

Edgar Filing: ALLIS CHALMERS CORP - Form 10-Q

ALLIS CHALMERS CORP  
Form 10-Q  
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 1 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001 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

39-0126090

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

4180 Cherokee Drive  
Brookfield, Wisconsin

53045

-----  
(Address of principal executive offices)

-----  
(Zip code)

(262) 781-7155

-----  
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  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  No

At May 7, 2001 were 1,588,128 shares of Common Stock outstanding.

2

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Edgar Filing: ALLIS CHALMERS CORP - Form 10-Q

-----  
 ALLIS-CHALMERS CORPORATION AND CONSOLIDATED SUBSIDIARIES  
 -----

STATEMENT OF OPERATIONS  
 -----

	Three Months Ended March 31	
	2001	2000
	(thousands, except per share)	
Sales	\$ 1,337	\$ 824
Cost of sales	853	629
Gross Margin	484	195
Marketing and administrative expense	391	295
Income (Loss) from Operations	93	(100)
Other income (expense)		
Interest income	0	2
Interest expense	(8)	(6)
Other	0	0
Net Income (Loss)	\$ 85	\$ (104)
Net Income (Loss) per Common Share	\$ .05	\$ (.07)

STATEMENT OF ACCUMULATED DEFICIT

Three Months Ended March 31	2001	2000
	(thousands)	
Accumulated deficit - beginning of year	\$ (75,975)	\$ (75,786)
Net income (loss)	85	(104)
Accumulated deficit - March 31	\$ (75,890)	\$ (75,890)

This interim statement is unaudited.

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

3

-----  
 ALLIS-CHALMERS CORPORATION AND CONSOLIDATED SUBSIDIARIES  
 -----

STATEMENT OF FINANCIAL CONDITION

Edgar Filing: ALLIS CHALMERS CORP - Form 10-Q

	March 31, 2001	December 31, 2000
	-----	-----
	(thousands)	
Assets		
Cash and cash equivalents	\$ 192	\$ 358
Trade receivables, net	883	549
Inventories, net	192	122
Other current assets	29	44
	-----	-----
Total Current Assets	1,296	1,073
Net property, plant and equipment	1,018	1,055
	-----	-----
Total Assets	\$ 2,314	\$ 2,128
	=====	=====
Liabilities and Shareholders' Deficit		
Current maturities of long-term debt	\$ 195	\$ 212
Trade accounts payable	283	208
Accrued employee benefits	199	143
Accrued pension liability	66,877	66,877
Other current liabilities	97	106
	-----	-----
Total Current Liabilities	67,651	67,546
Accrued postretirement benefit obligations	881	889
Long-term debt	341	337
Shareholders' deficit		
Common stock, (\$.15 par value, authorized 2,000,000 shares, outstanding 1,588,128 at March 31, 2001 and December 31, 2000)	238	238
Capital in excess of par value	9,093	9,093
Accumulated deficit (accumulated deficit of \$424,208 eliminated on December 2, 1988)	(75,890)	(75,975)
	-----	-----
Total Shareholders' Deficit	(66,559)	(66,644)
	-----	-----
Total Liabilities and Shareholders' Deficit	\$ 2,314	\$ 2,128
	=====	=====

This interim statement is unaudited.

