

ALLIS CHALMERS ENERGY INC.

FORM 10-K (Annual Report)

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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(Mark One)

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

For the fiscal year ended December 31, 1999

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.)

4180 Cherokee Drive, Brookfield, Wisconsin
(Address of principal executive offices)

53045
(Zip code)

Registrant's telephone number, including area code

(414)781-7155

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

Common Stock - \$.15 Par Value

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 if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 March 6, 2000, there were 1,588,128 shares of Common Stock outstanding.

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PART I**ITEM 1. BUSINESS.**

(a) Development of the Business

GENERAL

Allis-Chalmers Corporation (Allis-Chalmers or the Company) was incorporated in 1913 under Delaware law. The Company sold its major operating businesses in 1988 in accordance with its First Amended and Restated Joint Plan of Reorganization (Plan of Reorganization) under Chapter 11 of the United States Bankruptcy Code. The Plan of Reorganization was confirmed by the Bankruptcy Court on October 31, 1988 after acceptance by creditors and shareholders and was consummated on December 2, 1988. See Item 3. LEGAL PROCEEDINGS for a discussion of such proceedings.

The Company consists of three wholly-owned subsidiaries. One subsidiary, Houston Dynamic Service, Inc., operates a machine repair business in Houston, Texas; the other two subsidiaries, KILnGAS R&D, Inc. and U.S. Fluidcarbon Inc., are inactive.

(b) Financial Information About Industry Segments

The Company operates in a single industry segment -- the repair and service of mechanical rotating equipment for the industrial, utility and governmental aftermarkets.

(c) Narrative Description of Business

The principal business activities of the Company are as follows:

MACHINE REPAIR

Sales of the machine repair business operated by Houston Dynamic Service, Inc. (HDS), a wholly-owned subsidiary of the Company, were \$4,370,000 in 1999, \$5,021,000 in 1998 and \$4,062,000 in 1997. The decrease in 1999 sales from 1998 was due to continued soft conditions as a backlash to the very low oil prices during the second half of 1998 which resulted in lower shipments in 1999 compared to the same period in 1998. Even with the current higher oil prices, HDS continues to be affected by volatile market conditions that prevail in the oil related fields of refining, processing, chemicals and petrochemical operations throughout the Gulf Coast.

HDS services and repairs various types of mechanical equipment, including compressors (centrifugal, rotary, axial and reciprocating), pumps, turbines, engines, heat exchangers, centrifuges, rollers, gears, valves, blowers, kilns, crushers and mills. Services provided include emergency repair, disassembly, inspection, repair testing, parts duplication, machining,

balancing, metalizing, milling, grinding, boring, welding, modification, reassembly, field machining, maintenance, alignment, field service, installation, startup and training.

HDS employed 34 people on December 31, 1999. It operates out of a facility in Houston, Texas which was purchased by HDS in 1990. The facility includes a repair shop and office space.

HDS serves various industrial customers, including those in the petrochemical, chemical, refinery, utility, waste and waste treatment, minerals processing, power generation, pulp and paper and irrigation industries.

OTHER DATA

Competition in the Company's machine repair business consists of nine major original equipment manufacturers (OEM) and numerous smaller independent competitors. Many of these competitors have special strengths in certain product areas because of customer preferences for OEM suppliers or because specialized patented technologies are offered. The principal methods of competition are price, quality, delivery, customer service and warranty.

The principal raw materials and purchased components used in the machine repair business are alloy and stainless steels, castings and forgings, aluminum, copper, gears and other basic materials. Alternative sources of supply exist or could be developed for all of these raw materials and components. This business is highly labor intensive.

Some of the Company's products, processes and systems are covered by patents owned by or licensed to the Company. No particular product, process or system is dependent on a single fundamental patent, the loss of which would jeopardize the Company's business. The Company licenses the use of a number of its trademarks, from which it receives income.

During the past three years, Entergy and Amoco Chemical were the only customers who accounted for 10% or more of total Company sales. Entergy generated 13% of 1999 sales and Amoco Chemical 24% of 1998 sales and 12% of 1997 sales.

Expenditures relating to compliance with federal, state and local environmental protection laws are not expected to have a material effect on the Company's capital expenditures, results of operations, financial condition or competitive position. The Company is not aware of any present statutory requirements concerning environmental quality that would necessitate capital outlays which would materially affect the Company. In conjunction with consummation of the Plan of Reorganization, the Company settled all known environmental claims asserted by the United States Environmental Protection Agency (EPA) as well as claims asserted by certain state agencies. However, the EPA and third parties have claimed that Allis-Chalmers is liable for cleanup costs associated with certain hazardous waste disposal sites in which products manufactured and sold by Allis-Chalmers before consummation of the Plan of Reorganization were ultimately disposed of by others. Since Allis-Chalmers manufactured and sold the products disposed of in these sites before consummation of the Plan of Reorganization, Allis-Chalmers

has taken the position that all cleanup costs or other liabilities related to these sites were discharged in the bankruptcy. See Item 3. LEGAL PROCEEDINGS.

The Company's employment was 37, 47 and 42 at December 31, 1999, 1998 and 1997, respectively.

For more detailed information, you should read in their entirety the audited 1999 Consolidated Financial Statements, Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere in this report.

(d) Financial Information About Foreign and Domestic Operations and Export Sales

The Company has no foreign operations or significant export sales.

ITEM 2. PROPERTIES.

The Company's principal operating facility is a 25,000 square foot repair shop and office building in Houston, Texas, which is owned by HDS. The facility is considered adequate and suitable for the Company's principal business.

ITEM 3. LEGAL PROCEEDINGS.

REORGANIZATION PROCEEDINGS UNDER CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE

On June 29, 1987, Allis-Chalmers and 17 of its domestic subsidiaries filed separate voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. The Plan of Reorganization was confirmed by the Bankruptcy Court on October 31, 1988 after acceptance by the Company's creditors and shareholders, and the Plan of Reorganization was consummated on December 2, 1988.

At confirmation, the Bankruptcy Court approved the establishment of the A-C Reorganization Trust as the primary vehicle for distributions under the Plan of Reorganization, two trust funds to service health care and life insurance programs for retired employees and a trust fund to process and liquidate future product liability claims. Cash of approximately \$400 million and other assets with a net book value of \$38 million were distributed to creditors or transferred to the trusts, and the trusts assumed responsibility for substantially all remaining cash distributions to be made to holders of claims and interests pursuant to the Plan of Reorganization. The Company was thereby discharged of all debts that arose before confirmation of the Plan of Reorganization, and all of its capital stock was canceled and made eligible for exchange for shares of the reorganized Company.

The Company does not administer any of the aforementioned trusts and retains no responsibility for the assets transferred to or distributions to be made by such trusts pursuant to the Plan of Reorganization.

For a description of restrictions on the transfer of the common stock of the reorganized Company, see Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

ENVIRONMENTAL PROCEEDINGS

As part of the Plan of Reorganization, the Company made a cash payment of \$4.5 million to the EPA in settlement of the EPA's claims for cleanup costs at all sites where the Company was alleged to have disposed of hazardous waste. The EPA settlement included both past and future cleanup costs at these sites and released the Company of liability for claims of contribution or indemnity which may be asserted by other potentially responsible parties against Allis-Chalmers in connection with these specific sites.

In addition to the EPA settlement, the Company negotiated settlements of various environmental claims which had been asserted by certain state environmental protection agencies. These settlements, totaling approximately \$200,000, were approved by the Bankruptcy Court.

Since consummation of the Plan of Reorganization on December 2, 1988, a number of parties, including the EPA, have asserted that the Company is responsible for the cleanup of hazardous waste sites. These assertions have been made only with respect to the Company's prebankruptcy activities. No claims have been asserted against the Company involving its postbankruptcy operations.

