

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

Allis Chalmers Energy Inc.  
Form 10-Q/A  
August 17, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q/A

AMENDMENT NO. 2

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 1-2199

ALLIS-CHALMERS ENERGY INC  
-----

(Exact name of registrant as specified in its charter)

DELAWARE  
-----

(State or other jurisdiction of  
incorporation or organization)

39-0126090  
-----

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

5075 WESTHEIMER, SUITE 890, HOUSTON, TEXAS 77056  
-----

(Address of principal executive offices) (Zip code)

(713) 369-0550  
-----

Registrant's telephone number, including area code

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

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

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

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

At August 12, 2004, there were 9,783,681 shares of common stock outstanding.

ALLIS-CHALMERS CORPORATION

FORM 10-Q

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FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

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#### INTRODUCTORY NOTE

Allis-Chalmers Energy Inc. is filing this Amendment No. 2 to the Company's Quarterly report on Form 10-Q for the quarter ended June 30, 2004 to reflect the restatement of our financial results resulting from an error in the application of SFAS No. 128 Earnings Per Share. The restatement is discussed in more detail in Note 2 to the accompanying consolidated financial statements.

Part I. Financial Information

Item 1. Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 4. Controls and Procedures

Part II

Item 6. Exhibits and Reports on Form 8-K

Unaffected items have not been repeated in this Amendment No. 2.

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PLEASE NOTE THAT THE INFORMATION CONTAINED IN THIS AMENDMENT NO. 2, INCLUDING THE FINANCIAL STATEMENTS AND THE NOTES THERETO, DOES NOT REFLECT EVENTS OCCURRING AFTER THE ORIGINAL FILING DATE. SUCH EVENTS INCLUDE, AMONG OTHERS, THE EVENTS DESCRIBED IN OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2004 AND OUR QUARTERLY REPORTS ON FORM 10-Q FOR THE PERIODS ENDED MARCH 31, 2005 AND JUNE 30, 2005 AND THE EVENTS DESCRIBED IN OUR CURRENT REPORTS ON FORM 8-K FILED SUBSEQUENT TO THE ORIGINAL FILING DATE. FOR A DESCRIPTION OF THESE EVENTS, PLEASE READ OUR EXCHANGE ACT REPORTS FILED SINCE THE ORIGINAL FILING DATE.

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### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

#### ALLIS-CHALMERS CORPORATION CONSOLIDATED BALANCE SHEETS (unaudited) (in thousands)

See Explanatory Note

	June 30, 2004	Dec 31, 2004
	-----	-----
	(Restated)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 485	\$
Trade receivables, net	10,305	
Lease receivable, current	180	
Prepays and other current assets	1,137	
	-----	-----
Total current assets	12,107	
Property and equipment, net	31,805	
Goodwill	7,661	
Other intangible assets, net	2,054	
Debt issuance costs, net	612	
Lease receivable	664	
Deferred offering costs	2,650	
Other assets	79	
	-----	-----
Total assets	\$ 57,632	\$
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current maturities of long-term debt	\$ 4,848	\$
Trade accounts payable	3,391	
Accrued salaries, benefits and payroll taxes	677	
Accrued interest	212	
Accrued expenses	1,332	
Accounts payable, related parties	541	
	-----	-----
Total current liabilities	11,001	
Accrued postretirement benefit obligations	520	
Long-term debt, net of current maturities	26,163	

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Other long-term liabilities	129	
Redeemable warrants	1,500	
Redeemable convertible preferred stock	-	
	-----	-----
Total liabilities	39,313	
Commitments and Contingencies (Note 9 and Note 19)		
Minority interests	4,193	
COMMON SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value (20,000,000 shares authorized; 6,264,758 and 3,926,668 issued and outstanding, respectively)	63	
Capital in excess of par value	19,548	
Accumulated (deficit)	(5,485)	
	-----	-----
Total shareholders' equity	14,126	
	-----	-----
Total liabilities and shareholders' equity	\$ 57,632	\$
	=====	=====

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	
	-----	-----	-----	-----
	(Restated)		(Restated)	
	(in thousands, except per share)			
Revenues	\$ 11,422	\$ 7,340	\$ 21,083	\$
Cost of sales	8,419	5,410	15,947	
	-----	-----	-----	-----
Gross Profit	3,003	1,930	5,136	
General and administrative expense	1,853	1,020	2,956	
	-----	-----	-----	-----
Income/ (loss) from operations	1,150	910	2,180	
Other Income (expense)				
Interest income	-	-	-	
Interest expense	(499)	(843)	(1,068)	
Other	18	(186)	205	
Minority interest	(139)	(124)	(212)	
	-----	-----	-----	-----
Net income/(loss) before income taxes	530	(243)	1,105	
	-----	-----	-----	-----
Provision for income taxes	(117)	(92)	(220)	

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Net income/ (loss)	413	(335)	885	
Preferred stock dividend	(36)	(87)	(124)	
Net income/ (loss) attributed to common shares	\$ 377	\$ (422)	\$ 761	\$
Net income/ (loss) per common share basic	\$ 0.06	\$ (0.11)	\$ 0.15	\$
Net income/ (loss) per common share diluted	\$ 0.05	\$ (0.11)	\$ 0.13	\$
Weighted average number of common shares outstanding				
Basic	6,256	3,927	5,091	
Diluted	7,619	3,927	6,907	

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

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ALLIS-CHALMERS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited) (in thousands)

	Six Months Ended June 30, 2004	2003
	(restated)	
Cash flows from operating activities:		
Net income (loss)	\$ 885	\$
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	1,607	
Fair value of warrant issued to consultant	14	
(Gain) loss on sale of fixed assets	-	
Amortization of discount on debt	109	
Minority interest in income of subsidiary	212	
Changes in working capital:		
Decrease (increase) in accounts receivable	(1,482)	
Decrease (increase) in other current assets	(250)	
Decrease (increase) in other assets	84	
Decrease (increase) in lease deposit	-	
(Decrease) increase in accounts payable	258	
(Decrease) increase in accrued interest	60	
(Decrease) increase in accrued expenses	(429)	
(Decrease) increase in other long-term liabilities	(141)	
(Decrease) increase in accrued employee benefits and payroll taxes	(185)	

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Net cash provided by operating activities	742	
Cash flows from investing activities:		
Proceeds from sale of fixed assets	-	
Purchase of equipment	(1,879)	
Net cash provided (used) by investing activities	(1,879)	
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	1,865	
Repayments of long-term debt	(1,331)	
Debt issuance costs	(211)	
Net cash provided (used) by financing activities	323	
Net increase (decrease) in cash and cash equivalents	(814)	
Cash and cash equivalents at beginning of year	1,299	
Cash and cash equivalents at end of period	\$ 485	\$
Supplemental information - interest paid	\$ 1,068	\$

This interim statement is unaudited.

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

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ALLIS-CHALMERS CORPORATION

NOTES TO UNAUDITED FINANCIAL STATEMENTS

(UNAUDITED AND RESTATED)

FOR THE INTERIM PERIODS ENDED JUNE 30, 2004 AND 2003

PLEASE NOTE THAT THESE FINANCIAL STATEMENTS AND THE NOTES THERETO DO NOT REFLECT EVENTS OCCURRING AFTER AUGUST 16, 2004. FOR A DESCRIPTION OF THESE EVENTS, PLEASE READ OUR EXCHANGE ACT REPORTS FILED SINCE THE DATE OF THE ORIGINAL FILING.

