Allis Chalmers Energy Inc.
Form 8-K
January 24, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**
**FORM 8-K**
**CURRENT REPORT**
**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**Date of Report (Date of earliest event reported): January 18, 2006**
**ALLIS-CHALMERS ENERGY INC.**
(Exact name of registrant as specified in its charter)

| **Delaware** | **001-02199** | **39-0126090** |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Commission File Number) | (I.R.S. Employer Identification No.) |

| **5075 Westheimer<br>Suite 890<br>Houston, Texas** | **77056** |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

Registrant s telephone number, including area code: **(713) 369-0550**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 1.01. Entry into a Material Definitive Agreement.**

*Issuance and Sale of Senior Notes*

The information included in Item 2.03 of this Current Report on Form 8-K under the captions Issuance and Sale of Senior Notes and Registration Rights Agreement is incorporated by reference into this Item 1.01 of this Current Report on Form 8-K.

*Amendment and Restatement of Credit Agreement*

On January 18, 2006, Allis-Chalmers Energy Inc., a Delaware corporation (the Company ), as borrower, Royal Bank of Canada, as administrative agent and collateral agent ( Agent ), RBC Capital Markets, as lead arranger and sole bookrunner, and the lenders party thereto entered into an Amended and Restated Credit Agreement dated as of January 18, 2006 (the Credit Agreement ). The Credit Agreement, which provides the Company with a $25 million secured revolving credit facility, has a final maturity date of January 18, 2010.

The Company will be subject to the following covenants, obligations and material terms under the Credit Agreement.

Borrowings under the Credit Agreement bear interest under one of two rate options, selected by the Company, equal to either:

- the higher of (a) the Agents prime rate and (b) the federal funds rate plus one-half percent, or

- the applicable eurodollar rate.

The Credit Agreement contains certain covenants and provisions that affect the Company and certain of its subsidiaries, including, without limitation, customary covenants and provisions prohibiting:

- the Company and certain of its subsidiaries from creating or incurring indebtedness;

- the Company and certain of its subsidiaries from creating or incurring certain liens on their respective property, assets or revenue;

- the Company and certain of its subsidiaries from entering into any swap contracts, other than in the ordinary course of business, to protect against fluctuations in interest rates or foreign exchange rates and not for speculation;

- the Company and certain of its subsidiaries from creating any obligations for the payment of rent for any property under lease, except for certain operating leases (other than synthetic lease obligations) entered into in the ordinary course of business prior to the closing date of the Credit Agreement;

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- certain investments by the Company and certain of its subsidiaries;
- the Company and certain of its subsidiaries from declaring or making, directly or indirectly, any restricted payments, or incurring any obligations to do so;
- the Company and certain of its subsidiaries from making capital expenditures in excess of specified amounts;
- the Company and certain of its subsidiaries from disposing of property that is deemed substantial under the Credit Agreement; and
- consolidations, mergers and asset transfers by the Company and certain of its subsidiaries.

These covenants and provisions are subject to a number of important qualifications and exceptions. In addition, the Credit Agreement requires that the Company maintain specified financial ratios.

The Credit Agreement contains customary events of default, including upon a change in control (as defined in the Credit Agreement), that could result in the acceleration of all amounts and cancellation of all commitments outstanding under the Credit Agreement.

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The Company has the right to terminate or decrease the commitments under the Credit Agreement provided that notice is given to the Agent.

As of January 18, 2006, the Company had not yet borrowed any amounts under the Credit Agreement.

Each of the Company s material subsidiaries has agreed to jointly and severally, fully and unconditionally guarantee the obligations of the Company under the Credit Agreement.

**Item 2.01 Completion of Acquisition or Disposition of Assets**

On January 18, 2006, the Company completed its acquisition of all of the outstanding capital stock of Specialty Rental Tools, Inc., a Louisiana corporation ( Specialty ), pursuant to the stock purchase agreement described in Item 1.01 of the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission (the SEC ) on December 27, 2005 (the December 27 8-K ). The information included in, or incorporated by reference into, Items 1.01 and 8.01 of the December 27 8-K (including without limitation Exhibit 99.1 to the December 27 8-K) is incorporated by reference into this Item 2.01 of this Current Report on Form 8-K. The net proceeds from the sale of the Notes (as defined in Item 2.03 of this Current Report on Form 8-K) were used, among other things, to pay the purchase price for the acquisition.

**Item 2.03. Creation of a Direct Financial Obligation.**

*Issuance and Sale of Senior Notes*

On January 18, 2006, the Company successfully completed the issuance and sale of $160,000,000 aggregate principal amount of its 9.0% Senior Notes due 2014 (the Notes ), pursuant to the Purchase Agreement, dated as of January 12, 2006, by and among the Company, the Guarantors named therein and the Initial Purchasers named therein (the Purchase Agreement ). The Notes are jointly and severally, fully and unconditionally guaranteed by each of the Company s material domestic restricted subsidiaries (the Guarantees ). The Notes and the Guarantees were offered and sold in private transactions in conformance with Rule 144A and Regulation S under

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the Securities Act of 1933, as amended (the Securities Act ). The Notes and the Guarantees have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

The Company issued the Notes pursuant to an indenture, dated as of January 18, 2006, by and among the Company, the guarantor parties thereto (the Guarantors ) and Wells Fargo Bank, N.A., as trustee (the Indenture ).

The Company intends to use net proceeds from the sale of the Notes to fund its acquisition of Specialty, to repay existing debt and for general corporate purposes.

