

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 April 2, 1995 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 April 2, 1995, the number of shares outstanding of the registrant's only class of common stock was 40.8 million.

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CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS
Unaudited
(Millions, Except per Share Amounts)

	First Quarter Ended	
	4/2/95	4/3/94
Net sales	\$1,334	\$1,099
Cost of goods sold	991	828
Gross profit	343	271
Selling & administrative expenses	183	149
Research & engineering expenses	66	54
Interest expense	4	4
Other expense	3	-
Earnings before income taxes	87	64
Provision for income taxes	20	9
Net earnings	\$ 67	\$ 55
Earnings per share	\$ 1.63	\$ 1.35
Cash dividends declared per share	.25	.125

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

	4/2/95	12/31/94
Assets		
Current assets:		
Cash and cash equivalents	\$ 95	\$ 147
Receivables less allowances of \$11 & \$10	612	504
Inventories	555	515
Other current assets	133	132
	1,395	1,298
Investments and other assets	184	190
Property, plant & equipment less accumulated depreciation of \$1,308 & \$1,279	1,102	1,090
Intangibles, deferred taxes & deferred charges	128	128

Total assets	\$2,809	\$2,706
Liabilities and shareholders' investment		
Current liabilities:		
Loans payable	\$ 40	\$ 41
Current maturities of long-term debt	37	37
Accounts payable	351	322
Other current liabilities	477	440
	905	840
Long-term debt	153	155
Other liabilities	648	639
Shareholders' investment:		
Common stock, \$2.50 par value, 43.8 shares issued	109	109
Additional contributed capital	924	927
Retained earnings	289	232
Common stock in treasury, at cost, 3.0 & 2.2 shares	(109)	(72)
Unearned ESOP compensation	(51)	(55)
Cumulative translation adjustments	(59)	(69)
	1,103	1,072
Total liabilities & shareholders' investment	\$2,809	\$2,706

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

	First Quarter Ended 4/2/95	4/3/94
Cash flows from operating activities:		
Net earnings	\$ 67	\$ 55
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization	35	29
Accounts receivable	(105)	(45)
Inventories	(32)	(44)
Accounts payable and accrued expenses	64	51
Other	9	7
Total adjustments	(29)	(2)
Net cash provided by operating activities	38	53
Cash flows from investing activities:		
Property, plant and equipment:		
Additions	(32)	(34)
Disposals	1	3
Investments in and advances to affiliates and unconsolidated companies	(5)	(16)
Net cash used in investing activities	(36)	(47)
Net cash flows from operating & investing activities	2	6
Cash flows from financing activities:		
Payments on borrowings	(2)	(2)
Net borrowings under credit agreements	(2)	24
Payments of dividends	(10)	(5)
Repurchases of common stock	(37)	-
Other	(4)	(5)
Net cash (used for) provided by		

financing activities	(55)	12
Effect of exchange rate changes on cash	<u>1</u>	<u>-</u>
Net change in cash & cash equivalents	(52)	18
Cash & cash equivalents at beginning of year	147	77
Cash & cash equivalents at end of quarter	<u>\$ 95</u>	<u>\$ 95</u>

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 April 2, 1995 and April 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 quarter of both 1995 and 1994, the Company recognized approximately \$11 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 2.5 million shares of its common stock. During the first quarter of 1995, the Company repurchased on the open market 850,900 shares at an aggregate purchase price of \$37, or average price of \$44.36 per share. The Company repurchased 103,100 shares at an aggregate purchase price of \$4, 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 41.3 million in the first quarter of 1995 and 40.3 million in the first quarter of 1994.

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 demand in most markets in the first quarter of 1995. The Company's record sales of \$1,334 in the first quarter of 1995 were 21 percent higher than the first quarter of 1994.

The Company shipped 88,900 engines in the first quarter of 1995, a 27-percent increase over first-quarter 1994:

	1995	1994
Midrange engines	58,100	45,000
Heavy-duty engines	28,500	23,000
High-horsepower engines	2,300	1,900
Total engine shipments	<u>88,900</u>	<u>69,900</u>

The Company also had record earnings before income taxes of \$87 in the first quarter of 1995. Net earnings were \$67, or \$1.63 per share, in the first quarter of 1995, compared to \$55, or \$1.35 per share, in the first quarter of 1994. The Company's effective tax rate increased to 23 percent in 1995 from 14 percent in 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	First Quarter	
	1995	1994
Net sales	100.0	100.0
Cost of goods sold	74.3	75.4
Gross profit	<u>25.7</u>	<u>24.6</u>
Selling and administrative expenses	13.7	13.5
Research and engineering expenses	4.9	4.9
Interest expense	.3	.4
Other expense	.3	-
Earnings before income taxes	<u>6.5</u>	<u>5.8</u>
Provision for income taxes	1.5	.8
Net earnings	<u>5.0</u>	<u>5.0</u>

Net Sales

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

	First Quarter 1995		First Quarter 1994	
	Dollars	Percent	Dollars	Percent
Heavy-duty truck	396	30	335	30
Midrange truck	144	11	98	9
Power generation	277	21	230	21
Bus & light commercial vehicles	183	13	156	14
Industrial products	158	12	124	11
Government	21	1	17	2
Marine	11	1	17	2
Fleetguard, Holset and Cummins Electronics	144	11	122	11
Net sales	<u>1,334</u>	<u>100</u>	<u>1,099</u>	<u>100</u>

Sales of \$396 to the heavy-duty truck market in the first quarter of 1995 were 18 percent higher than in the first quarter of 1994. This increase in sales was primarily attributable to demand for engines for the North American heavy-duty truck market. Cummins increased its share of this market to nearly 36 percent in the first quarter of 1995. Shipments of the Company's heavy-duty truck engines for international markets in the first quarter of 1995 were essentially level with the

first quarter of 1994. While the truck market in the United Kingdom continued to improve in the first quarter of 1995, demand for heavy-duty engines in Mexico was reduced significantly due to economic conditions in that country.

Midrange truck engine sales in the first quarter of 1995 were \$46 higher than in the first quarter of 1994. Engine shipments for the North American market increased significantly, with shipments to Ford 42 percent higher than the first-quarter 1994. Shipments for international markets, which represented approximately 30 percent of the Company's midrange truck engine sales, also were higher due to increased demand in the United Kingdom and in Brazil.

Power generation sales of \$277 were \$47 higher in the first quarter of 1995, up 20 percent over first-quarter 1994. Sales to this market represented 21 percent of the Company's net sales. The increase in the first quarter of 1995 was due to sales of Power Group International, which was acquired at the beginning of the fourth quarter of 1994, and as a result of increased sales of industrial gensets.

In the bus and light commercial vehicles market, the Company's sales of \$183 were 17 percent higher than first-quarter 1994. Engines for the Chrysler Dodge Ram pickup were at record levels in the first quarter of 1995, 17 percent higher than in the first quarter of 1994. Engine shipments for bus markets were 35 percent higher than year-ago levels, primarily for transit buses in the United States.