EXPLANATORY NOTE

This Amendment No. 2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (the "Original Filing"), includes restatements related to our unaudited consolidated financial statements for the period ended June 30, 2004. The restatement is discussed in Note 2.

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

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This interim financial data should be read in conjunction with the consolidated financial statements and related notes, management's discussion and analysis and other information included in Allis-Chalmers Corporation's ("Allis-Chalmers" or the "Company") Annual Report on Form 10-K for the year ended December 31, 2003 (the "Form 10-K").

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

### ORGANIZATION OF BUSINESS

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

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

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

For legal purposes, we acquired OilQuip, the parent company of Mountain Air. However, for accounting purposes, OilQuip was treated as the acquiring company in a reverse acquisition of Allis-Chalmers. Our financial statements prior to the merger reflect the operations of OilQuip. As a result of the merger, the fixed assets, goodwill and other intangibles of Allis-Chalmers were increased by \$2,691,000.

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

In July 2003, through our subsidiary Mountain Air, we entered into a limited liability company operating agreement with a division of M-I L.L.C., a joint venture between Smith International and Schlumberger N.V. (Schlumberger Limited) to form a Texas limited liability company named AirComp L.L.C. ("AirComp"). We contributed substantially all of our compressed air drilling assets with an estimated net book value of approximately \$6,300,000 million to AirComp. Simultaneously, AirComp acquired the compressed air drilling assets of M-I with an appraised value \$10,269,000 as determined by a third party appraisal. We own 55% and M-I L.L.C. owns 45% of AirComp. We consolidated AirComp into our financial statements for the quarter ended September 30, 2003.

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On June 10, 2004, the Company effected a reverse stock split in order to increase the share price of the Common Stock. As a result of the reverse stock split, every five shares of the Company's common stock were combined into one share of common stock. The reverse stock split reduced the number of shares of outstanding common stock from 31,393,789 to approximately 6,265,000 and reduced the number of stockholders of the Company from approximately 6,070 to approximately 2,140.

### USE OF ESTIMATES

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

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Allis-Chalmers and its subsidiaries Mountain Air, Jens', Strata and AirComp. All significant inter-company transactions have been eliminated.

### REVENUE RECOGNITION

The Company's revenue recognition policy is significant because revenue is a key component of reported results of operations. In addition, revenue recognition determines the timing of certain expenses, such as commissions. The Company follows specific and detailed guidelines in measuring revenue. Revenues are recognized by the Company and its subsidiaries as services are rendered, provided that pricing is fixed or determinable and collection is reasonably assured. The Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin ("SAB") No. 104, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB No. 104"), provides guidance on the SEC staff's views on application of generally accepted accounting principles to selected revenue recognition issues. The Company's revenue recognition policy is in accordance with generally accepted accounting principles and SAB No. 104.

### SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION

The Company discloses the results of its segments in accordance with SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION ("SFAS No. 131"). The Company designates the internal organization that is used by management for allocating resources and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. At June 30, 2004 and 2003, the Company operated in three segments organized by service line: casing services, directional drilling services and compressed air drilling services.



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### NOTE 2 - RESTATEMENT

#### Earnings per Share restatement

The Company understated diluted earnings per share due to an incorrect calculation of its weighted shares outstanding for the third and fourth quarters of 2003, for each of the first three quarters of 2004, for the year ended December 31, 2004 and the for the quarter ended March 31, 2005. In addition, the Company understated basic earnings per share due to an incorrect calculation of its weighted average basic shares outstanding for the quarter ended September 30, 2004. Consequently, the Company has restated its financial statements for each of those periods. The incorrect calculation resulted from a mathematical error and an improper application of SFAS 128, Earnings Per Share. The effect of the restatement is to reduce weighted average diluted shares outstanding for each period and to reduce weighted average basic shares outstanding for the quarter ended September 30, 2004. Consequently, weighted average diluted earnings per share were increased for each period and weighted average basic earnings per share was increased for the quarter ended September 30, 2004.

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A restated earnings per share calculation for the quarter ended June 30, 2004 reflecting the above adjustments to our results as previously presented or restated (see below), is presented below. The amounts are in thousands, except for share amounts:

	THREE MONTHS ENDED JUNE 30, 2004		
	AS REPORTED	ADJUSTMENTS	AS RESTATED
Income/ (loss) per common share - diluted	\$ 0.04	\$ 0.01	\$ 0.05
Weighted average number of common shares outstanding: Diluted	10,237	(2,618)	7,619

	SIX MONTHS ENDED JUNE 30, 2004		
	AS REPORTED	ADJUSTMENTS	AS RESTATED
Income/ (loss) per common share - diluted	\$ 0.09	\$ 0.04	\$ 0.13
Weighted average number of common shares outstanding: Diluted	8,394	(1,487)	6,907

#### AirComp restatement

In connection with the formation of AirComp in 2003, the Company and M-I contributed assets to AirComp in exchange for a 55% interest and 45% interest,

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respectively, in AirComp. The Company originally accounted for the formation of AirComp as a joint venture, but in February 2005 determined that the transaction should have been accounted for using purchase accounting pursuant to SFAS No. 141, BUSINESS COMBINATIONS and accounting for the sale of an interest in a subsidiary in accordance with SAB No. 51. Consequently, the Company have restated our financial statements for the year ended December 31, 2003 and for the nine months ended September 30, 2004 to reflect the following adjustments:

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

**Increase In Net Income.** As a result of the increase in fixed assets during the six months ended June 30, 2004, depreciation expense related to the fixed assets increased by \$98,000, depreciation expense was increased by \$120,000 as a result of the reversal of amortization of negative goodwill, and minority interest expense decreased by \$44,000, resulting in reduction in net income attributable to common stockholders of \$174,000.

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A restated consolidated balance sheet at June 30, 2004, a restated consolidated statement of operations for the three months and six months ended June 30, 2004 and a restated consolidated statement of cash flows for the six months ended June 30, 2004, reflecting the above adjustments, is presented below. The amounts are in thousands, except for share amounts:

	At June 30, 2004		
	As Reported	Adjustments	As Restated
	-----	-----	-----
<b>ASSETS</b>			
Cash and cash equivalents	\$ 485		\$ 485
Trade receivables, net	10,305		10,305
Lease Receivable, current	180		180
Prepaid expenses and other	1,137		1,137
	-----		-----
Total current assets	12,107		12,107
Property and equipment, net	27,234	4,571	31,805
Goodwill	7,661		7,661
Other intangible assets, net	2,054		2,054
Debt issuance costs, net	612		612
Lease receivable, less current portion	664		664
Deferred offering costs	2,650		2,650
Other Assets	79		79
	-----	-----	-----
Total Assets	\$ 53,061	\$ 4,571	\$ 57,632