Before the settlement with the EPA in the bankruptcy proceedings, an attempt was made by the parties to identify all possible hazardous waste disposal sites and to settle all liabilities relating to those sites. Notwithstanding the breadth of the settlement, various EPA regional offices have continued to assert cleanup claims against Allis-Chalmers with respect to several sites. Apparently, not all offices of the EPA are aware of the settlement agreement, since at least two of these claims involve sites with respect to which the EPA specifically agreed not to sue.

Certain other parties have asserted that the Company is responsible for environmental cleanup costs or associated EPA fines in connection with additional sites. In each instance the Company activities complained of occurred prior to the Company's bankruptcy proceedings and the third parties did not file proofs of claim in the bankruptcy proceedings. The filing of such proofs of claim is required by the Bankruptcy Code to effect a claim against a Chapter 11 debtor. A bankruptcy discharge defense has been asserted by the Company in each instance.

Although the law in this area is still somewhat unsettled, three Federal Courts of Appeal have held that a debtor can be discharged of environmental cleanup liabilities related to its prebankruptcy activities. The Company believes it will prevail in its position that its liability to

the EPA and third parties for prebankruptcy environmental cleanup costs has been fully discharged. 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.

The EPA and certain state agencies also continue to request information in connection with various waste disposal sites in which products manufactured by Allis-Chalmers before consummation of the Plan of Reorganization were ultimately disposed of by other parties. Although the Company has been discharged of liabilities with respect to hazardous waste sites, it is under a continuing obligation to provide information with respect to its products to federal and state agencies. The A-C Reorganization Trust, under its mandate to provide Plan of Reorganization implementation services to the Company, has responded to these informational requests because prebankruptcy activities are involved.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

The Plan of Reorganization provided for cancelling the old common stock of Allis-Chalmers on December 2, 1988 and issuing new common stock of the reorganized Company (Common Stock) to certain holders of claims and interests, including holders of old common stock.

After receiving approval of a majority of shareholders of Common Stock, the Company amended its Amended and Restated Certificate of Incorporation (Amendment), effective as of July 8, 1992, to effect a 1-for-15 reverse stock split of the Common Stock pursuant to which each 15 shares of Common Stock, \$.01 par value per share, were combined into one share of new Common Stock, \$.15 par value per share. In lieu of the issuance of fractional shares of Common Stock, the Amendment provided that shareholders owning less than 15 shares of Common Stock were entitled to receive a cash payment at the rate of \$8.85 per share of Common Stock (equivalent to \$0.59 per share of the presplit Common Stock). This action, decreased the number of outstanding shares of Common Stock to 1,003,596 from 15,164,195 shares immediately prior to the reverse stock split and decreased the number of shareholders to 7,408 from 17,799 prior to the reverse stock split. Pursuant to the PBGC Agreement (See ITEM 7. MANAGERMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and NOTE 7 to the FINANCIAL STATEMENTS entitled SHAREHOLDERS DEFICIT), in June 1999 the Company issued (pursuant to the exemption from Registration provided by Section 4(2) of the Securities Act of 1933 and/or Regulation D thereunder) 585,100 shares of its common stock to the PBGC increasing the total shares outstanding to 1,588,128 as of March 31, 1999. Per share amounts in the accompanying financial statements reflect the reverse stock split and issuance of shares pursuant to the PBGC Agreement.

The Common Stock is subject to trading restrictions that are set forth in the Company's Amended and Restated Certificate of Incorporation. The trading restrictions are designed to maximize the likelihood of preserving the Company's substantial net operating loss carryforwards. There is no established public trading market for the Common Stock. It is not certain when or if trading in the Common Stock will commence or on which registered stock exchange or quotation system, if any, the Common Stock may eventually be listed or quoted. At the present time, the Company does not intend to file a listing application to any registered national stock exchange or Nasdaq for trading or quotation of the Common Stock.

No dividends were declared or paid during 1999, 1998 or 1997.

ITEM 6. SELECTED FINANCIAL DATA.

	1999	1998	1997	1996	1995
	(millions, except per share data)				
Statement of Operations Data:					
Sales	\$ 4.4	\$ 5.0	\$ 4.1	\$ 4.1	\$ 3.2
Net income (loss)	(0.1)	0.6	(66.5)	(1.7)	(1.4)
Net income (loss) per common share (Basic and Diluted)	(.08)	.62	(66.34)	(1.72)	(1.44)
Statement of Financial Condition Data:					
Total assets	2.5	2.6	2.7	3.4	4.1
Long-term debt classified as:					
Current	0.1	0.1	0.1	0.1	0.3
Long-term	0.2	0.2	0.2	0.3	-
Shareholders' deficit	(66.5)	(67.4)	(68.0)	(13.6)	(9.9)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This discussion should be read in conjunction with the Consolidated Financial Statements including the Notes to Consolidated Financial Statements.

Overview

Allis-Chalmers, after emerging from Chapter 11 under the Plan of Reorganization, entered into an agreement with AL-CH Company, L.P. (Investor) pursuant to which the Investor agreed to purchase 6.1 million shares (on a prerule stock split basis) of Common Stock (40% of the outstanding Common Stock) for \$3,750,000 in cash. The Investor is a limited partnership controlled by Messrs. Robert E. Nederlander and Leonard Toboroff, two of the Company's directors.

The Company continues its efforts to conserve cash resources. However, the expenses associated with the ongoing Securities and Exchange Commission and other governmental reporting as well as legal, accounting and audit, insurance and costs associated with other corporate requirements of a publicly held company will continue to make it difficult for the Company, at its present size, to achieve positive cash flow.

As of the date of the Chapter 11 filings in June 1987, the Company sponsored 19 defined benefit plans providing pensions for substantially all U.S. employees. The pension plan for U.S. salaried employees was capped and frozen effective March 31, 1987, so there have been no further benefit accruals after that date. As a result of divestitures during the Chapter 11 proceedings, eight active plans were transferred to the buyers of the businesses, leaving the Company as sponsor of 11 plans, none of which permitted additional benefit accruals. Effective January 1, 1989, the 11 remaining plans were consolidated into a single plan, the Allis-Chalmers Consolidated Pension Plan (Consolidated Plan).

In 1994, the Company's independent pension actuaries changed the assumptions for mortality and administrative expenses used to determine the liabilities of 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, Allis-Chalmers 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, Allis-Chalmers 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 have 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 has 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, Allis-Chalmers 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 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 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 Thomas M. Barnhart, II, Alexander P. Sammarco and David A. Groshoff, 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 hereinafter defined), which is currently evidenced by a Company promissory note in favor of the PBGC in the amount of \$75,000. During the term of the PBGC Agreement, the Company has

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, the liability will be accreted by the estimated fair market value, \$1,024,000, of the shares issued to the PBGC.

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 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.

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. 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.

The acquisition environment has been unfavorable since the Investor's 1989 cash contribution to the Company and remained very difficult for the Company during 1999. 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. Therefore, the Company continues to proceed cautiously with its efforts to identify and evaluate potential candidates for acquisition.

Results of Operations

Results of operations for 1999, 1998 and 1997 reflect the sole operation of the business of Allis-Chalmers: the machine repair business, HDS.

Sales totaled \$4.4 million in 1999, compared with \$5.0 million in 1998 and \$4.1 million in 1997. The decrease in sales for 1999 from 1998 was due to continued soft conditions as a backlash to the very low oil prices during the second half of 1998 which resulted in lower shipments in 1999 compared to the same period in 1998. Even with the current higher oil prices, HDS continues to be affected by volatile market conditions that prevail in the oil related fields of refining, processing, chemicals and petrochemical operations throughout the Gulf Coast.

Gross margins, as a percentage of sales, were 24.2%, 29.7% and 25.0% in 1999, 1998 and 1997, respectively.

