Allis Chalmers Energy Inc.
Form 8-K/A
January 25, 2005

UNITED STATE SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 8-K/A

CURRENT REPORT

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

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): NOVEMBER 10, 2004

COMMISSION FILE NUMBER 1-2199

ALLIS-CHALMERS ENERGY INC.
(Exact name of registrant as specified in its charter)

DELAWARE	39-0126090
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

ITEM 9.01 - FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of businesses acquired.

(1) Financial Statements of Diamond Air Drilling Service, Inc.:

(c) Exhibit

None

SIGNATURE

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

ALLIS-CHALMERS ENERGY INC.

By: /s/ Munawar H. Hidayatallah

Munawar H. Hidayatallah
Chief Executive Officer
and Chairman

Date: January 24, 2005

DIAMOND AIR DRILLING SERVICES, INC.

FINANCIAL STATEMENTS

JULY 31, 2004

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Diamond Air Drilling Services, Inc.

We have audited the accompanying balance sheet of Diamond Air Drilling Services, Inc. (a Texas S-Corporation) (the Company) as of July 31 2004, and December 31, 2003 and 2002 and the related statements of income, stockholders' equity, and cash flows for the seven months ended July 31, 2004 and the years ended December 31, 2003 and 2002. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides a reasonable basis for our opinion.

In our report dated September 14, 2004, we expressed an opinion that, except for the effects of such adjustments, if any, might have been determined to be necessary had we been able to observe the physical inventories taken as of December 31, 2003, 2002 and 2001, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with accounting principals generally accepted in the United States America. Subsequently, the Company has provided us additional information regarding the prior years inventories and we were able to satisfy ourselves about the inventory quantities and values using alternative procedures. Accordingly, our present opinion on the financial statements referred to in the first paragraph, as presented herein, is different from that expressed in our previous report.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Diamond Air Drilling Services, Inc. as of July 31, 2004 and December 31, 2003 and 2002, and the results of its operations and its cash flows for the seven months ended July 31, 2004 and the years ended December 31, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America

The Company and its affiliate, Marquis Bit Co., LLC, are controlled by common ownership who have the ability to influence the volume and price of business done between each company. As discussed in Note 2, the Company and its affiliate have engaged in significant transactions with each other. We have audited the financial statements of Marquis Bit Co., LLC under a separate report dated January 12, 2005.

/s/ Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP

Carlsbad, New Mexico
January 12, 2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Of Diamond Air Drilling Services, Inc.

We have audited the accompanying balance sheets of Diamond Air Drilling Services, Inc. (a Texas S-Corporation) (the Company) as of July 31, 2004, and December 31, 2003 and 2002 and the related statements of income, members equity, and cash flows for the seven months ended July 31, 2004, the years ended December 31, 2003 and 2002. 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 audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides a reasonable basis for our opinion.

We did not observe the taking of the work in process inventory as of December 31, 2003 and 2002 and 2001 (states at $1,146,070 and $344,948, as of December 31, 2003 and 2002, respectively), since those dates were prior to the time we were initially engaged as auditors for the Company. We were unable to satisfy ourselves about the work in process quantities by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories taken as of December 31, 2003 and 2002, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Diamond Air Drilling Services, Inc. as of July 31, 2004 and December 31, 2003 and 2002 and the results of the potations and its cash flows for the seven months ended July 31, 2004 and the years ended December 31, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

The Company and its affiliate, Marquis Bit Co., LLC, are controlled by common ownership who have the ability to influence the volume and price of business done between each company. As discussed in Note 2, the Company and its affiliate have engaged in significant transactions with each other. We have audited the financial statements of Marquis Bit Co., LLC under a separate report dated September 14, 2004.

/s/ Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP

Carlsbad, New Mexico
September 14, 2004

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DIAMOND AIR DRILLING SERVICES, INC.
BALANCE SHEETS
JULY 31, 2004, DECEMBER 31, 2003 AND 2002

	July 31, 2004	December 31, 2003	Decembe 200
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 123,171	$ 38,566	$ 12
Accounts receivable (Note 3)	826,198	704,466	54
Unbilled receivables	75,809	--	
Related party receivables (Note 2)	85,636	153,981	19
Inventories (Note 4)	1,712,465	1,146,070	34
Prepaid expenses	10,160	16,300	
TOTAL CURRENT ASSETS	2,833,439	2,059,383	1,23
Related party receivables (Note 2)	182,844	234,607	31
Property, Plant and Equipment, at cost (Note 5)	295,867	245,673	22
Other Assets (Note 12)	24,885	31,699	2
TOTAL ASSETS	$ 3,337,035	$ 2,571,362	$ 1,80
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 341,184	$ 171,561	$ 16

Current maturities of capital lease obligations	3,447	--	
Accounts payable	635,418	602,918	51
Accrued expenses	97,366	197,588	26
Related party payables (Note 2)	687,559	427,465	4
Loans from related parties (Note 2)	768,281	667,137	20
TOTAL CURRENT LIABILITIES	2,533,255	2,066,669	1,20
Long-Term Debt (Note 6)	312,085	309,612	41
Capital lease obligations (Note 5)	14,873	--	
Commitments and Contingencies	--	--	
TOTAL LIABILITIES	2,860,213	2,376,281	1,61
STOCKHOLDERS' EQUITY			
Common stock, par value $1			
1,000 shares issued and outstanding	1,000	1,000	
Paid-in capital	2,370	2,370	
Retained earnings	473,452	191,711	17
TOTAL STOCKHOLDERS' EQUITY	476,822	195,081	18
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,337,035	$ 2,571,362	$ 1,80

The accompanying notes are an integral part of these financial statements.

