FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
SEC Accession No. 0000003721-94-000029

FILER

ALLEN GROUP INC
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SIC: **3825** Instruments for meas & testing of electricity & elec signals

Business Address
25101 CHAGRIN BLVD # 350
BEACHWOOD OH 44122-5619
2167655818

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

____

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from Not Applicable to

Commission file number 1-6016

THE ALLEN GROUP INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	38-0290950
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

25101 Chagrin Boulevard, Suite 350, Beachwood, Ohio	44122
(Address of Principal Executive Offices)	(Zip Code)

(Registrant's Telephone Number, Including Area Code) 216-765-5818

NOT APPLICABLE
Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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 preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 30, 1993.

Class of Common Stock	Outstanding at April 30, 1994
Par value $1.00 per share	26,024,019

Exhibit Index is on page 14 of this report.

THE ALLEN GROUP INC.

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PART I - FINANCIAL INFORMATION
ITEM I - FINANCIAL STATEMENTS

THE ALLEN GROUP INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Amounts in Thousands)

<CAPTION>

	March 31, 1994 (Unaudited)	December 31, 1993
<S>	<C>	<C>
ASSETS:		
Current Assets:		
Cash and equivalents	$ 9,549	$ 11,173
Accounts receivable (Note 6)	54,927	54,721
Receivable from joint venture	551	242
Note receivable (Note 6)	19,737	6,579
Inventories (Note 3)	57,192	56,828
Prepaid expenses	1,119	1,021
Other current assets	5,738	-
Total current assets	148,813	130,564
Property, plant and equipment, net	52,122	51,898
Net investments in and advances to joint venture	22,350	23,042
Excess of cost over net assets of businesses acquired	59,168	59,578
Long-term portion of note receivable (Note 6)	-	13,158
Other assets	40,428	46,398
TOTAL ASSETS	$322,881	$324,638
LIABILITIES:		
Current Liabilities:		
Notes payable and current maturities of long-term obligations	$ 1,554	$ 839
Accounts payable	16,832	20,180
Accrued expenses	30,749	32,697
Income taxes payable	5,871	5,040
Total current liabilities	55,006	58,756
Long-term debt	49,931	51,758
Other liabilities and deferred credits	18,696	18,963
TOTAL LIABILITIES	123,633	129,477
STOCKHOLDERS' EQUITY		
Common stock	29,100	29,058

Paid-in capital	160,280	159,989
Retained earnings	36,201	32,671
Translation adjustments	(20)	(90)
Less: Treasury stock (common, at cost)	(17,838)	(17,916)
Unearned compensation	(6,116)	(6,192)
Minimum pension liability adjustment	(2,359)	(2,359)
TOTAL STOCKHOLDERS' EQUITY	199,248	195,161
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$322,881	$324,638

See accompanying notes to the Consolidated Condensed Financial Statements.
</TABLE>

<TABLE>

THE ALLEN GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
(Amounts In Thousands)
(Unaudited)

<CAPTION>

	Three Months Ended March 31, 1994	1993 Actual	1993 Pro Forma (Note 1)
<S>	<C>	<C>	<C>
SALES	$ 76,942	$ 66,027	$ 66,027
Costs and Expenses:			
Cost of Sales	(54,249)	(45,080)	(45,080)
Selling, General and Administrative Expenses	(12,485)	(11,494)	(11,494)
Equity in Loss of Joint Venture	(694)	(801)	(801)
Interest and Financing Expenses	(546)	(1,005)	(1,005)
INCOME BEFORE TAXES	8,968	7,647	7,647
Provision for Income Taxes (Note 4)	(3,578)	(878)	(3,051)
INCOME FROM CONTINUING OPERATIONS	5,390	6,769	4,596
Loss from Discontinued Operations (Note 6):	-	(1,746)	(1,050)
Cumulative Effect of Change in Accounting for Income Taxes	-	2,102	2,102
NET INCOME	$ 5,390	$ 7,125	$ 5,648

NET INCOME APPLICABLE TO COMMON STOCK	$ 5,390	$ 6,119	$ 4,642
EARNINGS PER COMMON SHARE (NOTE 5):			
Primary:			
Income from Continuing Operations	$.21	$.29	$.18
Loss from Discontinued Operations	-	(.08)	(.05)
Cumulative Effect of Change in Accounting for Income Taxes	-	.10	.10
Net Income	$.21	$.31	$.23
Fully Diluted:			
Income from Continuing Operations	$.21	$.27	$.18
Loss from Discontinued Operations	-	(.07)	(.04)
Cumulative Effect of Change in Accounting for Income Taxes	-	.08	.08
Net Income	$.21	$.28	$ .22

See accompanying notes to the Consolidated Condensed Financial Statements.

