

Edgar Filing: Allis Chalmers Energy Inc. - Form 10-Q/A

Allis Chalmers Energy Inc.  
Form 10-Q/A  
March 08, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q/A  
AMENDMENT NO. 1

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003 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 ENERGY INC.

-----  
(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.)

5075 WESTHEIMER, SUITE 890, HOUSTON, TEXAS 77056  
-----  
(Address of principal executive offices) (Zip code)

(713) 369-0550  
-----

Registrant's telephone number, including area code

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:  
COMMON STOCK, PAR VALUE \$0.01 PER SHARE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

At November 13, 2003 were 19,633,340 shares of Common Stock outstanding.

ALLIS-CHALMERS ENERGY INC.

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FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

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INTRODUCTORY NOTE

Allis-Chalmers Energy Inc. (formerly known as Allis-Chalmers Corporation) is filing this Amendment No. 1 ("Amendment No. 1") to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (the "Original Filing"), which was originally filed on November 13, 2003 (the "Original Filing Date") to reflect the restatement of our financial results resulting from our determination to change the manner in which we accounted for the formation of our AirComp LLC subsidiary in July 2003. The restatement is discussed in more detail in Note 2 to the accompanying consolidated financial statements. The following Items of the Original Filing are amended by this Amendment No. 1:

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ITEM 4. CONTROLS AND PROCEDURES

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PART II

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Unaffected items have not been repeated in this Amendment No. 1.

PLEASE NOTE THAT THE INFORMATION CONTAINED IN THIS AMENDMENT NO. 1, INCLUDING THE FINANCIAL STATEMENTS AND THE NOTES THERETO, DOES NOT REFLECT EVENTS OCCURRING AFTER THE ORIGINAL FILING DATE. SUCH EVENTS INCLUDE, AMONG OTHERS, THE EVENTS DESCRIBED IN OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2003, OUR QUARTERLY REPORTS ON FORM 10-Q FOR THE PERIODS ENDED MARCH 31, 2004, JUNE 30, 2004 AND SEPTEMBER 30, 2004 AND OUR CURRENT REPORTS ON FORM 8-K FILED SUBSEQUENT TO THE ORIGINAL FILING DATE. FOR A DESCRIPTION OF THESE EVENTS, PLEASE READ OUR EXCHANGE ACT REPORTS FILED SINCE THE ORIGINAL FILING DATE INCLUDING ALL AMENDMENTS THERETO.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLIS-CHALMERS CORPORATION  
 CONSOLIDATED BALANCE SHEETS  
 (unaudited) (in thousands)  
 See Explanatory Note

	September 30, 2003	Dec
	-----	-----
<b>Assets</b>		
Cash and cash equivalents	\$ 120	\$
Trade receivables, net	7,291	
Lease deposit	--	
Lease receivable, current	180	
Prepaid and other current assets	1,014	
	-----	-----
Total current assets	8,605	
Property, plant and equipment, net	31,982	
Goodwill	7,829	
Other intangible assets, net	2,254	
Debt issuance costs, net	554	
Lease receivable	936	
Other assets	6	
	-----	-----
Total assets	\$ 52,166	\$
	=====	=====

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Liabilities and Shareholders' Equity

Current maturities of long-term debt	\$	3,278	\$
Trade accounts payable		4,844	
Accrued employee benefits and payroll taxes		405	
Accrued interest		547	
Accrued expenses		1,183	
		-----	
Total current liabilities		10,257	
Accrued postretirement benefit obligations		635	
Long-term debt, less current portion		24,860	
Other long-term liabilities		270	
Redeemable warrants		1,500	
Redeemable convertible preferred stock		4,390	
		-----	
Total liabilities		41,912	
Minority interest		3,980	
Common shareholders' equity:			
Common stock, \$.15 par value (110,000,000 shares authorized; 19,633,340 issued and outstanding at September 30, 2003 and December 31, 2002)		2,945	
Capital in excess of par value		9,260	
Accumulated (deficit)		(5,911)	
		-----	
Total shareholders' equity		6,274	
		-----	
Total liabilities and shareholders' equity	\$	52,166	\$
		=====	

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

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ALLIS-CHALMERS CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited) (in thousands, except per share)

	Three Months Ended September 30,		Nine S
	2003	2002	2003
	----- (Restated)	-----	----- (Restate
			(in thousands, except per sha
Sales	\$ 8,089	\$ 4,775	\$ 22,4
Cost of sales	6,060	3,841	16,2
	-----	-----	-----
Gross Margin	2,029	934	6,1

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Marketing and administrative expense	1,351	886	3,7
Corporate reorganization costs	--	495	
Abandoned acquisition/private placement costs	--	233	
	-----	-----	-----
Income/ (loss) from operations	678	(680)	2,4
Other Income (expense)			
Interest expense	(521)	(558)	(1,7
Minority interest	(4)	(105)	(3
Factoring costs on note receivable	--	(191)	
Settlement of lawsuit	1,034	--	1,0
Sale of investment in AirComp	2,433	--	2,4
Other	10	29	(1
	-----	-----	-----
Net income/(loss) before income taxes	3,630	(1,505)	3,5
	-----	-----	-----
Provision for income taxes	(93)	--	(3
	-----	-----	-----
Net income/ (loss)	3,537	(1,505)	3,2
	-----	-----	-----
Preferred stock dividend	(88)	(87)	(5
	-----	-----	-----
Net income/ (loss) attributed to common shares	\$ 3,449	\$ (1,592)	\$ 2,6
	=====	=====	=====
Net income/ (loss) per common share, basic	\$ 0.18	\$ (0.08)	\$ 0.
	=====	=====	=====
Net income/ (loss) per common share, diluted	\$ 0.12	\$ (0.08)	\$ 0.
	=====	=====	=====
Weighted average number of common shares outstanding			
Basic	19,633	19,633	19,6
	=====	=====	=====
Diluted	28,805	19,633	28,8
	=====	=====	=====

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

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	September 30, 2003	
	----- (Restated)	-----
Cash flows from operating activities:		
Net income (loss)	\$ 3,256	\$
Adjustments to reconcile net (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	2,099	
(Gain) loss on settlement of lawsuit	(1,034)	
(Gain) loss on sale of interest in AirComp	(2,433)	
Amortization of discount on debt	442	
Minority interest in income of subsidiary	315	
Changes in working capital:		
Decrease (increase) in accounts receivable	(2,882)	
Decrease (increase) in due from related party	--	
Decrease (increase) in other current assets	(697)	
Decrease (increase) in other assets	35	
Decrease (increase) in lease deposit	525	
Decrease (increase) in lease receivable	106	
(Decrease) increase in accounts payable	2,738	
(Decrease) increase in accrued interest	(264)	
(Decrease) increase in accrued expenses	(323)	
(Decrease) increase in other long-term liabilities	--	
(Decrease) increase in accrued employee benefits and payroll taxes	90	
	-----	-----
Net cash provided by operating activities	1,973	
	-----	-----
Cash flows from investing activities:		
Acquisition of Jens, net of cash acquired	--	
Acquisition of Strata, net of cash acquired	--	
Purchase of equipment	(5,086)	
Proceeds from sale of equipment	700	
	-----	-----
Net cash (used) by investing activities	(4,386)	
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	9,616	
Repayments of long-term debt	(6,925)	
Debt issuance costs	(304)	
	-----	-----
Net cash provided by financing activities	2,387	
	-----	-----
Net (decrease) in cash and cash equivalents	(26)	
Cash and cash equivalents at beginning of year	146	
	-----	-----
Cash and cash equivalents at end of period	\$ 120	\$
	=====	=====
Supplemental information - interest paid	\$ 1,796	\$
	=====	=====

ALLIS-CHALMERS CORPORATION  
STATEMENTS OF CASH FLOWS (CONTINUED)

Non-cash investing and financing transactions in connection with the acquisition of Jens' Oilfield Service, Inc. for the nine months ended September 30, 2002:

Fair value of net assets acquired	\$ (11,20
Goodwill and other intangibles	(1,23
Note payable to prior owner	4,00
Value of common stock issued	67
	-----
Net cash paid to acquire subsidiary	\$ (7,76
	-----

Non-cash investing and financing transactions in connection with the acquisition of Strata Directional Technology, Inc. for the nine months ended September 30, 2002:

