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. 0000950124-94-001009

FILER

ALC COMMUNICATIONS CORP

CIK:**783425**| IRS No.: **382643582** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-10831** | Film No.: **94527998**
SIC: **4813** Telephone communications (no radiotelephone)

Mailing Address
30300 TELEGRAPH ROAD
SUITE 350
BIRMINGHAM MI 48010

Business Address
30300 TELEGRAPH RD
STE 350
BIRMINGHAM MI 48010
3136474060

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FORM 10-Q
U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(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

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 1-10831

ALC COMMUNICATIONS CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	38-2643582
(State of incorporation)	(IRS Employer ID No.)
30300 Telegraph Road, Bingham Farms, Michigan	48025-4510
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (810) 647-4060

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of May 2, 1994, the registrant had 33,575,973 shares of Common Stock outstanding.

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ALC COMMUNICATIONS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

<TABLE>
<CAPTION>

	March 31, 1994 (Unaudited)	December 31, 1993
	(In Thousands)	
<S>	<C>	<C>
Current Assets:		
Cash and cash equivalents	$21,169	$1,819
Accounts receivable, less allowance for doubtful accounts of $3,973,000 and $3,974,000	67,896	58,761
Other current assets	5,227	4,543
Total Current Assets	$94,292	$65,123
Fixed Assets:		
Communication systems	$85,418	$81,752
Other equipment and leasehold improvements	31,245	29,785
Construction in progress	5,998	6,722
	$122,661	$118,259
Less accumulated depreciation and amortization	72,304	69,918

Total Fixed Assets	$50,357	$48,341
Cost in excess of net assets acquired	48,410	48,792
Deferred income taxes	10,240	10,240
Intangibles and other assets	22,138	21,045
Total Assets	$225,437	$193,541

</TABLE>

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ALC COMMUNICATIONS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	March 31, 1994	December 31, 1993
	(Unaudited)	
	(In Thousands)	
<S>	<C>	<C>
Current Liabilities:		
Accounts payable	$3,038	$1,397
Accrued liabilities	24,729	16,855
Accrued network costs	38,553	33,482
Taxes other than income	10,662	11,592
Notes payable, capitalized leases and other long-term debt	313	392
Total Current Liabilities	$77,295	$63,718
Long-term Liabilities:		
Notes payable, capitalized leases and other long-term debt	$3,588	$3,263
Senior Subordinated Notes	84,346	84,335
Total Long-Term Liabilities	$87,934	$87,598
Total Liabilities	$165,229	$151,316
Stockholders' equity:		
Preferred Stock, $0.01 par value; authorized -- 15,500,000 and 14,784,000; issued and outstanding -- none		
Common Stock, par value $0.01; authorized -- 200,000,000 shares; issued and outstanding -- 33,321,000 and 32,948,000 shares	$333	$329
Capital in excess of par value	135,929	132,378
Paid-in capital -- Warrants	11,912	12,129
Accumulated deficit	(87,966)	(102,611)
Total Stockholders' Equity	$60,208	$42,225
Total Liabilities and Stockholders' Equity	$225,437	$193,541

</TABLE>

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ALC COMMUNICATIONS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended	
	March 31, 1994	March 31, 1993
	(In Thousands Except Per Share Amounts)	
<S>	<C>	<C>
Revenue	$129,789	$101,844

Operating Expenses:		
Cost of communication services	$70,010	$55,467
Sales, general and administrative	31,231	28,515
Depreciation and amortization	4,027	2,854
Total Operating Expenses	$105,268	$86,836
Operating Income	$24,521	$15,008
Interest expense	1,626	3,654
Income Before Income Taxes and Cumulative Effect of Accounting Change	$22,895	$11,354
Income taxes	8,250	3,350
Income Before Cumulative Effect of Accounting Change	$14,645	$8,004
Cumulative effect of change in method of accounting for income taxes		13,500
Net Income	$14,645	$21,504
Earnings per common and common equivalent share:		
Income before cumulative effect of accounting change	$0.38	$0.23
Cumulative effect of change in method of accounting for income taxes		$0.38
Net Income	$0.38	$0.61
Weighted average common and common equivalent shares	38,301	35,247