</TABLE>

<TABLE>

THE ALLEN GROUP INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Amounts In Thousands)
(Unaudited)

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
Cash provided by operating activities	$ 5,653	$ 3,639
Cash flows from investing activities:		
Capital expenditures	(2,741)	(1,912)
Sales and retirements of fixed assets	40	119
Centralized emissions inspection programs	(2,153)	-
Capitalized software product costs	(409)	(577)
Cash (used) by investing activities	(5,263)	(2,370)
Cash flows from financing activities:		
Net (repayments) proceeds of long-term debt	(1,112)	4,288
Dividends paid	(1,041)	(1,617)
Dividends received from discontinued lease financing operations	-	1,593

Exercise of stock options	13	670
Treasury stock sold to employee benefit plans	126	147
Cash (used) provided by financing activities	(2,014)	5,081
Net cash (used) provided	(1,624)	6,350
Net cash provided by discontinued lease financing operations (Note 6)	-	2,919
Total Company (decrease) increase in cash	(1,624)	9,269
Cash at beginning of period	11,173	4,425
Cash at end of period	$ 9,549	$13,694

See accompanying notes to the Consolidated Condensed Financial Statements.

</TABLE>

THE ALLEN GROUP INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. General:

In the opinion of management of The Allen Group Inc. (the "Company"), the accompanying unaudited consolidated condensed interim financial statements reflect all adjustments necessary to present fairly the financial position of the Company as of March 31, 1994 and the results of its operations and cash flows for the three months ended March 31, 1994 and 1993. The results of operations for such interim periods are not necessarily indicative of the results for the full year. Pro forma results of operations for the three months ended March 31, 1993 reflect the results of operations as if the Company had provided for income taxes at the comparable effective tax rate of 39.9% recorded in 1994. The effective rate for income taxes actually incurred in 1993 (11.5%) is lower than the 1994 rate due to the recognition of U.S. net operating loss carryforwards to reduce income tax expense. The Company fully recognized all available deductions and carryforward losses in 1993, resulting in the higher effective tax rate in 1994. Such pro forma information is presented for comparative information purposes only. The year-end 1993 consolidated condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993.

2. Accounts Receivable:

Accounts receivable are net of the following allowances for doubtful accounts (amounts in thousands):

<TABLE>

<CAPTION>

<S>	March 31, 1994 <C>	December 31, 1993 <C>
Allowance for doubtful accounts	$1,366	$1,270

3. Inventories:

Inventories consisted of the following (amounts in thousands):

	March 31, 1994	December 31, 1993
Raw Materials	$35,711	$33,541
Work-In-Process	12,757	14,191
Finished Goods	8,724	9,096
	$57,192	$56,828

</TABLE>

4. Income Taxes:

A reconciliation of the provision for income taxes at the Federal statutory rates to the reported tax provision is as follows (amounts in thousands):

<TABLE>

<CAPTION>

	Three Months Ended March 31	
<S>	1994 <C>	1993 <C>
Provision computed at the U.S. Federal statutory rate	$ 3,139	$ 2,600
State and local income taxes, net of Federal income tax benefit	312	182
Net impact of tax rates on foreign income	11	(234)
Tax benefit from recognition of U.S. net operating loss carryforward to reduce income tax expense	-	(1,670)
Other	116	-
	$ 3,578	$ 878

</TABLE>

5. Earnings Per Common Share:

The primary earnings per common share calculations are determined after deducting dividends on outstanding preferred stock (prior to redemption in July 1993) and are based upon the weighted average number of common and common equivalent shares outstanding during each period. The calculations also include, if dilutive, the incremental number of common shares issuable on a pro forma basis upon exercise of employee stock options, assuming the proceeds are used to repurchase outstanding common shares at the average market price during the period. The number of shares used in these calculations approximated 25,934,000 for the quarter ended March 31, 1994 and 20,324,000 for the quarter ended March 31, 1993. The higher amount of average primary shares in the first quarter of 1994, as compared with 1993, is a result of the conversion of the Company's convertible preferred stock and a portion of its convertible debentures into common shares during 1993. Prior to conversion, such convertible securities were and, to the extent any convertible debentures remain outstanding, are included only in the computation of fully diluted earnings per common share.

The calculation of fully diluted earnings per common share begins with the primary calculation but further reflects, if dilutive, the conversion of the preferred stock and convertible debentures into common shares at the beginning of the period. This calculation resulted in no dilution for the period ended March 31, 1994.