Fair value of net assets acquired	\$ (2,07
Goodwill and other intangibles	(5,01
Issuance of preferred stock	3,50
Value of common stock issued	3,21
	-----
Net cash paid to acquire subsidiary	\$ (37
	-----

Non-cash investing and financing transactions in connection with the formation of AirComp LLC and other activities during the nine months ended September 30, 2003 include the following:

Amortization of discount on debt	\$ 44
(Gain) on settlement of debt	\$ (1,03
Purchase of equipment financed through assumption of debt or accounts payable as of September 30, 2003	\$ 90
Non-cash investing and financing transaction on connection with the formation of AirComp:	
Contribution of debt by M-I to joint venture	\$ 4,81
Contribution of plant, property and equipment by M-I to joint venture	\$ 10,26
(Gain) on sale of investment in AirComp	\$ (2,43
Increase in minority interest	\$ 2,06
Difference of Company's investment cost basis in AirComp and their share of underlying equity of net assets of Aircomp	\$ 95
Net cash paid in connection with the joint venture	\$ -

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

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## ALLIS-CHALMERS CORPORATION

### NOTES TO UNAUDITED FINANCIAL STATEMENTS (UNAUDITED AND RESTATED) FOR THE INTERIM PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

PLEASE NOTE THAT THESE FINANCIAL STATEMENTS AND THE NOTES THERETO DO NOT REFLECT EVENTS OCCURRING AFTER NOVEMBER 13, 2003. FOR A DESCRIPTION OF THESE EVENTS, PLEASE READ OUR EXCHANGE ACT REPORTS FILED SINCE THE DATE OF THE ORIGINAL FILING.

#### EXPLANATORY NOTE

This Amendment No. 1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (the "Original Filing"), includes restatements related to our unaudited consolidated financial statements for the period ended September 30, 2003. The restatement is discussed in Note 2.

#### NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This interim financial data should be read in conjunction with the consolidated financial statements and related notes, management's discussion and analysis and other information included in Allis-Chalmers Corporation's ("Allis-Chalmers" or the "Company") Annual Report on Form 10-K for the year ended December 31, 2002, and the Current Reports on Form 8-K filed on February 20, 2003, June 12, 2003, July 16, 2003, and September 16, 2003 respectively.

All normal and recurring adjustments considered necessary for a fair presentation of the results of operations have been included in the unaudited financial statements. In addition, all non-recurring adjustments necessary to prevent the financial statements from being misleading have been included in the unaudited financial statements. The results of operations for any interim period are not necessarily indicative of the Company's operating results for a full year.

#### ORGANIZATION OF BUSINESS

OilQuip Rentals, Inc., an oil and gas rental company ("OilQuip"), was incorporated on February 4, 2000 to find and acquire acquisition targets to operate as subsidiaries.

On February 6, 2001, OilQuip, through its subsidiary, Mountain Compressed Air Inc. ("Mountain Air"), a Texas corporation, acquired certain assets of Mountain Air Drilling Service Co., Inc. ("MADSCO"), whose business consisted of providing equipment and trained personnel in the four corner areas of the southwestern United States. Mountain Air primarily provides compressed air equipment and related products and services including trained operators to companies in the business of drilling for natural gas.

On May 9, 2001, OilQuip merged into a subsidiary of Allis-Chalmers. In the merger, all of OilQuip's outstanding common stock was converted into 2,000,000 shares of Allis-Chalmers' common stock.

For legal purposes, the Company acquired OilQuip, the parent company of Mountain Air. However, for accounting purposes, OilQuip was treated as the acquiring company in a reverse acquisition of Allis-Chalmers. The financial statements prior to the merger reflect the operations of OilQuip. As a result of the



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merger, the fixed assets and intangible assets of Allis-Chalmers were increased by \$2,691,000.

On February 6, 2002, the Company acquired 81% of the outstanding stock of Jens' Oilfield Service, Inc. ("Jens'"), which supplies highly specialized equipment and operations to install casing and production tubing required to drill and complete oil and gas wells. The Company also purchased substantially all the outstanding common stock and preferred stock of Strata Directional Technology, Inc. ("Strata"), which provides high-end directional and horizontal drilling services for specific targeted reservoirs that cannot be reached vertically.

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In July 2003, through our subsidiary Mountain Air, we entered into a limited liability company operating agreement with a division of M-I L.L.C., a joint venture between Smith International and Schlumberger N.V. (Schlumberger Limited) to form a Texas limited liability company named AirComp L.L.C. ("AirComp"). We contributed substantially all of our compressed air drilling assets with an estimated net book value of approximately \$6.3 million to AirComp. Simultaneously, Aircomp acquired the compressed air drilling assets of M-I with an appraised value \$10.3 million as determined by a third party appraisal. We own 55% and M-I L.L.C. owns 45% of AirComp. We consolidated AirComp into our financial statements for the quarter ended September 30, 2003.

### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Future events and their effects cannot be predicted with certainty. Accordingly, the Company's accounting estimates require the exercise of judgment. While management believes that the estimates and assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates. Estimates are used for, but are not limited to, determining the following: allowance for doubtful accounts reserves, recoverability of long-lived assets, useful lives used in depreciation and amortization, income taxes and related valuation allowances, and insurance and legal accruals. The accounting estimates used in the preparation of the consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes.

### AIRCOMP AND SALE OF INTEREST IN VENTURE

The Company has adopted SEC Staff Accounting Bulletin (SAB) No.51, Accounting for Sales of Stock by a Subsidiary, to account for its investment in AirComp. AirComp operates in a manner similar to a joint venture but has been accounted for and consolidated as a subsidiary under SFAS No. 141, BUSINESS COMBINATIONS. Pursuant to SAB No. 51, the Company has recorded its own contribution of assets and liabilities at its historical cost basis. Since liabilities exceeded assets, the Company's basis in AirComp was a negative amount. The Company has accounted for the assets contributed from M-I at a fair market value as determined by an outside appraiser. The Company gave M-I a 45% interest in AirComp in exchange for the assets contributed. As a result of the formation of the venture and its retention of 55% interest in the venture, the Company realized an immediate gain to the extent of its negative basis and its 55% interest in the combined assets

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and liabilities of the venture. In accordance with SAB No. 51, the Company has recorded its negative basis investment in AirComp as an addition to equity and its share of the combined assets and liabilities realized from M-I assets as non-operating income.

### NEW ACCOUNTING PRONOUNCEMENTS

In July 2002, the FINANCIAL ACCOUNTING STANDARDS BOARD ("FASB") issued SFAS No. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES ("SFAS No. 146"). SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. The provisions of SFAS No. 146 will apply to any exit or disposal activities initiated by the Company after December 31, 2002. SFAS No. 146 is not expected to have a material effect on the results of operations or financial position of the Company.

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SFAS No. 147, ACQUISITIONS OF CERTAIN FINANCIAL INSTITUTIONS, was issued in December 2002 and is not expected to apply to the Company's current or planned activities.

In April 2003, the FASB issued SFAS No. 149, AMENDMENT OF STATEMENT NO. 133 ON DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES ("SFAS No. 149"). SFAS No. 149 amends certain portions of SFAS No. 133 and is effective for all contracts entered into or modified after September 30, 2003 on a prospective basis. SFAS No. 149 is not expected to have a material effect on the results of operations or financial position of the Company because the Company currently has no derivatives or hedging contracts.

In September 2003, the FASB approved SFAS No. 150, ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY (SFAS No. 150). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after September 15, 2003. The effect on the Company's financial position include the fact that beginning on July 1, 2003, the redeemable convertible preferred stock and the redeemable warrants will be classified as liabilities and not shown in the mezzanine equity section of the balance sheet. The adoption of SFAS No. 150 could also affect the Company's debt covenant calculations, which are currently in compliance as of September 30, 2003.