Interest on the Notes will accrue from January 18, 2006 at a rate of 9.0% per year. Interest on the Notes is payable semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2006. The Notes will mature on January 15, 2014. The Notes are senior unsecured obligations of the Company and rank, in right of payment, equally with all of the Company s existing and future senior unsecured indebtedness and senior to any existing and future subordinated indebtedness of the Company. The Notes are effectively subordinated to any of the Company s existing or future secured indebtedness, including under the Credit Agreement, to the extent of the assets securing such indebtedness. The Guarantees are senior unsecured obligations of the Guarantors and rank, in right of payment, equally with all of the Guarantors existing and future senior unsecured indebtedness and senior to any existing and future subordinated indebtedness of the Guarantors. The Guarantees are effectively subordinated to any of the Guarantors existing or future secured indebtedness to the extent of the assets securing such indebtedness.

The Indenture contains covenants that limit the ability of the Company and its restricted subsidiaries to:

incur additional debt;

make certain investments or pay dividends or distributions on such entity s capital stock or purchase or redeem or retire capital stock;

sell assets, including capital stock of the Company s restricted subsidiaries;

restrict dividends or other payments by restricted subsidiaries;

create liens;

enter into transactions with affiliates; and

merge or consolidate with another company.

These limitations are subject to a number of important qualifications and exceptions.

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Upon an Event of Default (as defined in the Indenture), the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding may declare the entire principal of all the Notes to be due and payable immediately.

The Company may, at its option, redeem all or part of the Notes, at any time prior to January 15, 2010 at the make-whole price set forth in the Indenture, and on or after January 15, 2010 at fixed redemption prices, plus accrued and unpaid interest, if any, to the date of redemption.

At any time, which may be more than once, before January 15, 2009, the Company may redeem up to 35% of the outstanding Notes with money that it raises in one or more equity offerings at a redemption price of 109.0% of the par value of the Notes redeemed, plus accrued and unpaid interest, as long as:

- the Company redeems the Notes within 180 days of completing the equity offering; and
- at least 65% of the aggregate principal amount of Notes issued in the offering remains outstanding after the redemption.

If the Company experiences certain kinds of changes of control, it must give holders of the Notes the opportunity to sell to the Company their Notes at 101% of their principal amount, plus accrued and unpaid interest.

*Registration Rights Agreement*

On January 18, 2006, the Company entered into a Registration Rights Agreement with the initial purchasers of the Notes, pursuant to which the Company agreed to use its commercially reasonable efforts to (i) file with the SEC a registration statement on an appropriate form under the Securities Act (the Exchange Offer Registration Statement ) relating to a registered exchange offer for the Notes under the Securities Act and (ii) cause the Exchange Offer Registration Statement to be declared effective under the Securities Act within 270 days following January 18, 2006. If the Company fails to comply with certain obligations under the Registration Rights Agreement, it will be required to pay liquidated damages to the holders of the Notes in accordance with the provisions of the Registration Rights Agreement.

In connection with the closing of the Notes offering, the Company is filing certain exhibits as part of this Current Report on Form 8-K.

*Amendment and Restatement of Credit Agreement*

The information included in Item 1.01 of this Current Report on Form 8-K under the caption Amendment and Restatement of Credit Agreement is incorporated by reference into this Item 2.03 of this Current Report on Form 8-K.

In connection with the amendment and restatement of the Credit Agreement, the Company is filing certain exhibits as part of this Current Report on Form 8-K.

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*Agreement Descriptions*

The descriptions of the provisions of the Credit Agreement, the Purchase Agreement, the Indenture and the Registration Rights Agreement set forth above in Items 1.01 and 2.03 of this Current Report on Form 8-K are qualified in their entirety by reference to the full and complete terms of such agreements, copies of which are attached to this report as exhibits hereto.

**Item 8.01. Other Events.**

On January 18, 2006, the Company issued a press release announcing the successful closing of the Notes offering described in Item 2.03 of this Current Report on Form 8-K. A copy of such press release is attached hereto as Exhibit 99.1 and is incorporated herein by this reference.

On January 18, 2006, the Company issued a press release announcing the successful closing of the Specialty acquisition described in Item 2.01 of this Current Report on Form 8-K. A copy of such press release is attached hereto as Exhibit 99.2 and is incorporated herein by this reference.

**Item 9.01. Financial Statements and Exhibits.**

(a) Financial Statements of Business Acquired.

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## Independent Auditors Report

To the Shareholder
Specialty Rental Tools, Inc.
Broussard, Louisiana

We have audited the accompanying balance sheets of Specialty Rental Tools, Inc. (the Company ) as of September 30, 2005, and December 31, 2004 and 2003, and the related statements of income, shareholder s equity and cash flows for the nine months ended September 30, 2005, and the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Specialty Rental Tools, Inc. as of September 30, 2005 and December 31, 2004 and 2003, and the results of its operations and its cash flows for the nine months ended September 30, 2005 and the years ended December 31, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ UHY Mann Frankfort Stein & Lipp CPAs, LLP