Marketing and administrative expense was \$1.5 million, \$1.7 million and \$1.7 million in 1999, 1998 and 1997, respectively. Marketing and administrative expense was 35.4% of sales in 1999 compared with 33.6% in 1998 and 40.9% in 1997. The decrease in marketing and administrative expense was due to reduced acquisition costs as well as corporate overhead. While there were additional costs incurred in 1998 in pursuit of corporate acquisitions and certain engineering costs at HDS, these costs were offset by a reduction in 1998 of legal expenses as compared to 1997 when the Company experienced nonrecurring legal expenses associated with the termination of the Consolidated Plan and related negotiations with the PBGC and IRS. A significant portion of the Company's administrative expense continues to relate to expenses for Securities and Exchange Commission and other governmental reporting as well as the legal, accounting and audit, insurance and other requirements of a publicly held company.

Interest income in each of the years resulted mainly from earnings on short-term investments. Interest expense primarily relates to a term loan, the proceeds of which were used to purchase the shop and office building from which HDS operates and additional financing for capital improvements at HDS.

Pension expense which relates to the recognition of the pension liability associated with the Consolidated Plan in accordance with Statement of Financial Accounting Standards No. 87 "Employer's Accounting for Pensions," was \$1,397,000 in 1997. In 1999 and 1998 there was no expense as a result of termination of the Consolidated Plan. The 1997 expense was for a nine month period as the transfer of the Consolidated Plan to the PBGC took place on September 30, 1997. The termination of the Consolidated Plan resulted in an additional \$64.5 million pension expense in 1997, including \$.9 million for IRS excise taxes.

The Company had net loss of \$113,000, or \$.08 per common share in 1999, compared with a net income of \$618,000, or \$.62 per common share, in 1998 and a net loss of \$66,545,000 in 1997. Net income in 1998 included income of \$825,000 as a result of a \$900,000 IRS liability settled for \$75,000. Recognition of pension expense of \$65,926,000 accounted for a significant portion of the net loss in 1997.

Liquidity and Capital Resources

At December 31, 1999, the Company had cash and short-term investments totaling \$501,000, an increase from \$223,000 at December 31, 1998 principally the result of Plan of Reorganization implementation reimbursement.

Trade receivables at December 31, 1999 were \$570,000, compared with \$796,000 at December 31, 1998. This decrease was the result of an addition to the reserve of \$102,000 relating to a warranty dispute, decreased sales in 1999 and certain major projects completed and billed by HDS near the end of 1998.

Inventory at December 31, 1999 was \$157,000, an increase from \$127,000 at year end 1998 due to one job consisting of approximately \$81,000 in inventory not completed until January, 2000.

Net property, plant and equipment at December 31, 1999 was \$1,170,000, a decrease from \$1,308,000 at December 31, 1998. The Company incurred only \$21,000 on capital expenditures during 1999. In 1998, approximately \$234,000 was invested in machinery and equipment acquisitions while approximately \$119,000 was spent to improve HDS's facilities (including air conditioning and upgrading its telephone system). The expenditures for additional or upgrades of machinery and tooling were necessary to reduce production costs by decreasing downtime and increasing production efficiency output, helping to position the Company for further growth through the increased capacity and service capabilities it offers to the marketplace.

Current maturities of long-term debt at December 31, 1999 and 1998 were \$60,000. Consistent with the prior year, the majority of the current maturities represent payments on the real estate loan refinanced by HDS in August 1996. The proceeds of the original loan were used in 1990 for the purchase of the land and building in which HDS operates its business in Houston, Texas. The amount refinanced is required to be repaid in monthly installments of \$3,278 through August 20, 2001, when the remaining unpaid balance is due. At December 31, 1999, the interest rate on the note was 10.5%. This rate is subject to adjustments during the term of the note in accordance with increases or decreases in the prime rate. The note is collateralized by the HDS facility (having a net book value of \$432,000 at December 31, 1999) and the Company's guaranty.

The Company's principal sources of cash include earnings from operations. The cash requirements needed for the administrative expenses associated with being a publicly held company are significant, and management believes that the Company will continue to use a substantial portion of its cash balances generated by HDS for these purposes in 2000.

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.

The 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 several 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, certain third parties have asserted that Allis-Chalmers is liable for cleanup costs or associated EPA fines in connection with additional sites. In one of these instances a former site operator has joined Allis-Chalmers and 47 other potentially responsible parties as a third-party defendant in a lawsuit involving cleanup of one of the 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 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.

Management considered the Company's only significant application that was year 2000 sensitive was the accounting system. The accounting system experienced no year 2000 problems and management does not anticipate any additional year 2000 problems..

Financial Condition

Shareholders' deficit at December 31, 1999 was \$66.5 million. A three-year comparison of shareholders' deficit follows:

(millions)	1999 ----	1998 ----	1997 ----
January 1	\$ (67.4)	\$ (68.0)	\$ (13.6)
Net income (loss)	(0.1)	0.6	(66.5)
Pension liability adjustment	0.0	0.0	12.1
Issuance of common stock	1.0	-	-
	-----	-----	-----
December 31	\$ (66.5) =====	\$ (67.4) =====	\$ (68.0) =====

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

None.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**Index to Consolidated Financial Statements**

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of Allis-Chalmers Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, accumulated deficit and cash flows present fairly, in all material respects, the financial position of Allis-Chalmers Corporation and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company's application for a distress termination of the Allis-Chalmers Consolidated Pension Plan (the "Consolidated Plan") was approved by the Pension Benefit Guaranty Corporation ("PBGC") on September 30, 1997. At such date, the PBGC became the trustee of the Consolidated Plan and the Company and its subsidiaries incurred an estimated liability to the PBGC for unfunded benefit liabilities and accumulated funding deficiencies totaling approximately \$68 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 \$67 million. The Company does not have the financial resources to fund this liability to the PBGC. This matter raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are described in Note 9 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
March 24, 2000

STATEMENT OF OPERATIONS

Year Ended December 31 -----	1999 -----	1998 -----	1997 -----
	(thousands, except per share)		
Sales	\$ 4,370	\$ 5,021	\$ 4,062
Cost of sales	3,312	3,530	3,048
	-----	-----	-----
Gross Margin	1,058	1,491	1,014
Marketing and administrative expense	1,546	1,689	1,660
	-----	-----	-----
Loss from Operations	(488)	(198)	(646)
Other income (expense):			
Interest income	7	33	54
Interest expense	(34)	(50)	(45)
Pension expense (Note 9)	--	--	(65,926)
Other (Note 11, 9)	402	833	18
	-----	-----	-----
Net Income (Loss)	\$ (113)	\$ 618	\$(66,545)
	=====	=====	=====
Net Income (Loss) per Common Share (Basic and Diluted)	\$ (.08)	\$.62	\$ (66.34)
	=====	=====	=====

STATEMENT OF ACCUMULATED DEFICIT

Year Ended December 31 -----	1999 -----	1998 -----	1997 -----
	(thousands)		
Accumulated deficit beginning of year	\$(75,673)	\$(76,291)	\$ (9,746)
Net income (loss)	(113)	618	(66,545)
	-----	-----	-----
Accumulated deficit end of year	\$(75,786)	\$(75,673)	\$(76,291)
	=====	=====	=====

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

STATEMENT OF FINANCIAL CONDITION

December 31	1999	1998
-----	-----	-----
	(thousands)	
Assets		
Cash and cash equivalents	\$ 501	\$ 223
Trade receivables, net (Note 3)	570	796
Inventories, net	157	127
Other current assets	66	112
	-----	-----
Total Current Assets	1,294	1,258
Net property, plant and equipment (Note 4)	1,170	1,308
	-----	-----
Total Assets	\$ 2,464	\$ 2,566
	=====	=====
 Liabilities and Shareholders' Deficit		
Current maturities of long-term debt	\$ 60	\$ 60
Trade accounts payable	461	291
Accrued employee benefits	120	155
Accrued pension liability (Note 9)	66,877	67,901
Other current liabilities	281	312
	-----	-----
Total Current Liabilities	67,799	68,719
Accrued postretirement benefit obligations (Note 9)	927	981
Long-term debt (Note 6)	193	232
Commitments and contingent liabilities (Note 10)	--	--
Shareholders' deficit (Note 7)		
Common stock (\$.15 par value, authorized 2,000,000 shares, outstanding 1,588,128 at December 31, 1999 and 1,003,028 at December 31, 1998)	238	152
Capital in excess of par value	9,093	8,155
Accumulated deficit (accumulated deficit of \$424,208 eliminated on December 2, 1988)	(75,786)	(75,673)
	-----	-----
Total Shareholders' Deficit	(66,455)	(67,366)
	-----	-----
Total Liabilities and Shareholders' Deficit	\$ 2,464	\$ 2,566
	=====	=====