Sales of \$158 for industrial products were \$34 higher, with engine shipments up 27 percent. Industrial product sales continue to be strong worldwide, particularly for construction applications.

Fleetguard, Holset and Cummins Electronics represented 11 percent of the Company's net sales. In the first quarter of 1995, sales of filters, turbochargers and electronic controls were 18 percent higher than in the first quarter of 1994.

Gross Profit

The Company's gross profit percentage was 25.7 percent in the first quarter of 1995, compared to 24.6 percent in the first quarter of 1994. The key factor contributing to the improved margin was the increase in demand for the Company's products, which represented over 70 percent of the increase in gross profit. Other factors included the effects of cost-improvement measures to improve production systems and throughput and the full-year effect of price increases subsequent to the first quarter of 1994. Product coverage was 2.5 percent of sales, compared to 2.7 percent of sales in the first quarter of 1994.

Operating Expenses

Selling and administrative expenses were \$183, or 13.7 percent of net sales, in the first quarter of 1995, compared to \$149, or 13.5 percent of net sales, in the first quarter of 1994. Research and engineering expenses were 4.9 percent of net sales in both first-quarter periods.

Interest and Other Expenses

Interest expense of \$4 in the first quarter of 1995 was level with the first quarter of 1994. Other expense includes a variety of items, such as foreign exchange gains and losses, interest income, earnings and losses of unconsolidated companies and royalty income. In the first quarter of 1995, expense of \$3 was due to foreign exchange translation and unconsolidated companies.

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 \$11 in both first-quarter reporting periods.

CASH FLOW AND FINANCIAL CONDITION

Key elements of the Consolidated Statement of Cash Flows were:

	1995	1994
Net cash provided by operating activities	\$ 38	\$ 53
Net cash used in investing activities	(36)	(47)
Net cash flows from operating and investing activities	2	6
Net cash (used for) provided by financing activities	(55)	12
Effect of exchange rate changes on cash	1	-
Net change in cash and cash equivalents	\$(52)	\$ 18

During the first quarter of 1995, the Company generated cash flows from operating activities of \$38, compared to \$53 in the first quarter of 1994. A higher level of working capital in the first quarter of 1995 was required due to the increase in demand for the Company's products. Investing activities required net cash resources of \$36, primarily for capital expenditures. Cash and cash equivalents totaled \$95 at the end of the first quarter of 1995.

Total indebtedness (including the guaranteed notes of the ESOP Trust) was \$230 at the end of the first quarter of 1995. The Company's debt-to-capital ratio was 17 percent at the end of the first quarter 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.

As disclosed more fully in Note 3 to the Consolidated Financial Statements, the Company repurchased on the open market 850,900 shares of its common stock at an average price of \$44.36 per share in the first quarter of 1995.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On April 4, 1995, the U.S. Court of Appeals for the Seventh Circuit affirmed in part, reversed in part, and remanded in part the decision of the U.S. District Court for the Southern District of Indiana to dismiss all the claims of the Plaintiff Stransky with prejudice. The Company believes the allegations are without merit and intends to defend the action vigorously.

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

The Company held its annual meeting of security holders on April 4, 1995 at which security holders: (a) elected 15 directors of the Company for the ensuing year, (b) ratified the appointment of Arthur Andersen LLP as auditors for the year 1995, (c) approved the Cummins Engine Company, Inc. Senior Executive Bonus Plan and (d) approved the Cummins Engine Company, Inc. Senior Executive Three Year Performance Plan.

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

Voting on Directors:

	For	Withheld
H. Brown	35,444,276	527,747
K. R. Dabrowski	35,637,811	334,212
R. Darnall	35,645,302	326,721
W. Y. Elisha	35,641,166	330,857

H. H. Gray	35,638,040	333,983
J. A. Henderson	35,644,768	327,255
D. G. Mead	34,981,818	990,205
J. I. Miller	35,641,643	330,380
W. I. Miller	35,645,026	326,997
D. S. Perkins	35,644,857	327,166
W. D. Ruckelshaus	35,639,254	332,769
H. B. Schacht	35,640,874	331,149
T. M. Solso	35,649,097	322,926
F. A. Thomas	35,638,367	333,656
J. L. Wilson	35,641,173	330,850

Ratify Appointment of Auditors:

For	Against	Abstain
<u>35,699,840</u>	<u>125,209</u>	<u>146,974</u>

Senior Executive Bonus Plan:

For	Against	Abstain
<u>32,361,993</u>	<u>3,254,682</u>	<u>355,348</u>

Senior Executive Three Year Performance Plan:

For	Against	Abstain
<u>33,621,459</u>	<u>1,991,569</u>	<u>358,995</u>

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 all proposals (except the election of directors) were counted as present for purposes of determining the existence of a quorum regarding the item on which the abstention was voted. Abstentions on the adoption of the Senior Executive Bonus Plan and the Senior Executive Three Year Performance Plan (the "Plans") were treated as negative votes. Under the rules of the New York Stock Exchange, brokers who held shares in street name 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 and the adoption of the Plans. Under applicable Indiana law, a broker non-vote had no effect on the outcome of the election of directors or the approval of the Plans.

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 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.

By: /s/John McLachlan

May 9, 1995

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

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES

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CUMMINS ENGINE COMPANY, INC.

EXHIBIT 10(j)

PERFORMANCE SHARE PLAN

Effective as of December 8, 1987

Amended as of January 12, 1989

1. Purpose and Effective Date.

The Performance Share Plan (the "Plan") of the Cummins Engine Company, Inc., and its subsidiaries is a long-term incentive compensation plan designed to enhance and reinforce the Company's goals of profitable growth by providing key employees with additional incentive and reward opportunity based on attainment of such profitability in a manner analogous to that of owners of a closely-held corporation. A further purpose of the Plan is to aid in retaining a management group capable of assuring the Company's success during the next several years. To achieve these purposes, the Plan provides for awards of rights to common stock of the Company that may be earned over a future period. The Plan is effective as of December 8, 1987, and no Share Rights can be awarded under the Plan after December 31, 1993.

2. Definitions.

- (a) "Change in Control" means the occurrence of any of the following: (i) there shall be consummated (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted in whole or in part into cash, other securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (B) any sale, lease, exchange or transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company, or (ii) the stockholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company, or (iii) any "person" (as such term is used in Section 13 (d) (3) and 14 (d) (2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than the Company or a subsidiary thereof or any employee benefit plan sponsored by the Company or a subsidiary thereof or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, shall become the beneficial owners (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors ("Voting Shares"), as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, or (iv) at any time during a period of two consecutive years, individuals who, at the beginning of such period constituted the Board of Directors of the Company, shall cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's stockholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period, or (v) any other event shall occur that would be required to be reported in response to Item

6(e) (or any successor provision) of Schedule 14A of Regulation 14A promulgated under the Exchange Act.