</TABLE>

See notes to consolidated financial statements

ALC COMMUNICATIONS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended	
	March 31, 1994	March 31, 1993
	(In Thousands)	
<S>	<C>	<C>
Operating Activities		
Net income	$14,645	$21,504
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,667	3,491
Amortization of intangible assets and bond discount	1,372	
Gain (loss) on sale of assets	(98)	4
Cumulative effect of change in accounting principle		(13,500)
Increase in accounts receivable and other current assets	(9,818)	(5,007)
Increase in current liabilities	15,817	4,741
Net Cash Provided by Operating Activities	$24,585	$11,233
Financing Activities		
Proceeds from revolving credit facility		$424
Payments on long-term debt	($243)	(11,257)
Proceeds from issuance of common stock	1,665	2,589
Net Cash Provided by (Used in) Financing Activities	$1,422	($8,244)
Investing Activities		
Expenditures for fixed assets	($4,706)	($1,777)
Proceeds from sale of fixed assets	120	
Change in other non-current assets	301	(1,242)
Purchase of customer base	(2,372)	
Net Cash Used in Investing Activities	($6,657)	($3,019)

Increase (Decrease) in Cash	$19,350	($30)
Cash at beginning of period	1,819	112
Cash and cash equivalents at end of period	$21,169	$82
Interest paid	$61	$3,222
Income taxes paid	$1,531	$928

</TABLE>
See notes to consolidated financial statements

ALC COMMUNICATIONS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Three Months Ended March 31, 1994
(Unaudited)

<TABLE>
<CAPTION>

	Common Stock		Capital in excess of par value	Paid-in capital -- Warrants		Accumulated deficit	Total
	Shares	Amount		Shares	Amount		
				(In Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1993	32,948	$329	$132,378	4,266	$12,129	($102,611)	$42,225
Exercise of stock options	156	2	577				579
Tax benefit from stock option exercises			1,673				1,673
Exercise of warrants	217	2	1,301	(217)	(217)		1,086
Net income for the three months ended March 31, 1994						14,645	14,645
Balance, March 31, 1994	33,321	$333	$ 135,929	4,049	$11,912	($87,966)	$60,208

</TABLE>
See notes to consolidated financial statements

ALC COMMUNICATIONS CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 1993 AND 1994

NOTE A -- MANAGEMENT'S REPRESENTATION

The consolidated financial statements included herein have been prepared by ALC management, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Certain prior year amounts have been reclassified to conform to current year presentation. In the opinion of ALC management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature, and the accompanying consolidated financial statements present fairly the financial position as of March 31, 1994 and December 31, 1993, and the results of operations and cash flows for the three month periods ended March 31, 1994 and 1993.

The balance sheet at December 31, 1993 has been derived from the audited financial statements at that date but dies not include all of the information and footnotes required by generally accepted accounting principles for complete finaicial statements. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes included in the Company's Form 10-K for the fiscal year ended December 31, 1993.

NOTE B -- SUBSEQUENT EVENT

In April 1994, the Company acquired, on the open market, $5.0 million of its 9.0% Senior Subordinated Debentures at the Company's approximate book value.

Item 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The Company reported net income of $14.6 million on revenue of $129.8 million for the three month period ended March 31, 1994. This compares to net income (before the cumulative effect of accounting change) of $8.0 million on revenue of $101.8 million for the same period in 1993. Gross margin increased to 46.1% from 45.5% in the year earlier period. The significant improvement in operations was reflected by the increase in operating income of $9.5 million over the same period one year earlier. The improved operating results for the first quarter of 1994 were primarily due to an increase in long distance traffic and operating expense reductions as a percent of revenue.

OPERATING RESULTS AS A PERCENT OF REVENUE

<TABLE>
<CAPTION>

	Three Months Ended March 31, 1994	1993
<S>	<C>	<C>
Revenue	100.0%	100.0%
Communication Services	(53.9)	(54.5)
Gross Margin	46.1%	45.5%
Sales, general and administrative	(24.1)	(28.0)
Depreciation and amortization	(3.1)	(2.8)
Operating income	18.9%	14.7%

</TABLE>

During the first quarter of 1993, the Company adopted Financial Accounting Standards Board Statement No. 109 "Accounting for Income Taxes" ("Statement 109") which resulted in the recording of a net deferred tax asset related primarily to future tax benefits which are expected to be realized upon utilization of a portion of the Company's tax net operating loss carryforwards. The cumulative effect of the change in method of accounting for income taxes resulted in an increase in income of $13.5 million in the first quarter of 1993. Net income for the three months ended March 31, 1993 was $21.5 million.

Billable minutes have continued to increase since the third quarter of 1990 when compared to the same quarter in the prior year. For the third quarter in a row, billable minutes have reached the highest level in the Company's history. The increase in billable minutes results from traffic growth generated by new customers, minutes from the acquisition of a customer base, increased sales productivity, the introduction of new products and increased minutes per customer offset by billable minutes lost through attrition of existing customers. The results of operations for the

three months ended March 31, 1994 reflect a continuation of the trend of strong financial performance as indicated by an 83.0% increase in income before the cumulative effect of the accounting change from the comparable quarter of 1993.