DIAMOND AIR DRILLING SERVICES, INC.
STATEMENTS OF INCOME
FOR THE SEVEN MONTHS ENDED JULY 31, 2004
AND YEARS ENDED DECEMBER 31, 2003 AND 2002

	July 31, 2004	December 31, 2003	Decem 2
NET SALES (Note 8)	$ 3,984,512	$ 5,470,208	$ 4,0
Drilling expenses	2,803,729	4,592,677	3,3
Selling, general, and administrative	390,690	620,776	4
Depreciation and amortization	91,902	99,730	1
Interest expense	34,156	48,279	
Total Costs and Expenses	3,320,477	5,361,462	4,0
Operating income	664,035	108,746	
Other income			

Gain (loss) on sale of assets	(7,104)	9,841	
Interest income	11,008	23,053	
NET INCOME	$ 667,939	$ 141,640	$

The accompanying notes are an integral part of these financial statements.

DIAMOND AIR DRILLING SERVICES, INC.
STATEMENTS OF CASH FLOWS
FOR THE SEVEN MONTHS ENDED JULY 31, 2004 AND
THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	July 31, 2004	December 31, 2003	D
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 667,939	$ 141,640	$
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Depreciation and amortization	91,902	99,730	
Gain (loss) on sale of property, plant, and equipment	(7,104)	9,841	
Change in operating assets and liabilities:			
Accounts receivable	(197,541)	(153,616)	
Inventory	(566,395)	(801,122)	
Prepaid expenses	6,140	(6,671)	
Other noncurrent assets	6,814	(4,663)	
Accounts payable	292,594	464,218	
Accrued payroll and employee benefits	(100,224)	(71,899)	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	194,125	(322,542)	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Repayment from loans to related parties	120,108	128,896	
Loans made to related parties	--	(2,622)	
Proceeds from sale of property, plant, and equipment	--	30,494	
Capital expenditures on property, plant, and equipment	(115,314)	(162,521)	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	4,794	(5,753)	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term debt	(188,522)	(219,947)	
Proceeds from issuance of long-term debt	360,618	126,061	
Repayment of short-term debt	(200,000)	(200,000)	
Proceeds from issuance of short-term debt	200,000	200,000	
Repayment of capital lease obligations	(1,358)	--	
Repayment of loans from related parties	(162,667)	(302,494)	
Proceeds from loans from related parties	263,813	760,629	
Payment of dividend distributions to stockholders	(386,198)	(127,000)	

NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(114,314)	237,249	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	84,605	(91,046)	
Cash and Cash Equivalents at Beginning of Year	38,566	129,612	
Cash and Cash Equivalents at End of Year	$ 123,171	$ 38,566	$
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Payments made directly to Marquis Bit Co., LLC from a loan obtained by the Company	$ --	$ --	$

The accompanying notes are an integral part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS. Diamond Air Drilling Services, Inc. (the Company) provides air drilling services to the oil & gas drilling industry across the Western United States. The Company employs a unique air drilling methodology, utilizing air hammers and bits to effectively and efficiently drill wells. The Company operates three offices in Texas, New Mexico, and Oklahoma.

Effective December 2002, the Company entered into an agreement with Marquis Bit Co, LLC to manufacture drill bits for the Company. The Company pays Marquis Bit Co, LLC a set fee to fabricate the drill bits using raw materials purchased by the Company.

CASH AND CASH EQUIVALENTS. Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. The Company places its temporary cash investments with a high credit quality financial institution. At times such deposits may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

TRADE ACCOUNTS RECEIVABLE. Trade receivables and loans receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest. Trade accounts receivable are periodically evaluated for collectibility based on past credit history with customers and their current financial condition.

UNBILLED RECEIVABLES. Unbilled receivables represent revenue earned in the current period but not billed to the customer until future dates, usually within one month.

INVENTORY. Inventories consist of air hammers, drill bits, drill bits in process, and raw materials and are valued at the lower of cost or market using the specific identification method.

PROPERTY, PLANT AND EQUIPMENT. Property, plant and equipment are recorded at cost less depreciation and amortization. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the double declining balance method. Equipment under capital lease obligations is amortized on the double declining balance method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Estimated useful lives for equipment and transportation equipment range from three to seven years. Betterments and large renewals which extend the life of the asset are capitalized whereas maintenance and repairs and small renewals are expensed as incurred.