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	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current maturities of long-term debt	\$ 4,848		\$ 4,848
Trade accounts payable	3,391		3,391
Accrued salaries, benefits and payroll taxes	677		677
Accrued interest	212		212
Accrued expenses	1,332		1,332
Accounts payable, related parties	541		541
	-----		-----
Total current liabilities	11,001		11,001
Accrued postretirement benefit obligations	520		520
Long-term debt, net of current maturities	26,163		26,163
Other long-term liabilities	129		129
Redeemable warrants	1,500		1,500
Redeemable convertible preferred stock including accrued dividends	--		--
	-----		-----
Total liabilities	39,313		39,313
Commitments and Contingencies			
Minority interests	2,782	1,411	4,193
COMMON STOCKHOLDERS' EQUITY			
Common stock	63		63
Capital in excess of par value	18,593	955	19,548
Accumulated (deficit)	(7,690)	2,205	(5,485)
	-----	-----	-----
Total stockholders' equity	10,966	3,160	14,126
	-----	-----	-----
Total liabilities and stockholders' equity	\$ 53,061	\$ 4,571	\$ 57,632
	=====	=====	=====

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	Three Months Ended June 30, 2004		
	As Reported	Adjustments	As Restated
	-----	-----	-----
Revenues	\$ 11,422	--	\$ 11,422
Cost of revenues	8,340	79	8,419
	-----	-----	-----
Gross margin	3,082	(79)	3,003
General and administrative expense	1,853	--	1,853
	-----	-----	-----
Income/ (loss) from operations	1,229	(79)	1,150
Other income (expense):			
Interest income	--	--	--
Interest expense	(499)	--	(499)
Minority interests in income of subsidiaries	(161)	22	(139)

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Other	18	--	18
Total other income (expense)	(642)	22	(620)
Net income/ (loss) before income taxes	587	(57)	530
Provision for foreign income tax	(117)	--	(117)
Net income/ (loss)	470	(57)	413
Preferred stock dividend	(36)	--	(36)
Net income attributed to common stockholders	\$ 434	\$ (57)	\$ 377
Income/ (loss) per common share - basic	\$ 0.07	\$ (0.01)	\$ 0.06
Income/ (loss) per common share - diluted	\$ 0.04	\$ -	\$ 0.04
Weighted average number of common shares outstanding:			
Basic	6,253		6,253
Diluted	10,237		10,237

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	Six Months Ended June 30, 2004		
	As Reported	Adjustments	As Restated
Revenues	\$ 21,083	--	\$ 21,083
Cost of revenues	15,729	218	15,947
Gross margin	5,354	(218)	5,136
General and administrative expense	2,956	--	2,956
Income/ (loss) from operations	2,398	(218)	2,180
Other income (expense):			
Interest income	--	--	--
Interest expense	(1,068)	--	(1,068)
Minority interests in income of subsidiaries	(256)	44	(212)
Other	205	--	205
Total other income (expense)	(1,119)	44	(1,075)
Net income/ (loss) before income taxes	1,279	(174)	1,105
Provision for foreign income tax	(220)	--	(220)
Net income/ (loss)	1,059	(174)	885

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Preferred stock dividend	(124)	--	(124)
Net income attributed to common stockholders	\$ 935	\$ (174)	\$ 761
Income/ (loss) per common share - basic	\$ 0.15	\$ --	\$ 0.15
Income/ (loss) per common share - diluted	\$ 0.09	\$ --	\$ 0.09
Weighted average number of common shares outstanding:			
Basic	5,077	--	5,077
Diluted	8,394	--	8,394

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	Six Months Ended June 30, 2004		
	As Reported	Adjustment	As Restated
Cash flows from operating activities:			
Net income/ (loss)	\$ 1,059	\$ (174)	\$ 885
Adjustments to reconcile net income/ (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	1,389	218	1,607
Fair value of warrant issued to consultant	14	--	14
Amortization of discount on debt	109	--	109
Minority interest in income of subsidiaries	256	(44)	212
Changes in working capital:			
Decrease (increase) in accounts receivable	(1,482)	--	(1,482)
Decrease (increase) in other current assets	(250)	--	(250)
Decrease (increase) in other assets	84	--	84
Increase (decrease) in accounts payable	258	--	258
Increase (decrease) in accrued interest	60	--	60
Increase (decrease) in accrued expenses	(429)	--	(429)
Increase (decrease) in other long-term liabilities	(141)	--	(141)
Increase (decrease) in accrued employee benefits and payroll taxes	(185)	--	(185)
Net cash provided by operating activities	742	--	742
Cash flows from investing activities:			
Purchase of equipment	(1,879)		(1,879)
Proceeds from sale of equipment	--		--
Net cash (used) by investing activities	(1,879)		(1,879)

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Cash flows from financing activities:		
Proceeds from issuance of common stock, net	1,865	1,865
Repayments of long-term debt	(1,331)	(1,331)
Debt issuance costs	(211)	(211)
	-----	-----
Net cash provided (used) by financing activities	323	323
	-----	-----
Net increase (decrease) in cash and cash equivalents	(814)	(814)
Cash and cash equivalents:		
Beginning of the year	1,299	1,299
	-----	-----
End of the year	\$ 485	\$ 485
	=====	=====
Supplemental information:		
Interest paid	\$ 1,068	\$ 1,068
	=====	=====

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In addition, the accompanying 2004 financial statements have been restated from the previously filed interim financial statements included in Form 10-Q for the first and second quarters of 2004. As discussed above, an adjustment was recorded in the third quarter of 2003 to reflect a change in the accounting for the formation of AirComp. The effect of the significant third quarter adjustment on the individual quarterly financial statements is as follows:

	Three Months Ended March 31, 2004 -----
Net income (loss) attributed to common stockholders	
Previously reported	\$ 501
Adjustment - depreciation expense	(139)
Adjustment - minority interest expense	22
	-----
Restated	\$ 384
Net income (loss) per share, basic	
Previously reported	\$ 0.03
Total adjustments	(0.01)
	-----
Restated	\$ 0.02
Net income (loss) per share, diluted	
Previously reported	\$ 0.02
Total adjustments	(0.00)



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presented.

	THREE MONTHS ENDED JUNE 30, -----	SIX MONTHS ENDED JUNE 30, -----
	(UNAUDITED)	
	(in thousands, except per share)	
	2003 ----	2003 ----
Revenues	\$ 8,181	\$ 16,061
Operating income (loss)	\$ 522	\$ 2,219
Net income (loss)	\$ (666)	\$ (298)
Net income (loss) per common share		
Basic	\$ (0.17)	\$ (0.08)
Diluted	\$ (0.17)	\$ (0.08)

NOTE 4 - DEBT

Debt is as follows at June 30:

	2004 ----- (in thousands)
Debt of Mountain Air	
Note payable to Wells Fargo - Equipment leasing	\$ 223
Note payable to Seller of Mountain Air Drilling Service Company	1,555
Debt of Jens'	
Note payable to Wells Fargo -Term Note	3,672
Note payable to Wells Fargo -Real Estate Note	118
Line of Credit with Wells Fargo	248
Subordinated Note payable to Seller of Jens	4,000
Note payable to Seller of Jens' for non-compete agreement	638
Note payable to Texas State Bank - Term Note	354
Debt of Strata	
Vendor financing	1,746
Line of Credit with Wells Fargo	2,782
Debt of Allis-Chalmers	
Notes payable to certain former Directors	394
Note payable to Wells Fargo - Subordinated Debt, net	2,309
Debt of AirComp, LLC	
Line of Credit to Wells Fargo	807
Note payable to Wells Fargo	6,857
Note payable to Wells Fargo	490
Subordinated Note payable to M-I L.L.C	4,818
	-----
Total debt	31,011
Less short-term debt and current maturities	4,848
	-----
Long-term debt obligations	\$ 26,163
	=====

Substantially all of the Company's assets are pledged as collateral under the credit agreements.