REVENUE

Revenue increased by 27.4% for the three months ended March 31, 1994 from the comparable period of 1993. Billable minutes again reached the highest level in the history of the Company, increasing by 33.0% for the three months ended March 31, 1994 over the comparable period in 1993. Additionally, resellers contributed $18.1 million to revenue during the quarter, up over 160% from the comparable quarter one year earlier. The Company's revenue per minute continues to be above the industry average, though it has decreased from the prior year quarter resulting from changes in the sales mix.

The first full month revenue from new sales in the first quarter of 1994 was significantly higher than the same period one year earlier. The increased revenue from new sales along with growth in revenue from existing customers continues to outpace revenue lost from the attrition of customers.

The provision for uncollectible revenue was 1.8% of gross revenue for the three months ended March 31, 1994 and 2.6% for the same period of 1993. Controls and procedures continue to be reviewed to improve the collection process and provide earlier detection of credit risks.

OPERATING EXPENSES

The Company's primary cost is for communication services, which represents the costs of originating and terminating calls via local exchange carriers (primarily Bell Operating Companies). Also included in communication services are the costs of owning and leasing long-haul transmission capacity.

The cost of communication services increased $14.5 million during the three month period ended March 31, 1994 compared to the same period in 1993. This cost, however, declined as a percent of net revenue for the comparable periods. By the use of high volume fixed price leased facilities to transmit traffic and lower prevailing unit prices for such capacity, the Company has successfully reduced its network costs as a percent of revenue.

Sales, general and administrative expenses increased by 9.5% for the three month period ended March 31, 1994 from the same period one year earlier (but was lower as a percent of revenue). This increase reflects increased

commissions, new sales channel program costs and other expenses related to greater sales activity. First quarter 1994 results include a $1.2 million addition to pre-tax income resulting from the settlement of a state telecommunications excise tax dispute.

Depreciation and amortization increased 41.1% from the first quarter of 1993 to the same quarter in 1994. This is primarily due to the amortization of the costs related to the acquisition of a customer base.

INTEREST EXPENSE

Net interest expense decreased 55.5% for the three months ended March 31, 1994 compared to the same period in 1993. This resulted from principal payments in 1993, reduced interest related to the replacement of the 1992 Notes with the 1993 Notes, increased interest income due to higher cash balances, the elimination of borrowings under the Revolving Credit Facility as well as capital Lease expirations.

INCOME TAXES

The effective tax rate increased from 29.5% for the first quarter of 1993 to 36.0% for the first quarter of 1994, due to the increase in the federal income tax rate and the increase in taxable income which results in a decrease in the impact of the Company's annual available $10 million net operating loss carryforward on the effective rate.

LIQUIDITY AND CAPITAL RESOURCES

For the quarters ended March 31, 1994 and 1993, the Company generated positive cash flow from operations of $24.6 million and $11.2 million, respectively. The positive cash flow reflects fifteen consecutive quarters of increased revenue and operating profits compared to prior year comparable quarters.

The positive cash flow from operations resulted in working capital of $17.0 million at March 31, 1994 compared to a $1.4 million at December 31, 1993. The increase in working capital is largely attributable to: (a) the increase in accounts receivable due to the increase in revenue and (b) the increase in cash attributable to the increased cash flow.

In addition to the positive cash flow from operations, the Company's liquidity position is further strengthened by the availability under the

Revolving Credit Facility ("Facility"). The Facility provides for borrowings up to $40.0 million based on the level of accounts receivable and expires June 30, 1995. Under this Facility, the Company is able to minimize interest expense by structuring the borrowings under three alternatives. The effective rate under the Facility during 1993 approximated 5.8%. There have been no borrowings under the Facility during 1994. As of March 31, 1994, the Company had borrowing availability of $40.0 million and no balance outstanding.

Further evidence of the Company's strong liquidity position was the Company's ability to finance the purchase, in April 1994, of $5.0 million of the Company's 1993 Notes from cash flow from operations.

Because the Company has chosen to lease rather than own its transmission facilities, the Company's requirements for capital expenditures are modest. Capital expenditures totaled $4.7 million for the first quarter of 1994 and are expected to be $20 - $25 million for the year ended December 31, 1994. Capital expenditures during the first quarter of 1994 included projects for enhanced efficiency and technical advancement in the network, information systems and customer service. Future investment requirements for capital expenditures relate directly to traffic growth which necessitates the purchase of switching and related equipment. In addition, a major component of the capital budget relates to technological advancements as the Company continually updates its network capabilities to offer enhanced products and services.