REVENUE RECOGNITION. Revenue is recognized in the financial statements using the percentage of completion method. Net sales are arrived at by deducting discounts, and sales taxes from gross sales.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ADVERTISING COSTS. Advertising costs are expensed as incurred. Advertising costs totaled $9,032 for the seven months ended July, 31, 2004 and $5,055, and $4,926 for the years ended December 31, 2003 and 2002, respectively.

INCOME TAXES. The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead, the stockholders are liable for individual federal income taxes on their respective shares of the Company's taxable income in their individual income tax returns. Accordingly, no provision or liability for income taxes has been included in the financial statements.

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

NOTE 2: RELATED-PARTY TRANSACTIONS

The principal shareholders of the Company and entities under their control periodically loan money to the Company for operations, or borrow money from the Company to fund the operations of other related entities. A summary of amounts due from related entities follows:

		December 31,	
	July 31, 2004	2003	2002
Note receivable from Marquis Bit Co,			

LLC, variable interest rate (currently 7.25%) payable in monthly installments of $7,315 maturing September 2005, unsecured	$ 268,480	$ 317,002	$ 395,684
Note receivables from stockholders, due upon demand, bearing interest of 0%, unsecured	--	64,148	111,740
Note receivables from Marquis Bit Co, LLC, due upon demand, bearing interest of 0%, unsecured	--	7,438	7,438
Subtotal	268,480	388,588	514,862
Less current portion	85,636	153,981	197,859
Related party receivables	$ 182,844	$ 234,607	$ 317,003

NOTE 2: RELATED-PARTY TRANSACTIONS (continued)

A summary of accounts payable due to related entities follows:

		December 31,	
	July 31, 2004	2003	2002
Trade accounts payable to Marquis Bit Co, LLC for fabrication of drill bits	$ 687,559	$ 427,465	$ 48,694
Related party payables	$ 687,559	$ 427,465	$ 48,694

A summary of loans due to related entities follows:

		December 31,	
	July 31, 2004	2003	2002
Notes payable to stockholders, due on demand, unsecured, bearing an interest rate of 0%	$ 437,342	$ 220,696	$ 99,000
Loan payable to Marquis Bit Co, LLC, due on demand, unsecured, bearing an interest rate of 0%	257,439	257,439	--
Loan payable to various related entities (related due to certain Company stockholders owning majority interest in entities), due on demand,			

unsecured bearing an interest rate of 0%	73,500	189,000	110,000
	$ 768,281	$ 667,135	$ 209,000

A summary of related party transactions for the seven months ended July 31, 2004 and years ended December 31, 2003 and 2002 follows:

		December 31,	
	July 31, 2004	2003	2002
Amount paid, or accrued, to Marquis Bit Co, LLC for the fabrication of drill bits.	$ 680,573	$ 1,271,242	$ 62,472

NOTE 3: ACCOUNTS RECEIVABLE

At July 31, 2004, December 31, 2003 and 2002, accounts receivable are comprised of the following:

		December 31,	
	July 31, 2004	2003	2002
Accounts receivable	$ 831,086	$ 713,644	$ 550,161
Allowance for doubtful accounts	(4,888)	(9,178)	(2,829)
Total	$ 826,198	$ 704,466	$ 547,332

NOTE 4: INVENTORIES

At July 31, 2004, December 31, 2003 and 2002, inventories are comprised of the following:

		December 31,	
	July 31, 2004	2003	2002
Air hammers	$ 376,627	$ 346,321	$ 292,719
Finished drill bits	757,040	607,478	52,229
Drill bits in process	452,018	151,563	--
Raw materials	126,780	40,708	--
Total	$ 1,712,465	$ 1,146,070	$ 344,948

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

At July 31, 2004, December 31, 2003 and 2002, property, plant, and equipment are comprised of the following:

	July 31, 2004	December 31, 2003	December 31, 2002
Equipment	$ 99,721	$ 95,995	$ 58,956
Transportation equipment	427,714	395,331	336,304
Equipment under capital lease	19,678	--	--
Total	547,113	491,326	395,260
Less: accumulated depreciation			
Accumulated depreciation	247,966	245,653	172,043
Accumulated amortization	3,280	--	--
Net property, plant, and equipment	$ 295,867	$ 245,673	$ 223,217

NOTE 5: PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant, and equipment include a capitalized lease. The following schedule, by year, of the future minimum payments under these leases, together with the present value of the net minimum payments as of July 31, 2004:

	Amount
Year ending July 31,	$ --
2005	4,788
2006	4,788
2007	4,788
2008	4,788
2009 and thereafter	2,793
Total minimum lease payments	21,945
Less amount representing interest	3,625
Total present value of minimum lease payments	18,320
Less current portion of such obligations	3,447
Long-term obligations	$ 14,873

NOTE 6: LONG TERM DEBT AND RELATED MATTERS

Long-term debt at July 31, 2004, and December 31, 2003 and 2002, consist of the following:

	July 31, 2004	December 31, 2003	December 31, 2002

Various notes payable to banks and financing companies for transportation equipment, due in installments through February, 2010 at fixed interest rates ranging from 0.0% to 10.95%, collateralized by transportation equipment	$ 209,788	$ 147,312	$ 173,675
Variable interest rate (currently 7.25%) note payable, due in monthly installments of $7,315 including interest through September 2005, collateralized by equipment (including equipment currently owned by Marquis Bit Co, LLC) with depreciated costs of $261,783, inventory, and accounts and notes receivable. This note is personally guaranteed by a stockholder of the Company	249,792	290,577	356,719

NOTE 6: LONG TERM DEBT AND RELATED MATTERS (continued)

		December 31,	
	July 31, 2004	2003	2002
4.0% note payable, due in monthly installments of $1,181 including interest, through November 2005, collateralized by accounts receivable and equipment (including equipment currently owned by Marquis Bit Co, LLC) with depreciated costs of $26,406. This note is personally guaranteed by a shareholder of the Company	18,689	26,425	38,965
Variable interest rate (Carlsbad National Bank base rate) line of credit agreement, $200,000 limit, expiring June 2005, collateralized by accounts receivable, equipment, and inventory	175,000	--	--
Miscellaneous notes payable, varying interest rates, due various dates	--	16,859	5,700
Subtotal	691,468	483,176	577,061
Less current maturities	341,184	171,561	164,535
Total	$ 350,284	$ 311,615	$412,526,000

The maturities of long-term debt for each of the succeeding five years subsequent to July 31, 2004, are as follows: 2005 - $341,184; 2006 - $251,410; 2007 - $42,471; 2008 - $17,095; and 2009 and beyond - $1,109.

NOTE 7: STOCKHOLDERS' EQUITY

At July 31, 2004, December 31, 2003 and 2002, the number of authorized and issued common stock and related par value and dividends paid are as follows:

	July 31, 2004	December 31, 2003	December 31, 2002
Common stock authorized	1,000,000	1,000,000	1,000,000
Common stock issued	1,000	1,000	1,000
Common stock outstanding	1,000	1,000	1,000
Common stock, per share par value	$ 1.00	$ 1.00	$ 1.00
Cash dividends paid on common stock	$ 386,198	$ 127,000	$ 398,000

NOTE 8: DEPENDENCE ON KEY CUSTOMERS

DEPENDENCE ON KEY CUSTOMERS. For the seven months ended July 31, 2004, the three largest customers accounted for 48% of sales. For the Year ended December 31, 2003, the three largest customers accounted for 45% of sales. For the Year ended December 31, 2002, the two largest customers accounted for 37% of sales.

NOTE 9: EMPLOYEE BENEFIT PLANS

The company has a retirement savings Simple plan in which substantially all employees may participate. The company's expense for the plan was $10,413 for the seven months ended July 31, 2004 and $18,305 and $16,701 for the years ended December 31, 2003 and 2002, respectively.

NOTE 10: SUBSEQUENT EVENT

Effective October 31, 2004 the Company sold substantially all its assets realizing a gain of approximately $2.1 million and ceased operations. As of December 31, 2004 the Company was liquidated by paying all liabilities and distributing the remaining assets to its shareholders.

NOTE 11. SUPPLEMENTAL CASH FLOW INFORMATION

The Company acquired equipment of $19,678, $0, and $0 during the seven months ended July 31, 2004, and the years ended December 31, 2003 and 2002, respectively, under capital lease obligations.

NOTE 12. PATENT PENDING

Included in other assets at 7/31/04 are $15,389 of costs associated with obtaining a patent for special bit retainers fabricated for the Company by Marquis Bit Co., LLC. The patent is currently pending.

MARQUIS BIT CO., LLC

FINANCIAL STATEMENTS

JULY 31, 2004

INDEPENDENT AUDITOR'S REPORT

To the Members
of Marquis Bit Co., LLC

We have audited the accompanying balance sheets of Marquis Bit Co., LLC (a New Mexico Limited Liability Company) (the Company) as of July 31 2004, and December 31, 2003 and 2002 and the related statements of income, members' equity, and cash flows for the seven months ended July 31, 2004, the year ended December 31, 2003 and the period from inception, October 1, 2002 through December 31, 2002. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides a reasonable basis for our opinion.

In our report dated September 14, 2004, we expressed an opinion that, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the work in process inventory taken as of December 31, 2003, the financial statements referred to in first paragraph present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with accounting principals generally accepted in the United States of America. Subsequently, the Company has provided us additional information regarding the work in process inventories as of December 31, 2003 and also 2002 and we were able to satisfy ourselves about the unbilled receivables related to this work in process using alternative procedures. Accordingly, our present opinion on the financial statements referred to in the first paragraph, as presented herein, is different from that expressed in our previous report.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Marquis Bit Co., LLC as of July 31, 2004 and December 31, 2003 and 2002, and the results of its operations and its cash flows for the seven months ended July 31, 2004 and the year ended December 31, 2003 and the period from inception, October 1, 2002 through December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The Company and its affiliate, Diamond Air Drilling Services, Inc, are controlled by common ownership who have the ability to influence the volume and price of business done between each company. As discussed in Note 2, the Company and its affiliate have engaged in significant transactions with each other. We have audited the financial statements of Diamond Air Drilling Services, Inc. under a separate report dated January 12, 2005.