Houston, Texas
November 5, 2005

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**SPECIALTY RENTAL TOOLS, INC.**
**BALANCE SHEETS**

| | September 30, 2005 | December 31, 2004 | 2003 |
|---|---|---|---|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | $ 15,816,572 | $ 11,038,970 | $ 9,097,762 |
| Trade receivables, net | 8,602,269 | 5,437,713 | 3,206,942 |
| Advances to employees | 140,000 | | |
| Inventory | 348,058 | 256,888 | 181,368 |
| Prepaid expenses and other | 102,553 | 82,256 | 66,910 |
| TOTAL CURRENT ASSETS | 25,009,452 | 16,815,827 | 12,552,982 |
| PROPERTY AND EQUIPMENT, net | 16,242,311 | 12,285,735 | 9,103,656 |
| TOTAL ASSETS | $ 41,251,763 | $ 29,101,562 | $ 21,656,638 |
| LIABILITIES AND SHAREHOLDER S EQUITY | | | |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | $ 1,605,368 | $ 1,217,857 | $ 1,280,641 |
| Accrued liabilities | 152,242 | 291,195 | 260,650 |
| Current portion of notes payable | 3,050,649 | 1,488,466 | 1,021,530 |
| TOTAL CURRENT LIABILITIES | 4,808,259 | 2,997,518 | 2,562,821 |
| NOTES PAYABLE, less current portion | 1,089,824 | 1,566,536 | |
| TOTAL LIABILITIES | 5,898,083 | 4,564,054 | 2,562,821 |
| COMMITMENTS AND CONTINGENCIES | | | |
| SHAREHOLDER S EQUITY | | | |
| Common stock | 155,655 | 155,655 | 155,655 |
| Treasury stock, at cost | (736,000) | (736,000) | (736,000) |
| Retained earnings | 35,934,025 | 25,117,853 | 19,674,162 |
| TOTAL SHAREHOLDER S EQUITY | 35,353,680 | 24,537,508 | 19,093,817 |
| TOTAL LIABILITIES AND SHAREHOLDER S EQUITY | $ 41,251,763 | $ 29,101,562 | $ 21,656,638 |

*See accompanying notes to financial statements.*

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**SPECIALTY RENTAL TOOLS, INC.**
**STATEMENTS OF INCOME**

| | Nine Months Ended September 30, 2005 | Year Ended December 31, 2004 | 2003 |
|---|---|---|---|
| REVENUES, NET | $ 21,774,801 | $ 18,010,940 | $ 16,437,616 |
| EXPENSES | | | |
| Cost of sales | 2,551,101 | 2,718,080 | 2,273,928 |
| General and administrative | 4,671,964 | 5,218,634 | 4,857,507 |
| Depreciation | 2,540,955 | 2,434,682 | 2,543,332 |
| Gain on sale of assets | (1,690,550) | (1,098,488) | (332,431) |
| TOTAL EXPENSES | 8,073,470 | 9,272,908 | 9,342,336 |
| INCOME FROM OPERATIONS | 13,701,331 | 8,738,032 | 7,095,280 |
| OTHER INCOME (EXPENSE) | | | |
| Interest income | 76,371 | 46,173 | 66,282 |
| Interest expense | (151,341) | (11,987) | (58,442) |
| Other, net | (7,687) | (76,917) | (95,327) |
| TOTAL OTHER EXPENSE | (82,657) | (42,731) | (87,487) |
| NET INCOME | $ 13,618,674 | $ 8,695,301 | $ 7,007,793 |

*See accompanying notes to financial statements.*

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**SPECIALTY RENTAL TOOLS, INC.**
**STATEMENTS OF SHAREHOLDER S EQUITY**
**NINE MONTHS ENDED SEPTEMBER 30, 2005 AND**
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

| | Common Stock | | Treasury | Additional Paid-in | Retained | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Stock | Capital | Earnings | Total |
| Balance, January 1, 2003 | 225 | $ 155,655 | $ (736,000) | $ 154,655 | $ 25,467,954 | $ 24,887,609 |
| Net income | | | | | 7,007,793 | 7,007,793 |
| Distributions | | | | | (12,801,585) | (12,801,585) |
| Balance, December 31, 2003 | 225 | 155,655 | (736,000) | 154,655 | 19,674,162 | 19,093,817 |
| Net income | | | | | 8,695,301 | 8,695,301 |
| Distributions | | | | | (3,251,610) | (3,251,610) |
| Balance, December 31, 2004 | 225 | 155,655 | (736,000) | 154,655 | 25,117,853 | 24,537,508 |
| Net income | | | | | 13,618,674 | 13,618,674 |
| Distributions | | | | | (2,802,502) | (2,802,502) |
| Balance, September 30, 2005 | 225 | $ 155,655 | $ (736,000) | $ 154,655 | $ 35,934,025 | $ 35,353,680 |

*See accompanying notes to financial statements.*

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**SPECIALTY RENTAL TOOLS, INC.**
**STATEMENTS OF CASH FLOWS**

| | Nine Months Ended September 30, 2005 | Year Ended December 31, 2004 | 2003 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $ 13,618,674 | $ 8,695,301 | $ 7,007,793 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 2,540,955 | 2,434,682 | 2,543,332 |
| Gain on sale of assets | (1,690,550) | (1,098,488) | (332,431) |
| Changes in operating assets and liabilities: | | | |
| Receivables | (3,304,556) | (2,230,771) | 777,986 |
| Inventory | (91,170) | (75,520) | 78,267 |
| Prepaid expenses and other | (20,297) | (15,346) | (14,604) |
| Accounts payable | 387,511 | (62,784) | 43,879 |
| Accrued liabilities | (138,953) | 30,545 | 10,519 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 11,301,614 | 7,677,619 | 10,114,741 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | (7,631,679) | (5,796,433) | (921,949) |
| Proceeds from sale of property and equipment | 2,872,096 | 1,334,493 | 1,088,038 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (4,759,583) | (4,461,940) | 166,089 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Distributions to shareholder | (2,802,502) | (3,251,610) | (12,801,585) |
| Proceeds from notes payable | 3,000,000 | 3,000,000 | |
| Repayment of notes payable | (1,961,927) | (1,022,861) | (1,493,440) |
| NET CASH USED IN FINANCING ACTIVITIES | (1,764,429) | (1,274,471) | (14,295,025) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 4,777,602 | 1,941,208 | (4,014,195) |
| CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD | 11,038,970 | 9,097,762 | 13,111,957 |
| CASH AND CASH EQUIVALENTS END OF PERIOD | $ 15,816,572 | $ 11,038,970 | $ 9,097,762 |

| | | | |
|---|---|---|---|
| SUPPLEMENTAL CASH FLOW INFORMATION | | | |
| Cash paid for interest | $ 151,341 | $ 11,987 | $ 58,442 |