### NOTE 2 - RESTATEMENT

In connection with the formation of AirComp in 2003, the Company and M-I contributed assets to AirComp in exchange for a 55% interest and 45% interest, respectively, in AirComp. The Company originally accounted for the formation of AirComp as a joint venture, but in February 2005 determined that the transaction should have been accounted for using purchase accounting pursuant to SFAS No. 141, BUSINESS COMBINATIONS and accounting for the sale of an interest in a subsidiary in accordance with SAB No. 51. Consequently, the Company has restated the financial statements for the three quarters ended September 30, 2003, to reflect the following adjustments:

**INCREASE IN BOOK VALUE OF FIXED ASSETS.** Under joint venture accounting, the Company originally recorded the value of the assets contributed by M-I to

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AirComp at M-I's historical cost of \$6,932,000. Under purchase accounting, the Company increased the recorded value of the assets contributed by M-I by approximately \$3,337,000 to \$10,269,000 to reflect their fair market value as determined by a third party appraisal. In addition, under joint venture accounting, the Company established negative goodwill which reduced fixed assets in the amount of \$1,550,000. The negative goodwill was amortized by the Company over the lives of the related fixed assets. Under purchase accounting, the Company increased fixed assets by \$1,550,000 to reverse the negative goodwill previously recorded and reversed amortization expenses recorded in 2004. Therefore, fixed assets were increased by a total of \$4,887,000.

INCREASE IN NET INCOME. As a result of the increase in fixed assets during the nine months ended September 30, 2003, a gain on sale of investment in a subsidiary of \$2,433,000 was recorded. Depreciation expense related to the fixed assets increased by \$49,000 and minority interest expense decreased by \$22,000, resulting in increase in net income attributable to common stockholders of \$2,406,000.

The accompanying financial statements have also been restated from the previously filed financial statements to reflect a change in estimate of the recoverability of foreign taxes paid in 2003.

A restated consolidated balance sheet at September 30, 2003, and a restated consolidated statement of operations and a restated consolidated statement of cash flows for the nine months ended September 30, 2003, reflecting the above adjustments, is presented below. The amounts are in thousands, except for share amounts:

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	At September 30, 2003		
	As Reported	Restatement Adjustments	As Restated
	-----	-----	-----
<b>ASSETS</b>			
Cash and cash equivalents	\$ 120		\$ 120
Trade receivables, net of allowance for doubtful accounts	7,291		7,291
Lease Receivable, current	180		180
Prepaid expenses and other	1,014		1,014
	-----		-----
Total current assets	8,605		8,605
Property and equipment, net of accumulated depreciation	27,144	4,838	31,982
Goodwill	7,829		7,829
Other intangible assets, net of accumulated amortization	2,254		2,254
Debt issuance costs, net of accumulated amortization	554		554
Lease receivable, less current portion	936		936
Other Assets	6		6
	-----	-----	-----
Total Assets	\$ 47,328	\$ 4,838	\$ 52,166

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	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current maturities of long-term debt	\$ 3,278		\$ 3,278
Trade accounts payable	4,844		4,844
Accrued salaries, benefits and payroll taxes	405		405
Accrued interest	547		547
Accrued expenses	1,183		1,183
Accounts payable, related parties	--		--
	-----		-----
Total current liabilities	10,257		10,257
Accrued postretirement benefit obligations	635		635
Long-term debt, net of current maturities	24,860		24,860
Other long-term liabilities	270		270
Redeemable warrants	1,500		1,500
Redeemable convertible preferred stock including accrued dividends	4,390		4,390
	-----		-----
Total liabilities	41,912		41,912
Commitments and Contingencies			
Minority interests	2,503	1,477	3,980
COMMON STOCKHOLDERS' EQUITY			
Common stock	2,945		2,945
Capital in excess of par value	8,285	955	9,240
Accumulated (deficit)	(7,975)	2,406	(5,569)
	-----	-----	-----
Total stockholders' equity	2,913	3,361	6,274
	-----	-----	-----
Total liabilities and stockholders' equity	\$ 47,328	\$ 4,838	\$ 52,166
	=====	=====	=====

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	Three Months September 30, 2003		
	As Reported	Restatement Adjustments	As Restated
	-----	-----	-----
Revenues	\$ 8,089	--	\$ 8,089
Cost of revenues	6,011	49	6,060
	-----	-----	-----
Gross margin	2,078	(49)	2,029
General and administrative expense	1,351	--	1,351
	-----	-----	-----
Income/ (loss) from operations	727	(49)	678
Other income (expense):			

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Interest income	--	--	--
Interest expense	(521)	--	(521)
Minority interests in income of subsidiaries	(26)	22	(4)
Settlement on lawsuit	1,034	--	1,034
Gain on sale of stock in a subsidiary	--	2,433	2,433
Other	10	--	10
	-----	-----	-----
Total other income (expense)	497	2,455	2,952
	-----	-----	-----
Net income/ (loss) before income taxes	1,224	2,406	3,630
	-----	-----	-----
Provision for foreign income tax	(93)	--	(93)
	-----	-----	-----
Net income/ (loss)	1,131	2,406	3,537
	-----	-----	-----
Preferred stock dividend	(88)	--	(88)
	-----	-----	-----
Net income attributed to common stockholders	\$ 1,043	\$ 2,406	\$ 3,449
	=====	=====	=====
Income/ (loss) per common share - basic	\$ 0.05		\$ 0.18
	=====		=====
Income/ (loss) per common share - diluted	\$ 0.04		\$ 0.12
	=====		=====
Weighted average number of common shares outstanding:			
Basic	19,633		19,633
	=====		=====
Diluted	28,805		28,805
	=====		=====

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Nine Months September 30, 2003

	As Reported	Restatement Adjustments	As Restated
	-----	-----	-----
Revenues	\$ 22,428	--	\$ 22,428
Cost of revenues	16,212	49	16,261
	-----	-----	-----
Gross margin	6,216	(49)	6,167
	-----	-----	-----
General and administrative expense	3,759	--	3,759
	-----	-----	-----
Income/ (loss) from operations	2,457	(49)	2,408
	-----	-----	-----
Other income (expense):			
Interest income	--	--	--
Interest expense	(1,797)	--	(1,797)
Minority interests in income of subsidiaries	(337)	22	(315)
Settlement on lawsuit	1,034	--	1,034
Gain on sale of stock in a subsidiary	--	2,433	2,433
Other	(164)	--	(164)

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Total other income (expense)	(1,264)	2,455	1,191
Net income/ (loss) before income taxes	1,193	2,406	3,599
Provision for foreign income tax	(343)	--	(343)
Net income/ (loss)	850	2,406	3,256
Preferred stock dividend	(569)	--	(569)
Net income attributed to common stockholders	\$ 281	\$ 2,406	\$ 2,687
Income/ (loss) per common share - basic	\$ 0.01		\$ 0.14
Income/ (loss) per common share - diluted	\$ 0.01		\$ 0.09
Weighted average number of common shares outstanding:			
Basic	19,633		19,633
Diluted	28,805		28,805

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	Nine Months September 30, 2003		
	As Reported	Restatement Adjustment	As Restated
Cash flows from operating activities:			
Net income/ (loss)	\$ 850	\$ 2,406	\$ 3,256
Adjustments to reconcile net income/ (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	2,050	49	2,099
(Gain) / loss on settlement of lawsuit	(1,034)	--	(1,034)
(Gain) / loss on sales on interest in AirComp	--	(2,433)	(2,433)
Amortization of discount on debt	442	--	442
Minority interest in income of subsidiaries	337	(22)	315
Changes in working capital:			
Decrease (increase) in accounts receivable	(2,882)	--	(2,882)
Decrease (increase) in other current assets	(697)	--	(697)
Decrease (increase) in other assets	35	--	35
Decrease (increase) in lease deposit	525	--	525
Decrease (increase) in lease receivable	106	--	106
Increase (decrease) in accounts payable	2,738	--	2,738
Increase (decrease) in accrued interest	(264)	--	(264)
Increase (decrease) in accrued expenses	(323)	--	(323)
Increase (decrease) in accrued employee benefits and payroll taxes	90	--	90

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Net cash provided by operating activities	1,973	--	1,973
Cash flows from investing activities:			
Purchase of equipment	(5,086)		(5,086)
Proceeds from sale of equipment	700		700
	-----		-----
Net cash (used) by investing activities	(4,386)		(4,386)
	-----		-----
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	9,616		9,616
Repayments of long-term debt	(6,925)		(6,925)
Debt issuance costs	(304)		(304)
	-----		-----
Net cash provided (used) by financing activities	2,387		2,387
	-----		-----
Net increase (decrease) in cash and cash equivalents	(26)		(26)
Cash and cash equivalents:			
Beginning of the year	146		146
	-----		-----
End of the year	\$ 120		\$ 120
	=====		=====
Supplemental information:			
Interest paid	\$ 1,796		\$ 1,796
	=====		=====

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NOTE 3 - ACQUISITIONS

In July 2003, through our subsidiary Mountain Air, we entered into a limited liability company operating agreement with a division of M-I L.L.C., a joint venture between Smith International and Schlumberger N.V. (Schlumberger Limited) to form a Texas limited liability company named AirComp L.L.C. ("AirComp"). The formation of AirComp has created the second largest provider of compressed air and related products and services for the drilling, workover, completion, and transmission segments of the oil, gas and geothermal industries.