NOTE 5 - SHAREHOLDERS' EQUITY

On April 2, 2004, the Company completed the following transactions:

- o In exchange for an investment of \$2,000,000, the Company issued 620,000 shares of common stock for a purchase price equal to \$2.50 per share, and issued warrants to purchase 800,000 shares of common stock at an exercise price of \$2.50 per share, expiring on April 1, 2006, to an investor group (the "Investor Group") consisting of entities affiliated with Donald and Christopher Engel and directors Robert Nederlander and Leonard Toboroff. The aggregate purchase price for the common stock was \$1,550,000, and the aggregate purchase price for the warrants was \$450,000.
- o Energy Spectrum converted its 3,500,000 shares of Series A 10% Cumulative Convertible Preferred Stock, including accrued dividend rights, into 1,718,090 shares of common stock. The conversion of the preferred stock will have an impact on the earnings per share in future periods since the Company will not record any dividends.
- o The Company, the Investor Group, Energy Spectrum, and director Saeed Sheikh, and officers and directors Munawar H. Hidayatallah and Jens H. Mortensen entered into a stockholders agreement pursuant to which the parties have agreed to vote for the election to the board of directors of the Company three persons nominated by Energy Spectrum, two persons nominated by the Investor Group and one person nominated by Messrs. Hidayatallah, Mortensen and Sheikh. In addition, the parties and the Company agreed that in the event the Company has not effected a public offering of its shares prior to September 30, 2005, then, at the request of Energy Spectrum, the Company will retain an investment banking firm to identify candidates for a transaction involving the sale of the Company or its assets.

NOTE 6 - REVERSE STOCK SPLIT

The Company effected a reverse stock split on June 10, 2004 in order to increase the share price of the common stock. As a result of the reverse stock split, every five shares of the Company's common stock were combined into one share of common stock. The reverse stock split reduced the number of shares of outstanding common stock from 31,393,789 to approximately 6,265,000 and reduced the number of stockholders of the Company from approximately 6,070 to approximately 2,140. The Company currently has an application pending to list the Common Stock on the American Stock Exchange, which has an initial listing requirement that the Common Stock trade for a minimum of \$3.00 per share and certain other qualitative and quantitative listing requirements. There can be no assurance that the Company will be successful in listing the Common Stock on the American Stock Exchange.

NOTE 7 - SEGMENT INFORMATION

The Company has three operating segments including Casing Services (Jens'), Directional Drilling Services (Strata) and Compressed Air Drilling Services

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(AirComp). All of the segments provide services to the petroleum exploration and production industry. The revenues, operating income (loss), depreciation and amortization, interest, capital expenditures and assets of each of the reporting segments plus the General Corporate function are reported below for the quarters and the six months ended June 30, 2004 and 2003:

	Three Months Ended June 30, 2004 (Restated)	2003	Six Months Ended June 30, 2004 (Restated)	2003
	(in thousands)			
<b>REVENUES:</b>				
Casing services	\$ 2,446	\$ 2,644	\$ 4,386	\$
Directional drilling services	6,422	3,503	11,675	
Compressed air drilling services	2,554	1,193	5,022	
	-----	-----	-----	-----
<b>Total revenues</b>	<b>\$ 11,422</b>	<b>\$ 7,340</b>	<b>\$ 21,083</b>	<b>\$</b>
	=====	=====	=====	=====
<b>OPERATING INCOME (LOSS):</b>				
Casing services	\$ 783	\$ 988	\$ 1,225	\$
Directional drilling services	727	255	1,389	
Compressed air drilling services	340	71	594	
General corporate	(700)	(404)	(1,028)	
	-----	-----	-----	-----
<b>Total income/(loss) from operations</b>	<b>\$ 1,150</b>	<b>\$ 910</b>	<b>\$ 2,180</b>	<b>\$ 1</b>
	=====	=====	=====	=====
<b>DEPRECIATION AND AMORTIZATION EXPENSE:</b>				
Casing services	\$ 355	\$ 275	\$ 717	\$
Directional drilling services	114	39	214	
Compressed air drilling services	237	180	626	
General corporate	25	(3)	50	
	-----	-----	-----	-----
<b>Total depreciation and amortization expense</b>	<b>\$ 731</b>	<b>\$ 491</b>	<b>\$ 1,607</b>	<b>\$</b>
	=====	=====	=====	=====
<b>INTEREST EXPENSE:</b>				
Casing services	\$ 155	\$ 230	\$ 320	\$
Directional drilling services	67	77	142	
Compressed air drilling services	158	331	317	
General corporate	119	205	289	
	-----	-----	-----	-----
<b>Total interest expense</b>	<b>\$ 499</b>	<b>\$ 843</b>	<b>\$ 1,068</b>	<b>\$</b>
	=====	=====	=====	=====
<b>CAPITAL EXPENDITURES</b>				
Casing services	\$ 46	\$ 201	\$ 425	\$
Directional drilling services	83	61	788	
Compressed air drilling services	338	379	664	
General corporate	1	5	2	
	-----	-----	-----	-----
<b>Total capital expenditures</b>	<b>\$ 468</b>	<b>\$ 646</b>	<b>\$ 1,879</b>	<b>\$</b>
	=====	=====	=====	=====
<b>ASSETS:</b>				

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Casing services	\$ 17,060	\$ 16,562	\$ 17,060	\$
Directional drilling services	12,795	8,125	12,795	
Compressed air drilling services	23,160	9,038	23,160	
General corporate	4,617	1,322	4,617	
	-----	-----	-----	-----
 Total assets	 \$ 57,632	 \$ 35,047	 \$ 57,632	 \$
	=====	=====	=====	=====

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### NOTE 8 - LEGAL MATTERS

The Company is involved in various legal proceedings arising in the ordinary course of business. The legal proceedings are at different stages. In the opinion of management and their legal counsel, the ultimate gain or loss, if any, to the Company from all such proceedings can not be reasonably estimated at this time.

The Company is a defendant in an action (the "Action") brought in April 2004 (No. 04CV308) in the District Court of Mesa County Colorado by the former owner of Mountain Air Drilling Service Company, Inc. nka Pattongill & Murphy, Inc., from whom the Company's Mountain Compressed Air, Inc. ("MCA") acquired assets in 2001. The plaintiff seeks to accelerate payment of a note (the "Note") issued in connection with the acquisition and are seeking \$1,863,000 in damages (representing principal and interest due under the Note), on the basis that MCA has failed to provide financial statements required by the Note. The Company believes the claim is without merit because MCA no longer maintains separate financial statements and the Company provides plaintiff with the Company's publicly available financial statements. The financial statements disclose as a separate segment the operations of AirComp, which conducts business using the assets acquired from plaintiff. In addition, the rights of the holder of the Note are subordinated to certain senior lease obligations, and therefore even if the plaintiff had the right to accelerate the debt under the terms of the Note, the plaintiff is prevented from doing so pursuant to the terms of the subordination agreement until September, 2007, at which time the Note will mature by its terms. Finally, the Company has claims in the amount of \$12,000 for legal fees and other expenses that the plaintiff agreed to pay the Company in connection with the settlement of an earlier lawsuit involving the acquisition of assets from plaintiff.

