FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. 0000897069-96-000387

(HTML Version on secdatabase.com)

FILER

ALLIS CHALMERS CORP

CIK:**3982**| IRS No.: **390126090** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **002-59583** | Film No.: **96665896**
SIC: **3590** Misc industrial & commercial machinery & equipment

Mailing Address
1126 SOUTH 70TH STREET
1126 SOUTH 70TH STREET
WEST ALLIS WI 53214

Business Address
P O BOX 512
MILWAUKEE WI 53201
4144752000

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 SEPTEMBER 30, 1996 OR

[ ] 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 1-2199

ALLIS-CHALMERS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	39-0126090 (I.R.S. Employer Identification No.)
Box 512, Milwaukee, Wisconsin (Address of principal executive offices)	53201-0512 (Zip code)

(414)475-2000
Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes X No

At November 5, 1996 there were 1,003,028 shares of Common Stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLIS-CHALMERS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF OPERATIONS

	Three Months Ended September 30		Nine Months Ended September 30	
	1996	1995	1996	1995
	(Thousands, except per share)			
Sales	$ 968	$ 770	$3,109	$2,392
Cost of sales	792	595	2,301	1,774
Gross Margin	176	175	808	618
Marketing and administrative expense	307	335	1,006	1,077
Loss from Operations	(131)	(160)	(198)	(459)
Other income (expense)				
Interest income	16	34	50	99
Interest expense	(8)	(16)	(27)	(35)
Other	(338)	(260)	(1,003)	(799)
Loss Before Income Taxes	(461)	(402)	(1,178)	(1,194)
Charge in lieu of income taxes	-	-	-	-
Net Loss	$ (461)	$ (402)	$(1,178)	$(1,194)
Net Loss per Common Share	$ (.46)	$ (.40)	$ (1.17)	$ (1.18)

STATEMENT OF ACCUMULATED DEFICIT

Nine Months Ended September 30	1996	1995
	(thousands)	

Accumulated deficit - beginning of year	$(8,018)	$(6,570)
Net loss	(1,178)	(1,194)
Accumulated deficit - September 30	$(9,196)	$(7,764)

This interim statement is unaudited.

The accompanying Notes are an integral part of the Financial Statements.

ALLIS-CHALMERS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF FINANCIAL CONDITION

	September 30, 1996	December 31, 1995
	(Thousands)	
Assets		
Cash and short-term investments	$ 1,888	$ 1,881
Trade receivables, net	424	265
Non-trade receivables	92	664
Inventories, net	75	128
Other current assets	209	206
Total Current Assets	2,688	3,144
Net property, plant and equipment	891	907
Total Assets	$ 3,579	$ 4,051
Liabilities and Shareholders' Deficit		
Current maturities of long-term debt	$ 38	$ 299
Trade accounts payable	127	73
Accrued employee benefits	93	80
Accrued pension liability	2,289	2,493
Reserve for legal expenses	166	275
Other current liabilities	353	324
Total Current Liabilities	3,066	3,544
Accrued pension liability	10,390	9,374
Accrued postretirement benefit obligations	956	1,020
Long-term debt	265	33
Shareholders' deficit		

Common stock, ($.15 par value, authorized 2,000,000 shares, outstanding 1,003,028 at September 30, 1996 and December 31, 1995)	152	152
Capital in excess of par value	8,155	8,155
Accumulated deficit (accumulated deficit of $424,208 eliminated on December 2, 1988)	(9,196)	(8,018)
Pension liability adjustment	(10,209)	(10,209)
Total Shareholders' Deficit	(11,098)	(9,920)
Commitments and contingent liabilities	-------	--------
Total Liabilities and Shareholders' Deficit	$ 3,579	$ 4,051

This interim statement is unaudited.

The accompanying Notes are an integral part of the Financial Statements.