The Company contributed substantially all of its compressed air drilling assets with an estimated net book value of approximately \$6.3 million to AirComp. Simultaneously, Aircomp acquired the compressed air drilling assets of M-I with an appraised value \$10.3 million as determined by a third party appraisal. In addition, AirComp issued a subordinated note to M-I in the amount of \$4.8 million. The Company owns 55% and M-I L.L.C. owns 45% of AirComp. The Company consolidated AirComp into its financial statements for the quarter ended September 30, 2003.

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In connection with the transaction, AirComp obtained bank financing of \$8 million (matures on September 27, 2007), of which \$7.3 million was distributed to the Company to extinguish the outstanding Mountain Compressed Air debt, approximately \$2.4 million of the \$7.3 million was used to purchase equipment Mountain Compressed Air was leasing prior to the transaction and \$700,000 was applied to pay transaction costs and for working capital. The debt bears interest at a floating rate, currently LIBOR plus 2.25%, which is payable quarterly and quarterly principal of \$285,714 starting in the third quarter of 2003, the balance of the debt is due on September 27, 2007. AirComp has the ability to borrow an additional \$1.4 million under its credit agreements with the bank. AirComp's bank debt is secured by substantially all of the assets of AirComp. In addition to the bank financing, AirComp issued a note to M-I L.L.C. for in the amount of \$4.8 million bearing an annual interest rate of 5% in conjunction with the joint venture. The note is due and payable when M-I sells its interest in AirComp.

The Company has guaranteed all of Mountain Compressed Air's obligations under the joint venture agreement, and Mountain Compressed Air has guaranteed up to \$2 million of AirComp's debt including AirComp's obligations under the note issued to M-I L.L.C. Additionally, all of the \$13 million assets of AirComp are collateralized by the debt.

As a result of the repayment of Mountain Compressed Air's outstanding debt in connection with the AirComp transaction, the Company became compliant with all of its loan covenants with its Bank Lenders, except for a certain debt covenant at AirComp. The Company has obtained a waiver for that covenant default.

The following unaudited pro forma consolidated summary financial information illustrates the effects of the joint venture of AirComp LLC on the Company's results of operations, based on the historical statements of operations, as if the transactions had occurred as of the beginning of the period presented.

	Nine Months Ended September 30,	
	2003	2002
	(in thousands)	
Revenues	\$ 24,150	\$ 14,233
Operating income /(loss)	\$ 2,694	\$ (379)
Net income/ (loss)	\$ 3,411	\$ (2,883)
Net income/ (loss) per common share, basic	\$ 0.17	\$ (0.16)
Net income/ (loss) per common share, diluted	\$ 0.12	\$ (0.16)

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#### NOTE 4 - LONG-TERM DEBT

Long-term debt is primarily a result of the costs of the acquisitions of certain assets of Jens' Oilfield Service, Inc., Strata Directional Technology, Inc. and the newly created joint venture between Mountain Air and M-I L.L.C, AirComp LLC.

Substantially all of the Company's assets are pledged as collateral to the outstanding debt agreements.

The debt agreements are as follows:



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### MOUNTAIN AIR

NOTES PAYABLE TO WELLS FARGO - EQUIPMENT LEASING - A term loan in the original amount of \$267,000 at an interest rates of 5%, interest payable monthly, with monthly principal payments of \$5,039 due on the last day of the month. The maturity date of the loan is June 30, 2008.

NOTE PAYABLE TO SELLER OF MOUNTAIN AIR DRILLING SERVICE COMPANY ("MADSCO") - A note to the sellers of MADSCO assets in the original amount of \$2,200,000 at 5.75% simple interest was reduced to \$1,469,151 as a result of the settlement of a legal action by the Company against the sellers. The principal and accrued interest is due on September 30, 2007 in the amount of \$1,863,195. See Note 6 for information regarding the modification to the terms of this agreement.

### JENS'

NOTE PAYABLE TO WELLS FARGO - TERM NOTE - A term loan in the amount of \$4,042,396 at a floating interest rate (7.25% at September 30, 2003) with monthly principal payments of \$67,373. The maturity date of the loan is February 1, 2007. The balance at September 30, 2003 was \$2,830,000.

NOTE PAYABLE TO WELLS FARGO - REAL ESTATE NOTE - A real estate loan in the amount of \$532,000 at floating interest rate (7.0% at September 30, 2003) with monthly principal payments of \$14,778. The principal will be due on February 1, 2005. The balance at September 30, 2003 was \$251,000.

LINE OF CREDIT WITH WELLS FARGO - At September 30, 2003, Jens had a \$1,000,000 line of credit at Wells Fargo bank, of which \$418,000 was outstanding. The committed line of credit is due on January 31, 2005. Interest accrues at a floating rate plus 3% (7.25% at September 30, 2003) for the committed portion. Additionally, the Company pays a 0.5% fee for the uncommitted portion.

SUBORDINATED NOTE PAYABLE TO SELLER OF JENS' -A subordinated seller's note in the amount of \$4,000,000 at 7.5% simple interest. At September 30, 2003, \$375,000 of interest was accrued and was included in accrued interest. The principal and interest are due on January 31, 2006. The note is subordinated to the rights of Wells Fargo.

NOTE PAYABLE TO SELLER OF JENS' FOR NON-COMPETE AGREEMENT - In conjunction with the purchase of Jens' (Note 3), the Company agreed to pay a total of \$1,234,560 to the Seller of Jens' in exchange for a non-compete agreement signed simultaneously. The Company is to make monthly payments of \$20,576 through the period ended January 31, 2007. As of September 30, 2003, the balance was approximately \$823,000, including \$247,000 classified as short-term.

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### STRATA

VENDOR FINANCING - On September 15, 2003, Strata entered into a short-term vendor financing agreement with a major supplier of drilling motors for the purchase of drilling motor rentals. The agreement provides for the payment of the principal amount of \$70,781 plus interest at a rate of 8.0%. Payment of the principal and interest on the note is due monthly; however, the Company may make payments with respect to principal and interest at any time without penalty. As of September 30, 2003, the outstanding balance, including accrued interest, was approximately \$849,375. All amounts must be repaid on or prior to October 31, 2004

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LINE OF CREDIT WITH WELLS FARGO - At September 30, 2003, Strata has a \$2,500,000 line of credit at Wells Fargo bank, of which \$1,099,000 was outstanding. The committed line of credit is due on January 31, 2005. Interest accrues at a floating interest rate plus 1/2% (7.25% at September 30, 2003) for the committed portion. Additionally, the Company pays a 0.5% fee for the uncommitted portion.

### ALLIS-CHALMERS

NOTES PAYABLE TO WELLS FARGO - SUBORDINATED DEBT AND AMORTIZATION OF REDEEMABLE WARRANT - Subordinated debt secured to partially finance the acquisitions of Jens' and Strata in the amount of \$3,000,000 at 12% interest payable monthly. The principal will be due on January 31, 2005. In connection with incurring the debt, the Company issued redeemable warrants valued at \$900,000, which have been recorded as a discount to the subordinated debt and as a liability (see REDEEMABLE WARRANTS below). The discount is amortizable over three years beginning February 6, 2002 as additional interest expense.

NOTES PAYABLE TO CERTAIN FORMER DIRECTORS - The Allis-Chalmers Board established an arrangement by which to compensate former and continuing Board members who had served from 1989 to March 31, 1999 without compensation. Pursuant to the arrangement in 1999, Allis-Chalmers issued promissory notes totaling \$325,000 to current or former directors and officers. The notes bear interest at the rate of 5%, compounded quarterly, and are due March 28, 2005. At September 30, 2003, the notes are recorded at \$382,000, including accrued interest.