Management believes that the Company's cash flow from operations will provide adequate sources of liquidity to meet the Company's anticipated short and long term liquidity needs.

PART II: OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 of Regulation S-K

<TABLE>
<CAPTION>

EXHIBIT INDEX

Exhibit Number	Description	Filed Herewith	Incorporated Herein by Reference to:	Page Number Herein
<S>	<C>	<C>	<C>	<C>
11.1	Computation of Earnings Per Share	X		

</TABLE>

The Registrant hereby agrees to furnish the Commission a copy of each of the Indentures or other instruments defining the rights of security holders of the long-term debt securities of the Registrant and any of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the first quarter of 1994.

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.

ALC COMMUNICATIONS CORPORATION
(Registrant)

By:/s/ Marvin C. Moses

Marvin C. Moses, Executive

Vice President and Chief
Financial Officer

By:/s/ Marilyn M. Lesnau

Marilyn M. Lesnau, Vice
President, Controller and
Chief Accounting Officer

Dated: May 13, 1994

ALC COMMUNICATIONS CORPORATION AND SUBSIDIARY Exhibit 11.1
COMPUTATION OF EARNINGS PER SHARE
(Unaudited)

<TABLE>
<CAPTION>

<S>	Three Months Ended March 31, 1994 <C>	Three Months Ended March 31, 1993 <C>
	(in thousands except per share amounts)	
Earnings Per Share		
Income before cumulative effect of accounting change	$14,645	$8,004
Accretion of discount on Class A Preferred Stock		(22)
Accrued dividends on Class A Preferred Stock		(123)
Income before cumulative effect of accounting change available for Common Stockholders	$14,645	$7,859
Cumulative effect of change in method of accounting for income taxes		13,500
Net Income Available for Common Stockholders	$14,645	$21,359
Weighted average Common shares outstanding during the period	33,061	24,272
Earnings per common and common equivalent share:		
Income before cumulative effect of accounting change	$0.44	$0.32
Cumulative effect of change in method of accounting for income taxes		0.56
Net Income	$0.44	$0.88
Primary Earnings Per Share		
Income before cumulative effect of accounting change	$14,645	$8,004
Accretion of discount on Class A Preferred Stock		(22)
Accrued dividends on Class A Preferred Stock		(123)
Income before cumulative effect of accounting change available for Common Stockholders	$14,645	$7,859
Cumulative effect of change in method of accounting for income taxes		13,500
Net Income Available for Common Stockholders	$14,645	$21,359
Weighted average Common shares outstanding during the period	33,061	24,272
Common Stock Equivalents:		
Average amount of Class B and Class C Preferred (Common Stock Equivalent)		3,501
Weighted Average Common and Common Equivalent Shares	33,061	27,773
Earnings per common and common equivalent share:		
Income before cumulative effect of accounting change	$0.44	$0.28
Cumulative effect of change in method of accounting for income taxes		0.49
Net Income	$0.44	$0.77

</TABLE>

<TABLE>
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Three Months Ended

<S>	March 31, 1994 <C>	March 31, 1993 <C>
	(in thousands except per share amounts)	
Primary Earnings Per Share -- Modified Treasury Stock Method		
Income before cumulative effect of accounting change	$14,645	$8,004
Accretion of discount on Class A Preferred Stock		(22)
Accrued dividends on Class A Preferred Stock		(123)
Effect of Modified Treasury Stock Method:		
Reduction in interest (net of tax) (1)		257
Income before cumulative effect of accounting change available for Common Stockholders	$14,645	$8,116
Cumulative effect of change in method of accounting for income taxes		13,500
Net Income Available for Common Stockholders	$14,645	$21,616
Weighted average Common shares outstanding during the period	33,061	24,272
Common Stock Equivalents:		
Average amount of Class B and Class C Preferred (Common Stock Equivalent)		3,501
Effect of Modified Treasury Stock Method:		
Assumed exercise of all options and warrants	8,638	12,329
Assumed repurchase of up to 20% of Common Stock outstanding	(3,398)	(4,855)
Weighted Average Common and Common Equivalent Shares	38,301	35,247
Earnings per common and common equivalent share:		
Income before cumulative effect of accounting change	$0.38	$0.23
Cumulative effect of change in method of accounting for income taxes		0.38
Net Income	$0.38	$0.61

</TABLE>

(1) All proceeds for March 31, 1994 assumed used for repurchase of up to 20% of Common Stock equivalents.

Note: Fully Diluted Earnings per share is represented by the same calculation as Primary Earnings per Share. Earnings per share were reported using the Modified Treasury Stock Method.