### NOTE 9 - SUBSEQUENT EVENTS

On March 15, 2004, the Company filed an application to list the common stock on the American Stock Exchange. However, approval of listing of the common stock is subject to numerous conditions, and there can be no assurance that the application will be approved.

On July 17, 2004 our Strata and Jens subsidiaries entered into amendments to their respective Wells Fargo Credit, Inc. credit agreements. The amendments provide for an increase in the permitted capital expenditures in 2004 by Strata, and also permitted additional indebtedness by Jens. Each of the amendments also included consents to a \$10.0 million to \$15.0 million equity offering by the Company and waived any requirement that the net proceeds be contributed to Strata or Jens and used to prepay outstanding borrowings under the credit facilities.

On August 10, 2004 we completed the private placement of 3,504,667 shares of our common stock at a price of \$3.00 per share. Net proceeds to us, after selling

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commissions and expenses, are estimated to be \$9.6 million. The private placement was structured as what is known as a "private investment in public equity" or "PIPE" offering, in which we issued shares pursuant to an exemption from the Securities Act of 1933, and have agreed to subsequently register the common stock under the Securities Act of 1933 to allow investors to resell the common stock in public markets.

We will use the net proceeds of the offering to reduce debt, for acquisitions, and for general corporate purposes. While we are in discussions and in the analysis phase with potential acquisition candidates, as of this date, the Company has not entered into definitive agreements with respect to any acquisition candidate.

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

The information in this Item 2 contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of risks and uncertainties, including, but not limited to, those discussed herein, and in other reports filed with the Securities and Exchange Commission, and in particular those discussed under "Risk Factors" in our Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. We are under no obligation to revise or update any forward-looking statements.

#### BACKGROUND

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Prior to May 2001, we operated primarily through Houston Dynamic Services, Inc ("HDS"). In May 2001, as part of a strategy to acquire and develop businesses in the natural gas and oil services industry, we consummated a merger (the "OilQuip Merger") in which we acquired 100% of the capital stock of OilQuip Rentals, Inc. ("OilQuip"), which owned 100% of the capital stock of Mountain Air. In December 2001, we disposed of HDS, and in February 2002, we acquired substantially all of the capital stock of Strata and approximately 81% of the capital stock of Jens'. In July 2003, through our subsidiary Mountain Air, we entered into a limited liability company operating agreement with a division of M-I L.L.C., a joint venture between Smith International and Schlumberger N.V. (Schlumberger Limited) to form AirComp LLC. We contributed substantially all of our compressed air drilling assets with an estimated net book value of approximately \$6,300,000 million to AirComp. Simultaneously, AirComp acquired the compressed air drilling assets of M-I with an appraised value \$10,269,000 as determined by a third party appraisal. In addition, AirComp issued a subordinated note to M-I in the amount of \$4.8 million. We owns 55% and M-I L.L.C. owns 45% of AirComp. The Company consolidated AirComp into its financial statements for the quarter ended September 30, 2003.

#### CRITICAL ACCOUNTING POLICIES

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We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial

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Statements in our Form 10-K. Note that our preparation of this Quarterly Report on Form 10-Q requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. In order to estimate the collectibility of amounts due from our customers, we make estimates and judgments regarding the collectibility of our accounts receivables, based upon customer payment history and current credit worthiness, as well as consideration of the overall business climate in which our customers operate. Provisions for doubtful accounts are recorded when it becomes evident that the customers will not be able to make the required payments at either contractual due dates or in the future. Over the past two years, reserves for doubtful accounts, as a percentage of total accounts receivable before reserves, have ranged from 1% to 2%. We believe that our reserve for doubtful accounts is adequate to cover anticipated losses under current conditions; however, there can be no assurance of such fact.

REVENUE RECOGNITION. Our revenue recognition policy is significant because our revenue is a key component of our results of operations. In addition, our revenue recognition policy determines the timing of certain expenses, such as commissions. We follow specific and detailed guidelines in measuring revenue. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter to quarter and could result in future operating losses. Revenues are recognized by the Company and its subsidiaries as services are rendered, provided that pricing is fixed or determinable and collection is reasonably assured. The Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 104 ("SAB No. 104"), REVENUE RECOGNITION IN FINANCIAL STATEMENTS, provides guidance on the SEC staff's views on application of generally accepted accounting principles to selected revenue recognition issues. Our revenue recognition policy is in accordance with generally accepted accounting principles and SAB No. 104.

IMPAIRMENT OF LONG-LIVED ASSETS. Long-lived assets, which include property, plant and equipment, goodwill and other intangibles, comprise a significant amount of the Company's total assets. The Company makes judgments and estimates as to the value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, the book values of these assets are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recorded in the period in which it is determined that the carrying amount is not recoverable. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. These forecasts require assumptions about demand for the Company's products and services, future market conditions and technological developments. Changes to these assumptions could require a provision for impairment in a future period.

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AIRCAMP AND SALE OF INTEREST IN VENTURE. The Company has adopted SEC Staff Accounting Bulletin (SAB) No.51, Accounting for Sales of Stock by a Subsidiary, to account for its investment in AirComp. AirComp operates in a manner similar to a joint venture but has been accounted for and consolidated as a subsidiary under SFAS No. 141, BUSINESS COMBINATIONS. Pursuant to SAB No. 51, the Company has recorded its own contribution of assets and liabilities at its historical cost basis. Since liabilities exceeded assets, the Company's basis in AirComp was a negative amount. The Company has accounted for the assets contributed from M-I at a fair market value as determined by an outside appraiser. The Company

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gave M-I a 45% interest in AirComp in exchange for the assets contributed. As a result of the formation of the venture and its retention of 55% interest in the venture, the Company realized an immediate gain to the extent of its negative basis and its 55% interest in the combined assets and liabilities of the venture. In accordance with SAB No. 51, the Company has recorded its negative basis investment in AirComp as an addition to equity and its share of the combined assets and liabilities realized from M-I assets as non-operating income.

GOODWILL AND OTHER INTANGIBLES. The Company has recorded approximately \$7,661,000 of goodwill and \$2,054,000 of other identifiable intangible assets. (Is this number still accurate with the changes at AirComp?) The Company allocates purchase price to intangible assets when it makes a business combination. The excess of the purchase price after allocation of fair values to tangible assets is allocated to identifiable intangibles and thereafter to goodwill. Purchase price allocations have been made to intangible assets and goodwill in connection with the acquisition of the Mountain Air, Strata and Jens' operating segments, as well as the reverse merger between the Company and OilQuip. Subsequently, the Company has performed its initial impairment tests and annual impairment tests in accordance with Financial Accounting Standards Board No. 141, BUSINESS COMBINATIONS, and Financial Accounting Standards Board No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. The initial valuations of intangibles related to the Mountain Air, Strata and Jens' operating segments required the use of third-party valuation experts who in turn developed assumptions to value the carrying amount of the individual reporting units. Changes to these assumptions could require a provision for impairment in future periods.