REDEEMABLE WARRANTS - Associated with the issuance of the \$2 million Subordinated debt recorded by Mountain Air and the \$3 million Subordinated debt recorded by Allis-Chalmers (collectively, the "subordinated debt"), the Company has issued redeemable warrants that are exercisable into a maximum of 1,165,000 shares of the Company's common stock at an exercise price of \$0.15 per share ("Warrants A and B") and non-redeemable warrants that are exercisable into a maximum of 335,000 shares of the Company's common stock at \$1.00 per share ("Warrant C"). Warrants A and B are subject to cash redemption provisions ("puts") of \$600,000 and \$900,000, respectively, at the discretion of the warrant holders beginning at the earlier of the final maturity date of the subordinated debt or three years from the closing of the subordinated debt (January 31, 2004 and January 31, 2005, respectively). Warrant C does not contain any such puts or provisions. In addition, previously issued warrants to purchase common stock of Mountain Air were cancelled. The Company has recorded a liability of \$600,000 at Mountain Air and \$900,000 at Allis-Chalmers for a total of \$1,500,000 and is amortizing the effects of the puts to interest expense over the life of the related subordinated debt instruments.

### AIRCOMP LLC

LINE OF CREDIT WITH WELLS FARGO - a \$1,000,000 line of credit at Wells Fargo bank, of which \$590,000 was outstanding at September 30, 2003. Interest accrues at a rate equal to the LIBOR rate plus 1.5% to 2.25% (3.59% at September 30, 2003) for the committed portion and is payable quarterly starting in September 2003. Additionally, the Company pays a 0.5% fee for the uncommitted portion. The committed line of credit is due on June 27, 2007

NOTES PAYABLE TO WELLS FARGO - TERM NOTE - A term loan in the original amount of \$8,000,000 at variable interest rates related to the Prime or LIBOR rates (4.09% at September 30, 2003), interest payable quarterly, with quarterly principal

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payments of \$286,000 due on the last day of the quarter beginning in July 2003. The maturity date of the loan is June 27, 2007 and the balance at September 30, 2003 was \$7,714,000

NOTE PAYABLE TO WELLS FARGO - EQUIPMENT TERM LOAN - A delayed draw term loan in the amount of \$1,000,000 with interest at a rate equal to the LIBOR rate plus 2.0% to 2.75%, with quarterly payments of interest currently and quarterly payments of principal equal to 5% of the outstanding balance commencing in the first quarter of 2005. The maturity date of the loan is June 27, 2007. AirComp has not yet drawn down on this note and there was no outstanding balance at September 30, 2003.

NOTE PAYABLE TO M-I L.L.C. - SUBORDINATED DEBT - Subordinated debt in the amount of \$4,818,000 bearing an annual interest rate of 5% in conjunction with the joint venture. The note is due and payable when M-I sells its interest in AirComp.

### NOTE 5 - PREFERRED SHARES AND WARRANTS

On March 6, 2002, the Company issued 3,500,000 shares of Series A 10% Cumulative Convertible Preferred Stock, (the "Preferred Stock"), to Energy Spectrum Partners, LP. ("Energy Spectrum") in connection with the acquisition (the "Strata Acquisition") from Energy Spectrum of substantially all of the common stock and preferred stock of Strata Directional Technology, Inc.

In accordance with the Certificate of Designation, Preferences and Rights of the Preferred Stock (the "Certificate") the Preferred Stock is convertible into a number of shares of the Company's common stock determined by dividing the "Liquidation Value" of the Preferred Stock, which is \$1.00 per share, by the "Conversion Price" of the Preferred Stock. The Conversion Price was initially \$0.75, but in accordance with the Certificate was reduced on February 1, 2003, to an amount equal to 75% of the market price calculated in accordance with the Certificate, or \$0.19.

By letter agreement dated February 19, 2003, a copy of which is attached as an exhibit to Form 8-K filed on February 20, 2003, Energy Spectrum agreed to increase the Conversion Price to \$0.50, to vote for an amendment to the Company's Certificate of Incorporation to reflect the increase in the Conversion Price, and that prior to the amendment of the Company's Certificate of Incorporation if any Preferred Stock is converted into the Company's common stock the Conversion Price for such conversion shall be \$0.50. The letter agreement reduced the number of shares of common stock into which the Preferred Stock is convertible from 18,421,053 to 7,000,000 shares.

The Conversion Price is subject to adjustment pursuant to Section 11 of the Certificate in the event of a stock split, stock dividend, reclassification, or similar event, or in the event any other distribution is made in respect of the Company's common stock. Section 11 also provides that in the event the Company sells shares of the Company's common stock for less than the Conversion Price, the Conversion Price will be reduced to such sales price.

In connection with the Strata Acquisition, the Company issued to Energy Spectrum a warrant to purchase 437,500 shares of the Company's common stock at an exercise price of \$0.15 per share, and the Company agreed that if the Company did not redeem all but one share of the Preferred Stock on or prior to February 6, 2003, the Company would issue Energy Spectrum an additional warrant to purchase 875,000 shares of the Company's common stock at an exercise price of \$0.15 per share. On February 19, 2003, the Company issued such warrant, a copy of which is attached as an exhibit to the Form 8-K filed on February 20, 2003.

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Effective July 1, 2003, the Company recorded the redeemable convertible preferred stock as a long-term liability in response to the adoption of SFAS No. 150.

NOTE 6 - SHAREHOLDERS' EQUITY

In connection with the formation of AirComp in July 2003, the Company recorded \$955,000, as the effect of the consolidation of the AirComp venture in which the Company realized a benefit by elimination of its negative investment in the cost basis of the venture. The business combination was accounted for as a purchase. As a result, the Company recognized the benefit of \$955,000 as an increase in its stockholders equity rather than period income.

NOTE 7 - SEGMENT INFORMATION

The Company has three segments, Casing Services (Jens), Directional Drilling Services (Strata) and Compressed Air Drilling Services (Mountain Air and AirComp). All of the segments provide services to the petroleum industry. The revenues and operating income by segment are presented below:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(in thousands)			
Revenues:				
Casing Services	\$ 2,559	\$ 2,197	\$ 7,712	\$ 5,445
Directional Drilling Services	3,353	1,785	10,336	4,058
Compressed Air Drilling Services	2,177	793	4,380	2,762
Total revenues	\$ 8,089	\$ 4,775	\$ 22,428	\$ 12,265
Operating income/ (loss):				
Casing Services	\$ 913	\$ 749	\$ 3,079	\$ 1,707
Directional Drilling Services	120	(44)	613	(187)
Compressed Air Drilling Services	122	(269)	3	(716)
General Corporate	(477)	(1,116)	(1,277)	(2,009)
Total operating income/(loss)	\$ 678	\$ (680)	\$ 2,408	\$ (1,205)
Depreciation and Amortization Expense:				
Casing Services	\$ 345	\$ 332	\$ 1,035	\$ 863
Directional Drilling Services	56	48	175	165
Compressed Air Drilling Services	291	231	811	690
General Corporate	18	12	78	36

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Total depreciation & amortization expense	\$ 710	\$ 623	\$ 2,099	\$ 1,754
Interest Expense:				
Casing Services	\$ 146	\$ 152	\$ 469	\$ 420
Directional Drilling Services	42	51	166	139
Compressed Air Drilling Services	164	185	655	554
General Corporate	169	170	507	468
	-----	-----	-----	-----
Total interest expense	\$ 521	\$ 558	\$ 1,797	\$ 1,581
Capital Expenditures:				
Casing Services	\$ 973	\$ 114	\$ 1,215	\$ 144
Directional Drilling Services	850	--	893	--
Compressed Air Drilling Services	1,765	49	2,259	127
General Corporate	3	--	19	9
	-----	-----	-----	-----
Total capital expenditures	\$ 3,591	\$ 163	\$ 4,386	\$ 280

At September 30, 2003 the total assets for the Casing Services, Directional Drilling Services, Compressed Air Drilling Services and General Corporate segments are \$17,361,000, \$9,122,000, \$24,515,000 and \$1,169,000, respectively.