ALLIS-CHALMERS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CASH FLOWS

	Nine Months Ended September 30 1996	1995
	(thousands)	
Cash flows from operating activities:		
Net loss	$ (1,178)	$ (1,194)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	58	88
Gain on sale of fixed assets	(3)	-
Change in working capital:		
Decrease in receivable, net	413	82
Decrease (increase) in inventories	53	(92)
Increase (decrease) in trade accounts payable	54	(62)
(Decrease) increase in other current items	(70)	91
Increase in accrued pension liability, net	812	800
Other	(64)	(22)
Net cash provided (used) by operating activities		

	75	(309)
Cash flows from investing activities:		
Capital expenditures	(42)	(84)
Proceeds from sale of equipment	3	4
Net cash used by investing activities	(39)	(80)
Cash flows from financing activities:		
Net proceeds from issuance of long-term debt	270	67
Payment of long-term debt	(299)	(24)
Net cash provided (used) by financing activities	(29)	43
Net increase (decrease) in cash and short-term investments	7	(346)
Cash and short-term investments at beginning of period	1,881	2,225
Cash and short-term investments at end of period	$ 1,888	$ 1,879
Supplemental information - interest paid	$ 27	$ 37

This interim statement is unaudited.

The accompanying Notes are an integral part of the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING POLICIES

This interim financial data should be read in conjunction with the consolidated financial statements and related notes, management's discussion and analysis and other information included in the Company's 1995 Annual Report.

All adjustments considered necessary for a fair presentation of the results of operations have been included in the unaudited financial statements. The results of operations for any interim period are not necessarily indicative of Allis-Chalmers operating results for a full year.

NOTE 2 - POSTRETIREMENT OBLIGATIONS--PENSION PLAN

Effective January 1, 1994 the Company's independent pension actuaries changed the assumptions for mortality and administrative expenses used to determine the liabilities of the Allis-Chalmers Consolidated Pension Plan (Consolidated Plan). Primarily as a result of the changes in mortality assumptions to reflect decreased mortality rates of the Company's retirees, it was determined that the Consolidated Plan was underfunded on a present value basis by approximately $10.0 million. In the fourth quarter of 1993, the Company recorded the liability related to this underfunded position, resulting in the elimination of its shareholders' equity. Subsequent updates to the underfunding calculation have increased the present value of the underfunding obligation to $11.9 million as of December 31, 1995. As a result of the underfunding condition and pursuant to ERISA minimum funding requirements, on January 15, 1996 the Company made a cash contribution to the Consolidated Plan in the amount of $205,000. Additional cash contributions required to eliminate this underfunding are estimated to be $2.3 million in 1996, $3.6 million in 1997 and $12.2 million between 1998 and 2002. The cash contributions of $637,000 due on April 15, 1996 and July 15, 1996, and the cash contribution of $378,000 due on September 15, 1996, were not made. Because the unpaid contributions exceed $1,000,000, a lien has been filed by the Pension Benefit Guaranty Corporation (PBGC) against the Company in favor of the Consolidated Plan. The unpaid contributions result in additional interest liability for the period of nonpayment and through the passage of time, may result in IRS excise tax penalties if they remain unpaid. Given the inability of the Company to fund the entire underfunding obligation with its current financial resources, a termination of the Consolidated Plan will likely occur, with the consequence of a liability to the PBGC in excess of the current net worth of the Company. However, the Company intends to continue discussions with the PBGC concerning its obligations under the Consolidated Plan. Although it is not possible to predict the outcome of such discussions, if the Company is unable to negotiate a settlement with the PBGC on terms that are acceptable to the Company, Allis-Chalmers will be required to evaluate it options, which include attempting to raise additional capital to eliminate the underfunding or seeking protection from its creditors by commencing voluntary bankruptcy proceedings under the federal bankruptcy laws. The Company does not believe it will be able to raise additional capital to meet its obligations under the Consolidated Plan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Sales in the third quarter of 1996 totaled $968,000 an increase from $770,000 in the third quarter of 1995. The increase in sales from the prior year is the result of a stronger market for machinery repair and services along with expanded sales efforts. Operations of the Company consist of Houston Dynamic Service, Inc. (HDS), the Company's machinery repair and service subsidiary. Through September 1996 sales were $3,109,000 compared with $2,392,000 through the same period of 1995.

Gross margin, as a percentage of sales, was 18.2% in the third quarter of 1996, a decrease from 22.7% in 1995 primarily due to product mix and down time. Gross margin through September 1996 was 26.0% compared with 25.8% in the same period of the prior year.