STOCK BASED COMPENSATION. The Company accounts for its stock-based compensation using Accounting Principles Board's Opinion No. 25 ("APB No. 25"). Under APB No. 25, compensation expense is recognized for stock options with an exercise price that is less than the market price on the grant date of the option. For stock options with exercise prices at or above the market value of the stock on the grant date, the Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 ACCOUNTING FOR STOCK-BASED COMPENSATION ("SFAS 123"). The Company has adopted the disclosure-only provisions of SFAS 123 for the stock options granted to the employees and directors of the Company. Accordingly, no compensation expense has been recognized for these options. Many equity instrument transactions are valued based on pricing models such as Black-Scholes, which require judgments by management. Values for such transactions can vary widely and are often material to the financial statements.

### RESTATEMENT

The Company understated diluted earnings per share due to an incorrect calculation of its weighted shares outstanding for the third and fourth quarters of 2003, for each of the first three quarters of 2004, for the year ended December 31, 2004 and the for the quarter ended March 31, 2005. In addition, the Company understated basic earnings per share due to an incorrect calculation of its weighted average basic shares outstanding for the quarter ended September 30, 2004. Consequently, the Company has restated its financial statements for each of those periods. The incorrect calculation resulted from a mathematical error and an improper application of SFAS 128, Earnings Per Share. The effect of the restatement is to reduce weighted average diluted shares outstanding for each period and to reduce weighted average basic shares outstanding for the quarter ended September 30, 2004. Consequently, weighted average diluted earnings per share were increased for each period and weighted average basic earnings per share was increased for the quarter ended September 30, 2004. As a result, earnings per share were increased in each period in inverse proportion to the decrease in shares outstanding. See Note 2 to our consolidated financial statements included in Part I, Item 1.

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

#### RESULTS OF OPERATIONS

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Results of operations for 2004 and 2003 reflect the business operations of Allis-Chalmers and its subsidiaries Jens' Oilfield Service, Inc., which supplies highly specialized equipment and operations to install casing and production tubing required to drill and complete oil and gas wells ("Casing Services"), and Strata Directional Technology, Inc., which provides directional and horizontal drilling services for specific targeted reservoirs that cannot be reached vertically ("Directional Drilling Services"). In July 2003, through our subsidiary Mountain Air, we entered into a limited liability company operating agreement with a division of M-I L.L.C. ("M-I"), a joint venture between Smith International and Schlumberger N.V. (Schlumberger Limited), to form a Texas limited liability company named AirComp LLC ("AirComp"). We contributed substantially all of our compressed air drilling assets with an estimated net book value of approximately \$6,300,000 million to AirComp. Simultaneously, Aircomp acquired the compressed air drilling assets of M-I with an appraised value \$10,269,000 as determined by a third party appraisal. We own 55% and M-I owns 45% of AirComp. We have consolidated AirComp into our financial statements beginning with the quarter ending September 30, 2003.

#### THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO JUNE 30, 2003:

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Our revenues for the second quarter ended June 30, 2004 were \$11,422,000, an increase of 55.6% compared to \$7,340,000 for the second quarter of 2003. The increase in revenues in the quarter was principally due to the inclusion of the revenues of Aircomp, our joint venture with M-I formed in July 2003, and an increase in revenues for our Directional Drilling Services, offset in part by a decrease in revenues in our Casing Services segment. Revenues for the second quarter ended June 30, 2004 for the Casing Services, Directional Drilling Services and Compressed Air Drilling were \$2,446,000, \$6,422,000, and \$2,554,000, respectively, compared to \$2,644,000, \$3,503,000, and \$1,193,000, respectively, for the second quarter of 2003. Revenues for the Casing Services segment decreased \$198,000, or 7.4%, for the second quarter of 2004, compared to the second quarter of 2003, due to an increased competitive environment in South Texas and a decrease in drilling in Mexico by PEMEX due to bad weather. Our revenues from Directional Drilling Services increased \$2,919,000, or 83.3%, for the second quarter of 2004 compared to the year-ago quarter, due to an increase in demand for our services and our increased penetration of the Gulf Coast area. Revenues for the Compressed Air Drilling Services segment increased \$1,361,000, or 114.0% during the second quarter of 2004 compared to the 2003 second quarter, principally due to the formation of Aircomp, our joint venture company with M-I. Through Aircomp, we were able to expand the geographical areas in which we operate to include geothermal drilling in California and natural gas drilling in West Texas.

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Gross profit, as a percentage of sales, was 26.2% for the quarter ended June 30, 2004 compared to 26.3% for the quarter ended June 30, 2003. Because we have made significant investments in equipment and have a constant number of operations personnel, many of our costs of revenues are relatively fixed, and as a result, our gross profit margins are significantly impacted by either increases or decreases in pricing structures and revenues.

General and administrative expense was \$1,853,000 in the second quarter of 2004 compared with \$1,020,000 in the second quarter of 2003. General and administrative expense increased in 2004 compared to 2003 due to the inclusion of AirComp and the hiring of additional sales and administrative personnel at each of the Company's subsidiaries to meet increased demand for our services and due to increased professional fees and other expenses related to the Company's financing activities.

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Operating income for the second quarter ended June 30, 2004 totaled \$1,150,000, a 25.1% increase over the comparable period in 2003, reflecting the inclusion of operating income of AirComp and increased revenue for Directional Drilling Services. In the comparable period of 2003, operating income was \$910,000. Operating income (loss) for the quarter ended June 30, 2004 for the Casing Services, Directional Drilling Services, Compressed Air Drilling Services and General Corporate segments were \$783,000, \$727,000, \$340,000 and (\$700,000), respectively. Operating income (loss) for the quarter ended June 30, 2003 for the Casing Services, Directional Drilling Services, Compressed Air Drilling Services and General Corporate segments were \$988,000, \$255,000, \$71,000 and (\$404,000), respectively. Operating income for the Casing Services decreased approximately \$205,000 due to reduced revenues. Operating income for Directional Drilling Services increased approximately \$472,000 due to our increased penetration of the Gulf Coast area. Compressed Air Drilling Services increased approximately \$269,000 due the expanded geographical areas in which AirComp operates. General Corporate segments decreased approximately (\$296,000) due to increased professional fees and other expenses related to the Company's financing activities.

Our interest expense for the second quarter of 2004, decreased to \$499,000 from \$843,000 for the second quarter of 2003 due to the reduction in our debt.

We had a net income attributed to common shareholders of \$377,000 for the quarter ended June 30, 2004 compared with a net loss of (\$422,000) for the quarter end June 30, 2003.

### PRO FORMA RESULTS

The following unaudited pro forma consolidated summary financial information illustrates the effects of the formation of AirComp on the Company's results of operations, based on the historical statements of operations, as if the transaction had occurred as of the beginning of the periods presented. Pro forma results of operations set forth below includes results of operations for the quarter ended June 30, 2004 and 2003.