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### NOTE 8 - SETTLEMENT ON LAWSIUT

On July 15, 2003, the Company entered into a settlement agreement with the former owners of Mountain Air Drilling Service Company (the "Sellers"). As of the date of the agreement, the Company owed the Sellers a total of \$2,563,195 including \$2.2 million in principal and \$363,195 in accrued interest. As part of the settlement agreement, the note payable to the Sellers was reduced from \$2.2 million to \$1.5 million. The note payable no longer accrues interest and the due date of the note payable was extended from February 6, 2006 to September 30, 2007. The lump-sum payment due the Sellers at that date will be \$1,863,195. The Company recorded a one-time gain on the reduction of the note payable to the Sellers of \$1,034,000 in the third quarter of 2003. The gain was calculated by discounting the note payable to \$1,469,152 using a present value calculation and accreting the note payable to \$1,863,195, the amount due in September 2007. The Company will record interest expense totaling \$394,043 over the life of the note payable beginning July 2003.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

#### BACKGROUND

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The Company was incorporated in 1913 under Delaware law. The Company reorganized in bankruptcy in 1988, and sold all of the Company's major businesses. In May

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2001, the Company consummated a merger in which the Company acquired OilQuip Rentals, Inc. (OilQuip) and its wholly owned subsidiary, Mountain Compressed Air, Inc. ("Mountain Air"), in exchange for shares of the Company's common stock, which upon issuance represented over 85% of the Company's outstanding common stock. In February 2002, the Company acquired approximately 81% of the capital stock of Jens' Oilfield Service, Inc. ("Jens'") and all of the capital stock of Strata Directional Technology, Inc. ("Strata").

In July 2003, through our subsidiary Mountain Air, we entered into a limited liability company operating agreement with a division of M-I L.L.C., a joint venture between Smith International and Schlumberger N.V. (Schlumberger Limited) to form a Texas limited liability company named AirComp L.L.C. ("AirComp"). The formation of AirComp has created the second largest provider of compressed air and related products and services for the drilling, workover, completion, and transmission segments of the oil, gas and geothermal industries.

Through AirComp, Jens' and Strata, and through additional acquisitions in the oil and natural gas drilling services industry, the Company intends to exploit opportunities in the oil and natural gas service and rental industry. Currently, the Company receives 80% to 85% of the Company's revenues from natural gas drilling services and the balance from oil drilling services; however, most of the Company's services can be utilized for either activity.

### CRITICAL ACCOUNTING POLICIES

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We have identified the policies below as critical to the Company's business operations and the understanding of the Company's results of operations. The impact and any associated risks related to these policies on the Company's business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect the Company's reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial Statements. Note that the Company's preparation of this Quarterly Report on Form 10-Q requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Company's financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

**REVENUE RECOGNITION.** Our revenue recognition policy is significant because the Company's revenue is a key component of the Company's results of operations. In addition, the Company's revenue recognition policy determines the timing of certain expenses, such as commissions and royalties. We follow very specific and detailed guidelines in measuring revenue; however, certain judgments affect the application of the Company's revenue policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause the Company's operating results to vary significantly from quarter to quarter and could result in future operating losses. Revenues are recognized by the Company and its subsidiaries as services are provided.

**IMPAIRMENT OF LONG-LIVED ASSETS.** Long-lived assets, which include property, plant and equipment, goodwill and other intangibles, comprise a significant amount of the Company's total assets. The Company makes judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, the carrying values of these assets are reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recorded in the period in which it

is determined that the carrying amount is not recoverable. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review and to estimate present value calculation factors. These forecasts require assumptions about demand for the Company's products and services, future market conditions and technological developments. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period.

GOODWILL AND OTHER INTANGIBLES - The Company has recorded approximately \$10,083,000 of goodwill and other identifiable intangible assets. The Company performs purchase price allocations when it makes a business combination. Business combinations and subsequent purchase price allocations have been recorded for purchase of the Mountain Air, Strata and Jens' operating segments. The excess of the purchase price after allocation of fair values to tangible assets are allocated to goodwill and other identifiable intangibles. Subsequently, the Company has performed its initial impairment tests and annual valuation tests in accordance with Financial Accounting Standards Board No. 141, BUSINESS COMBINATIONS, and Financial Accounting Standards Board No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. These valuations required the use of third-party valuation experts who in turn developed assumptions to value the carrying value of the individual reporting units. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period.

AIRCOMP AND SALES ON INTEREST IN VENTURE - The Company has adopted SEC Staff Accounting Bulletin (SAB) No.51, Accounting for Sales of Stock by a Subsidiary, to account for its investment in AirComp. AirComp operates in a manner similar to a joint venture but has been accounted for and consolidated as a subsidiary under SFAS No. 141, BUSINESS COMBINATIONS. Pursuant to SAB No. 51, the Company has recorded its own contribution of assets and liabilities at its historical cost basis. Since liabilities exceeded assets, the Company's basis in AirComp was a negative amount. The Company has accounted for the assets contributed from M-I at a fair market value as determined by an outside appraiser. The Company gave M-I a 45% interest in AirComp in exchange for the assets contributed. As a result of the formation of the venture and its retention of 55% interest in the venture, the Company realized an immediate gain to the extent of its negative basis and its 55% interest in the combined assets and liabilities of the venture. In accordance with SAB No. 51, the Company has recorded its negative basis investment in AirComp as an addition to equity and its share of the combined assets and liabilities realized from M-I assets as non-operating income.

EXTINGUISHMENT OF DEBT - Pursuant to SFAS No. 140, SFAS No. 145 and Emerging Issues Task Force No. 96-19, the Company has recorded the settlement of the Sellers' Note for MCA as an ordinary item in the period of extinguishment. According to the aforementioned pronouncements, debt is considered to be extinguished when the debtor has repaid the creditor, the debtor has been legally released as the primary obligor on the debt, or when the debt is substantially modified. As the debtor, the Company's obligation to the Sellers of MCA was substantially modified. The amount recorded to income for the 3 month period ended September 30, 2003 was the difference between the carrying value of the debt prior to modification and the present value of the modified debt terms as discounted back from its maturity date.

RESTATEMENT

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In connection with the formation of AirComp in 2003, the Company and M-I contributed assets to AirComp in exchange for a 55% interest and 45% interest, respectively, in AirComp. We originally accounted for the formation of AirComp as a joint venture, but in February 2005 determined that the transaction should have been accounted for using purchase accounting pursuant to Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations" and SEC Staff Accounting Bulletin ("SAB") No. 51 "Accounting for Sales of Stock by a Subsidiary". Consequently, we have restated our financial statements for the year ended December 31, 2003 and for the three quarters ended September 30, 2003 and 2004.

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### RESULTS OF OPERATIONS

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Results of operations for 2003 and 2002 reflect the business operations of Allis-Chalmers and its subsidiaries Jens' Oilfield Service, Inc., which supplies highly specialized equipment and operations to install casing and production tubing required to drill and complete oil and gas wells ("Casing Services"), and Strata Directional Technology, Inc., which provides high-end directional and horizontal drilling services for specific targeted reservoirs that cannot be reached vertically ("Directional Drilling Services") and its joint venture AirComp, which provides air drilling services to natural gas exploration operations ("Compressed Air Drilling Services"). The results from the Casing Services and the Directional Drilling Services operations are included from February 1, 2002.

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO SEPTEMBER 30, 2002:

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### HISTORICAL COMPARISON

Sales for the three months ended September 30, 2003 totaled \$8,089,000. In the comparable period of 2002, revenues were \$4,775,000. Revenues for the three months ended September 30, 2003 for the Casing Services, Directional Drilling Services, and Compressed Air Drilling Services segments were \$2,559,000, \$3,353,000 and \$2,177,000, respectively. Revenues for the three months ended September 30, 2002 for the Casing Services, Directional Drilling Services, and Compressed Air Drilling Services segments were \$2,197,000, \$1,785,000 and \$793,000, respectively. Revenues for the third quarter of 2003 increased over the third quarter of 2002 due to the increased activity in the drilling market and increased market share in the Casing Services primarily in Mexico due to the increase drilling activity by PEMEX. Directional Drilling Services also increased market share as did Compressed Air Drilling Services as a result of to the joint venture between Mountain Air and M-I Air Drilling and the consolidation of the results of operations of AirComp into the consolidated financial statements of the Company.

Gross margin ratio, as a percentage of sales, was 25.1% in the third quarter of 2003 compared with 19.6% in the third quarter of 2002. The gross margin increased in the third quarter of 2003 as compared to the third quarter of 2002, due to an increase in market share and increased pricing in the Casing Services, Directional Drilling Services, and Compressed Air Drilling Services segments. The increase in profit margin resulted because the Company's revenues increased at a greater rate than its expenses because many of its costs are fixed and do not increase with revenues.