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

STATEMENT OF CASH FLOWS

Year Ended December 31 -----	1999 -----	1998 ----- (thousands)	1997 -----
Cash flows from operating activities:			
Net (loss) income	\$ (113)	\$ 618	\$(66,545)
Adjustments to reconcile net (loss) income to net cash provided (used) by operating activities:			
Depreciation and amortization	165	149	131
Gain on sale of equipment	(2)	--	--
Changes in working capital:			
Decrease (increase) in receivables, net	226	(113)	(31)
Increase in inventories	(30)	(26)	(8)
Decrease in other current assets	46	9	15
Increase in trade accounts payable	170	72	137
(Decrease) increase in other current liabilities	(66)	60	(135)
(Decrease) increase in accrued pension liability	0	(900)	65,926
Other	(54)	(9)	(3)
	-----	-----	-----
Net cash provided (used) by operating activities	342	(140)	(513)
Cash flows from investing activities:			
Capital expenditures	(21)	(353)	(304)
Proceeds from sale of equipment	16	3	3
	-----	-----	-----
Net cash used by investing activities	(5)	(350)	(301)
Cash flows from financing activities:			
Net proceeds from issuance of long-term debt	--	66	--
Payment of long-term debt	(59)	(52)	(55)
	-----	-----	-----
Net cash provided (used) by financing activities	(59)	14	(55)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	278	(476)	(869)
Cash and cash equivalents at beginning of year	223	699	1,568
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 501	\$ 223	\$ 699
	=====	=====	=====
Supplemental information - interest paid	\$ 34	\$ 50	\$ 45
	=====	=====	=====
Noncash investing and financing activities:			
Purchase of equipment under capital lease obligation	\$ 29	\$ --	\$ --
	=====	=====	=====
Issuance of common stock in partial settlement of accrued pension liability	\$ 1,024	\$ --	\$ --
	=====	=====	=====

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 1. EMERGENCY FROM CHAPTER 11**

Allis-Chalmers Corporation (Allis-Chalmers or the Company) emerged from Chapter 11 proceedings on October 31, 1988 under a plan of reorganization which was consummated on December 2, 1988. The Company was thereby discharged of all debts that arose before confirmation of its First Amended and Restated Joint Plan of Reorganization (Plan of Reorganization), and all of its capital stock was cancelled and made eligible for exchange for shares of common stock of the reorganized Company (Common Stock).

Claims asserted against the Company and allowed by the Bankruptcy Court beyond those recorded prior to the consummation date amounted to approximately \$483 million. Such amounts were subsequently recorded by the Company in 1988. Because total recorded liabilities discharged at consummation exceeded the book value of assets and Common Stock distributed to creditors and the various trusts at that date, extraordinary income of \$388.1 million was recorded.

See the Plan of Reorganization and the First Amended Disclosure Statement dated September 14, 1988 for additional information regarding distributions to holders of claims and interests.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Description of Business**

Allis-Chalmers through its wholly-owned subsidiary, Houston Dynamic Service, Inc., services and repairs various types of mechanical equipment, including compressors, pumps, turbines, engines, heat exchangers, centrifuges, rollers, gears, valves, blowers, kilns, crushers and mills.

Principles of Consolidation

The consolidated financial statements include the accounts of Allis-Chalmers and its subsidiaries. All significant intercompany transactions have been eliminated.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts in the Statement of Financial Condition for cash and cash equivalents, trade receivables and long-term debt approximate fair market value.

Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Properties and Depreciation

Plant and equipment used in the business are stated at cost and depreciated on the straight-line basis over the estimated useful lives of the assets which generally range from 40 years for buildings, 3 to 12 years for machinery and equipment and 3 to 12 years for tools, patterns, furniture and fixtures. Maintenance and repairs are expensed as incurred. Expenditures which significantly increase asset values or extend useful lives are capitalized.

Income Taxes

Deferred income taxes are determined on the liability method in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. See Note 5. Income Taxes.

Statements of Cash Flows

For purposes of the Statements of Cash Flows, the Company considers all highly liquid debt instruments with a maturity of three months or less at date of purchase to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Major Customers

Entergy, the only customer to have 10% or more of total sales, accounted for 13% of 1999 sales. In 1998 and 1997, Amoco Chemical was the only customer which accounted for 10% or more of total sales -- 24% of 1998 sales and 12% of 1997 sales.

NOTE 3. RECEIVABLES

December 31 -----	1999 -----	1998 -----
		(thousands)
Trade accounts receivable	\$ 692	\$ 817
Allowance for doubtful receivables	(122)	(21)
	----- \$ 570	----- \$ 796
	=====	=====

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

December 31 -----	1999 -----	1998 -----
	(thousands)	
Land and buildings	\$ 545	\$ 545
Machinery and equipment	1,550	1,606
Tools, patterns, furniture, fixtures and leasehold improvements	721	752
	-----	-----
	2,816	2,903
Accumulated depreciation	(1,646)	(1,595)
	-----	-----
	\$ 1,170	\$ 1,308
	=====	=====

NOTE 5. INCOME TAXES

Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in differences between income for tax purposes and income for financial statement purposes in future years. A valuation allowance is established for deferred tax assets when management, based upon available information, considers it more likely than not that a benefit from such assets will not be realized.

The following table depicts the temporary differences as of December 31, 1999 and 1998:

	1999 -----	1998 -----
	(millions)	
Net future tax deductible items	\$ 35	\$ 35
Net operating loss carryforwards and other tax credits	123	156
Valuation allowance	(158)	(191)
	-----	-----
Net deferred taxes	\$ -	\$ -
	=====	=====

Net future tax deductible items relate primarily to estimated future bankruptcy claim payments to be made by the Company's two grantor trusts. Gross deferred tax liabilities at December 31, 1999 and 1998 are not material.

The Plan of Reorganization established the A-C Reorganization Trust to settle claims and to make distributions to creditors and certain shareholders. The Company transferred cash and certain other property to the A-C Reorganization Trust on December 2, 1988. Payments made by the Company to the A-C Reorganization Trust did not generate tax deductions for the Company upon the transfer but generate deductions for the Company as payments are made by the A-C Reorganization Trust to holders of claims.

The Plan of Reorganization also created a trust to process and liquidate product liability claims. Payments made by the A-C Reorganization Trust to the product liability trust did not generate

current tax deductions for the Company. Future deductions will be available to the Company as the product liability trust makes payments to liquidate claims.

The Company believes the above-named trusts are grantor trusts and therefore includes the income or loss of these trusts in the Company's income or loss for tax purposes, resulting in an adjustment of the tax basis of net operating and capital loss carryforwards. The income or loss of these trusts is not included in the Company's results of operations for financial reporting purposes.

Tax carryforwards at December 31, 1999 are estimated to consist of net operating losses of \$349.0 million expiring 2000 through 2019, investment tax credits of \$376,000 expiring 2000 through 2001 and energy tax credits of \$282,000 expiring 2000 through 2002.

During 1990, the Company initiated litigation against the Internal Revenue Service (IRS) in the United States Bankruptcy Court for the Southern District of New York, challenging the validity and retroactive applicability of proposed regulations issued by the IRS on August 13, 1990. On January 2, 1992 the IRS issued final regulations under Sections 269 and 382 of the Internal Revenue Code of 1986 relating to the use of net operating loss carryforwards following corporate reorganizations under the Bankruptcy Code.