6. Notes Receivable:

At March 31, 1994, the Company held an 8% Subordinated Note Receivable dated June 11, 1993 (the "Note"), in the amount of $19,737,000 received in connection with the sale of its automotive diagnostic and emission test equipment business and related Lease Finance operation in 1993. The Note originally provided for the payment of three equal annual installments of $6,579,000, plus interest, on June 11 of 1994, 1995 and 1996. However, on May 4, 1994 the Company was paid the full amount of the Note pursuant to an existing prepayment option. Accordingly, the full amount of the Note was recorded as a current asset at March 31, 1994. The results of operations for the three months ended March 31, 1993 have been restated to reflect the aforementioned disposed product lines as discontinued operations.

7. Supplemental Cash Flow Disclosures:

Depreciation expense, from continuing operations, included in "Cash provided (used) by operating activities" amounted to $1,731,000 and $1,724,000 for the three months ended March 31, 1994 and 1993, respectively.

Information with respect to cash paid (refunded) during the periods for interest and income taxes is as follows:

<TABLE>

<CAPTION>

	Three Months Ended March 31 1994	1993
<S>	<C>	<C>
Interest paid	$ 1,190	$ 2,080
Interest capitalized	64	-
Income taxes paid (refunded)	(288)	936

</TABLE>

THE ALLEN GROUP INC.
ITEM 2 - MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

RESULTS OF OPERATIONS
Summary:

For the three months ended March 31, 1994, The Allen Group Inc. (the "Company") reported income from continuing operations (before discontinued operations and the cumulative effect of accounting changes) of $5,390,000 ($.21 per common share) compared to $6,769,000 ($.29 per common share) for the comparable 1993 period. The decline in income from continuing operations is due solely to an increased provision for income taxes as a result of the Company's recognition of its remaining tax loss carryforwards in 1993 and its resultant accrual of a full effective tax rate in 1994. In order to demonstrate the impact upon operations of this increase in effective tax rate, the Company has included a pro forma presentation of results of operations in the Condensed Consolidated Statements of Income for the three months ended March 31, 1993, on the assumption that the Company had provided for income taxes at the comparable effective tax rate of 39.9% recorded in 1994. Under this pro forma presentation, income from continuing operations would have been $4,596,000, or $.18 per common share. Income before taxes increased 17% over the prior year principally due to the continued strong performance of the Mobile Communications segment and improved earnings in the Truck Products segment.

Sales:

Consolidated sales from continuing operations by industry segment were:

<TABLE>

<CAPTION>

Three Months

	Three Months Ended March 31, ($ Millions) 1994	1993
<S>	<C>	<C>
Mobile Communications	$48.5	$42.2
Truck Products	27.7	23.1
Centralized Automotive Emissions Testing	.7	.7
	$76.9	$66.0

</TABLE>

Mobile Communications sales increased by $6.3 million for the three months ended March 31, 1994 over the comparable period in 1993, principally due to strong demand for microcells and Extend-A-Cells, and increased sales of base station antennas.

Truck Products sales increased by $4.6 million for the three-month period ended March 31, 1994 over the comparable 1993 period due to higher sales of manufactured truck cabs and radiators, resulting from increased production rates by original equipment manufacturers which form the major customer base of this business.

Centralized Automotive Emissions Testing sales consist of revenues from the Company's MARTA Technologies, Inc. ("MARTA") subsidiary. In 1993, MARTA was awarded the centralized emissions testing contracts for the State of Maryland (a three-year program with two one-year options by the State) and the El Paso, Texas region (a seven-year program). Revenues from these programs, however, will not impact operating results until 1995 because of the lead time involved in building facilities and establishing such programs. In addition, MARTA has bids outstanding for three New York State regional testing programs as well as programs in Virginia, Georgia, Western Michigan and three programs in Ohio, and is preparing a bid for a portion of New Hampshire. MARTA intends to continue its bidding efforts as emissions testing programs are placed for bid. The award of these and other programs is dependent upon legislative activity within each state.

Operating Income: Overall gross margins on product sales approximated 29.5% and 31.7% of sales in the three months ended March 31, 1994 and 1993, respectively. The lower gross margins reflect start-up costs relating to the Crew Cab program in Louisville, Kentucky as well as higher engineering costs in the Mobile Communications segment due to new product development. Selling, general and administrative expenses were 16.2% and 17.4% of product sales for the three months ended March 31, 1994 and 1993, respectively. The improvement results principally from the spreading of fixed costs on higher sales. However, the improvement is offset, in part, by spending increases related to international marketing development costs in the Mobile Communications segment.

