of the second quarter of 1995. The Company's debt-to-capital ratio was 16 percent at the end of the second quarter of 1995 and 18 percent at December 31, 1994. In March 1995, Standard & Poor upgraded the ratings of the Company's senior debt to BBB+ from BBB. In June 1995, Moody upgraded its rating of the Company's senior debt to Baa1 from Baa2.

As disclosed more fully in Note 3 to the Consolidated Financial Statements, the Company repurchased on the open market 1,177,000 shares of its common stock at an average price of \$44.86 per share in the first half of 1995.

Item 1. Legal Proceedings:

On July 18, 1995, the US District Court for the Southern District of Indiana granted plaintiff motion to certify Warkel, etal. v. Cummins Engine Company, Inc., etal., as a class action on behalf of persons who purchased the Company's common stock between May 1, 1989 and October 11, 1989. The Company believes the allegations are without merit and intends to defend the action vigorously.

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 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)

July 31, 1995

CUMMINS ENGINE COMPANY, INC.

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CUMMINS ENGINE COMPANY, INC.

EXHIBIT 11

SCHEDULE OF COMPUTATION OF PER SHARE EARNINGS
 FOR THE SECOND QUARTER & FIRST HALF ENDED JULY 2, 1995 & JULY 3, 1994
 (Millions, Except per Share Amounts)

	Second Quarter		First Half	
	Weighted Average Shares	Net Earnings	Weighted Average Shares	Net Earnings
1995				
Net earnings	40.7	\$ 69	41.0	\$136
Options	.1	-	-	-
Used in the determination of primary and fully diluted earnings per share	40.8	\$ 69	41.0	\$136
Primary and fully diluted earnings per share		\$1.69		\$3.32
1994				
Net earnings	41.6	\$ 66	40.9	\$121
Options	.1	-	.2	-
Used in the determination of primary and fully diluted earnings per share	41.7	\$ 66	41.1	\$121
Primary and fully diluted earnings per share		\$1.58		\$2.94

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