*See accompanying notes to financial statements.*

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**SPECIALTY RENTAL TOOLS, INC.**
**NOTES TO FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2005, DECEMBER 31, 2004 AND 2003**

**NOTE A NATURE OF OPERATIONS**

Specialty Rental Tools, Inc. (the Company ) leases drill pipe, tubing, handling equipment, pressure control equipment, drill collars and other oilfield equipment to both major and independent petroleum exploration and production companies for use in drilling, completion and work-over operations. The Company is located in Broussard, Louisiana, and leases equipment to companies throughout the Gulf Coast Region. The Company was incorporated in the State of Louisiana in December 1978.

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Revenue Recognition:* Rental equipment is leased to customers at per day and per job contractual rates. Net revenues are determined by deducting sales discounts from gross sales.

*Cash and Cash Equivalents:* The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

*Accounts Receivable:* The Company uses the allowance method to account for uncollectible accounts receivable. The Company establishes an allowance for doubtful accounts based on factors surrounding credit risk of debtors, historical factors and other related information. The allowance for doubtful accounts was $56,728, $35,087 and $38,266 at September 30, 2005, and December 31, 2004 and 2003, respectively.

*Concentrations of Credit and Other Risks:* Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivables. The Company maintains its cash in bank deposits with a financial institution. These accounts exceed federally insured limits. Deposits in the United States are guaranteed by the Federal Deposit Insurance Corporation ( FDIC ) up to $100,000. The Company monitors the financial condition of the financial institution and has not experienced any losses on such accounts.

The Company is not party to any financial instruments which would have off-balance sheet credit or interest rate risk.

*Inventory:* Inventory consists primarily of supplies and materials used to repair and maintain rental equipment. Inventory is valued using the first-in, first-out method and stated at the lower of cost or market.

*Property and Equipment:* Property and equipment are stated at cost. Expenditures for major renewals and betterments, which extend the original estimated economic useful lives of applicable assets, are capitalized. Expenditures for normal repairs and maintenance are charged to expense as incurred and are often billed back to customers as allowed by rental contracts. The costs and related accumulated depreciation of assets sold or retired are removed from the accounts, and any gain or loss thereon is reflected in operations. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 39 years.

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**SPECIALTY RENTAL TOOLS, INC.**
**NOTES TO FINANCIAL STATEMENTS (Continued)**

The Company periodically evaluates the recoverability of the carrying value of its property and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

*Income Taxes:* The Company s shareholder has elected to be taxed as a small business corporation under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, federal income tax is the responsibility of the individual shareholder, and no provision for federal income tax is included in the accompanying financial statements.

*Advertising:* The Company s policy is to expense advertising costs as incurred and amounted to approximately $193,000, $196,000 and $245,000 for the nine months ended September 30, 2005, and the years ended December 31, 2004, and 2003, respectively.

*Major Customers:* For the nine months ended September 30, 2005, 51% of the Company s revenues were generated from two unrelated customers. For the year ended December 31, 2004, 43% of the Company s revenues were generated from one unrelated customer. For the year ended December 31, 2003, 50% of the Company s revenues were generated from two unrelated customers.

**NOTE C PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

| | Estimated Useful Lives | September 30, 2005 | December 31, 2004 | December 31, 2003 |
|---|---|---|---|---|
| Rental equipment | 7 - 10 years | $ 33,667,834 | $ 27,390,801 | $ 23,338,565 |
| Automobiles | 5 years | 508,535 | 410,094 | 330,734 |
| Furniture and fixtures | 5 - 7 years | 12,369 | 12,369 | 1,835 |
| Leasehold improvements | 15 - 39 years | 161,091 | 161,091 | 105,426 |
| | | 34,349,829 | 27,974,355 | 23,776,560 |
| Less: accumulated depreciation | | (18,107,518) | (15,688,620) | (14,672,904) |
| | | $ 16,242,311 | $ 12,285,735 | $ 9,103,656 |

**NOTE D NOTES PAYABLE**

Notes payable consist of the following:

| | September 30, 2005 | December 31, 2004 | December 31, 2003 |
|---|---|---|---|
| Note payable to bank(1) | $ | $ | $ 1,021,530 |
| Note payable to bank(2) | 1,904,583 | 3,000,000 | |
| Note payable to bank(3) | 2,154,160 | | |
| Note payable to GMAC(4) | 38,233 | 55,002 | |
| Note payable to Ford Credit(5) | 43,497 | | |
| | 4,140,473 | 3,055,002 | 1,021,530 |
| Less: current portion | 3,050,649 | 1,488,466 | 1,021,530 |

| | | | | | |
|---|---|---|---|---|---|
| Total notes payable long-term | $ | 1,089,824 | $ | 1,566,536 | $ |

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**SPECIALTY RENTAL TOOLS, INC.**
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Future maturities of long-term debt as of September 30, 2005 are as follows:

**Period Ending September 30,**

| | | |
|---|---|---|
| 2006 | $ | 3,050,649 |
| 2007 | | 1,075,617 |
| 2008 | | 14,207 |
| | $ | 4,140,473 |

**(1) Note Payable to Bank**

In August 2002, the Company raised $3,000,000 under a note payable agreement from Iberia Bank, a financial institution in Louisiana. The note bore interest at a rate of prime less 1% and was payable in installments over 24 months. The Company repaid the note in August 2004.