Joint Venture Operations: For the three months ended March 31, 1994, the Company reported an equity loss from its joint venture of $694,000, compared to $801,000 for the comparable 1993 period. Equity losses for the periods presented are attributable to GO/DAN Industries ("GDI"), a 50/50 partnership accounted for under the equity method. Such losses are due to the seasonality of GDI's business which is traditionally weakest in the first quarter. However, the improvement in 1994 compared to 1993 is attributable to higher sales, improved economics and efficiencies.

Interest and Financing Expense: Interest and financing expense for the three months ended March 31, 1994 has declined significantly over the comparable 1993 period due to the conversion of approximately 70% of the Company's convertible subordinated debentures into common stock of the Company and to the investment of the cash proceeds and interest earned on the Note received from the sale of the automotive diagnostic and emission test equipment business and related Lease Finance operations in June 1993.

Income Taxes: In 1994, the Company began accruing U.S. Federal income taxes at the full statutory (35%) rate as a result of its recognition of all remaining tax deductions and loss carryforwards in 1993. These events, in combination with the impact of state taxes, results in an estimated effective tax rate of 39.9% as compared with 11.5% for the comparable 1993 period. This higher estimated effective tax rate results in the significantly increased provision for income taxes in the first quarter of 1994 (as well as that expected for the balance of 1994) when compared with 1993. See Notes 1 and 4 of Notes to Consolidated Condensed Financial Statements for additional information.

Discontinued Operations: On June 11, 1993, the Company completed the sale of its Allen Testproducts division and related Lease Financing operations to SPX Corporation ("SPX"); accordingly, the results of operations for the three months ended March 31, 1993 have been restated to reflect these product lines as discontinued operations.

Liquidity and Capital Resources

At March 31, 1994, the Company had $1.6 million of short-term debt and $9.5 million of cash and equivalents. Subsequent to quarter end, on May 4, 1994 the Company received $21.2 million (including accrued interest) as a full prepayment of the subordinated note relating to the divestiture of the Allen Testproducts division and related Lease Financing operations as described in Note 6 to the Consolidated Condensed Financial Statements. This cash is generally invested in short-term obligations, which are accorded one of the two highest ratings available from one of the nationally recognized credit rating agencies. Management believes that the continued profitability of the

Company, a cash and short-term investment balance of $9.5 million, the receipt of the $21.2 million, available unused commitments under its long-term credit facilities of $92.7 million and unused credit facilities and lines for MARTA of $97 million (the total availability under the most restrictive financial covenant was be $137 million as of March 31, 1994) provide sufficient liquidity to fund growth.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

(11) Statement re computation of earnings per common share.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter for which this report is filed.

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.

The Allen Group Inc.
(Registrant)

Date: May 13, 1994 By: /s/ Robert A. Youdelman
Robert A. Youdelman
Senior Vice President-Finance
(Chief Financial Officer)

Date: May 13, 1994 By: /s/ James L. LePorte

James L. LePorte
Vice President and Controller
(Principal Accounting Officer)

THE ALLEN GROUP INC.
EXHIBIT INDEX

EXHIBIT 11
THE ALLEN GROUP INC.

EARNINGS PER COMMON SHARE DATA
(Amounts in Thousands)

Net income and common shares used in the calculations of earnings per common share were computed as follows:

<TABLE>

<CAPTION>

	Three Months Ended March 31, 1994	Three Months Ended March 31, 1993
<S>	<C>	<C>
Income:		
Net income	$ 5,390	$ 7,125
Less: Preferred stock dividends	-	(1,006)
Net income applicable to common stock - primary	5,390	6,119
Add: Preferred stock dividends	-	1,006
Interest on convertible		

debentures	-	241
Net income applicable to common stock - fully diluted	$ 5,390	$ 7,366
Common Shares:		
Weighted average outstanding common shares	25,321	19,528
Common stock equivalents	613	796
Common shares - primary	25,934	20,324
Common shares issuable for:		
Stock options	-	92
Conversion of preferred stock	-	4,600
Conversion of debentures	-	1,258
Common shares - fully diluted	25,934	26,274

Note:

The assumed conversion of convertible debentures into common stock was not dilutive for purposes of calculating fully diluted income per common share for the period ended March 31, 1994. The Company's preferred stock was called for redemption in July of 1993. However, prior to the redemption date, all but a small fraction of shares were converted into common stock of the Company.

</TABLE>