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

Edgar Filing: ALLIS CHALMERS CORP - Form 10-Q

STATEMENT OF CASH FLOWS

-----

	Three Months Ended March 31	
	2001	2000
	----- (thousands) -----	
Cash flows from operating activities:		
Net income (loss)	\$ 85	\$ (104)
Adjustments to reconcile net loss to net cash (used) provided by operating activities:		
Depreciation and amortization	42	41
Change in working capital:		
(Increase) decrease in receivables, net	(334)	36
Increase in inventories	(70)	(27)
Increase (decrease) in trade accounts payable	75	(254)
Increase in other current items	45	51
Other	(8)	3
	-----	-----
Net cash (used) provided by operating activities	(165)	(254)
Cash flows from investing activities:		
Capital expenditures	(5)	0
Cash flows from financing activities:		
Net proceeds from issuance of long-term debt	4	0
Payment of long-term debt	0	(17)
	-----	-----
Net cash (used) provided by financing activities	4	(17)
	-----	-----
Net (decrease) in cash and cash equivalents	(166)	(271)
Cash and cash equivalents at beginning of period	358	501
	-----	-----
Cash and cash equivalents at end of period	\$ 192	\$ 230
	=====	=====
Supplemental information - interest paid	\$ 8	\$ 6
	=====	=====

This interim statement is unaudited.

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

5

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING POLICIES

This interim financial data should be read in conjunction with the consolidated

## Edgar Filing: ALLIS CHALMERS CORP - Form 10-Q

financial statements and related notes, management's discussion and analysis and other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

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 the Company's operating results for a full year.

### NOTE 2 - POSTRETIREMENT OBLIGATIONS--PENSION PLAN

In 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 (the "Consolidated Plan"). Primarily as a result of the changes in mortality assumptions to reflect decreased mortality rates of the Company's retirees, the Consolidated Plan was underfunded on a present value basis. In the first quarter of 1996, the Company made a required cash contribution to the Consolidated Plan in the amount of \$205,000. The Company did not, however, have the financial resources to make the other required payments during 1996 and 1997. Given the inability of the Company to fund such obligations with its current financial resources, in February 1997, the Company applied to the Pension Benefit Guaranty Corporation ("PBGC") for a "distress" termination of the Consolidated Plan under section 4041(c) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The PBGC approved the distress termination application in September 1997 and agreed to a plan termination date of April 14, 1997. The PBGC became trustee of the terminated Consolidated Plan on September 30, 1997.

Upon termination of the Consolidated Plan, the Company and its subsidiaries incurred a liability to the PBGC for an amount equal to the Consolidated Plan's unfunded benefit liabilities. Allis-Chalmers and its subsidiaries also had liability to the PBGC, as trustee of the terminated Consolidated Plan, for the outstanding balance of the Consolidated Plan's accumulated funding deficiencies. The PBGC estimated that the unfunded benefit liabilities and the accumulated funding deficiencies (together, the "PBGC Liability") total approximately \$67.9 million. Effective March 31, 1999, the Company issued 585,100 shares to the PBGC reducing the pension liability by the estimated fair market value of the shares to \$66.9 million.

In September 1997, the Company and the PBGC entered into an agreement in principle for the settlement of the PBGC Liability which required, among other things, satisfactory resolution of the Company's tax obligations with respect to the Consolidated Plan under Section 4971 of the Internal Revenue Code of 1986, as amended ("Code"). Section 4971(a) of the Code imposes, for each taxable year, a first-tier tax of 10% on the amount of the accumulated funding deficiency under a plan like the Consolidated Plan. Section 4971(b) of the Code imposes an additional, second-tier tax equal to 100% of such accumulated funding deficiency if the deficiency is not "corrected" within a specified period. Liability for the taxes imposed under

6

section 4971 extends, jointly and severally, to the Company and to its commonly-controlled subsidiary corporations.

Prior to its termination, the Consolidated Plan had an accumulated funding deficiency in the taxable years 1995, 1996, and 1997. Those deficiencies resulted in estimated first-tier taxes under Code section 4971(a) of approximately \$900,000.

On July 16, 1998, the Company and the Internal Revenue Service ("IRS") reached

## Edgar Filing: ALLIS CHALMERS CORP - Form 10-Q

an agreement in principal to settle the Company's tax liability under Code Section 4971 for \$75,000. Following final IRS approval, payment of this amount was made on August 11, 1998.