**(2) Note Payable to Bank**

In December 2004, the Company raised $3,000,000 under a note payable agreement from Iberia Bank, a financial institution in Louisiana. The note bears interest at a rate of 4.2% per annum and is being repaid through monthly principal and interest payments totaling $130,617. The note is due in December 2006.

**(3) Note Payable to Bank**

In February 2005, the Company raised $3,000,000 under a note payable agreement from Iberia Bank, a financial institution in Louisiana. The note bears interest at a rate of 4.2% per annum and is being repaid through monthly principal and interest payments totaling $130,818. The note is due in March 2007.

**(4) Note Payable to GMAC**

In October 2004, the Company financed the purchase of a vehicle through a $56,333 note payable agreement with GMAC. The note is non-interest bearing and is being repaid through monthly principal payments of $1,565. The note is due in November 2007.

**(5) Note Payable to Ford Credit**

In June 2005, the Company financed the purchase of a vehicle through a $47,398 note payable agreement with Ford Credit. The note bears interest at a rate of 0.9% per annum and is being repaid through monthly principal and interest payments totaling $1,335. The note is due in June 2008.

**NOTE E SHAREHOLDER S EQUITY**

*Common Stock:* The Company is authorized to issue 10,000 shares of common stock that has no par value. As of September 30, 2005 and December 31, 2004 and 2003, the Company had 225 common shares outstanding.

*Treasury Stock:* The Company has repurchased common stock as treasury stock. As of September 30, 2005 and December 31, 2004 and 2003, the Company owned 2,275 shares of treasury stock.

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**SPECIALTY RENTAL TOOLS, INC.**
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE F PROFIT SHARING PLAN**

The Company sponsors a profit sharing plan (the Plan ) which covers all eligible employees. Company contributions to the Plan are discretionary. The Plan vests one hundred percent (100%) after six or more years of continuing service. During each of the years ended December 31, 2004 and 2003, the Company made contributions of approximately $163,000, and $155,000, respectively, to the Plan. During the nine months ended September 30, 2005, the Company did not make a contribution to the Plan.

**NOTE G RELATED PARTY TRANSACTIONS**

The Company paid the shareholder $486,000, $288,000 and $144,000 for the nine months ended September 30, 2005 and the years ended December 31, 2004 and 2003, respectively, for rent expense on the Company s operating facilities in Broussard, Louisiana.

**NOTE H NON-CASH INVESTING AND FINANCING ACTIVITIES**

The following non-cash transaction took place during the nine months ended September 30, 2005:

The Company acquired an automobile for $47,398 which was funded through a note payable instrument.

The following non-cash transaction took place during the year ended December 31, 2004:

The Company acquired an automobile for $56,333 which was funded through a note payable instrument.

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**SPECIALTY RENTAL TOOLS, INC.**
**SCHEDULE I SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**
**PERIODS ENDED SEPTEMBER 30, 2005, DECEMBER 31, 2004 AND 2003**

| | Nine Months Ended September 30, | Year Ended December 31, | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Salaries and wages | $ 2,001,351 | $ 2,449,073 | $ 2,340,807 |
| Retirement plan expenses | | 163,261 | 155,409 |
| Selling expenses | 363,579 | 325,595 | 292,420 |
| Shop supplies | 590,929 | 500,783 | 571,038 |
| Shop maintenance | 103,479 | 43,691 | 46,767 |
| Rent | 486,000 | 288,257 | 180,000 |
| Insurance | 306,736 | 404,886 | 345,318 |
| Automobile expenses | 195,915 | 161,549 | 145,333 |
| Advertising | 192,874 | 196,037 | 244,695 |
| Taxes, licenses and other | 173,895 | 377,022 | 415,390 |
| Bad debt expense, net of recoveries | 126,900 | 81,389 | (59,220) |
| Office expense | 33,093 | 49,648 | 26,814 |
| Uniforms | 19,938 | 17,971 | 19,800 |
| Utilities | 64,671 | 115,565 | 69,006 |
| Dues and subscriptions | 7,189 | 7,375 | 8,956 |
| Professional fees | 4,678 | 34,739 | 52,112 |
| Other | 737 | 1,793 | 2,862 |
| TOTAL | $ 4,671,964 | $ 5,218,634 | $ 4,857,507 |

(b) Pro Form Financial Information.