/s/ Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP

Carlsbad, New Mexico,
January 12, 2005

INDEPENDENT AUDITOR'S REPORT

To the Members
Of Marquis Bit Co., LLC

We have audited the accompanying balance sheets of Marquis Bit Co., LLC (a New Mexico Limited Liability Company) as of July 31, 2004, and December 31, 2003 and 2002 and the related statements of income, members equity, and cash flows for the seven months ended July 31, 2004, the year ended December 31, 2003 and the period from inception, October 1, 2002 through December 31, 2002. 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 audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides a reasonable basis for our opinion.

We did not observe the taking of the work in process inventory as of December 31, 2003, which directly correlates to the Company's unbilled receivables (stated at $124,107) at that date since those dates were prior to the time we were initially engaged as auditors for the Company. We were unable to satisfy ourselves about the work in process quantities by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the work in process inventory taken as of December 31, 2003, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Marquis Bit Co., LLC as of July 31, 2004 and December 31, 2003 and 2002, and the results of its operations and its cash flows for the seven months ended July 31, 2004 and the year ended December 31, 2003 and the period from inception, October 1, 2002 through December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The Company and its affiliate, Diamond Air Drilling Services, Inc, are controlled by common ownership who have the ability to influence the volume and price of business done between each company. As discussed in Note 2, the Company and its affiliate have engaged in significant transactions with each other. We have audited the financial statements of Diamond Air Drilling Services, Inc. under a separate report dated September 14, 2004.

/s/ Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP

Carlsbad, New Mexico
September 14, 2004

MARQUIS BIT CO., LLC
Balance Sheets
July 31, 2004, December 31, 2003 and 2002

	July 31, 2004	December 31, 2003	De
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ --	$ 5,223	$
Accounts receivable (Note 2)	358,368	303,358	
Unbilled receivables	329,191	107,435	
Related party notes receivable (Note 2)	257,439	257,439	
Prepaid expenses	5,623	--	
TOTAL CURRENT ASSETS	950,621	673,455	
Property, Plant and Equipment, net (Note 3)	261,783	305,472	
Other Assets	1,323	1,485	
TOTAL ASSETS	$ 1,213,727	$ 980,412	$
LIABILITIES AND MEMBERS' EQUITY			
Current Liabilities:			
Bank overdraft	$ 9,305	$ --	$
Accounts payable	15,890	38,640	
Accrued expenses	14,597	9,076	
Loans from related parties (Note 2)	114,836	125,020	

TOTAL CURRENT LIABILITIES	154,628	172,736	
Loans from Related Parties, net of current portion (Note 2)	182,844	234,607	
Commitments and Contingencies	--	--	
TOTAL LIABILITIES	337,472	407,343	
MEMBERS' EQUITY	876,255	573,069	
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 1,213,727	$ 980,412	$

The accompanying notes are an integral part of these financial statements.

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MARQUIS BIT CO., LLC
Statements of Income and Members' Equity
For the Seven Months Ended July 31, 2004
and Year Ended December 31, 2003 and the Period from Inception,
October 1, 2002 Through December 31, 2002

	July 31, 2004	December 31, 2003	D
SALES	$ 697,245	$ 1,238,695	$
COST OF GOODS SOLD	307,058	525,593	
GROSS PROFIT	390,187	713,102	
Selling, general, and administrative	33,504	67,423	
Depreciation and amortization	43,689	86,232	
Interest expense	11,008	23,053	
Total Costs and Expenses	88,201	176,708	
OPERATING INCOME (LOSS)	301,986	536,394	
Other income	1,200	72,173	
NET INCOME (LOSS)	303,186	608,567	
Members' equity, beginning of period	573,069	(35,498)	
MEMBERS' EQUITY, END OF PERIOD	876,255	573,069	

The accompanying notes are an integral part of these financial statements.

MARQUIS BIT CO., LLC
Statements of Cash Flows
For the Seven Months Ended July 31, 2004 and Year Ended
December 31, 2003 and the Period from Inception, October 1, 2002
Through December 31, 2002

	July 31, 2004	December 31, 2003	D
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 303,186	$ 608,567	$
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Depreciation and amortization	43,689	86,232	
Change in operating assets and liabilities:			
Accounts receivable	(276,766)	(346,224)	
Prepaid expenses	(5,623)	3,269	
Other assets	162	(474)	
Accounts payable	(22,750)	18,794	
Accrued payroll and employee benefits	5,521	2,496	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	47,419	372,660	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loans made to others	--	(257,439)	
Capital expenditures on property, plant, and equipment	--	(32,008)	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	--	(289,447)	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of loans from related parties	(120,058)	(84,682)	
Proceeds from loans from related parties	58,111	5,188	
Net increase in bank overdrafts	9,305	--	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(52,642)	(79,494)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,223)	3,719	
Cash and Cash Equivalents at Beginning of Period	5,223	1,504	
Cash and Cash Equivalents at End of Period	$ --	$ 5,223	$
NON-CASH INVESTING AND FINANCING TRANSACTIONS:			
Property and equipment acquired with long-term debt	$ --	$ --	$

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The accompanying notes are an integral part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION: Marquis Bit Co., LLC (the Company) is a manufacturing facility located in Carlsbad, New Mexico established in October 2002 for the purpose of fabricating premium hammer bits for Diamond Air Drilling Services, Inc. (a related party due to common ownership). The Company charges a set fee to fabricate drill bits using raw materials supplied by Diamond Air Drilling Services, Inc. Accordingly, the Company carries no raw materials or work in process inventory. The Articles of Incorporation provides that the Company is to dissolve on February 11, 2034.