In June 1999, but effective as of March 31, 1999, the Company and the PBGC entered into an agreement for the settlement of the PBGC Liability (the "PBGC Agreement"). Pursuant to the terms of the PBGC Agreement, the Company issued 585,100 shares of its common stock to the PBGC, or 35% of the total number of shares issued and outstanding on a fully-diluted basis, and the Company has a right of first refusal with respect to the sale of the shares of common stock owned by the PBGC. In conjunction with the share issuance, the Company reduced the pension liability to the PBGC based on the estimated fair market value of the shares issued on the effective date of March 31, 1999. In accordance with the terms of the PBGC Agreement, the Company was required to and has (i) decreased the size of the Board of Directors of the Company (the "Board") to seven members; (ii) caused a sufficient number of then current directors of the Company to resign from the Board and all committees thereof; and (iii) caused three designees of the PBGC, to be elected to the Board. The PBGC has caused the Company to amend its By-laws ("By-laws") to conform to the terms of the PBGC Agreement. Furthermore, the Company agreed to pay the PBGC's reasonable professional fees on the 90th day after a Release Event (as defined below). During the term of the PBGC Agreement, the Company agreed not to issue or agree to issue any common stock of the Company or any "common stock equivalent" for less than fair value (as determined by a majority of the Board). The Company also agreed not to merge or consolidate with any other entity or sell, transfer or convey more than 50% of its property or assets without majority Board approval and agreed not to amend its Amended and Restated Certificate of Incorporation ("Certificate") or By-laws.

In order to satisfy and discharge the PBGC Liability, the PBGC Agreement provides that the Company must either: (i) receive, in a single transaction or in a series of related transactions, debt financing which makes available to the Company at least \$10 million of borrowings or (ii) consummate an acquisition, in a single transaction or in a series of related transactions, of assets and/or a business where the purchase price (including funded debt assumed) is at least \$10 million ("Release Event"). If the 585,100 shares are disposed of by the PBGC prior to a Release Event and the final satisfaction and discharge of the PBGC liability, then the liability will be accreted by the estimated fair market value, \$1,024,000, of the shares issued to the PBGC. The merger with OilQuip Rentals, Inc. (the "Merger") on May 9, 2001 (as described in the current Report on Form 8-K dated May, 2001) constituted a Release Event, which satisfied and discharged the PBGC Liability.

7

In connection with the PBGC Agreement, and as additional consideration for settling the PBGC Liability, the following agreements, each dated as of March 31, 1999 were also entered into: (i) a Registration Rights Agreement between the Company and PBGC (the "Registration Rights Agreement"); and (ii) a Lock-Up Agreement by and among the Company, the PBGC, AL-CH Company, L.P., a Delaware limited partnership ("AL-CH"), Wells Fargo Bank, as trustee under that certain Amended and Restated Retiree Health Trust Agreement for UAW Retired Employees of Allis-Chalmers Corporation (the "UAW Trust"), and Firststar Trust Company, as trustee under that certain Amended and Restated Retiree Health Trust Agreement for Non-UAW Retired Employees of Allis-Chalmers Corporation (the "Non-UAW Trust") (the "Lock-Up Agreement").

The Registration Rights Agreement grants each holder of Registrable Shares (defined in the Registration Rights Agreement to basically mean the shares of common stock issued to the PBGC under the PBGC Agreement) the right to have their shares registered pursuant to the Securities Act of 1933, as amended, on

## Edgar Filing: ALLIS CHALMERS CORP - Form 10-Q

demand or incidental to a registration statement being filed by the Company. In order to demand registration of Registrable Shares, a request for registration by holders of not less than 20% of the Registrable Shares is necessary. The Company may deny a request for registration of such shares if the Company contemplates filing a registration statement within 90 days of receipt of notice from the holders. The Registration Rights Agreement also contains provisions that allow the Company to postpone the filing of any registration statement for up to 180 days. The Registration Rights Agreement contains indemnification language similar to that usually contained in agreements of this kind. In connection with the Merger, the PBGC agreed to waive certain rights to have its shares registered on Registration Statements on Forms S-1 and S-2 for a twelve (12) month period after the Merger.