**ALLIS-CHALMERS ENERGY INC. AND SUBSIDIARIES**
**UNAUDITED PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION**
**AS OF SEPTEMBER 30, 2005**

| | ALLIS-CHALMERS CONSOLIDATED | SPECIALTY HISTORICAL | SPECIALTY PURCHASE ADJUSTMENTS | ALLIS-CHALMERS CONSOLIDATED |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 3,909 | $ 15,817 | $ (14,141) AA | $ 5,585 |
| Trade receivables, net | 23,777 | 8,602 | | 32,379 |
| Inventories | 5,217 | 348 | | 5,565 |
| Prepaids and other | 1,014 | 243 | | 1,257 |
| Total Current Assets | 33,917 | 25,010 | (14,141) | 44,786 |
| Property and equipment, net | 75,516 | 16,242 | 70,646 AB | 162,404 |
| Goodwill | 12,042 | | | 12,042 |
| Other intangibles, net | 7,264 | | | 7,264 |
| Debt issuance costs, net | 783 | | | 783 |
| Other assets | 40 | | | 40 |
| Total Assets | $ 129,562 | $ 41,252 | $ 56,505 | $ 227,319 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | |
| Current maturities of long-term debt | $ 4,636 | $ 3,051 | $ (3,051) AA | $ 4,636 |
| Trade accounts payable | 8,703 | 1,605 | | 10,308 |
| Accrued employee benefits | 701 | | | 701 |
| Accrued interest | 462 | | | 462 |
| Accrued expenses | 4,688 | 152 | | 4,840 |
| Accounts payable, related parties | 78 | | | 78 |
| Total Current Liabilities | 19,268 | 4,808 | (3,051) | 21,025 |
| Accrued postretirement benefit obligations | 335 | | | 335 |
| Long-term debt, net of current maturities | 51,491 | 1,090 | 94,910 AC | 147,491 |
| Deferred income taxes | 750 | | | 750 |
| Other long-term liabilities | 342 | | | 342 |
| | 72,186 | 5,898 | 91,859 | 169,943 |
| **STOCKHOLDERS EQUITY** | | | | |
| Common stock | 165 | 156 | (156) AD | 165 |
| Capital in excess of par value | 57,940 | | | 57,940 |
| Treasury stock, at cost | | (736) | 736 AD | |
| Accumulated earnings (deficit) | (729) | 35,934 | (35,934) AD | (729) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total Stockholders Equity | | 57,376 | | 35,354 | | (35,354) | | 57,376 |
| Total Liabilities and Stockholders Equity | $ | 129,562 | $ | 41,252 | $ | 56,505 | $ | 227,319 |

*See notes to unaudited pro forma consolidated condensed financial statements.*

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**ALLIS-CHALMERS ENERGY INC AND SUBSIDIARIES**
**UNAUDITED PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS**
**FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2004**
**(In thousands, except per share data)**

| | ALLIS-CHALMERS CONSOLIDATED | DIAMOND HISTORICAL | DIAMOND PURCHASE ADJUSTMENTS | DOWNHOLE HISTORICAL | DOWNHOLE PURCHASE ADJUSTMENTS | DELTA HISTORICAL | DELTA PURCHASE ADJUSTMENTS | CAPCOIL HISTORICAL | CAPCOIL PURCHASE ADJUSTMENTS | W.T. ENT HISTORICAL | W.T. ENT PURCHASE ADJUSTMENTS | MI PURCHASE ADJUSTMENTS | SPECIALTY HISTORICAL | SPECIALTY PURCHASE ADJUSTMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ 47,726 | $ 5,584 | $ | 4,793 | | $ 3,249 | | $ 5,774 | | $ 3,862 | | | $ 19,109 | |
| | 35,300 | 3,565 | | 3,876 | | 826 | 298 A | 4,400 | 398 A | 2,764 | (904)B | | 5,153 | 6,254 A |
| | 12,426 | 2,019 | | 917 | | 2,423 | (298) | 1,374 | (398) | 1,098 | 904 | | 13,956 | (6,254) |
| ve | 8,199 | 664 | 163 C | 872 | 83 C | 1,798 | (940)D | 676 | 110 C | 514 | 93 C | | 5,219 | (312) |
| | 4,227 | 1,355 | (163) | 45 | (83) | 625 | 642 | 698 | (508) | 584 | 811 | | 8,737 | (5,942) |
| | 32 | | | | | 4 | | | | | | | 46 | (46) |
| | (2,808) | (59) | 59 G | (74) | 74 G | (49) | 49 G | (74) | 74 G | (44) | (406)H | (733)H | (12) | (6,708) |
| | 272 | (26) | | | | 114 | | | | | | | (77) | |
| | 1,723 | 1,270 | (104) | (29) | (9) | 694 | 691 | 624 | (434) | 540 | 405 | (733) | 8,694 | (12,696) |
| | (321) | | (524)I | | | | | | | | | 845 J | | |
| | (514) | | | | | (265) | 265 K | | | (113) | 113 K | | | |
| | 888 | 1,270 | (628) | (29) | (9) | 429 | 956 | 624 | (434) | 427 | 518 | 112 | 8,694 | (12,696) |
| | (124) | | | | | | | | | | | | | |
| | $ 764 | $ 1,270 | $ (628) | $ (29) | $ (9) | $ 429 | $ 956 | $ 624 | $ (434) | $ 427 | $ 518 | $ 112 | $ 8,694 | $ (12,696) |

| | | | |
|---|---|---|---|
| $ 0.10 | | | |
| $ 0.09 | | | |
| 7,930 | | 385 L | 294 L |
| 9,510 | | 385 L | 294 L |

*See notes to unaudited pro forma consolidated condensed financial statements.*

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**ALLIS-CHALMERS ENERGY INC AND SUBSIDIARIES**
**UNAUDITED PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005**
**(In thousands, except per share data)**