Pro forma revenues for the second quarter of 2004 totaled \$11,423,000, compared to pro forma revenues in the second quarter of 2003 of \$8,181,000, an increase of approximately 40%. The increase in 2004 compared to 2003 was primarily due to higher revenues resulting from the overall upturn in the petroleum industry. Pro forma sales for the second quarter of 2004 for AirComp totaled \$2,554,000, compared to pro forma sales in the second quarter of 2003 of \$2,034,000. The pro forma sales in 2004 for AirComp increased \$520,000 due to increased drilling activity in West Texas and a slight increase in activity in the San Juan basin over the same period in 2003.



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Pro forma gross profit, as a percentage of sales, was 26.2% for the quarter ended June 30, 2004 compared with a pro forma gross profit of 19.0 % for the quarter ended June 30, 2003. The gross profit percentage increased as a result of increased revenues and service pricing in the Directional Drilling Services segments. Because we have made significant investments in equipment and have a constant number of operations personnel, many of our costs of revenues are relatively fixed, and as a result, our gross profit margins are significantly impacted by either increases or decreases in pricing structures and revenues.

Pro forma general and administrative expense was \$1,853,000 in 2004 compared with \$1,020,000 in 2003. The pro forma general and administrative expense increased in 2004 compared to 2003 due to the additional administrative costs associated with AirComp and the hiring of additional sales force and administrative personnel at each of the Company's subsidiaries to meet increased demand for our services and due to increased professional fees and other expenses related to the Company's financing activities.

The Company had pro forma operating income for the second quarter of 2004 of \$1,150,000, an increase of 112.6 % as compared to pro forma operating income of \$541,000 in the second quarter of 2003. The increase in pro forma operating income for 2004 was primarily due to higher revenues resulting from the overall upturn in the petroleum industry.

The Company had a pro forma net income of \$377,000 for the quarter ended June 30, 2004 compared with a pro forma net loss of (\$666,000) for the quarter ended June 30 2003.

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### SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO JUNE 30, 2003:

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Our revenues for the six months ended June 30, 2004 were \$21,083,000, an increase of 47.0% compared to \$14,339,000 for the second quarter of 2003. The increase in revenues for the six months ended June 30, 2004 was principally due to the inclusion of the revenues of Aircomp, our joint venture with M-I formed in July 2003, and an increase in revenues for our Directional Drilling Services, offset in part by a decrease in revenues in our Casing Services segment. Revenues for the six months ended June 30, 2004 for the Casing Services, Directional Drilling Services and Compressed Air Drilling were \$4,386,000, \$11,675,000, and \$5,022,000, respectively, compared to \$ 5,153,000, \$6,983,000, and \$2,203,000, respectively, for the six months ended June 30, 2003. Revenues for the Casing Services segment decreased \$767,000, or 14.9%, for the first six months of 2004, compared to the first six months of 2003, due to an increased competitive environment in South Texas and a decrease in drilling in Mexico by PEMEX due to bad weather. Our revenues from Directional Drilling Services increased \$4,692,000, or 67.2%, for the six months of 2004 compared to the year-ago period, due to an increase in demand for our services and our increased penetration of the Gulf Coast area. Revenues for the Compressed Air Drilling Services segment increased \$2,819,000, or 128.0% during the six months of 2004 compared to the six months of 2003, principally due to the formation of Aircomp, our joint venture company with M-I. Through Aircomp, we were able to expand the geographical areas in which we operate to include geothermal drilling in California and natural gas drilling in West Texas.

Gross profit, as a percentage of sales, was 24.4% for the six months ended June 30, 2004 compared with 27.4% for the six months ended June 30, 2003. The gross profit percentage decreased as a result of relatively fixed direct costs and decreased service pricing in the Casing Services and Compressed Air Drilling

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Services segments offset by increased revenues and pricing in the Directional Drilling segment. Because we have made significant investments in equipment and have a constant number of operations personnel, many of our costs of revenues are relatively fixed, and as a result, our gross profit margins are significantly impacted by either increases or decreases in pricing structures or revenues.

General and administrative expense was \$2,956,000 in 2004 compared with \$2,001,000 in 2003. General and administrative expense increased in 2004 compared to 2003 due to the additional administrative costs associated with AirComp and the hiring of additional sales force and administrative personnel at each of the Company's subsidiaries to meet increased demand for our services and due to increased professional fees and other expenses related to the Company's financing activities.

Operating income for the six months ended June 30, 2004 totaled \$2,180,000, a 12.8% increase over the comparable period in 2003, reflecting the inclusion of operating income of AirComp and the increased revenues from Directional Drilling Services, offset in part by a decrease in revenues in our Casing Services segment. In the comparable period of 2003, operating income was \$1,933,000.

Operating income (loss) for the six months ended June 30, 2004 for the Casing Services, Directional Drilling Services, Compressed Air Drilling Services and General Corporate segments were \$1,225,000, \$1,389,000, \$594,000 and (\$1,028,000), respectively. Operating income (loss) for the six months ended June 30, 2003 for the Casing Services, Directional Drilling Services, Compressed Air Drilling Services and General Corporate segments were \$2,227,000, \$511,000, (\$36,000) and (\$769,000), respectively. Operating income for the Casing Services decreased approximately \$1,009,000 due reduced revenues. Operating income for Directional Drilling Services increased approximately \$878,000 due to an increase in demand for our services and increased penetration of the Gulf Coast area. Compressed Air Drilling Services increased approximately \$630,000 due the expanded geographical areas in which AirComp operates. General Corporate segments decreased approximately (\$259,000) due to increased professional fees and other expenses related to the Company's financing activities.

Our interest expense decreased to \$1,068,000 for the six months of 2004, compared to \$1,480,000 for the six months of the prior year due to the reduction of our debt.

We had a net income attributed to common shareholders of \$761,000 for the six months ended June 30, 2004 compared with a net loss of (\$763,000) for the six months ended June 30, 2003.

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### PRO FORMA RESULTS

The following unaudited pro forma consolidated summary financial information illustrates the effects of the formation of AirComp on the Company's results of operations, based on the historical statements of operations, as if the transaction had occurred as of the beginning of the periods presented. Pro forma results of operations set forth below includes results of operations for the six months ended June 30, 2004 and 2003.

Pro forma revenues for the six months of 2004 totaled \$21,083,000, compared to pro forma sales in the six months of 2003 of \$16,061,000, an increase of approximately 31%. The increase in 2004 compared to 2003 was primarily due to higher revenues resulting from the overall upturn in the petroleum industry. Pro forma sales for the second six months of 2004 for AirComp totaled \$3,925,000,

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compared to pro forma sales in the second six months of 2003 of \$2,203,000. The pro forma sales in 2004 for AirComp increased \$1,722,000 due to increased drilling activity in West Texas and a slight increase in activity in the San Juan basin over the same period in 2003.

Pro forma gross profit, as a percentage of sales, was 24.3% for the six months ended June 30, 2004 compared with a pro forma gross margin of 29.6% for the six months ended June 30, 2003. The gross margin ratio decreased as a result of relatively fixed direct costs and decreased revenues and service pricing in the Casing Services and Compressed Air Drilling Services segments, offset in part by increased revenues and service pricing in the Directional Drilling segment.. Because we have made significant investments in equipment and have a constant number of operations personnel, many of our costs of revenues are relatively fixed, and as a result, our gross profit margins are significantly impacted by either increases or decreases in revenues.