Following issuance of the final regulations the Company withdrew its retroactivity challenge because the final regulations were made retroactive only to August 14, 1990 and are not applicable to a plan of reorganization that was completed before then. The Company's Plan of Reorganization was consummated on December 2, 1988. The Company, however, continued to challenge the validity of other provisions of the regulations.

On June 8, 1992, the Bankruptcy Court issued a decision denying the Company's motion for a judgment against the IRS with respect to the application of Section 269 of the IRS Code to the Company. The Court also granted the IRS's motion to dismiss the Company's complaint challenging the regulations. The Court entered judgment pursuant to its decision on June 29, 1992 and, consistent with the advice of its counsel, the Company decided not to appeal that judgment.

Although the Company was unable to obtain a judgment that would have prevented the IRS from applying Section 269 to the Company, the Court's ruling leaves the Company in substantially the same position it was in prior to issuance of the final regulations. The possibility of an IRS challenge under Section 269 of the Internal Revenue Code to the Company's use of its prepetition net operating loss carryforwards has always existed and, in light of the Court's ruling, that possibility continues to exist.

The Court, however, stated that, should the IRS ever seek to use its new Section 269 regulations to limit the Company's use of its net operating loss carryforwards, nothing in its opinion would prejudice the Company's right to defend itself by using the Court's confirmation finding that the primary purpose of the Company's Plan of Reorganization was not tax avoidance. While the Company's Common Stock is subject to trading restrictions which are designed to maximize the

likelihood of preserving its net operating loss carryforwards, a change in ownership of the Company could also limit the use of its net operating loss carryforwards.

NOTE 6. LONG-TERM DEBT

December 31 -----	1999 -----	1998 -----
	(thousands)	
Real estate loan	\$ 203	\$ 226
Other	50	66
	-----	-----
	253	292
Less amounts classified as current	60	60
	-----	-----
	\$ 193	\$ 232
	=====	=====

The real estate loan relates to the 1990 purchase of the land and building in Houston, Texas which had previously been leased by HDS. In August 1996, HDS refinanced this loan which is required to be repaid in monthly installments of \$3,278 through August 20, 2001 when the remaining unpaid balance shall be due. At December 31, 1999 and 1998, the interest rate on the note was 10.5%. The rate will be adjusted during the term of the note in accordance with increases or decreases in the prime rate. The note is collateralized by the HDS facility, (having a net book value of \$432,000 at December 31, 1999) and the Company's guaranty.

NOTE 7. SHAREHOLDERS' DEFICIT

During 1999, the Company issued 585,100 shares of common stock to the PBGC. See Note 9. As a result, \$86,000 was reclassified from capital in excess of par value to common stock and \$938,000 was credited to capital in excess of par value representing the excess of the fair market value of the shares issued over par value.

NOTE 8. LONG-TERM STOCK INCENTIVE PLAN

The Company's Long-Term Stock Incentive Plan (1989) provides for the grant of stock options, stock appreciation rights, performance shares, restricted stock, restricted stock units and other stock-based awards. Under the plan the maximum number of shares which may be granted with respect to stock-based awards is 50,000. Options may be granted at prices equal to or not less than the fair market value at date of grant, except that options to purchase up to 13,333 shares may be granted at a price which is not less than the fair market value on October 25, 1989, the date on which the plan was approved by shareholders. Options are exercisable within a period not to exceed 10 years from date of grant. The plan also provides for the discretionary grant of stock appreciation rights which allow the holder to receive in cash or shares of common stock

the difference between the exercise price and the fair market value of the stock at the date of exercise. There have been no grants under the plan.

NOTE 9. POSTRETIREMENT BENEFIT OBLIGATIONS

Pensions

As of the date of the Chapter 11 filings in June 1987, the Company sponsored 19 defined benefit plans providing pensions for substantially all U.S. employees. The pension plan for U.S. salaried employees was capped and frozen effective March 31, 1987, so there have been no further benefit accruals after that date. As a result of divestitures during the Chapter 11 proceedings, eight active plans were transferred to the buyers of the businesses, leaving the Company as sponsor of 11 plans, none of which permitted additional benefit accruals. Effective January 1, 1989, the 11 remaining plans were consolidated into a single plan, the Allis-Chalmers Consolidated Pension Plan (Consolidated Plan).

In accordance with the Plan of Reorganization, the 11 plans received a Company contribution of \$53.8 million in December 1988. As a result of actions taken in connection with this contribution and the then-existing securities of the pension plans, the assets of the Consolidated Plan were invested in a dedicated bond portfolio that consisted of high-grade fixed income securities in which the market value of the assets was matched to the present value of the anticipated pension benefits and administrative expenses of the Consolidated Plan in a way intended to make the pension fund immune from interest rate fluctuations.

Under the Plan of Reorganization, future contributions to the Consolidated Plan were required if the mortality assumptions used in calculating the present value of the pension benefits expected to be paid or the assumptions used in calculating the future administrative expenses proved inaccurate. For the years 1989 through 1993, retirees eligible for benefits under the Consolidated Plan, as a group, outlived the projections of the mortality assumptions used in the Plan of Reorganization for funding the Consolidated Plan. For the same five years, actual administrative expenses were slightly in excess of assumed levels. Effective January 1, 1994, the Company's independent actuaries reflected such decreased mortality for funding calculation purposes. For the years 1994 through 1996, the mortality experience was negative compared with the revised assumptions, in an amount in excess of the 1989-1993 average actuarial loss. This mortality loss was partially offset, however, by gains in the asset portfolio.

This underfunded condition in the Consolidated Plan required the Company to make significant cash contributions to the Consolidated Plan pursuant to the Employment Retirement Income Security Act of 1974, as amended (ERISA), funding requirements starting in 1996.

The Company failed to make required quarterly contributions starting in April 1996, resulting in the filing of a lien by the Pension Benefit Guaranty Corporation (PBGC) against the Company. Given the inability of the Company to fund such obligations with its lack of financial resources, in February 1997, Allis-Chalmers applied to the PBGC for a "distress" termination of the Consolidated Plan under section 4041(c) of ERISA. The PBGC approved the distress

termination application in September 1997 and agreed to a 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, Allis-Chalmers 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 have a 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 has 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 reducing the pension liability by the estimated fair market value of the shares to \$66.9 million.

In September 1997, Allis-Chalmers 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 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 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 Thomas M. Barnhart, II, Alexander P. Sammarco and David A. Groshoff, 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

hereinafter defined), which is currently evidenced by a Company promissory note in favor of the PBGC in the amount of \$75,000. During the term of the PBGC Agreement, the Company has 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, the liability will be accreted by the estimated fair market value, \$1,024,000, of the shares issued to the PBGC.

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 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.

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. 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.

Medical and Life

Pursuant to the Plan of Reorganization, the Company assumed the contractual obligation to Simplicity Manufacturing, Inc. (SMI) to reimburse SMI for 50% of the actual cost of medical and life insurance claims for a select group of retirees (SMI Retirees) of the prior Simplicity Manufacturing Division of Allis-Chalmers.

Net postretirement benefit expense for the years ended December 31, 1999, 1998 and 1997 included the following components (in thousands):

	1999	1998	1997
	-----	-----	-----
Service cost	\$ -	\$ -	\$ -
Interest cost	41	53	62
Recognized actuarial gain	(37)	(22)	(3)
	-----	-----	-----
Net periodic postretirement benefit cost	\$ 4	\$ 31	\$ 59
	=====	=====	=====

The change in benefit obligation and plan assets and reconciliation of funded status for the years ended December 31, 1999 and 1998 are as follows (in thousands):

	1999	1998
	-----	-----
Change in APBO		
Benefit obligation at beginning of year	\$ 606	\$ 733
Interest cost	41	53
Actuarial gain	(125)	(140)
Benefits paid	(58)	(40)
	-----	-----
Benefit obligation at end of year	\$ 464	\$ 606
	=====	=====
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	58	40
Benefits paid	(58)	(40)
	-----	-----
Fair value of plan assets at end of year	\$ -	\$ -
	=====	=====
Reconciliation of Funded Status		
Benefit obligation at end of year	\$ (464)	\$ (606)
Fair value of plan assets at end of year	-	-
	-----	-----
Funded status	(464)	(606)
Unrecognized net actuarial gain	(463)	(375)
	-----	-----
Accrued Benefit Cost	\$ (927)	\$ (981)
	=====	=====

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 6.2% at December 31, 1999 and 6.5% at December 31, 1998. The assumed rate decreases each year until an ultimate rate of 5.0% is reached at December 31, 2004. The health care cost trend rate has a significant effect on the amounts reported. For example, a one percentage point increase in the health care cost trend rate would increase the accumulated postretirement benefit obligation by approximately \$26,000 at December 31, 1999. The discount rate used in determining the accumulated postretirement benefit obligation was 7.25% at December 31, 1999 and 7.5% at December 31, 1998.

NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES

Substantially all litigation proceedings pending against the Company were resolved pursuant to emergence from the Chapter 11 proceedings in 1988. Various loans, lease agreements and other commitments and contractual obligations of the Company were also satisfied pursuant to the Plan of Reorganization. The Company knows of no significant pre-Plan of Reorganization lawsuits presently pending against it or its subsidiaries which have not been assumed by the various trusts or other entities.

The Company is a party to litigation matters and claims which are normal in the course of its operations, and, while the results of litigation and claims cannot be predicted with certainty, management believes that the final outcome of such matters will not have a material adverse effect on the Company's consolidated financial position.

Environmental Matters

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 several 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, certain third parties have asserted that Allis-Chalmers is liable for cleanup costs or associated EPA fines in connection with additional sites. In one of these instances a former site operator has joined Allis-Chalmers and 47 other potentially responsible parties as a third party defendant in a lawsuit involving cleanup of one of the 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 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.

Allis-Chalmers Consolidated Pension Plan

Contributions to the Consolidated Plan were required starting in 1996 due to a change in the mortality assumptions used in calculating the present value of the pension benefits expected to be paid and the assumptions used in calculating the future administrative expenses compared with the projections of the mortality and administrative expense assumptions used in the Plan of Reorganization for funding the Consolidated Plan. Contributions were projected to be \$2.5 million in 1996, then increasing to \$3.1 million in 1997 and \$8.1 million in 1998. After making one installment of \$205,000 on January 15, 1996, the Company failed to make any subsequent installments. The Company's failure to make required quarterly contributions starting in April 1996, resulted in the filing of a lien by the PBGC against the Company. Given the inability of

the Company to fund such obligations with its current financial resources, in February 1997, Allis-Chalmers applied to the PBGC for a "distress" termination of the Consolidated Plan under section 4041(c) of 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.

For additional information regarding the Consolidated Plan, see Note 9.

NOTE 11. RELATED PARTY TRANSACTIONS

H. Sean Mathis, Chairman of the Board and Chief Executive Officer, Leonard Toboroff, Vice Chairman of the Board and Executive Vice President and John T. Grigsby, Jr., Vice Chairman of the Board, Executive Vice President and Chief Financial Officer, did not receive any compensation for their services as executive officers of the Company for the three years ended December 31, 1999.

During 1999, Allis-Chalmers received payments totaling \$400,000 as reimbursement for expenditures they incurred in prior years on behalf of the A-C Reorganization Trust. These payments are included as other income in the accompanying Statement of Operations.

NOTE 12. QUARTERLY FINANCIAL DATA

(unaudited)

	First Quarter		Second Quarter		Third Quarter*		Fourth Quarter	
	1999	1998	1999	1998	1999	1998	1999	1998
	(thousands, except per share)							
Sales	\$ 1,052	\$ 1,503	\$ 1,084	\$1,249	\$ 894	\$ 943	\$ 1,340	\$ 1,326
Gross Margin	339	486	249	312	212	273	258	420
Net Income (Loss)	(57)	137	(137)	(197)	(122)	680	203	(2)
Net Income (Loss) per Common Share (basic and diluted)	(.06)	.14	(.09)	(.20)	(.08)	.68	.13	0.0

*Net income in the third quarter of 1998 included income of \$825,000 as a result of a \$900,000 IRS liability settled for \$75,000.

ITEM 9. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.****(a) Identification of Directors**

The following individuals currently serve as directors of the Company.

Thomas M. Barnhart II, age 38, a director and Chairman since October 1999. Mr. Barnhart is Senior Vice President and Associate General Counsel of Pacholder Associates, Inc., Cincinnati, Ohio, a financial advisory and money management firm representing the PBGC. In 1999, Mr. Barnhart also became Chairman of Phonotel Technologies Inc. Mr. Barnhart serves on the Board on behalf of the PBGC

David A. Groshoff, age 28, a director since October 1999. Mr. Groshoff has been employed by Pacholder Associates, Inc. since September 1997 and currently serves as Assistant Vice President and Assistant General Counsel. Between 1995 - 1997, Mr. Groshoff was an associate at Katz Management Group, a Cincinnati-based professional athlete representation firm, as well as a law clerk for Richard L. Katz Co., L.P.A., Brian M. Goldberg, Moskowitz & Moskowitz, and the firm of Smith & Colner. Mr. Groshoff serves on the Board on behalf of the PBGC.

Dr. Richard Lichtenstein, age 52, a director since October 1999. Dr. Lichtenstein is an Associate Professor of Health Management and Policy at the University of Michigan School of Public Health, where he has been employed since 1971. He is not a director of any other publicly held companies.

Robert E. Nederlander, age 66, a director since May 1989. Mr. Nederlander served as Chairman of the Board of Allis-Chalmers Corporation from May 1989 to 1993, and from 1993 to 1996 as Vice Chairman. Mr. Nederlander has been Chairman of the Board of Riddell Sports Inc. since April 1988 and was Riddell Sports Inc.'s Chief Executive Officer from April 1988 through March 1993. From February 1992 until June 1992, Mr. Nederlander was also Riddell Sports Inc.'s interim President and Chief Operating Officer. Since November 1981, Mr. Nederlander has been President and/or a director of the Nederlander Organization, Inc., owner and operator of one of the world's largest chains of legitimate theaters. Since December 1998, Mr. Nederlander is co-managing member of the Nederlander Company LLC, operator of legitimate theaters in various cities outside New York. Mr. Nederlander served as the Managing General Partner of the New York Yankees from August 1990 until December 1991, and he has been a limited partner since 1973. Since July 1995, Mr. Nederlander serves on the Board of Directors of Cendant Corporation, formerly Hospitality Franchise Systems, Inc. (HFS). Mr. Nederlander is Chairman of the Board and Chief Executive Office of MEGO Financial Corporation since January 1988, and served as a director of MEGO Mortgage Corp. from September 1996 until June 1998. Since October 1985, Mr. Nederlander has been President of Nederlander Television and Film Productions, Inc. In October 1996, Mr. Nederlander became a

director of News Communications Inc., a publisher of community oriented free circulation newspapers.

Alexander P. Sammarco, age 28, a director since October 1999. Mr. Sammarco has been employed by Pacholder Associates, Inc. since 1996 and currently serves as Vice President. Mr. Sammarco serves on the Board on behalf of the PBGC.

Allan R. Tessler, age 63, a director since September 1992. Mr. Tessler served as Chairman of the Board and Chief Executive Officer of the Company from November 1993 until January 1996. Mr. Tessler is Chairman of the Board and Chief Executive Officer of International Financial Group, Inc. since 1987; and director of Data Broadcasting Corporation since June 1992. Mr. Tessler is also Chairman of the Board of Enhance Financial Services Group, Inc., Chairman of the Board and Chief Executive Office of Jackpot Enterprises, Inc., and and director of The Limited, Inc.