CASH AND CASH EQUIVALENTS. Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. The Company places its temporary cash investments with a high credit quality financial institution. At times such deposits may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

TRADE ACCOUNTS RECEIVABLE. Trade receivables and loans receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest.

UNBILLED RECEIVABLES. Unbilled receivables represent fabricated bits in process in the current period but not billed to the customer until future dates, usually within one month.

PROPERTY, PLANT AND EQUIPMENT. Property, plant and equipment are recorded at cost less depreciation and amortization. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the double declining balance method or the straight line method, whichever method management believes to be appropriate for each particular asset. Estimated useful lives for equipment and leasehold improvements range from three to fifteen years. Betterments and large renewals which extend the life of the asset are capitalized whereas maintenance and repairs and small renewals are expensed as incurred.

REVENUE RECOGNITION. Revenue is recognized in the financial statements using the percentage of completion method.

INCOME TAXES. As a limited liability company, the Company's taxable income or loss is allocated to members in accordance with their respective percentage of ownership. Therefore, no provision or liability for income taxes has been included in the financial statements.

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

NOTE 2: RELATED-PARTY TRANSACTIONS

The members of the Company and entities under their control periodically loan money to the Company for operations, or borrow money from the Company to fund the operations of other related entities.

A summary of accounts receivables from related entities follows:

	July 31, 2004	Decembe 2003
Trade accounts receivable from Diamond Air Drilling Services, Inc. (related due to common ownership)	$ 358,368	$303,358
Unbilled receivables from Diamond Air Drilling Services, Inc. (related due to common ownership)	329,191	107,435
Total accounts receivable from related parties	$ 687,559	$410,793

A summary of loans due from related entities follows:

	July 31, 2004	Decembe 2003
Loan receivable from Diamond Air Drilling Services, Inc. (related due to common ownership), due upon demand, bearing interest of 0%, unsecured Entire balance considered current	$ 257,439	$257,439

NOTE 2: RELATED-PARTY TRANSACTIONS (continued)

A summary of loans due to related entities follows:

	July 31, 2004	Decembe[r] 2003
Loans payable to members, due on demand, unsecured, bearing an interest rate of 0%	$ 29,200	$ 25,188
Loan payable to various related entities (related due to certain Company stockholders owning majority interest in entities), due on demand, unsecured bearing an interest rate of 0%	--	17,437
Loan payable to Diamond Air Drilling Services, Inc. (related due to common ownership), variable interest rate (currently 7.25%) payable in monthly installments of $7,315 maturing September 2005, unsecured	268,480	317,002
Subtotal	297,680	359,627
Less current maturities	114,836	125,020
Loans from related parties	$ 182,844	$ 234,607

The maturities of loans from related parties for each of the succeeding five years subsequent to July 31, 2004, are as follows: 2005 - $114,836; 2006 - $182,844; and 2007 and beyond - $0.

A summary of related party transactions for the seven months ended July 31, 2004, the year ended December 31, 2003 and the period from inception, October 1, 2002 through December 31, 2002 follows:

	July 31, 2004	Decembe[r] 2003
Amount received, or accrued, from Diamond Air Drilling Services, Inc. (related due to common ownership) for the fabrication of drill bits.	$ 697,245	$ 1,238,695

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

At July 31, 2004, December 31, 2003 and 2002, property, plant, and equipment are comprised of the following:

	July 31, 2004	Decembe 2003
Manufacturing equipment	$ 386,789	$ 386,789
Computer equipment	9,942	9,942
Leasehold improvements	2,215	2,215
Total	398,946	398,946
Less:		
Accumulated depreciation	133,550	91,126
Amortization of leasehold improvements	3,613	2,348
Net property, plant, and equipment	$ 261,783	$ 305,472

The above property, plant, and equipment is pledged as collateral for a loan initially borrowed by Diamond Air Drilling Services, Inc. and used to loan to the Company for equipment acquisitions. (See Note 2).

NOTE 4: DEPENDENCE ON KEY CUSTOMERS

As discussed in Note 2, the Company has been contracted by Diamond Air Drilling Services, Inc. to fabricate bits for Diamond Air Drilling Services, Inc. For the seven months ended July 31, 2004, the year ended December 31, 2003 and the period from inception, October 1, 2002 through December 31, 2002, Diamond Air Drilling Services, Inc. accounted for 100% of the Company's sales.