- (b) "Committee" means the Compensation Committee of the Board of Directors of the Company referred to in paragraph 10 of the Plan.
- (c) "Common Stock" means the common shares of the Company.
- (d) "Company" means Cummins Engine Company, Inc., and any successor corporation, whether by merger, consolidation, purchase or otherwise.
- (e) "Deferred Shares" means shares of Common Stock for which distribution from the Plan is deferred beyond the calendar year next following the Performance Year in which they are earned, the credits for which remain subject to forfeiture pursuant to paragraph 11 until distributed. All other shares earned under the Plan are "Current Shares".
- (f) "Participant" means an individual to whom an award of Share Rights has been made.
- (g) "Payment Schedule" means the schedule of Payment Years established by the Committee in accordance with paragraph 6.
- (h) "Payment Year" means a calendar year during which shares of Common Stock earned under the Plan are distributed pursuant to paragraphs 5 and 6.
- (i) "Performance Year" means each calendar year established by the Committee for measuring the Company's financial performance for purposes of the Plan.
- (j) "Share Rights" means the rights awarded to earn shares of Common Stock pursuant to the terms of the Plan.

3. Stock Subject to the Plan.

An aggregate of 500,000 shares of Common Stock are reserved for issuance upon the payment of Current and Deferred Shares earned from Share Rights awarded under the Plan. Such shares may be authorized and unissued shares of Common Stock or previously outstanding shares of Common Stock then held in the Company's treasury. If any Share Rights or credited Deferred Shares are forfeited for any reason under the Plan, the forfeited shares will return to the pool of shares and again be available for all purposes of the Plan.

4. Eligibility.

Share Rights may be awarded only to key employees (which term shall be deemed to include officers) of the Company and of its subsidiary corporations as defined in Section 425 of the Internal Revenue Code of 1986. Any such employee may be awarded one or more Share Rights and at one or more times, all as the Committee shall determine, and such determination may be different as to different Participants. Notwithstanding the foregoing, a Director of the Company or of a subsidiary, who is not also an employee of the Company or of a subsidiary, will not be eligible to receive any Share Rights.

5. Payment of Share Rights.

The Committee shall establish performance measures prior to the commencement of each Performance Year. Such performance measure shall be based upon the Company's return on shareholder equity or such other factors as the Committee shall determine and shall be defined in such manner as the Committee shall deem appropriate. If, during any Performance Year, the Committee should conclude that accounting rules or business conditions or operations have changed in a manner which the Committee did not foresee in

establishing the performance measures for such Performance Year, the Committee may revise the Payment Schedule and the performance measure for such Performance Year in such manner as the Committee, in its sole judgment, may deem appropriate.

Following the completion of each Performance Year, the percentage of the Share Rights which have been earned shall be determined for such Performance Year, and the shares of Common Stock so earned (based on one share for each Share Right) shall be distributed as Current Shares or credited by the Company as Deferred Shares on behalf of the Participants pending their distribution pursuant to paragraph 6. Current Shares shall be distributed during the Payment Year immediately following the Performance Year in which they are earned, unless the Committee shall, in its sole judgment, determine otherwise. The Committee shall determine, at the time it awards any Share Rights, whether they shall result in the Participant being entitled to receive Current Shares or Deferred Shares, and such determination may be different as to different Participants.

6. Distribution of Deferred Shares.

Deferred Shares earned under the Plan shall be distributed to Participants once during each Payment Year. The number and timing of Payment Years and the number of shares distributed during any Payment Year shall be based on a Payment Schedule established by the Committee. The Payment Schedule may be different with respect to different Share Rights awarded. In any case, the Committee shall have the authority, if it deems appropriate, to defer or delay any distribution of Deferred Shares.

Prior to their distribution, Deferred Shares earned by a Participant shall be credited by the Committee to the Participant's account in the Plan's records (on the basis of one credit for each Deferred Share earned), provided, however, that a certificate for such Deferred Shares will not be issued or registered in the name of such Participant until their Payment Year or earlier distribution under the Plan, and the credits shall not constitute or be treated as property of any kind.

A Participant with Deferred Share credits shall be entitled to receive dividend equivalents from the Company for each credit equal in value to the cash dividends, if any, paid per share on issues and outstanding shares of Common Stock, as of the dividend record dates occurring during the period between the date credited and date of distribution. Unless otherwise determined by the Committee, such amounts will be accrued and paid in cash on or about December 15 of each year.

Distribution of Current Shares and crediting of Deferred Shares will occur as soon as practicable following certification by the Company's outside auditors of the financial statements of the Company for the Performance Year for which the distribution or crediting is based.

7. Adjustment Upon Changes in Capitalization.

In the event of any change in the Company's outstanding Common Stock by reason of stock dividends, stock splits, recapitalizations, mergers, consolidations, combinations or exchanges of shares, split-ups, spin-offs, or consolidations, combinations or exchanges of shares, split-ups, spin-offs, or other changes in capitalization, or any distributions to common shareholders other than cash dividends, the Committee shall make such adjustments as it deems appropriate and equitable in the number of Share Rights, credited Deferred Shares and performance measures, and the maximum number of shares of Common Stock that may be issued under the Plan, provided that the same adjustments shall be made with respect to all Participants similarly situated. The Committee's determination as to any such adjustments shall be final and conclusive. Any new or additional or different shares, other securities or credits resulting from

any adjustment of such shares shall be subject to the same terms, conditions and restrictions as the Share Rights and credited Deferred Shares prior to such adjustment.

8. Term-Certain Conversion and Distribution.

In the event that any Share Rights granted to a Participant are not earned upon completion of all applicable Performance Years, such Rights shall be automatically converted, without limitation, to shares of Common Stock on December 31, 2006 on the basis of one share of Common Stock for each Share Right. Automatic conversion shall occur even if the Participant is not an employee of the Company or a subsidiary on such date due to retirement, death, disability or termination without cause. Distribution of such share of Common Stock to each such Participant shall be made as soon as practicable after January 1, 2007.

9. Change in Control Conversion and Distribution.

In the event of a Change in Control of the Company, the provisions of paragraph 5, 6, 8 and 11 shall not apply. All Share Rights previously awarded each Participant which have not been earned, and all Deferred Shares earned during any Performance Year but not yet distributed according to the Payment Schedule, shall be, in the case of such Share Rights, deemed to have been earned in full on the date of such Change in Control, and the value of all shares so earned and the value of all Deferred Shares (including undistributed dividend equivalents, if any) credited to Participant Accounts on or before such date shall be distributed in cash to the Participants. The cash value of each Share Right and Deferred Share so distributed shall be equal to the greater of (i) the highest reported closing price of a share of Common Stock on the NYSE Composite Tape at any time during the period beginning on the 60th day prior to the date of the Change in Control and ending on the date of such Change in Control or (ii) the highest gross price (before brokerage commissions and soliciting dealers' fees) paid or to be paid for a share of Common Stock in any transaction associated or series of transactions associated with the Change in Control (whether by way of exchange, conversion, distribution upon liquidation or otherwise). For purposes of (ii) above, if the consideration paid consists, in whole or part, of consideration other than cash, the Committee shall take such action, as in its judgment it deems appropriate, to establish the cash value of such consideration.