Leonard Toboroff, age 67, a director since May 1989. Mr. Toboroff has been a Vice Chairman of the Board and an Executive Vice President of the Company since May 1989; a director and Vice Chairman of Riddell Sports, Inc. from April 1988 to the present; a practicing attorney continuously since 1961 to the present; a director since August 1987 and former Chairman and Chief Executive Officer from December 1987 to May 1988 of Ameriscribe; and formerly a director, Chairman and Chief Executive Officer from May 1982 through June 1982 and Vice Chairman June 1982 through September 1988 of American Bakeries Company. Mr. Toboroff is also a director of Banner Aerospace, Inc., Saratoga Beverage, Inc. and H-Rise Recycling Corp.

(b) Identification of Executive Officers

Name, Age as of March 1, 2000, and Position	Business Experience
Leonard Toboroff, 67, Vice Chairman of the Board and Executive Vice President	See Item 10, subsection (a) above.
John T. Grigsby, Jr., 59, Executive Vice President and Chief Financial Officer	Vice Chairman of the Board of the Company from May 1989 until October 1999, an Executive Vice President since October 1989 and Chief Financial Officer since January 1996, having previously served since December 1988 as the Company's Chairman and Chief Executive Officer. Prior to that time and since July 1987, Mr. Grigsby was employed by the Company as Managing Director, Restructure Project. Mr. Grigsby also serves as the A-C Reorganization Trustee, as President of Thomson McKinnon Securities, Inc. during winddown and liquidation of its affairs and President and Chief Executive Officer of

N.W. Liquidating, Inc. He has been a director of 1st Southern Bank of Boca Raton, Florida since September 1987 and First Florida Industries, Inc. since July 1985.

Jeffrey I. Lehman, 50,
Treasurer

Mr. Lehman commenced his employment with Allis-Chalmers and was elected to his current position in February 1996. Since 1991, Mr. Lehman has been employed by the A-C Reorganization Trust and Thomson McKinnon Securities during winddown and liquidation of their affairs. He has also provided financial consultation since 1985.

(c) Identification of Certain Significant Employees

None

(d) Family Relationships

None

(e) Business Experience

See this Item 10, subsections (a) and (b) above.

(f) Involvement in Certain Legal Proceedings

None

(g) Promoters and Control Persons

Not applicable

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, as well as beneficial owners of 10% or more of the Company's Common Stock, to file reports concerning their ownership of Company equity securities with the Securities and Exchange Commission and the Company. Based solely upon information provided to the Company and by individual directors, executive officers and such beneficial owners, the Company believes that during the fiscal year ended December 31, 1999 all its directors, executive officers and beneficial owners of 10% or more of its Common Stock complied with the Section 16(a) filing requirements, except that Form 3s required when Messrs. Barnhart, Groshoff, Sammarco and Lichtenstein became directors were filed late.

ITEM 11. EXECUTIVE COMPENSATION.**EXECUTIVE COMPENSATION**

No executive officer earned in excess of \$100,000 in 1999. H. Sean Mathis who served as Chairman of the Board and Chief Executive Officer in 1997, 1998 and 1999 received no compensation for his services as such.

LONG-TERM STOCK INCENTIVE PLAN

The Company's Long-Term Stock Incentive Plan (1989), adopted by the shareholders at the 1989 shareholders meeting, provides for grants to officers and key employees of stock options, stock appreciation rights, performance shares, restricted stock, restricted stock units and other stock-based awards. The maximum number of shares which may be granted with respect to stock-based awards is 50,000. Options to purchase shares may be granted at prices equal to not less than the fair market value at the date of grant, except that options to purchase up to 13,333 shares may be granted at a price which is not less than the fair market value on October 25, 1989, the date on which the Stock Incentive Plan was approved by shareholders. Options are exercisable within a period not to exceed 10 years from date of grant. Stock appreciation rights allow the holder to receive the difference between the exercise price and the fair market value of the stock at the date of exercise in cash or shares of common stock. No stock options or stock appreciation rights have been granted to date.

RETIREMENT PLAN

The Consolidated Plan covered 4 active employees at the beginning of 1999. The Consolidated Plan is a tax qualified defined benefit pension plan. Effective March 31, 1987, the Consolidated Plan was capped and frozen, without further increase in benefits provided by the Company after that date.

The retirement benefits paid under this plan are before any adjustment for a surviving spouse's pension and are not subject to Social Security offset or other deductions.

SAVINGS PLAN

The Company's Savings Plan was initiated in 1968. The Savings Plan permits the Company to contribute in its discretion cash or stock to participants' accounts. However, on June 1, 1985, the Company discontinued contributions to the Savings Plan.

Due to the significant administrative costs associated with the Savings Plan, on December 22, 1997, the Company filed an Application for Determination for Terminating the Savings Plan with the IRS. The participants in the Savings Plan were notified of the termination which became effective September 20, 1998, at which time all funds had been withdrawn from the Savings Plan.

COMPENSATION OF DIRECTORS

Since December 1, 1990, the annual retainer for services as a director (previously \$13,500 per year) has been suspended, the attendance fee for each Board meeting attended was reduced from \$425 to \$100 and the attendance fee for each Committee meeting was suspended.

TERMINATION OF EMPLOYMENT AND CHANGE OF CONTROL ARRANGEMENT

None.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN**BENEFICIAL OWNERS AND MANAGEMENT.****(a) Security Ownership of Certain Beneficial Owners**

The following table lists the beneficial ownership with respect to all persons known to the Company to be the beneficial owner of more than 5% of the Company's Common Stock as of March 1, 2000.

Name and Address	Amount and Nature of Ownership	Percent of Class
Pension Benefit Guaranty Corporation c/o Pacholder Associates, Inc. 8044 Montgomery Road Suite 382 Cincinnati, OH 45236	585,100	36.8%
AL-CH Company, L.P., 810 Seventh Avenue, New York, NY 10019 (includes shares held by Messrs. Nederlander and Toboroff as described below)	407,251(1)	25.6%
Wells Fargo Bank, P.O. Box 60347, Los Angeles, CA 90060, Trustee under that certain Amended and Restated Retiree Health Trust Agreement for UAW Retired Employees of Allis-Chalmers Corporation	136,406	8.6%

Name and Address	Amount and Nature of Ownership	Percent of Class
Firststar Trust Company, 777 East Wisconsin Avenue, Milwaukee, WI 53202, Trustee under that certain Amended and Restated Retiree Health Trust Agreement for Non-UAW Retired Employees of Allis-Chalmers Corporation	101,977	6.4%

(1) Messrs. Nederlander and Toboroff are beneficial owners of and have shared voting power and shared dispositive power over the 407,251 shares of common stock held by AL-CH Company, L.P., a Delaware limited partnership, of which the general partners are Q.E.N., Inc., a Michigan corporation controlled by Mr. Nederlander, and Lenny Corp., a Delaware corporation controlled by Mr. Toboroff. Mr. Allan R. Tessler is a limited partner in AL-CH Company, L.P.

(b) Security Ownership of Management

The following table sets forth the number of shares of Common Stock of the Company beneficially owned as of March 1, 2000 by directors, the former Chief Executive Officer (the only "named executive officer" of the Company) and all directors and executive officers as a group. Except as otherwise noted in the footnotes, the persons listed have sole voting and investment power over the shares beneficially owned.

Name	Amount and Nature of Ownership	Percent of Class
Thomas M. Barnhart II (1)	0	*
David A. Groshoff (1)	0	*
Dr. Richard Lichtenstein	0	*
H. Sean Mathis	0	*
Robert E. Nederlander (2)	407,251	25.6%
Alexander P. Sammarco (1)	0	*
Allan R. Tessler	0	*
Leonard Toboroff (2)	407,251	25.6%
All directors and officers as a group (ten persons)	416,786	26.2%

*less than 1%

(1) Even though Messrs. Barnhart, Groshoff and Sammarco were appointed to the Board by the PBGC under the PBGC Agreement, they do not beneficially own the 585,100 shares of the Company's Common Stock owned by the PBGC.