The Lock-Up Agreement governs the transfer and disposition of shares of the Company's common stock and the voting of such shares, as well as grants the PBGC a right of sale of its shares prior to AL-CH, the UAW Trust and the Non-UAW Trust.

Pursuant to the Lock-Up Agreement, unless the Board has terminated the common stock transfer restrictions set forth in Article XIII of the Company's Certificate, AL-CH, the UAW Trust and the Non-UAW Trust each agreed that, during the period commencing on March 31, 1999 and ending on the third anniversary of the Release Event, it will not, directly or indirectly, sell, transfer, assign or dispose of any shares of Company stock it beneficially owns. Commencing with the third anniversary of the Release Event and continuing until the fifth anniversary of the Release Event, each of AL-CH, the UAW Trust and the Non-UAW Trust agreed not to sell, transfer or dispose of any shares of Company stock without first giving the PBGC an opportunity to sell all or any portion of the shares of Company stock the PBGC owns. The foregoing right of the PBGC applies to the sale of Company stock in a public offering or otherwise.

The Lock-Up Agreement also contains a voting component. During the term of the Lock-Up Agreement, each party to the agreement agreed to vote, at any meeting of the Company stockholders and in any written consent, all shares of Company stock owned by it in favor of the election as directors of the Company the persons nominated by the Nominating Committee of the Board and to refrain from taking any action contrary to or inconsistent with such obligation.

8

During the term of the Lock-Up Agreement, each party to the agreement further agreed not to vote its shares of Company stock or take any other action to amend the Company's Certificate or By-laws in a manner that is inconsistent with, or in breach of, the PBGC Agreement. Each party further agreed that it will vote all of its shares (i) in favor of certain specified amendments to the Company's Certificate, (ii) for the election of the persons designated by the PBGC (each, a PBGC Director) to serve on the Board and (iii) in favor of the election of Company directors who are committed to cause, and who do cause, one PBGC Director to be appointed to the Nominating Committee of the Board and one PBGC Director to be appointed as the Chairman of the Compensation Committee of the Board. In connection with the Merger, the Lock-Up Agreement was terminated in its entirety.

The acquisition environment has been unfavorable since the Investor's 1989 cash contribution to the Company and remained very difficult for the Company during 2001. The problems continued to include the Company's lack of cash for investment, limited availability of debt financing for acquisitions and the financial exposure associated with the Consolidated Plan. The Merger provides additional cash for investment, additional debt financing availability and has expunged the PBGC Liability.

## Edgar Filing: ALLIS CHALMERS CORP - Form 10-Q

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

-----

#### Results of Operations

Results of operations for 2001 and 2000 reflect the business operations of the Company's sole operating subsidiary of Houston Dynamic Service, Inc. ("HDS"): machinery repair and service business and does not include the operations of OilQuip Rentals, Inc. acquired by merger on May 9, 2001.

Sales in the first quarter of 2001 totaled \$1,337,000 a significant increase from \$824,000 in the first quarter of 2000. Two major jobs from regular customers accounted for the majority of the increase.

Gross margin, as a percentage of sales, was 36% in the first quarter of 2001 an increase from 23.7% in 2000 due to the type of work performed, better pricing, and continued cost reduction efforts.

Marketing and administrative expense was \$391,000 in the first quarter of 2001 compared with \$390,000 in 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.

The Company incurred a net profit of \$85,000, or \$.05 per common share, in the first quarter of 2001 compared with a net loss of \$104,000, or \$.07 per common share, in the same period of 2000.

9

#### Financial Condition and Liquidity

Cash and cash equivalents totaled \$192,000 at March 31, 2001, a decrease from \$358,000 at December 31, 2000 mainly due to increased receivables resulting from our significant sales increase.

Net trade receivables at March 31, 2001 were \$883,000, reflecting an increase from the December 31, 2000 level of \$549,000. This increase was in line with the significant increase in sales as well as being partially due to the timing of the jobs.