10. Administration.

The Plan shall be administered by the Compensation Committee of the Board of Directors of the Company, consisting of at least three members, each of whom shall be (and within the twelve-month period preceding his or her appointment as a member of the Committee shall have been) ineligible to participate in the Plan or in any similar plan of the Company or its affiliates. The Board may from time to time appoint members of the Committee in substitution for or in addition to members previously appointed, may fill vacancies in the Committee and may discharge the Committee. The Committee shall select one of its members as its chairman and shall hold its meetings at such times and places as it shall deem advisable. A majority of its members shall constitute a quorum and all determinations shall be made by a majority of its members. Any determination reduced to writing and signed by all the members (or by any lesser number of members to the extent permitted by law) shall be fully as effective as if it had been made by vote at a meeting duly called and held.

Subject to the express provisions of the Plan, the Committee shall have plenary authority, in its discretion, to determine the number of Share Rights awarded, the performance measures for each Performance Year, and any other conditions under which Current or Deferred Shares will be earned and distributed. In making such determinations, the Committee may take into account the nature of

the services rendered by the respective employees, their present and potential contributions to the Company's success and such other factors as the Committee in its discretion shall deem relevant. Subject to the express provisions of the Plan, the Committee shall have plenary authority to interpret the Plan, to prescribe, amend and rescind the rules and regulations relating to it and to make all other determinations deemed necessary or advisable for the administration of the Plan, except the power to determine whether shares reserved for issuance upon distribution of Common Stock under the Plan shall be unissued or issued shares, to appoint members of the Committee and to terminate, modify or amend the Plan, which powers shall be exercised only by the Board. The determinations of the Committee on the matters referred to in this paragraph shall be conclusive.

11. Termination of Employment.

If a Participant voluntarily resigns or is terminated for cause at any time prior to December 31, 2006, Share Rights awarded and not previously credited to his account as Deferred Shares or earned as Current Shares and all credited Deferred Shares not previously distributed shall be forfeited, except that the Committee may, in its discretion, waive the forfeiture of credited Deferred Shares. Current Shares previously earned but not distributed shall not be forfeited.

If a Participant retires, dies, becomes disabled or is terminated by the Company for any reason without cause, Share Rights awarded will continue to be subject to the terms of the Plan, and when earned, shall be distributed as Current or credited as Deferred Shares, provided, however, that the Committee shall have the authority, in the case of death, retirement or termination without cause, to cause all of such Participant's remaining Share Rights to be deemed to have been earned and to immediately distribute the shares of Common Stock so earned (whether or not originally established as Current or Deferred Shares).

12. Amendment and Termination.

The Board of Directors may at any time amend, modify, alter, or terminate the Plan, except that the Board of Directors may not amend the Plan to increase the number of shares of Common Stock reserved for the Plan, to increase the benefits accruing under the Plan or to modify the class of employees eligible to receive awards without approval of the shareholders of the Company.

13. Miscellaneous Provisions.

- (a) Nothing in the Plan or any booklet or other document describing or referring to the Plan shall be deemed to confer on any Participant the right to continue in the employ of the Company or affect the right of the Company to terminate the employment of any Participant with or without cause.
- (b) Nothing contained herein shall require the Company to segregate any monies from its general funds, or to create any trusts, or to make any special deposits for any immediate or deferred shares distributable to any Participant.
- (c) The Plan and all actions taken hereunder shall be governed by the laws of the State of Indiana.
- (d) The Company may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes which the Company is required by any law or regulation of any government authority, whether federal, state or local, domestic or foreign, to withhold in connection with any Share Rights or distributions of Common Stock earned therefrom, including, but not limited to, the withholding of payment of all or any portion of such Common

Stock distribution until the Participant reimburses the Company for the amount the Company is required to withhold with respect to such taxes, or cancelling any portion of such Common Stock distribution in an amount sufficient to reimburse itself for the amount it is required to withhold, or selling any Deferred Shares held in escrow that are not yet eligible for distribution under the terms of the Plan, in order to withhold or reimburse itself for the amount it is required to so withhold.

CUMMINS ENGINE COMPANY, INC.

EXHIBIT 10(1)

RETIREMENT PLAN FOR NON-EMPLOYEE DIRECTORS

Effective September 12, 1989

1. Purpose.

The Retirement Plan for Non-Employee Directors (the "Plan") has been established to provide term-certain pension payments, as set forth more fully herein, to eligible non-employee Directors of Cummins Engine Company, Inc. (the "Company"). The Plan is intended to enhance the Company's ability to attract and retain as Directors individuals with the highest caliber of experience, ability and judgment.

2. Eligibility.

Each Director of the Company who is not an employee or former employee of the Company with vested rights under a pension plan sponsored by the Company, its subsidiaries or affiliates is eligible to participate in the Plan as set forth below.

3. Participation.

An eligible Director shall become a Participant in the Plan commencing with the sixth (6th) year of service as a Director of the Company.

4. Vesting.

Each eligible Director shall be fully vested in benefits accrued under the Plan immediately upon becoming a Participant.

5. Benefit Amount.

Each Participant shall be entitled to receive an annual benefit, payable annually, equal to the fees (excluding Committee fees) paid or payable to such Participant for services rendered as a Director of the Company during the one-year period immediately preceding the Participant's ceasing to be a Director.

6. Commencement of Benefits.

The annual benefit shall be payable on the first business day in the month of May each year, commencing with the May next following the later of (i) the date the Participant ceases to be a Director or (ii) the Participant's 65th birthday.

7. Duration of Benefits.

Once begun, the annual benefit shall be payable for the lesser of (i) the number of completed full years the Participant served as a Director or (ii) twenty (20) years.

8. Payments Upon Death of Participant.

In the event of death, a Participant's surviving spouse, if any, shall continue to receive annual benefit payments equal to fifty percent (50%) of the benefit payable to the Participant. If death occurs prior to commencement of benefits under paragraph 5, such spousal benefit payments shall continue for the greater of (i) ten (10) years or (ii) the number of years the Participant

would have been entitled to payments under paragraph 7. If death occurs following commencement of benefits under paragraph 6, but prior to receiving the number of payments described in paragraph 7, such spousal benefits shall continue for the remaining number of payments.

9. Payments Upon Change of Control.

Notwithstanding anything contained in paragraphs 6, 7 or 8 to the contrary, following a Change of Control (as hereinafter defined), each Participant (or beneficiary, if appropriate) shall be entitled to receive a lump sum payment of the actuarial equivalent of benefits accrued and remaining unpaid as of the date of the Change of Control. The lump sum equivalent shall be calculated assuming (a) the interest rate used by the Pension Benefit Guaranty Corporation in determining the value of immediate benefits as of the immediately preceding January 1 and (b) the mortality tables incorporated by reference into the Cummins Engine Company, Inc. and Affiliates Retirement Plan A.