| | ALLIS-CHALMERS CONSOLIDATED | DELTA HISTORICAL | DELTA PURCHASE ADJUSTMENTS | CAPCOIL HISTORICAL | CAPCOIL PURCHASE ADJUSTMENTS | W.T. ENT HISTORICAL | W.T. ENT PURCHASE ADJUSTMENTS | MI PURCHASE ADJUSTMENTS | SPECIALTY HISTORICAL | SPECIALTY PURCHASE ADJUSTMENTS | ALLIS-CHALMERS CONSOLIDATED |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | $ 71,830 | $ 821 | $ | $ 2,161 | | $ 2,057 | | | $ 23,466 | | $ 100,335 |
| Cost of Sales | 51,153 | 211 | 82 A | 1,458 | 132 A | 1,331 | (286)M | | 5,092 | 4,692 A | 63,865 |
| Gross Profit | 20,677 | 610 | (82) | 703 | (132) | 726 | 286 | | 18,374 | (4,692) | 36,470 |
| Marketing and Administrative Expense | 11,992 | 985 | (665)D | 421 | 28 C | 342 | 75 C | | 4,672 | (495)N | 17,355 |
| Income (Loss) from Operations | 8,685 | (375) | 583 | 282 | (160) | 384 | 211 | | 13,702 | (4,197) | 19,115 |
| Other Income | | | | | | | | | | | |
| Interest Income | | 3 | | | | | | | 76 | (76) F | 3 |
| Interest Expense | (2,143) | (11) | 11 G | (26) | (16)G | (17) | (102)H | (366)H | (151) | (5,789) H | (8,610) |
| Debt Retirement | (1,087) | | | | | | | | | | (1,087) |
| Other | 221 | 116 | | | | | | | (8) | | 329 |
| Income (Loss) Before Taxes | 5,676 | (267) | 594 | 256 | (176) | 367 | 109 | (366) | 13,619 | (10,062) | 9,750 |
| Minority Interest | (488) | | | | | | | 488 J | | | |
| Taxes | (559) | (142) | 142 K | (87) | 87 K | (111) | 111 K | | | | (559) |
| Net Income/ (Loss) | 4,629 | (409) | 736 | 169 | (89) | 256 | 220 | 122 | 13,619 | (10,062) | 9,191 |
| Preferred Dividend | | | | | | | | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net income/ (loss) attributed to common shares | $ 4,629 | $ (409) | $ 736 | $ 169 | $ (89) | $ 256 | $ 220 | $ 122 | $ 13,619 | $ (10,062) | $ 9,191 |
| Pro forma net income (loss) per common share | | | | | | | | | | | |
| Basic | $ 0.33 | | | | | | | | | | $ 0.64 |
| Diluted | $ 0.30 | | | | | | | | | | $ 0.59 |
| Weighted average shares outstanding | | | | | | | | | | | |
| Basic | 14,197 | | 55 O | | 62 O | | | | | | 14,314 |
| Diluted | 15,589 | | 55 O | | 62 O | | | | | | 15,706 |

*See notes to unaudited pro forma consolidated condensed financial statements.*

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**ALLIS-CHALMERS ENERGY INC AND SUBSIDIARIES**
**UNAUDITED PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS**
**FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2005**
**(In thousands, except per share data)**

| | ALLIS-CHALMERS CONSOLIDATED HISTORICAL | DIAMOND HISTORICAL | DIAMOND PURCHASE ADJUSTMENTS | DOWNHOLE HISTORICAL | DOWNHOLE PURCHASE ADJUSTMENTS | DELTA HISTORICAL | DELTA PURCHASE ADJUSTMENTS | CAPCOIL HISTORICAL | CAPCOIL PURCHASE ADJUSTMENTS | W.T. ENT HISTORICAL | W.T. ENT PURCHASE ADJUSTMENTS | MI PURCHASE ADJUSTMENTS | SPECIALTY HISTORICAL | SPECIALTY PURCHASE ADJUSTMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ 86,567 | $ 460 | $ | $ 1,006 | $ | $ 1,764 | $ | $ 3,475 | $ | $ 3,033 | $ | $ | $ 28,590 | $ |
| | 62,262 | 293 | | 813 | | 422 | 156 A | 2,504 | 231 A | 1,980 | (639)B | | 6,955 | 6,256 A |
| | 24,305 | 167 | | 193 | | 1,342 | (156) | 971 | (231) | 1,053 | 639 | | 21,635 | (6,256) |
| ive | 14,810 | 54 | 16 C | 275 | 15 C | 1,260 | (665)O | 507 | 55 C | 480 | 98 C | | 6,012 | (574)P |
| | 9,495 | 113 | (16) | (82) | (15) | 82 | 509 | 464 | (286) | 573 | 541 | | 15,623 | (5,682) |
| | 32 | | | | | 5 | | | | | | | 88 | (88)F |
| | (3,317) | (5) | 5 G | (39) | 39 G | (22) | 22 G | (47) | 5 G | (27) | (204)H | (550)H | (154) | (7,766)H |
| t | (1,087) | | | | | | | | | | | | | |
| | 269 | (3) | | | | 162 | | (7) | | | | | (94) | |
| | 5,392 | 105 | (11) | (121) | 24 | 227 | 531 | 410 | (281) | 546 | 337 | (550) | 15,463 | (13,536) |
| | (561) | | (41)I | | | | | | | | | 602 J | | |
| | (714) | | | | | (304) | 304 K | (87) | 87 K | (142) | 142 K | | | |
| | 4,117 | 105 | (52) | (121) | 24 | (77) | 835 | 323 | (194) | 404 | 479 | 52 | 15,463 | (13,536) |
| | $ 4,117 | $ 105 | $ (52) | $ (121) | $ 24 | $ (77) | $ 835 | $ 323 | $ (194) | $ 404 | $ 479 | $ 52 | $ 15,463 | $ (13,536) |

| | | | |
|---|---|---|---|
| $ | 0.29 | | |
| $ | 0.26 | | |
| | 14,197 | 91 Q | 84 Q |
| | 15,589 | 91 Q | 84 Q |

*See notes to unaudited pro forma consolidated condensed financial statements.*

## ALLIS-CHALMERS ENERGY INC
## NOTES TO UNAUDITED PRO FORMA CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The following pro forma adjustments have been made to the historical financial statements:

AA) Reflects the usage of excess cash of Specialty to either pay existing debt or to reduce the amount of borrowing needed to complete the acquisition.