NOTE 5: EMPLOYEE BENEFIT PLANS

The company has a retirement savings Simple plan in which substantially all employees may participate. The company's expense for the plan was $2,736 for the seven months ended July 31, 2004 and $0 and $0 for the years ended December 31, 2003 and 2002, respectively.

NOTE 6: SUBSEQUENT EVENTS

Effective October 31, 2004 the Company sold substantially all its assets at book value and ceased operations. As of December 31, 2004 paying all liabilities and distributing the remaining assets to its shareholders effectively liquidated the Company.

NOTE 7: RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Certain errors resulting in unbilled receivables being understated as of 2002 and overstated as of 2003 were discovered due to additional information being provided by the Company. The corrections of these errors resulted in a $15,875 increase in the net income for 2002; $32,547 decrease in net income for 2003 and $16,672 increase in net income for 2004.

ALLIS-CHALMERS CORPORATION
UNAUDITED PRO FORMA CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Allis-Chalmers ("Company") completed an acquisition through its fifty-five percent (55%) owned joint-venture company, AirComp LLC (the "Acquisition Transaction"). The transaction is more fully described below.

DIAMOND AIR TRANSACTION. We purchased substantially all the assets of Diamond Air Drilling Services, Inc. and Marquis Bit Co., L.L.C. (collectively "Diamond Air") for $4,600,000 in cash and the assumption of approximately $450,000 in liabilities of Diamond Air. The Company and its joint-venture partner M-I L.L.C. contributed $2,530,000 and $2,070,000, respectively, to the equity of AirComp L.L.C. AirComp entered into a two year employment agreement with Mr. Hawley under which we will pay Mr. Hawley a base salary of $150,000 per year.

Diamond Air manufactures its own hammer bits and provides air hammer and hammer bits and related services required to drill and complete oil and gas wells. We believe Diamond Air's product line and services complement and add to AirComp's offering of products and services and enhance its ability to offer packaged pricing.

The accompanying unaudited pro forma consolidated condensed financial statements illustrate the effects at the Acquisition Transaction on the Company's results of operations and financial position. The unaudited pro forma consolidated condensed statements of operations for the twelve months ended December 31, 2003 and the nine months ended September 30, 2004 are based on historical statements of operations and assume that the Acquisition Transaction had occurred as of the beginning of the period presented. The unaudited pro forma consolidated condensed statement of financial position as of December 31, 2003 and the nine months ended September 30, 2004 is based on the historical statement of financial position of the Company and assumes that the Acquisition Transaction had occurred as of the period presented.

Certain information normally included in the financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The unaudited pro forma consolidated condensed financial statements should be read in conjunction with our audited financial statements in our Form 10-K Annual Report including notes thereto for the year ended December 31, 2003 and our Form 10-Q Quarterly Report including notes thereto for the nine months ended September 30, 2004.

ALLIS-CHALMERS CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2004
(In thousands, except per share data)

	ALLIS-CHALMERS CONSOLIDATED HISTORICAL	DIAMOND HISTORICAL	DIAMOND PURCHASE ADJUSTMENTS

ASSETS				
Cash and cash equivalents	$ 12,992	$ 139	$ (139)	(
			(2,530)	(
Trade Receivables	10,419	676	(224)	(
Inventories, net	-	1,650	--	
Lease receivable, net	180	-	--	
Prepaids and other current assets	1,496	16	(16)	(
Total Current Assets	25,087	2,481	(2,909)	
Net Property, plant and equipment	28,818	481	--	
Goodwill	10,331	-	814	(
Other intangibles, net	3,089	550	1,100	(
			(163)	(
Debt issuance costs, net	635			
Lease receivable	590			
Other assets	79	-	--	
Total Assets	$ 68,629	$ 3,512	$ (1,158)	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current maturities of long-term debt	$ 4,858	$ 370	$ (370)	(
Trade accounts payable	2,566	447	--	
Accrued employee benefits	481	-	--	
Accrued interest	283	-		
Accrued expenses	1,331	112	(112)	(
Accounts payable, related parties	406	-	--	
Total Current Liabilities	9,925	929	(482)	
Accrued postretirement benefit obligations	510	-	--	
Long-term debt	25,241	327	(327)	(
Other long-term liabilities	129	-		
Redeemable Warrant	1,500			
Preferred Stock	0	-	--	
	37,305	1,256	(809)	
Minority Interest	886	-	524	(
	-	-	--	
Shareholders' equity				
Common stock	130	1	(1)	(
Capital in excess of par value	37,425	1,418	(1,418)	(
			4,600	(
	-	-	(2,530)	(
Accumulated earnings (deficit)	(7,117)	837	(837)	(
			(163)	(
			(524)	(
Total Shareholders' Equity	30,438	2,256	(873)	
Total Liabilities and Shareholders' Equity	$ 68,629	$ 3,512	$ (1,158)	

See notes to unaudited pro forma consolidated financial statements.