For purposes of this Plan a "Change of Control" means the occurrence of any of the following: (i) there shall be consummated (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's common stock would be converted in whole or in part into cash, other securities or other property, other than a merger of the Company in which the holders of the Company's common stock immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (B) any sale, lease, exchange or transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company, or (ii) the stockholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company, or (iii) any "person" (as such term is used in Sections 12 (d) (3) and 14 (d) (2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than the Company or a subsidiary thereof or any employee benefit plan sponsored by the Company or a subsidiary thereof or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, shall become the beneficial owners (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors ("Voting Shares"), as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, or (iv) at any time during a period of two consecutive years, individuals who, at the beginning of such period constituted the Board of Directors of the Company, shall cease for any reason to constitute at least a majority thereof, unless the Company's stockholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period, or (v) any other event shall occur that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A of Regulation 14A promulgated under the Exchange Act.

10. Funding of Benefits.

The Company shall set aside funds to satisfy its obligations hereunder by making deposits to the grantor trust created under agreement dated February 1, 1988 (the "Trust") by and between the Company and Wachovia Bank and Trust Company, N.A. (the "Trustee") or any successor trust thereto. Deposits to the Trust to fund such obligations shall be calculated on a sound actuarial basis. Benefit payments will be made from the Trust by the Trustee to the extent not paid by the Company.

11. Miscellaneous.

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- (a) Participation in the Plan shall not confer any rights concerning nomination for re-election to the Board of Directors of the Company.
 - (b) The Board of Directors of the Company shall be responsible for the administration of the Plan. Any decisions by the Board of Directors (as reflected in its approved minutes) shall be final.
 - (c) The Plan shall continue in force with respect to any Participant until completion of any payments due hereunder. The Company may, however, at any time, amend or terminate the Plan, provided, however, that no such termination or amendment shall deprive any Participant or surviving spouse of any benefits accrued under the Plan prior to such amendment.
 - (d) No right or interest of a Participant or surviving spouse under the Plan shall be subject to voluntary or involuntary alienation, assignment or transfer of any kind.

CUMMINS ENGINE COMPANY, INC.

EXHIBIT 10(m)

STOCK UNIT APPRECIATION PLAN

Effective as of October 9, 1990

1. Purpose.

The purpose of the Stock Unit Appreciation Plan (the "Plan") is to provide a means by which Cummins Engine Company, Inc. (the "Company") and/or its subsidiary corporations shall be able to attract and retain competent key employees (including officers and directors who are employees) and provide those personnel with an opportunity to participate in the increased value of the Company which their efforts, initiative, and skill have helped and will continue to help produce. The Plan is effective as of October 9, 1990.

2. Administration.

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- (a) The Plan shall be administered by the Compensation Committee (the "Committee") of the Board of Directors (the "Board") as that Committee may be constituted from time to time. The Committee shall consist of at least three members of the Board selected by the Board, all of whom shall be Disinterested Persons. A Disinterested Person for purposes of the Plan is one who is not at the time he exercises discretion in administering the Plan or at any time within one year prior thereto eligible for participation in the Plan or any other plan of the Company that would entitle him or her to acquire stock, stock options or stock appreciation units of the Company.
- (b) A majority of the members of the Committee shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been made by a majority vote at a meeting duly called and held.
- (c) Subject to the express provisions of the Plan, the Committee also shall have complete authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, and to make all other determinations necessary or advisable for the administration of the Plan. The determinations of the Committee on the matters referred to in this paragraph 2 shall be conclusive.

3. Participants.

Participants in the Plan shall be selected by the Committee from key employees of the Company or any subsidiary of the Company (the "Participants").

4. Plan Operation and Appreciation of Units.

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- (a) Participants shall be awarded stock appreciation units ("Units") for a period of years determined by the Committee, not to exceed five years from the date of the award (the "Appreciation Period"). Units may be exercised by a Participant, to the extent exercisable by their terms, in whole or from time to time in part at any time prior to the end of the Appreciation Period, but in no event prior to six months following the date such Units were awarded to such Participant, except that this limitation shall not be applicable in the event of death or disability of the

Participant occurring before the expiration of the six-month period. When awarded, each Unit shall have a basis equal to the average of the closing prices of the Common Stock of the Company (the "Common Stock") on the New York Stock Exchange (the "NYSE") for the 30 consecutive trading days immediately preceding the date of the award of such Unit (the "Grant Base").

- (b) At the end of the Appreciation Period or upon the Participant's earlier exercise of a Unit, the Participant shall be entitled to receive from the Company a cash payment (the "Payment") for previously unexercised Units as determined by this paragraph 4(b). The Payment shall be equal to (i) in the case of Participant exercise, the average of the closing prices of the Common Stock of the NYSE for the 30 consecutive trading days immediately preceding the date of such exercise or (ii) upon expiration of the Appreciation Period, the average of the closing prices of the Common Stock on the NYSE for the 90 consecutive trading days immediately preceding the date of such expiration, in each case (x) reduced by the Grant Base and (y) multiplied by the number of Units exercised or remaining at the end of the Appreciation Periods, as applicable.

5. Nature of Units.

The Units shall be used solely as a device for the measurement and determination of the amount to be paid in cash to Participants as provided in the Plan. The Units shall not constitute or be treated as property or as a trust fund of any kind. All amounts at any time attributable to the Units shall be and remain the sole property of the Company and all Participants' rights hereunder are limited to the rights to receive cash as provided in this Plan.

6. Dilution.

In the event of a stock split, stock dividend, recapitalization, reclassification, reorganization, merger, consolidation, combination or exchange of shares, split-up, split-off, spin-off, liquidation or similar changes in the capitalization of the Company, or any distribution to the holders of Common Stock other than regular quarterly cash dividends, the number of Units of a Participant and/or the Grant Base shall be adjusted in such manner as the Committee shall, in its discretion, determine to be appropriate under the circumstances so that the Participants' interests in the Units shall be congruent with the interests of the holders of the Common Stock.

7. Transferability.

Any rights arising under the Plan shall not be transferable otherwise than by will or the laws of descent and distribution.

8. Termination of Employment.

In the event a Participant leaves the employ of the Company, a subsidiary or an affiliate of the Company, otherwise than by retirement or due to disability or death, any right arising under the Plan shall be forfeited. In the event of retirement pursuant to any retirement plan of the Company, of a subsidiary or of an affiliate of the Company, the disability, or the death of a Participant, any unexercised Units may be exercised by the Participant or by a legatee or legatees of such Participant under such Participant's last will, or by such Participant's personal representatives or distributees, at any time (a) in the case of retirement or disability, within a period of 90 days after his retirement or disability (or such longer period as the Committee may in its sole discretion determine) and (b) in the case of death, within a period of one year after his death, but in all cases not after expiration of the Appreciation Period with

respect to such Units.