(2) Messrs. Nederlander and Toboroff are beneficial owners of and have shared voting power and shared dispositive power over the 407,251 shares of common stock held by AL-CH Company, L.P., a Delaware limited partnership, of which the general partners are Q.E.N., Inc., a Michigan corporation controlled by Mr. Nederlander, and Lenny Corp., a Delaware corporation controlled by Mr. Toboroff. Mr. Allan R. Tessler is a limited partner in AL-CH Company, L.P.

(c) Changes in Control

None

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

(a) Transactions with Management and Others

None

(b) Certain Business Relationships

None

(c) Indebtedness of Management

None

(d) Transactions with Promoters

Not applicable

PART IV**ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.**

(a) List of Documents Filed. The Index to Financial Statements and Financial Schedule is included on page 15 of this report. Financial statements Schedules not included in this report have been omitted because they are not applicable or the required information is shown in the Financial Statements or Notes thereto.

(b) Reports on Form 8-K. There were no Reports on Form 8-K filed in the fourth quarter of 1998.

(c) Exhibits:

2 .1. First Amended Disclosure Statement pursuant to Section 1125 of the Bankruptcy Code, which includes the First Amended and Restated Joint Plan of Reorganization dated September 14, 1988 (incorporated by reference to the Company's Report on Form 8-K dated December 1, 1988).

3.1. Amended and Restated Certificate of Incorporation of Allis- Chalmers Corporation (incorporated by reference to the Company's Report on Form 8-A dated August 12, 1992).

3.2. Amended and Restated By-laws of Allis-Chalmers Corporation (incorporated by reference to the Company's Report on Form 10-Q for the quarter ended September 30, 1999).

10.1. Amended and Restated Retiree Health Trust Agreement between Allis-Chalmers Corporation and Wells Fargo Bank (incorporated by reference to Exhibit C-1 of the First Amended and Restated Joint Plan of Reorganization dated September 14, 1988 included in the Company's Report on Form 8-K dated December 1, 1988).

10.2. Amended and Restated Retiree Health Trust Agreement between Allis-Chalmers Corporation and Firststar Trust Company (incorporated by reference to Exhibit C-2 of the First Amended and Restated Joint Plan of Reorganization dated September 14, 1988 included in the Company's Report on Form 8-K dated December 1, 1988).

*A management contract or compensatory plan or arrangement.

- 10.3. Reorganization Trust Agreement between Allis-Chalmers Corporation and John T. Grigsby, Jr., Trustee (incorporated by reference to Exhibit D of the First Amended and Restated Joint Plan of Reorganization dated September 14, 1988 included in the Company's Report on Form 8-K dated December 1, 1988).
- 10.4. Product Liability Trust Agreement between Allis-Chalmers Corporation and Bruce W. Strausberg, Trustee (incorporated by reference to Exhibit E of the First Amended and Restated Joint Plan of Reorganization dated September 14, 1988 included in the Company's Report on Form 8-K dated December 1, 1988).
- 10.5.* Allis-Chalmers Corporation Long-Term Stock Incentive Plan (1989) (incorporated by reference to the Company's Report on Form 10-Q for the quarter ended September 30, 1989).
- 10.6. Subscription and Shareholder Agreement between Allis-Chalmers Corporation and AL-CH Company, L.P. dated May 18, 1989 (incorporated by reference to the Company's Report on Form 8-K dated May 24, 1989).
- 10.7. Commercial Installment Loan Agreement by and between Allis-Chalmers Corporation and Marine Midland Bank, N.A., dated as of December 20, 1989 (incorporated by reference to the Company's Report on Form 8-K dated December 20, 1989).
- 10.8.* Employment Agreement between Allis-Chalmers Corporation and John T. Grigsby, Jr. (incorporated by reference to the Company's Report on Form 10-Q for the quarter ended September 30, 1989).
- 10.9.* Allis-Chalmers Savings Plan (incorporated by reference to the Company's Report on Form 10-K for the year ended December 31, 1988).
- 10.10.* Allis-Chalmers Consolidated Pension Plan (incorporated by reference to the Company's Report on Form 10-K for the year ended December 31, 1988).
- 10.11. Agreement dated as of March 31, 1999, by and between Allis-Chalmers Corporation and the Pension Benefit Guaranty Corporation (incorporated by reference to the Company's Report on Form 10-Q for the quarter ended June 30, 1999).
- 10.12. Lock-up Agreement dated as of March 31, 1999, by and among Allis-Chalmers Corporation, the Pension Benefit Guaranty Corporation, acting in its individual capacity and as trustee of the Allis-Chalmers

*A management contract or compensatory plan or arrangement.

Consolidated Pension Plan, AL-CH Company, L.P., Wells Fargo Bank, as trustee under that certain Amended and Restated Retiree Health Trust Agreement for UAW Retired Employees of Allis-Chalmers Corporation 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 (incorporated by reference to the Company's Report on Form 10-Q for the quarter ended June 30, 1999).

10.13. Registration Rights Agreement dated as of March 31, 1999, by and between Allis-Chalmers Corporation and the Pension Benefit Guaranty Corporation (incorporated by reference to the Company's Report on Form 10-Q for the quarter ended June 30, 1999).

21.1. Subsidiaries of Allis-Chalmers Corporation.

27.1. Financial Data Schedule.

*A management contract or compensatory plan or arrangement.

ALLIS-CHALMERS CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

(thousands)

Year Ended December 31, 1997 -----	Balance at Beginning of Period -----	Additions -----	Deductions -----	Balance at Close of Period -----
Doubtful receivables	\$ 30	\$ 6	\$ 0	\$ 36
	-----	-----	-----	-----
Year Ended December 31, 1998 -----	Balance at Beginning of Period -----	Additions -----	Deductions -----	Balance at Close of Period -----
Doubtful receivables	\$ 36	\$ 0	\$ 15	\$ 21
	-----	-----	-----	-----
Year Ended December 31, 1999 -----	Balance at Beginning of Period -----	Additions -----	Deductions -----	Balance at Close of Period -----
Doubtful receivables	\$ 21	\$ 102	\$ 1	\$ 122
	-----	-----	-----	-----

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Allis-Chalmers Corporation

*/s/John T. Grigsby, Jr.
John T. Grigsby, Jr.
Executive Vice President and Chief
Financial Officer
Date: March 29, 2000*

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, this report has been signed on March 29, 2000 by the following persons on behalf of the registrant and in the capacities indicated.

*/s/Thomas M. Barnhart II
Thomas M. Barnhart II, Director*

*/s/Alexander P. Sammarco
Alexander P. Sammarco, Director*

*/s/ David A. Groshoff
David A. Groshoff, Director*

*/s/Allan R. Tessler
Allan R. Tessler, Director*

*/s/Dr. Richard Lichtenstein
Dr. Richard Lichtenstein, Director*

*/s/Leonard Toboroff
Leonard Toboroff, Director*

*/s/Robert E. Nederlander
Robert E. Nederlander, Director*

ALLIS-CHALMERS CORPORATION AND CONSOLIDATED SUBSIDIARIES

EXHIBIT 21.1.
SUBSIDIARIES

	State in Which Subsidiary Organized
Houston Dynamic Service, Inc.	Texas
KILnGAS R&D, Inc.	Illinois
U.S. Fluidcarbon Inc.	Delaware

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	501
SECURITIES	0
RECEIVABLES	692
ALLOWANCES	122
INVENTORY	157
CURRENT ASSETS	1,294
PP&E	2,816
DEPRECIATION	1,646
TOTAL ASSETS	2,464
CURRENT LIABILITIES	67,799
BONDS	193
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	9,331
OTHER SE	(75,786)
TOTAL LIABILITY AND EQUITY	(2,464)
SALES	0
TOTAL REVENUES	4,370
CGS	0
TOTAL COSTS	3,312
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	7
INCOME PRETAX	(113)
INCOME TAX	0
INCOME CONTINUING	(113)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(113)
EPS BASIC	(.08)
EPS DILUTED	(.08)

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