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Marketing and administrative expense was \$1,351,000 in the third quarter of 2003 compared with \$886,000 in the third quarter of 2002. The marketing and administrative expenses increased in 2003 compared to 2002 due to the increased costs associated with the joint venture AirComp and the hiring of additional sales force.

Operating income for the three months ended September 30, 2003 totaled \$678,000. For the three months ended September 30, 2002, the operating (loss) was (\$680,000). Operating income (loss) for the three months ended September 30, 2003 for the Casing Services, Directional Drilling Services, Compressed Air Drilling Services and General Corporate segments were \$913,000, \$120,000, \$122,000 and (\$477,000), respectively. Operating income (loss) for the three months ended September 30, 2002 for the Casing Services, Directional Drilling Services, Compressed Air Drilling Services and General Corporate segments were \$749,000, (\$44,000), (\$269,000) and (\$1,116,000), respectively. In the third quarter of 2002, the Company in response to the default of its debt covenants, the Company reorganized itself in order to contain costs and recorded charges related to the reorganization in the amount of \$495,000. Such organizational changes included reduction of personnel, the deployment of turn-around consultants and a terminated rent obligation. These charges consisted of related payroll costs for terminated employees of \$307,000, consulting fees of \$113,000, and costs associated with a terminated rent obligation of \$75,000. The Company

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also recorded costs related to abandoned acquisitions and equity raise in the amount of \$233,000 consisting of legal fees associated with abandoned acquisition of \$82,000 and costs related to a abandoned private placement in the amount of \$150,000.

We had net income attributed to common shareholders of \$3,449,000, or \$0.18 per common share, for the third quarter of 2003 compared with a loss of (\$1,592,000), or (\$0.08) per common share, for the third quarter of 2002. We recorded a one-time gain on the reduction of the note payable of \$1,034,000 in the third quarter of 2003 as a result of settling lawsuit against the formers owners of Mountain Air Drilling Service Company. The gain was calculated by discounting the note payable to \$1,469,152 using a present value calculation and accreting the note payable to \$1,863,195, the amount due in September 2007. We will record interest expense totaling \$394,043 over the life of the note payable beginning July 2003. In addition, we also recorded a one-time non-operating gain on the sale of an interest in a subsidiary of \$2.4 million in connection with the formation of AirComp. We have adopted a policy that any gain or loss in the future incurred on the sale in the stock of a subsidiary would be recognized as such in the income statement.

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO SEPTEMBER 30, 2002:

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HISTORICAL COMPARISON

Sales for the nine months ended September 30, 2003 totaled \$22,428,000. In the comparable period of 2002, revenues were \$12,265,000. Revenues for the nine months ended September 30, 2003 for the Casing Services, Directional Drilling Services, and Compressed Air Drilling Services segments were \$7,712,000, \$10,336,000 and \$4,380,000, respectively. Revenues for the nine months ended September 30, 2002 for the Casing Services, Directional Drilling Services, and Compressed Air Drilling Services segments were \$5,445,000, \$4,058,000 and \$2,762,000, respectively. The sales for the Casing Services and Directional

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Drilling segments for 2002 were from February 1, 2002 through September 30, 2002. Revenues for the first nine months of 2003 increased over the first nine months of 2002 due to the increased activity in the drilling market and the Company's continued efforts to increase market share in the Casing Services primarily in Mexico due to the increase drilling activity by PEMEX. Directional Drilling Services also increased market share as did Compressed Air Drilling Services as a result of the joint venture between Mountain Air and M-I Air Drilling and the consolidation of the results of operation of AirComp into the consolidated financial statements of the Company.

Gross margin ratio, as a percentage of sales, was 27.5% in the first nine months of 2003 compared with 18.1 % in the first nine months of 2002. The gross margin increased in the first nine months of 2003 as compared to the first nine months of 2002, which included Casing Services and Directional Drilling from February 1, 2002 through September 30, 2002, due to an increase in market share and increased pricing in the Casing Services, Directional Drilling Services, and Compressed Air Drilling Services segments. The increase in profit margin results resulted because the Company's revenues increased at a greater rate than its expenses because many of its costs are fixed and do not increase with revenues.

Marketing and administrative expense was \$3,759,000 in the first nine months of 2003 compared with \$2,696,000 in the first nine months of 2002. The marketing and administrative expenses increased in 2003 compared to 2002 due to the increased costs associated with the joint venture AirComp and the hiring of additional sales force. The marketing and administrative expenses for the Casing Services and Directional Drilling segments for the period ended September 30, 2002 were from February 1, 2002 through September 30, 2002.

Operating income for the nine months ended September 30, 2003 totaled \$2,408,000. For the nine months ended September 30, 2002, the operating (loss) was (\$1,205,000). Operating income (loss) for the nine months ended September 30, 2003 for the Casing Services, Directional Drilling Services, Compressed Air Drilling Services and General Corporate segments were \$3,079,000, \$613,000, \$3,000 and (\$1,277,000), respectively. Operating income (loss) for the nine

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months ended September 30, 2002 for the Casing Services, Directional Drilling Services, Compressed Air Drilling Services and General Corporate segments were \$1,707,000, (\$187,000), (\$716,000) and (\$2,009,000), respectively. The operating income (loss) for the Casing Services and Directional Drilling segments was from February 1, 2002 through September 30, 2002 (post merger period). In the third quarter of 2002, the Company in response to the default of its debt covenants, the Company reorganized itself in order to contain costs and recorded charges related to the reorganization in the amount of \$495,000. The Company also recorded costs related to abandoned acquisitions and equity raise in the amount of \$233,000 consisting of legal fees associated with abandoned acquisition of \$82,000 and costs related to a abandoned private placement in the amount of \$150,000.

We had a net income attributed to common stockholders' of \$2,687,000, or \$0.14 per common share, for the first nine months of 2003 compared with a loss of (\$3,247,000), or (\$0.18) per common share, for the first nine months of 2002. The Company recorded a one-time gain on the reduction of the note payable of \$1,034,000 in the third quarter of 2003 as a result of settling lawsuit against the formers owners of Mountain Air Drilling Service Company. The gain was calculated by discounting the note payable to \$1,469,152 using a present value calculation and accreting the note payable to \$1,863,195, the amount due in

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September 2007. The Company will record interest expense totaling \$394,043 over the life of the note payable beginning July 2003. In addition, we also recorded a one-time non-operating gain on the sale of an interest in a subsidiary of \$2.4 million in connection with the formation of AirComp. The Company has adopted a policy that any gain or loss in the future incurred on the sale in the stock of a subsidiary would be recognized as such in the income statement.

### PRO FORMA COMPARISON

The pro forma results of operations set forth below includes results of operations of the Company for all of the first nine months of 2003 and 2002 as if the AirComp transaction had occurred as of the beginning of the periods presented. These pro forma financial statements should be read in conjunction with the historical financial statements included herein.

Pro forma sales in the first nine months of 2003 totaled \$24,150,000 compared with pro forma sales of \$14,233,000 for the first nine months of 2002. Revenues for the first nine months of 2003 increased over the first nine months of 2002 due to the increase activity in the drilling market and the Company's continued efforts to increase market share in the Casing Services primarily in Mexico due to the increase drilling activity by PEMEX. Directional Drilling Services also increased market share as did Compressed Air Drilling as a result of the joint venture between Mountain Air and M-I Air Drilling and the consolidation of the results of operation of AirComp into the consolidated financial statements of the Company.

Pro forma gross profit totaled \$6,287,000 for a pro forma gross profit margin of 26.0% of sales in the nine months ended September 30, 2003. Pro forma gross profit for the comparable nine months in the prior year totaled \$3,278,000 for a gross profit margin of 23.0% of sales. The increase in profit margin results resulted because the Company's revenues increased at a greater rate than its expenses because many of its costs (including certain financing and equipment costs) are fixed and do not increase with revenues.