9. Withholding of Tax.

There shall be deducted from each Payment under the Plan the amount of any tax required by any governmental authority to be withheld and paid over by the Company to that governmental authority for the account of the person entitled to such Payment.

10. Termination and Amendment of Plan.

The Committee may at any time terminate the Plan, or make such modification of the Plan as it shall deem advisable. No termination or amendment of the Plan may, without the consent of a Participant, adversely affect the rights of such Participant with respect to Units granted prior thereto.

CUMMINS ENGINE COMPANY, INC.

EXHIBIT 10(q)

THREE YEAR PERFORMANCE PLAN

Effective as of December 8, 1992

The Three Year Performance Plan is hereby adopted by the Board of Directors of Cummins Engine Company, Inc. (hereinafter call the "Company"), with the objectives and upon the terms set forth herein.

1. Objectives.

The objectives of the Plan are to:

- (a) serve as a balance to the short-term compensation provided by base salary and bonus;
- (b) place emphasis on the medium-term performance of the Company in direct relationship to its industry competitors and/or other such measures deemed appropriate by the Compensation Committee of the Board of Directors;
- (c) strengthen the relationship between management and shareholder interests; and
- (d) encourage participants to remain with the Company through important business cycles.

Individual plan grants are intended to reflect the varying degrees of influence participating officers and key non-officer employees have in their functional positions on the medium-term (3 year) performance of the Company. Calculation of the payout is intended to directly reflect the Company's performance based on various measures designated by the Committee and the business judgment of the Committee.

2. Definitions.

- (a) Award Cycle - The three (3) year period upon which a particular year's payout is calculated. A new Award Cycle commences with the beginning of each of the Company's fiscal years. Payouts to Participants in any one year are based upon actual results of the most recently completed Award Cycle.
- (b) Change of Control - The occurrence of any of the following:
 - (i) there shall be consummated (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted in whole or in part into cash, other securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (B) any sale, lease, exchange or transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company, or (ii) the stockholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company, or (iii) any "person" (as such term is used in Section 13 (d) (3) and 14 (d) (2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than the Company or a subsidiary thereof or any employee benefit plan sponsored by the Company or a subsidiary thereof or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, shall become the beneficial owners

(within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors ("Voting Shares"), as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, or (iv) at any time during a period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company shall cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's stockholders of each new director during such two-year period was approved by a vote of at least two-thirds (2/3) of the directors then still in office who were directors at the beginning of such two-year period, or (v) any other event shall occur that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A of Regulation 14A promulgated under the Exchange Act.

(c) Committee - The Compensation Committee of the Board of Directors of the Company which has been designated to review compensation of officers, key non-officers, and non-employee directors of the Company.

(d) Comparator Panel - Selected companies whose primary industry is similar to that of the Company. Those companies are;

General Motors	Dana
Ford Motor Company	Arvin
Caterpillar	Ingersoll Rand
Deere	Paccar
Eaton	Dresser
Navistar	

(e) Participants - Officers or other employees designated annually by the Committee as participants in the Plan.

(f) Payout Factor - The percentage determined by the Committee and applied to a Target Award to determine the amount of the award to be paid as described in Section 6 of the Plan.

(g) Plan - The Three Year Performance Plan described herein.

(h) Target Award - The amount of targeted compensation described in Section 4 of the Plan.

3. Eligibility.

The Committee shall determine each year the officers and other employees of the Company who shall be Participants in the Plan.

4. Target Award.

Participants in the Plan shall be assigned a Target Award for an Award Cycle by the Committee, in its discretion, based on the following criteria, and such other criteria as the Committee may determine from time to time:

- (a) Scope and breadth of the Participant's Position;
- (b) Effect on the Company's medium-term performance;
- (c) Work relationships.

The Target Award for an Award Cycle shall be expressed as a dollar amount. The Target Award for a particular Award Cycle shall be the Target Award approved for that Participant prior to the actual payout for that Award Cycle. Therefore, Target Awards for an Award Cycle may be changed during the course of an Award Cycle (but prior to the payout being made for such Award Cycle) based on the Committee's evaluation of changes in the aforementioned

criteria for each Participant.

The eligibility of new Participants and their levels of participation, if any, in Award Cycles already begun shall be determined by the Committee, in its discretion.

5. Payout Formula.

The Committee will establish, at the commencement of each Award Cycle, performance measures to be used as the guideline for determining the Payout Factor for the Award Cycle. The performance measures will provide guidelines; the final Payout Factor will be determined in the judgment of the Committee, considering performance against the established measures and such other factors as the Committee deems appropriate.

Performance measure will generally be the Company's performance relative to the median performance of the Comparator Panel. The Committee may designate, but shall not be limited to, return on the Company's stockholder equity as the measure of performance.

6. Award Payout.

The award payout shall be determined as follows:

Target Award		Award Cycle
for the	X	Payout Factor
Award Cycle		

7. Termination of Employment.

- (a) If a Participant's employment with the Company terminates (except through retirement, disability or death), such Participant will not receive a payout for any Award Cycle (a "Payout") for which payment has not been made where such Participant's employment and participation in the Plan was for a period of one (1) year or less. If a Participant's employment so terminated during the second (2nd) through the third (3rd) years of participation in the Plan, the Committee, in its discretion, shall determine whether the Participant will receive a proportionate share of the Payout at the end of each Award Cycle initiated while such employee was a Participant in the Plan.
- (b) If a Participant retires, becomes disabled or dies, the Participant, or such Participant's estate, shall be entitled to receive a proportionate share of the Payout at the end of each Award Cycle based upon the number of years such employee participated during each Award Cycle.

8. Performance Plan Payout.

Any payout under the Plan will be made after the audit of the Company's financial statements and after the Committee has determined the Payout Factor resulting from the Company's performance. In general, the Payout date will occur as soon as practicable following the end of an Award Cycle, but not later than June 30 following completion of such Award Cycle.

9. Change of Control.

In the event of a Change of Control of the Company, the provisions of this Section 9 shall supersede those of Section 5. The Target Award for each Award Cycle in progress shall be payable in full upon the date of the Change of Control and shall be determined for each cycle as follows:

Target Award		1.0 Payout		Award
for the	X	Factor	X	Percent
				Completion

Award Cycle

Factor

The Award Cycle Percent Completion Factor for each Payout Award calculation shall be determined by dividing the number of days in the particular cycle completed prior to the Change of Control by the number of days in a complete cycle, one thousand ninety-five (1095) days.

10. Notice.

To the extent practicable, the Plan shall be communicated as early as possible to each Participant in each Award Cycle to permit maximum incentive to be generated by the Plan.

11. Term.

The Plan will continue from year to year until terminated by the Committee.

CUMMINS ENGINE COMPANY, INC.