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ALLIS-CHALMERS CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004
(In thousands, except per share data)

	ALLIS-CHALMERS CONSOLIDATED HISTORICAL	DIAMOND HISTORICAL	DIAMOND PURCHASE ADJUSTMENTS
Sales	$ 32,989	$ 5,584	$ --
Cost of Sales	23,893	3,565	--
Gross Profit	9,096	2,018	--
Marketing and Administrative Expense	5,381	664	163 (
Income (Loss) from Operations	3,715	1,354	(163)
Other Income			
Interest Income	--	--	--
Interest Expense	(1,634)	(59)	59 (
Minority Interest	(315)	--	(524) (
Other	224	(26)	--
Income (Loss) Before Taxes	1,990	1,269	(628)
Taxes	(359)	--	--
Net Income/ (Loss)	1,631	1,269	(628)
Preferred Dividend	(124)	--	--
Net income/ (loss) attributed to common shares	$ 1,507	$ 1,269	$ (628)
Pro forma net income (loss) per common share			
Basic	$ 0.21		
Diluted	$ 0.15		
Weighted average shares outstanding			
Basic	7,285		

Diluted	9,980

See notes to unaudited pro forma consolidated financial statements.

ALLIS-CHALMERS CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2003
(In thousands, except per share data)

	ALLIS-CHALMERS CONSOLIDATED HISTORICAL	DIAMOND HISTORICAL	DIAMOND PURCHASE ADJUSTMENTS
ASSETS			
Cash and cash equivalents	$ 1,299	$ 139	$ (139) (
			(2,530) (
Trade Receivables	8,823	676	(224) (
Inventories, net	--	1,650	--
Lease receivable, net	180	--	--
Prepaids and other current assets	887	16	(16) (
Total Current Assets	11,189	2,481	(2,909)
Net Property, plant and equipment	26,339	481	--
Goodwill	7,661	--	814 (
Other intangibles, net	2,290	550	1,100 (
			(163) (
Debt issuance costs, net	567		
Lease receivable	787		
Other assets	40	--	--
Total Assets	$ 48,873	$ 3,512	$ (1,158)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current maturities of long-term debt	$ 3,992	$ 370	$ (370) (
Trade accounts payable	3,133	447	--
Accrued employee benefits	591	--	--
Accrued interest	152	--	
Accrued expenses	1,761	112	(112) (
Accounts payable, related parties	787	--	--
Total Current Liabilities	10,416	929	(482)
Accrued postretirement benefit obligations	545	--	--

Long-term debt	28,241	327	(327)	(
Other long-term liabilities	270	--		
Redeemable Warrant	1,500			
Preferred Stock	4,171	--	--	
	45,143	1,256	(809)	
Minority Interest	2,523	--	524	(
	-	--	--	
Shareholders' equity				
Common stock	39	1	(1)	(
Capital in excess of par value	9,793	1,418	(1,418)	(
			4,600	(
	-	--	(2,530)	(
Accumulated earnings (deficit)	(8,625)	837	(837)	(
			(163)	(
			(524)	(
Total Shareholders' Equity	1,207	2,256	(873)	
Total Liabilities and Shareholders' Equity	$ 48,873	$ 3,512	$ (1,158)	

See notes to unaudited pro forma consolidated financial statements.

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ALLIS-CHALMERS CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003
(In thousands, except per share data)

	ALLIS-CHALMERS CONSOLIDATED HISTORICAL	DIAMOND HISTORICAL	DIAMOND PURCHASE ADJUSTMENTS	
Sales	$ 32,724	$ 5,470	$ --	
Cost of Sales	23,931	3,926	--	
Gross Profit	8,793	1,544	--	
Marketing and Administrative Expense	6,169	731	195	(
Income (Loss) from Operations	2,624	813	(195)	
Other Income				

Interest Income	3	--	--	
Interest Expense	(2,467)	(71)	71	(
Minority Interest	(387)	--	(276)	(
Settlement on lawsuit	1,034			
Other	111	(5)	--	
Income (Loss) Before Taxes	918	737	(400)	
Taxes	(370)	--	--	
Net Income/ (Loss)	548	737	(400)	
Preferred Dividend	(656)	--	--	
Net income/ (loss) attributed to common shares	$ (108)	$ 737	$ (400)	
Pro forma net income (loss) per common share				
Basic	$ (0.03)			
Diluted	$ (0.03)			
Weighted average shares outstanding				
Basic	3,927			
Diluted	3,927			

See notes to unaudited pro forma consolidated financial statements.

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ALLIS-CHALMERS CORPORATION
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

a.) Elimination of assets not purchased at closing.

b.) Reduction of cash for the Company's 55% share of the $4,600,000 paid to the sellers of Diamond Air at closing.

c.) Recognition of Goodwill and other intangible assets resulting from the Acquisition.

d.) Elimination of debt not assumed at closing.

e.) Elimination of accrued liabilities not assumed at closing.

f.) Elimination of Diamond Air's equity for consolidation purposes.

g.) Recognition of equity contribution of the Company and M-I L.L.C.

h.) Elimination of the Company's equity contribution for consolidation purposes.

i.) Increase in amortization due to the increase in other intangible assets values of acquired company.

j.) To record minority interest in Diamond Air's income.

k.) Reduction in interest expense due to reduction in debt not assumed.