The Company's pro forma net income attributed to common shareholders' was \$2,842,000 or \$0.14 per common share, for the first nine months of 2003 compared to a pro forma net loss of (\$2,883,000), or (\$0.16) per common share, for the first nine months of 2002. The Company recorded a one-time gain on the reduction of the note payable of \$1,034,000 in the third quarter of 2003 as a result of settling lawsuit against the formers owners of Mountain Air Drilling Service Company. The gain was calculated by discounting the note payable to \$1,469,152 using a present value calculation and accreting the note payable to \$1,863,195,

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the amount due in September 2007. The Company will record interest expense totaling \$394,043 over the life of the note payable beginning July 2003. In addition, we also recorded a one-time non-operating gain on the sale of an interest in a subsidiary of \$2.4 million in connection with the formation of AirComp.

### SCHEDULE OF CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's obligations and commitments to make future payments under its notes payable, operating leases, employment contracts and consulting agreements for the periods specified as of September 30, 2003.

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Payments due by Period

CONTRACTUAL OBLIGATIONS	TOTAL	1 YEAR	2-3 YEARS	4-5 YEARS
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Note payable	\$30,476,000	\$ 2,648,000	\$16,508,000	\$11,320,000
Interest Payments on note payable	1,523,000	132,000	825,000	566,000
Operating Lease	1,140,000	228,000	456,000	456,000
Employment Contracts	1,754,000	1,180,000	574,000	-
Total Contractual Cash Obligations	\$34,893,000	\$ 4,188,000	\$18,363,000	\$12,342,000
	=====	=====	=====	=====

FINANCIAL CONDITION AND LIQUIDITY

Cash and cash equivalents totaled \$120,000 at September 30, 2003, a decrease from \$146,000 at December 31, 2002 primarily due to the management of cash reserves on a daily basis. Cash flows provided by operations totaled \$1,973,000 in the first nine months of 2003 compared to the \$441,000 generated in the prior year.

Net trade receivables at September 30, 2003 were \$7,291,000. This increased significantly from the December 31, 2002 balance of \$4,409,000 due to the increase in operating activity and increased activities with customers with longer payment cycles.

Net property, plant and equipment were \$31,982,000 at September 30, 2003. The increase in plant, property and equipment is due to the assets purchased from M-I Air Drilling in connection with the formation of AirComp. Capital expenditures for the nine months ended September 30, 2003 were \$4,386,000 including \$2.4 million for the purchase of an operating lease at Mountain Air contributed to AirComp on July 2, 2003. Capital expenditures for fiscal year 2003 are projected to be approximately \$3,500,000 excluding the purchase of the operating lease at Mountain Air.

Trade accounts payable at September 30, 2003 was \$4,844,000. This increased significantly from the December 31, 2002 balance of \$2,106,000 due to the increase in operating activity, increased capital expenditures at Jens' and an increase in accounts receivable resulting in less cash available to pay payables. The Company is investigating additional financing or other methods of financing its accounts receivable.

Other current liabilities, excluding the current portion of long-term debt, were \$2,135,000 including interest in the amount of \$547,000, accrued salary and benefits in the amount of \$405,000, and accrued expenses of \$1,183,000. All of these balance sheet accounts increased significantly from the December 31, 2002 balances due to the increase in revenues and operations.

Long-term debt was \$28,138,000 at September 30, 2003 including current maturities. The increase in the long-term debt is attributable to the financing of AirComp of approximately \$13.3 million.

In addition to the debt discussed above, the Company had available lines of

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credit totaling \$2,865,000 at September 30, 2003, of which \$1,031,000 was available and unused. In addition, AirComp had available \$638,000 of unused credit at September 30, 2003.

Our long-term capital needs are to refinance the Company's existing debt, provide funds for existing operations, and redeem the Series A Preferred Stock (which is subject to mandatory redemption on February 1, 2004) and to secure funds for acquisitions in the oil and gas equipment rental and services industry. In order to pay the Company's debts as they become due, including the amounts due to the Bank Lenders and the amounts required to redeem the Series A Preferred Stock described above the Company will require additional financing, which may include the issuance of new warrants or other equity or debt securities, as well as secured and unsecured loans. Any new issuance of equity securities would dilute existing shareholders.

By letter agreement dated February 19, 2003, Energy Spectrum agreed to increase the Conversion Price to \$0.50, to vote for an amendment to the Company's Certificate of Incorporation to reflect the increase in the Conversion Price, and that prior to the amendment of the Company's Certificate of Incorporation if any Preferred Stock is converted into the Company's common stock the Conversion Price for such conversion shall be \$0.50. The letter agreement reduces the number of shares of common stock into which the Preferred Stock is convertible from 18,421,053 to 7,000,000 shares.

In connection with the Strata Acquisition, the Company issued to Energy Spectrum a warrant to purchase 437,500 shares of the Company's common stock at an exercise price of \$0.15 per share, and the Company agreed that if the Company did not redeem all but one share of the Preferred Stock on or prior to February 6, 2003, the Company would issue Energy Spectrum an additional warrant to purchase 875,000 shares of the Company's common stock at an exercise price of \$0.15 per share. On February 19, 2003, the Company issued such warrant.

### RECENT DEVELOPMENTS - JOINT VENTURE WITH M-I L. L.C.

We entered into a joint venture agreement with a division of M-I L.L.C., and related financing on July 2, 2003 and formed AirComp. Through our subsidiary, Mountain Compressed Air, Inc., we contributed substantially all of our compressed air drilling assets with an estimated net book value of approximately \$6,300,000 million to AirComp. Simultaneously, Aircomp acquired the compressed air drilling assets of M-I with an appraised value \$10,269,000 as determined by a third party appraisal. We own 55% and M-I L.L.C. will own 45% of AirComp.

In connection with the transaction, AirComp obtained bank financing of \$8 million (matures on September 27, 2007), of which \$7.3 million was distributed to the Company to extinguish the outstanding Mountain Compressed Air debt, approximately \$2.4 million of the \$7.3 million was used to purchase equipment the Company was leasing and \$700,000 will be used by AirComp to pay transaction costs and working capital. The debt bears interest at a floating rate, currently LIBOR plus 0.5% annually. AirComp has the ability to borrow an additional \$2 million under its credit agreement with the bank. AirComp's bank debt is secured by substantially all of the assets of AirComp. The Company has guaranteed all of Mountain Compressed Air's obligations under the joint venture agreement, and Mountain Compressed Air has guaranteed up to 55% of AirComp's debt.

As a result of the repayment of Mountain Compressed Air's outstanding debt in connection with the AirComp transaction, the Company became compliant with all

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of its loan covenants with its Bank Lenders, except for a certain debt covenant at AirComp. The Company has obtained a waiver for that covenant default.

Along with the bank financing, AirComp issued a note to M-I L.L.C. for in the amount of \$4.8 million bearing an annual interest rate of 5% in conjunction with the joint venture. The note is due and payable when M-I sells its interest in AirComp.

### FORWARD LOOKING STATEMENTS

This Report on Form 10-Q contains forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934) regarding the Company's business, financial condition, results of operations and prospects. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Report on Form 10-Q.

Although forward-looking statements in this Report on Form 10-Q reflect the good faith judgment of the Company's management, such statements can only be based on facts and factors the Company currently knows about. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, but are not limited to, those discussed elsewhere in this Report on Form 10-Q, in the Company's Annual Report on Form 10K (including without limitation in the "Risk Factors" Section), and in the Company's other SEC filings and publicly available documents. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report on Form 10-Q. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Report on Form 10-Q.

### ITEM 4. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures. Our chief executive officer and our chief accounting officer have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Report (the "Evaluation Date"), and have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in enabling us to record, process, summarize, and report information required to be included in our SEC filings within the required time period, and to ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief accounting officer, to allow timely decisions regarding required disclosure. Since the Evaluation Date, there have not been any significant changes in our internal controls, or in other factors that could significantly affect these controls subsequent to the Evaluation Date.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

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## PART II. OTHER INFORMATION

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

#### (a) Exhibits:

- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K: A report on Form 8-K was filed on July 15, 2003, reporting the Company's entering into a joint venture agreement with a division of M-I L.L.C., and related financing on July 2, 2003. A Report 8-K/A was filed on September 16, 2003, which included pro forma financial statements for the periods ending December 31, 2002 and June 31, 2003 relating to the joint venture agreement with a division of M-I L.L.C.

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SIGNATURE

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Allis-Chalmers Energy, Inc.  
(Registrant)

/s/ Munawar H. Hidayatallah

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Munawar H. Hidayatallah  
Chief Executive Officer  
And Chairman

March 7, 2005

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### EXHIBIT INDEX

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- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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