EXHIBIT 10(u)

SENIOR EXECUTIVE BONUS PLAN

1. Purpose.

The Senior Executive Bonus Plan is designed to: (i) reinforce the financial objectives of the Company in the minds of senior executives, (ii) attain and maintain a leadership position for the Company in its method of compensating its senior executives consistent with the relative size of the Company, the industry in which the Company competes, and the relative performance of its senior executives, (iii) recognize the performance of the Company as a whole, maximizing the contributions of the Company's various businesses and (iv) reward both team and individual performance. The Plan is an incentive plan providing compensation that varies with the financial results of the Company.

2. Philosophy.

Bonus payments should relate to the importance of the executive's position in influencing Company performance, the financial performance of the Company during a Quarter and the performance of the individual during that Quarter. Bonus payments should encourage and promote outstanding decisions and efforts by senior executives for the benefit of the Company.

3. Definitions.

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- (a) "Base Salary" means the salary paid to a Participant during a Quarter, exclusive of allowances, incentive pay, reimbursed expenses, fringe benefits and other similar forms of payment.
 - (b) "Compensation Committee" or "Committee" means the Compensation Committee of the Board of Directors of the Company.
 - (c) "Company" means Cummins Engine Company, Inc.
 - (d) "Participant" means the Company's Chief Executive Officer and other executive officers designated by the Compensation Committee.
 - (e) "Performance Measure" means the Company's return on equity, return on sales, net income, sales growth, return on assets, total shareholder return or a combination thereof.
 - (f) "Plan" means the Senior Executive Bonus Plan described herein.
 - (g) "Plan Year" means the Company's fiscal year, provided, however, that the first Plan Year includes only three Quarters beginning April 3, 1995.
 - (h) "Quarter" means a fiscal quarter of the Company.
 - (i) "Target Bonus" means an incentive bonus amount described in Section 7 of the Plan.
 - (j) "Target Bonus Percentage" means a percentage of the Participant's Base Salary intended to be paid as a Target Bonus under the Plan.

4. Eligibility.

The Compensation Committee shall designate the Participants each Plan Year and establish the Target Bonus Percentage applicable to each Participant. The Committee shall have the power to change the Target Bonus Percentage of a Participant or remove one or more Participants from the Plan, provided, however, that the percentage shall not be increased following the commencement of any period for which a Target Bonus may be earned.

5. Target Bonus Percentage.

On or before the 20th day of each Quarter during which a Target Bonus may be earned, each Participant will be informed of his or her applicable Target Bonus Percentage. The Target Bonus Percentage assigned to each Participant by the Committee shall be based on various criteria applicable to the Participant including, but not limited to: (i) the scope and breadth of the Participant's management position, (ii) opportunity for independent thought and action, (iii) effect of the Company's financial performance, (iv) role in decision-making, (v) working relationships within the Company and (vi) the level of compensation prevailing in the industry in which the Company competes

6. Bonus Payout Schedule.

On or before the 20th day of each Plan Year, a Bonus Payout Schedule will be calculated by the Committee and communicated to Participants. The Bonus Payout Schedule will specify the Performance Measure and the performance level against the measure during the Quarter required to achieve each payout factor ("Bonus Factor"). The "Target Performance" is that performance which provides a 1.0 Bonus Factor.

7. Target Bonus.

A Target Bonus is calculated for each Participant by multiplying Base Salary times the Target Bonus Percentage designated for the Participant.

8. Earned Bonus.

Corporate performance during the Quarter in excess of the Target Performance or performance less than the Target Performance will result in an increased or diminished bonus, respectively, from the Target Bonus communicated to the Participant. The "Earned Bonus" will be calculated by multiplying the Target Bonus Percentage times the Participant's Base Salary times the Bonus Factor associated with the actual performance for the Quarter as specified in the Bonus Payout Schedule in effect for the Plan Year containing the Quarter. In no event may a Participant receive an Earned Bonus for any Quarter in excess of \$750,000.

9. Change in Accounting Standards.

For purposes of determining the Bonus Factor, the Company's actual performance under the Performance Measure will exclude extraordinary charges and credits which result from a change in accounting standards of the Company.

10. Adjustment for Individual Performance.

The Earned Bonus will be the bonus paid, except in unusual circumstances where poor individual performance justifies a reduced bonus.

11. 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 the Quarter will be paid to the Participant or his or her legal representative or estate, whichever is applicable.

12. Bonus Distribution Date.

Any Earned Bonus will be distributed as soon as practicable following the determination of actual performance and written certification by the Compensation Committee that the performance level with respect to a bonus payable to the Participant has been met. In general, the Earned Bonus will be distributed approximately six (6) weeks following the end of the Quarter in which earned, provided however, payments under the Plan may be deferred pursuant to the Company's Deferred Compensation Plan.

13. Administration.

The plan shall be administered by the Compensation Committee. No member of the Committee shall be eligible to receive a bonus under this Plan while serving on the Committee. The Committee shall be authority to interpret the Plan and to establish, amend and rescind rules and regulations for the administration of the Plan, and all such interpretations, rules and regulations shall be conclusive and binding on all persons. Notwithstanding any other provision of the Plan to the contrary, the Committee may impose such conditions on participation in and bonuses under the Plan as it deems appropriate.

14. Optional Administration as Annual Plan.

The Plan is designed to operate primarily as a quarterly plan, measuring Company performance and paying Target Bonuses on the basis of quarterly results. From time-to-time, however, the Committee may, in its sole discretion, determine it wishes to measure performance and pay Target Bonuses on the basis of a Plan Year. In the event such a determination is made, all references contained in this Plan to the term "Quarter" shall be deemed to mean "Plan Year" as the context requires, and the maximum Earned Bonus referenced in Section 8 of the Plan shall be increased to \$3,000,000.

15. Effective Date.

The Plan shall be effective for Quarters beginning April 3, 1995, subject to its approval by the Company's shareholders.

16. Amendment and Termination.

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

17. Governing Law.

This Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of Indiana and construed accordingly.

18. Miscellaneous.

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

CUMMINS ENGINE COMPANY, INC.

EXHIBIT 10(v)

SENIOR EXECUTIVE THREE YEAR PERFORMANCE PLAN

1. Objectives.

The objectives of the Plan are to: (i) serve as a balance against the short-term compensation provided by base salary and bonus payments of the Company, (ii) emphasize the medium-term performance of the Company as compared to its industry competitors, (iii) strengthen the relationship between Company management and shareholder interest, and (iv) encourage participants to remain with the Company through important business cycles.

The size of grants under the Plan are intended to reflect the degrees of influence participating executive officers have in their functional positions on the medium-term (three year) performance of the Company. The calculation of payments from the Plan is intended to reflect the Company's performance against certain performance measures designated by the Compensation Committee.