Inventory at March 31, 2001 was \$192,000, an increase from \$122,000 at year end 2000.

Net property, plant and equipment was \$1,018,000 at March 31, 2001, a decrease from \$1,055,000 at year end 2000. There were no significant purchases of capital items in the year 2001.

Trade accounts payable at March 31, 2001 were \$283,000, an increase from \$208,000 at December 31, 2000.

Other current liabilities were \$97,000 at March 31, 2001, no significant change from \$106,000 at December 31, 2000.

Long term debt was \$341,000 at March 31, 2001, an increase from \$337,000 at December 31, 2000 due to interest on the debt discussed below. This debt resulted from the Board's decision to establish an arrangement by which to compensate former and continuing Board members who had served from 1989 to March 31, 1999 without compensation. The Company issued promissory notes in the amount



## Edgar Filing: ALLIS CHALMERS CORP - Form 10-Q

of \$25,000 each to seven current or former directors and \$150,000 to John T. Grigsby, Jr. a former director and current Executive Vice President and Chief Financial Officer. The notes bear interest at the rate of five percent (5%) and are due March 28, 2005, however, may be prepaid at any time at the discretion of the Company. In addition, the notes are canceled in the event of a subsequent bankruptcy of the Company.

In addition, the Board granted options to purchase 2,000 shares of the Company's common stock to the seven directors and an option to purchase 10,000 shares to Mr. Grigsby. The option price was determined to be \$2.75 per share. The options vested immediately and may be exercised any time prior to March 28, 2010.

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. Such costs include an allocated share of certain expenses for Company employees, professional fees and certain other administrative expenses.

For a discussion of the Consolidated Plan, the PBGC Liability, the PBGC Agreement, the Lock-Up Agreement, the Registration Rights Agreement and the Merger, see Note 2 to the Financial Statements above.

10

The Environmental Protection Agency ("EPA") and certain state environmental protection agencies have requested information in connection with several potential hazardous waste disposal sites in which products manufactured by the Company before consummation of the Plan of Reorganization were disposed. The EPA has claimed that the Company is liable for cleanup costs associated with several additional sites. In addition, certain third parties have asserted that the Company is liable for cleanup costs or associated EPA fines in connection with additional sites. In each instance the environmental claims asserted against the Company involve its prebankruptcy operations. Accordingly, the Company has taken the position that all cleanup costs or other liabilities related to these sites were discharged in the bankruptcy. No environmental claims have been asserted against the Company involving its postbankruptcy operations.

With the Merger, the A-C Reorganization Trust confirmed its responsibility with respect to administering pre-bankruptcy environmental matters.

The Company's principal sources of cash in the first quarter include earnings from the operations of HDS. 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.

Following the OilQuip merger on May 9, 2001, the Company has announced its intent to investigate acquisition opportunities in the natural gas exploration and drilling industry and intends to use HDS as a centralized fabrication and machining facility for its operations. Except to the extent the Company is able to consummate acquisitions using its stock as consideration, additional funds will be required to consummate any acquisition. The Company's principal source of funds has been from the operations of HDS. As a result of the OilQuip merger on May 9, 2001, the Company will also have funds from the operations of OilQuip to the extent OilQuip generates cashflow, and may have the ability to raise additional funds. However, to date, management has not determined the impact of the merger on its ability to obtain additional funds, and there can be no assurance that any such additional funds will be available.

PART II. OTHER INFORMATION

-----

Edgar Filing: ALLIS CHALMERS CORP - Form 10-Q

ITEM 1. LEGAL PROCEEDINGS  
-----

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K  
-----

(a) Exhibits: None.

(b) Reports on Form 8-K: No report on Form 8-K was filed during the first quarter of 2001. A report on Form 8-K was filed on May 15, 2001, reporting the Merger.

11

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.  
Executive Vice President and  
Chief Financial Officer

May 15, 2001