Marketing and administrative expense was $307,000 in the third quarter of 1996 compared with $335,000 in the prior year. For the first nine months of 1996, marketing and administrative expense was $1,006,000, a decrease from $1,077,000 for the first nine months of the prior year. A significant portion of the Company's administrative expenses relates to expenses for Securities and Exchange Commission and other governmental reporting as well as legal, accounting and audit, tax, insurance and other corporate requirements of a publicly held company.

Other expense was $338,000 in the third quarter of 1996 which included a non-cash expense of $339,000 for pension expense on the unfunded liability of approximately $11.9 million associated with the Consolidated Plan. Pension expense in the third quarter of 1995 was $267,000.

The Company incurred a loss of $461,000, or $.46 per common share, in the third quarter of 1996 compared with a loss of $402,000, or $.40 per common share, in the same period of 1995. The loss in the third quarter of 1996 included an expense of $339,000 for pension expense on the unfunded liability of approximately $11.9 million associated with the Consolidated Plan.

In the first nine months of 1996, the Company incurred a loss of $1,178,000 or $1.17 per common share compared with a loss of $1,194,000 or $1.18 per common share in the same period of 1995.

Financial Condition and Liquidity

Cash and short term investments totaled $1.9 million at September 30, 1996, no change from December 31, 1995.

Trade receivables at September 30, 1996 were $424,000, reflecting an increase from the December 31, 1995 level of $265,000, primarily due to the timing of the billings for increased sales at the end of the quarter.

Non-trade receivables were $92,000 at September 30, 1996 reflecting a major decrease from $664,000 at December 31, 1995. This decrease was the result of a negotiated settlement for $500,000 for amounts due from the sale of the Company's BRB division.

Inventory at September 30, 1996 was $75,000, a decrease from $128,000 at year end 1995. The decrease is due to the completion of work in process jobs which occurred at the end of the quarter.

Long-term debt, including current maturities at September 30, 1996, was $303,000 a decrease from $322,000 at December 31, 1995. The decrease in the current maturity balance at September 30, 1996 to $38,000 from the balance of $299,000 at December 31, 1995 was the result of the refinancing of a balloon payment due in August 1996. The effect of the decrease in the balance of the current maturities of long-term debt was offset by a similar increase in long- term debt.

The A-C Reorganization Trust, pursuant to the Plan of Reorganization, funds all costs incurred by Allis-Chalmers which relate to implementation of the Plan of Reorganization, thus avoiding additional demands on the liquidity of the Company. Such costs include an allocated share of certain expenses for Company employees, professional fees and certain other administrative expenses.

In 1988, the Plan of Reorganization provided for the contribution of $53.8 million to the Company's then-existing 11 salaried and inactive hourly pension plans. This funding, in addition to the then-existing assets in the pension plans, was used to establish a high-grade fixed income securities portfolio. The market value of the portfolio assets was matched to the present value of the expected pension benefits and administrative expenses of the plans in a way intended to make the pension fund immune from interest rate fluctuations, thus substantially eliminating the need for future Company contributions. Effective January 1, 1989, the 11 remaining Allis-Chalmers pension plans were consolidated into a single plan, the Consolidated Plan. Pursuant to its obligations under the Plan of Reorganization, the Company continues as the plan sponsor for the Consolidated Plan.

For the years 1989 through 1994, retirees eligible for benefits under the Consolidated Plan as a group, outlived the projections based on the mortality assumptions used in the Plan of Reorganization for funding the Consolidated Plan. During this period, actual administrative expenses were slightly in excess of assumed levels. The Company was advised by its independent actuaries that effective January 1, 1994 it was required to reflect such decreased mortality for funding calculation purposes. This change in the mortality assumptions and an increase in the assumption for future administrative expenses created an underfunded condition in the Consolidated Plan. Based on the most recent recalculation, the underfunding was $11.9 million on a present value basis as of December 31, 1995.