AB) Reflects the step-up in the basis of the fixed assets as a result of the Specialty acquisition to the lower of fair market value or actual cost.

AC) Reflects the borrowing necessary to fund the cash portion of the acquisitions.

AD) Reflects the elimination of Specialty s stockholders equity.

A) Reflects the increase in depreciation expense as a result of the step-up in basis of fixed assets.

B) Reflects the elimination of lease expense not assumed as part of the acquisition, net of additional depreciation expense of $249,000 due to the increase value of the assets acquired in the W.T. Enterprises purchase.

C) Reflects the increase in amortization due to the increase in other intangible assets in connection with the acquisitions of Diamond, Downhole, Capcoil and W.T. Enterprises.

D) Reflects the elimination of year-end bonus paid to the employees of Delta.

E) Reflects the following changes in general and administrative cost that will result from the acquisition of Specialty:

The elimination of director fees of $96,000,

increased rent expense of $12,000 and

the elimination of officer salary of $228,000.

F) Reflects the elimination of interest income as the pro forma assumes excess cash was utilized to offset borrowings.

G) Reflects the elimination of interest expense due to historical debt not being assumed.

H) Reflects the interest expense related to cash borrowed to affect the acquisition.

I) Reflects the 45% minority interest position of M-I on the results of operations for Diamond, which operates as a division of AirComp.

J) Reflects the elimination of the 45% minority interest position of M-I.

K) Reflects the elimination of tax provisions of the Delta and W.T. Enterprises acquisitions as Allis-Chalmers has tax net operating losses to offset net income of the acquired entities.

L) Reflects the issuance of shares of our common stock as part of the acquisition price. The pro forma treats the shares as having been issued at the stock price of $2.60 on January 1, 2004. The Delta and Capcoil acquisitions were comprised of $1.0 million in stock and $765,000 in stock, respectively.

M) Reflects the elimination of lease expense not assumed as part of the W.T. Enterprises acquisition, net of additional depreciation expense of $187,000 due to the increased value of the assets acquired.

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N) Reflects the following general and administrative cost savings that will result from the acquisition of Specialty:

- The elimination of director fees of $64,000,
- decreased rent expense of $261,000 and
- the elimination of officer salary of $170,000.

O) Reflects the issuance of shares of our common stock as part of the acquisition price of Delta and Capcoil. The pro forma treats the shares as having been issued at the stock price of $4.90 on January 1, 2005. The Delta and Capcoil acquisitions were comprised of $1.0 million in stock and $765,000 in stock, respectively. The adjustment related to the Delta and Capcoil acquisitions takes into account that the historical numbers for Allis-Chalmers include the issuance of the stock at the date of acquisition.

P) Reflects the following general and administrative cost savings that will result from the acquisition of Specialty:

- The elimination of director fees of $88,000,
- decreased rent expense of $258,000 and
- the elimination of officer salary of $228,000.

Q) Reflects the issuance of shares of our common stock as part of the acquisition price of Delta and Capcoil. The pro forma treats the shares as having been issued at the stock price of $4.94 on October 1, 2004. The Delta and Capcoil acquisitions were comprised of $1.0 million in stock and $765,000 in stock, respectively. The adjustment related to the Delta and Capcoil acquisitions takes into account that the historical numbers for Allis-Chalmers include the issuance of the stock at the date of acquisition.

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(d) Exhibits.

| Exhibit Number | Description |
|---|---|
| 4.1 | Indenture dated as of January 18, 2006 by and among Allis-Chalmers Energy Inc., the Guarantors named therein and Wells Fargo Bank, N.A., as trustee. |
| 4.2 | Form of 9.0% Senior Note due 2014, included as Exhibit A to Exhibit 4.1 of this Current Report on Form 8-K. |
| 10.1 | Purchase Agreement dated as of January 12, 2006 by and among Allis-Chalmers Energy Inc., the Guarantors named therein and the Initial Purchasers named therein. |
| 10.2 | Registration Rights Agreement dated as of January 18, 2006 by and among Allis-Chalmers Energy Inc., the Guarantors named therein and the Initial Purchasers named therein. |
| 10.3 | Amended and Restated Credit Agreement dated as of January 18, 2006 by and among Allis-Chalmers Energy Inc., as borrower, Royal Bank of Canada, as administrative agent and Collateral Agent, RBC Capital Markets, as lead arranger and sole bookrunner, and the lenders party thereto. |
| 23.1 | Consent of UHY Mann Frankfort Stein & Lipp CPAs, LLP. |
| 99.1 | Press Release dated January 18, 2006 relating to the closing of the Notes offering. |
| 99.2 | Press Release dated January 18, 2006 relating to the closing of the Specialty acquisition. |

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## SIGNATURES

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

| | |
|---|---|
| | ALLIS-CHALMERS ENERGY INC. |
| Date: January 24, 2006 | By: /s/ Theodore F. Pound III |
| | Theodore F. Pound III |
| | General Counsel and Secretary |

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## EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 4.1 | Indenture dated as of January 18, 2006 by and among Allis-Chalmers Energy Inc., the Guarantors named therein and Wells Fargo Bank, N.A., as trustee. |
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