2. Definitions.

- (a) "Award Cycle" means the three-year period upon which a particular year's payout is calculated. A new Award Cycle commences with the beginning of each of the Company's fiscal years. Payments, if any, under the Plan to Participants during a fiscal year are based upon the Company's performance during the most recently completed Award Cycle.
- (b) "Change of Control" means the occurrence of any of the following: (i) there shall be consummated (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted in whole or in part into cash, other securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have substantially the same proportionate ownership on common stock of the surviving corporation immediately after the merger, or (B) any sale, lease, exchange or transfer (in one transaction or series of related transactions) of all or substantially all the assets of the Company, or (ii) the stockholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company, or (iii) any "person" (as such term is used in Sections 13(d) (3) and 14(d) (2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than the Company or subsidiary thereof or any employee benefit plan sponsored by the Company or a subsidiary thereof or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, shall become the beneficial owners (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors ("Voting Shares"), as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, or (iv) at any time during a period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company shall cease for any reason to constitute a least a majority thereof, unless the election or the

nomination for election by the Company's stockholders of each new director during such two-year period was approved by a vote of at least two-thirds (2/3) of the directors then still in office who were directors at the beginning of such two-year period, or (v) any other event shall occur that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A or Regulation 14A promulgated under the Exchange Act.

- (c) "Committee" means the Compensation Committee of the Board of Directors of the Company.
- (d) "Company" means Cummins Engine Company, Inc.
- (e) "Participants" means the Company's Chief Executive Officer and other executive officers designated annually by the Committee to participate in the Plan for the ensuing Award Cycle.
- (f) "Payout Factor" means the percentage determined by the Committee and applied to a Target Award to determine the amount of an award to be paid as described in Section 4 of the Plan.
- (g) "Peer Group" means the group of companies selected by the Committee whose primary industry is similar to that of the Company's. As of the effective date of the Plan, the Peer Group consists of the following companies: (i) Arvin Industries, Inc., (ii) Caterpillar, Inc., (iii) Dana Corporation, (iv) Deere & Company, (v) Dresser Industries, Inc., (vi) Eaton Corporation, (vii) Ford Motor Company, (viii) General Motors Corporation, (ix) Ingersoll-Rand Company, (x) Navistar International Corporation, and (xi) Paccar, Inc.
- (h) "Performance Measures" means the Company's return on equity, return on sales, net income, sales growth, return on assets, total shareholder return, or any combination thereof.
- (i) "Plan" means the Senior Executive Three Year Performance Plan described herein.
- (j) "Target Award" means the amount of targeted compensation described in Section 3 of the Plan.

3. Target Award.

The Committee shall assign each Participant a Target Award for each Award Cycle, in its discretion, based upon, but not limited to, the scope and breadth of the Participant's position, ability to effect the Company's medium-term financial performance, and his or her working relationships within the Company. The Target Award for an Award cycle shall be expressed in terms of a threshold, target, and maximum dollar amount.

The Target Award for each Award Cycle shall be assigned and communicated to each Participant as soon as practicable thereafter, but in no event later than the 270th day of the Award Cycle. Target Awards may be changed during the course of an Award Cycle based on the Committee's reevaluation of the criteria described in the preceding paragraph, provided however, a Target Award shall not be increased following commencement of the Award Cycle.

4. Payout Schedule.

On or before the 270th day of each Award Cycle, the Committee shall establish the Performance Measures to be used in determining a Payout Factor applicable to the Award Cycle. The Committee may determine the Payout Factor based upon the attainment of one or more different Performance Measures, provided the measures, when established, are stated as alternatives to one another.

Under the Payout Factor schedule, the targeted dollar amount

("Targeted Amount") of a Target Award will be earned by a Participant if the Company's performance against the Performance Measures equals the median of the performance of the Peer Group during the same period against the same measures. The threshold dollar amount will be earned if performance is fifty percent (50%) and the maximum dollar amount will be earned if performance is two hundred percent (200%) of the median performance of the Peer Group. The maximum dollar amount that may be paid by the Plan to a Participant with respect to any Award Cycle is \$2,000,000.

5. Change in Accounting Standards.

For purposes of determining the Payout Factor, the Company's actual performance under the Performance Measures will exclude extraordinary charges and credits which result from a change in accounting standards of the Company.

6. Plan Payments.

Any payout under the Plan will be made as soon as practicable following audits of the Company's financial statements applicable to all fiscal years of the Award Cycle and written certification by the Committee of attainment of the applicable Performance Measures and corresponding Payout Factor. Payments under the Plan may be deferred pursuant to the Company's Deferred Compensation Plan.

7. Administration.

The Plan shall be administered by the Compensation Committee. No member of the Committee shall be eligible for a Target Award while serving on the Committee. The Committee shall have authority to interpret the Plan and to establish, amend and rescind rules and regulations for the administration of the Plan, and all such interpretations, rules and regulations shall be conclusive and binding on all persons. Notwithstanding any other provision of the Plan to the contrary, the Committee may impose such conditions on participation in, awards under and payments from the Plan as it deems appropriate.

8. Termination of Employment.

If a Participant's employment with the Company terminates during the first year of an Award Cycle, other than by reason of retirement, death or disability, the Participant will not receive any payout for that Award Cycle. If a Participant's employment so terminates during the second or third years of an Award Cycle, the Committee, in its discretion, shall determine whether the Participant will receive a proportionate payout of any payment with respect to the Award Cycle based on the period of employment during the cycle.

If a Participant retires, dies or becomes disabled during an Award Cycle, the Participant or such Participant's estate, as the case may be, shall receive a proportionate share of any payment with respect to the Award Cycle based on the period of employment during the cycle, regardless of the length of time of such employment.

9. Change of Control.

Notwithstanding any other provision herein to the contrary, in the event of a Change of Control, an amount shall be immediately payable from the Plan to each Participant equal to the Targeted Amount times a fraction, the numerator of which is the number of days in the Award Cycle preceding the Change of Control and the denominator of which is 1095.

10. Effective Date.

The Plan shall be effective for the Award Cycle beginning January 1, 1995, subject to its approval by the Company's shareholders.

11. Amendment and Termination.

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

12. Governing Law.

This Plan and all determinations made and actions taken pursuant hereto, shall be governed by the Laws of the State of Indiana and construed accordingly.

CUMMINS ENGINE COMPANY, INC., AND SUBSIDIARIES
EXHIBIT 11
SCHEDULE OF COMPUTATION OF PER SHARE EARNINGS
FOR THE FIRST QUARTER ENDED APRIL 2, 1995 and APRIL 3, 1994
(Millions, Except per Share Amounts)

	Weighted Average Shares	Net Earnings	Calculated Per Share
	-----	-----	-----
1995			
<hr/>			
Net earnings	41.2	\$67	\$1.63
Options	.1	-	
	-----	-----	
Primary and fully diluted earnings per common share	41.3	\$67	\$1.63
	-----	-----	-----
1994			
<hr/>			
Net earnings	40.1	\$55	\$1.36
Options	.2	-	
	-----	-----	
Primary and fully diluted earnings per common share	40.3	\$55	\$1.35
	-----	-----	-----

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