This underfunded condition in the Consolidated Plan requires the Company to make significant cash contributions to the Consolidated Plan pursuant to ERISA minimum funding requirements starting in 1996. Such contributions are projected to be $2.5 million in 1996, $3.6 million in 1997 and $12.2 million between 1998 and 2002. On January 15, 1996, the Company made a cash contribution to the Consolidated Plan in the amount of $205,000 against the $2.5 million due in 1996, however, the $637,000 cash contributions due on April 15 and July 15, 1996 and the cash contribution of $378,000 due on September 15, 1996 were not made. Because the unpaid contributions exceed $1,000,000, a lien has been filed by the PBGC against the Company in favor of the Consolidated Plan. The unpaid contributions result in additional interest liability for the period of nonpayment and through the passage of time, may result in IRS excise tax penalties if they remain unpaid. Given the inability of the Company to fund the entire underfunding obligation with its current financial resources, a termination of the Consolidated Plan will likely occur, with the consequence of a liability to the PBGC in excess of the current net worth of the Company. However, the Company intends to continue discussions with the PBGC concerning its obligations under the Consolidated Plan. As previously reported, although it is not possible to predict the outcome of such discussions, if the Company is unable to negotiate a settlement with the PBGC on terms that are acceptable to the Company, Allis-Chalmers will be required to evaluate it options, which include attempting to raise additional capital to eliminate the underfunding or seeking protection from its creditors by commencing voluntary bankruptcy proceedings under the federal bankruptcy laws. The Company does not believe it will be able to raise additional capital to meet its obligations under the Consolidated Plan.

The Environmental Protection Agency (EPA) and certain state environmental protection agencies have requested information in connection with eleven potential hazardous waste disposal sites in which products manufactured by Allis-Chalmers before consummation of the Plan of Reorganization were disposed. The EPA has claimed that Allis-Chalmers is liable for cleanup costs associated with six additional sites. The EPA's claims with respect to one other site were withdrawn in 1994 based upon settlements reached with the EPA in the bankruptcy proceeding. In addition, eight third parties have asserted that Allis-Chalmers is responsible for cleanup costs or associated EPA fines in connection with eight additional sites. In three of these instances, Allis-Chalmers and other potentially responsible parties were sued for the cost of cleanup of these sites. In each instance the environmental claims asserted against the Company involve its prebankruptcy operations. Accordingly, Allis-Chalmers has taken the position that all cleanup costs or other liabilities related to these sites were discharged in the bankruptcy. In all three of the lawsuits, plaintiffs agreed to a dismissal of the claims against Allis-Chalmers. In one particular site, the EPA's Region III has concurred with the Company's position that claims for environmental cleanup were discharged pursuant to the bankruptcy. While each site is unique with different circumstances, the Company has notified other Regional offices of the EPA of this determination associated with the Region III site. The Company has not received responses from the other Regional offices. No environmental claims have been asserted against the Company involving its postbankruptcy operations.

The Company's principal sources of cash include earnings from the operations of HDS and interest income on marketable securities. The cash requirements needed for the administrative expenses associated with being a publicly held company are significant, and the Company will continue to use cash generated by operations to fund such expenses. However, the Company does not have sufficient cash to cover the unfunded pension liability payments.

The necessity to assure liquidity emphasizes the need for the Company to continue in a prudent manner its search for appropriate acquisition candidates in order to increase the Company's operating base and generate positive cash flow.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to litigation matters and claims which are normal in the course of its operations, and, the results of litigation and claims cannot be predicted with certainty. Excluding any potential claims relating to the Company's failure to make the required contributions to the Consolidated Plan described herein, management believes that the final outcome of such matters will not have a material adverse effect on the Company's consolidated financial position. See Part I, Item 2 "Management's Discussion and Analysis."

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: (27) - Financial Data Schedule

(b) Reports on Form 8-K - No report on Form 8-K was filed during the third quarter of 1996.

SIGNATURE

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.

Allis-Chalmers Corporation
(Registrant)

/s/ John T. Grigsby, Jr.
John T. Grigsby, Jr.
Vice Chairman, Executive Vice
President and Chief Financial
Officer

November 13, 1996

EXHIBIT INDEX

Exhibit No.	Description
27	Financial Data Schedule

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONSOLIDATED FINANCIAL STATEMENTS OF ALLIS-CHALMERS CORPORATION AS OF
AND FOR THE PERIOD ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS
ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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