Pro forma general and administrative expense was \$2,956,000 in 2004 compared with \$2,001,000 in 2003. The pro forma general and administrative expense increased in 2004 due to the overhead costs associated with AirComp and the hiring of additional sales force and administrative personnel at each of the Company's subsidiaries to meet increased demand in the market.

The Company had pro forma operating income for the first six months of 2004 of \$2,180,000, an increase of 10.0% as compared to pro forma operating income of \$2,219,000 in the first six months of 2003. The increase in pro forma operating income for 2004 was primarily due to higher revenues resulting from the overall upturn in the petroleum industry.

The Company incurred a pro forma net income of \$761,000 for the six months ended June 30, 2004 compared with a pro forma net loss of (\$298,000) for the six months ended June 30 2003.

### FINANCIAL CONDITION AND LIQUIDITY

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Cash and cash equivalents totaled \$485,000 at June 30, 2004 compared to \$1,299,000 at December 31, 2003. The decrease in cash and cash equivalents was due to \$1,879,000 in purchases of equipment, \$1,331,000 of repayment of long-term debt, and \$211,000 of debt issuances costs offset in part by \$742,000 in net cash provided by operating activities and \$1,865,000 of net proceeds from the issuance of common stock.

Net trade receivables at June 30, 2004 were \$10,305,000 compared to \$8,823,000 at December 31, 2003, due to increased sales at Strata and AirComp.

Net property, plant and equipment were \$31,805,000 at June 30, 2004 compared to \$31,128,000 at December 31, 2003. The increase in net property, plant and equipment was due to the addition of approximately \$788,000 of downhole motors and other assets used in the operations at Strata, the addition of casing equipment of approximately \$425,000 at Jens', and capital repairs to the existing equipment of approximately \$664,000 at AirComp. Capital expenditures for the six months of 2004 were \$1,879,000 compared to capital expenditures for 2003 of \$821,000. Capital expenditures for the balance of 2004 are projected to be approximately \$3,100,000. We expect these expenditures will be funded from operating cash flows and lines of credit already in place available for capital projects.

Trade accounts payable at June 30, 2004 were \$3,391,000 as compared to \$3,133,000 at December 31, 2003. The increase was primarily due to increased operational expenses.

At June 30, 2004, other current liabilities, excluding the current portion of long-term debt and trade accounts payable, were \$2,762,000 consisting of interest in the amount of \$212,000, accrued salary and benefits in the amount of \$677,000, income taxes payable of \$45,000, accrued restructuring costs of \$98,000, related party payables of \$541,000, accrued operating expenses of \$1,153,000, and legal and professional expenses in the amount of \$36,000. Included in accrued restructuring costs was compensation in the amount of \$98,000 due to former employees of the Company. At December 31, 2003, other current liabilities, excluding the current portion of long-term debt and trade accounts payable, were \$3,291,000 consisting of interest in the amount of \$152,000, accrued salary and benefits in the amount of \$591,000, income taxes payable of \$45,000, accrued restructuring costs of \$296,000, related party payables of \$787,000, accrued operating expenses of \$1,358,000, and legal and professional expenses in the amount of \$62,000. Included in accrued restructuring costs was compensation in the amount of \$166,000 due to former employees of the Company. All of these balance sheet accounts decreased significantly from December 31, 2003 balances due to increased cash flow from operations.

Long-term debt including current maturities was \$31,011,000 at June 30, 2004 as compared to \$32,233,000 at December 31, 2003. The decrease in long-term debt resulted from scheduled principal repayments as well as a prepayment on Strata's vendor financed note of approximately \$637,000.

#### CAPITAL REQUIREMENTS

Our long-term capital needs are to repay and/or refinance our existing debt, provide funds for existing operations, and to secure funds for acquisitions in the oil and gas equipment rental and services industry. In order to pay our debts as they become due, including the amounts due to the bank lenders described above, we will require additional financing, which may include the issuance of equity or debt securities, as well as secured and unsecured loans. See "Recent Developments" below for a discussion of capital transactions completed subsequent to June 30, 2004. In March 2004, we entered into an agreement with Morgan Joseph & Co. Inc. to assist us in restructuring our outstanding debt and to pursue an offering of its common stock. However, there can be no assurance that the Company will be successful in such efforts. Any new issuance of equity securities may further dilute existing shareholders.

#### RECENT DEVELOPMENTS

The Company effected a reverse stock split on June 10, 2004 in order to increase the share price of the common stock. As a result of the reverse stock split, every five shares of the Company's common stock were combined into one share of common stock. The reverse stock split reduced the number of shares of outstanding common stock from 31,393,789 to approximately 6,265,000 and reduced the number of stockholders of the Company from approximately 6,070 to approximately 2,140. The Company currently has an application pending to list the Common Stock on the American Stock Exchange, which has an initial listing requirement that the Common Stock trade for a minimum of \$3.00 per share and certain other qualitative and quantitative listing requirements. There can be no assurance that the Company will be successful in listing the Common Stock on the American Stock Exchange.

On July 17, 2004 our Strata and Jens subsidiaries entered into amendments to their respective Wells Fargo Credit, Inc. credit agreements. The amendments provide for an increase in the permitted capital expenditures in 2004 by Strata, and also permitted additional indebtedness by Jens. Each of the amendments also included consents to a \$10.0 million to \$15.0 million equity offering by us and

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waived any requirement that the net proceeds be contributed to Strata or Jens and used to prepay outstanding borrowings under the credit facilities.

On August 10, 2004 we completed the private placement of 3,504,677 shares of our common stock at a price of \$3.00 per share. Net proceeds to us, after selling commissions and expenses, are estimated to be \$9.6 million. The private placement was structured as what is known as a "private investment in public equity" or "PIPE" offering, in which we issued shares pursuant to an exemption from the Securities Act of 1933, and have agreed to subsequently register the common stock under the Securities Act of 1933 to allow investors to resell the common stock in public markets.

We will use the net proceeds of the offering to reduce debt, for acquisitions, and for general corporate purposes. While we are in discussions and in the analysis phase with potential acquisition candidates, as of this date, the Company has not entered into definitive agreements with respect to any acquisition.

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### ITEM 4 - CONTROLS AND PROCEDURES

**DISCLOSURE CONTROLS AND PROCEDURES.** We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Our internal control system is designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements. All internal control systems are designed based in part upon certain assumptions about the likelihood of future events, and, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect all misstatements.

Management, including our chief executive officer and our chief financial officer, has evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Report (the "Evaluation Date"). Management has concluded that, as of the Evaluation Date, due to the deficiencies described below, our controls and procedures over financial reporting were not effective to enable us to record, process, summarize, and report information required to be included in our SEC filings within the required time period, and to ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial accounting officer, to allow timely decisions regarding required disclosure. As described below, we are taking steps to remediate the deficiencies in our control over the financial reporting process.

On August 4, 2005, our Board of Directors, upon the recommendation of the Audit Committee of our Board of Directors, concluded that our previously issued financial statements for the periods from July 1, 2003 through March 31, 2005, were required to be restated to correct the understatement of net income per share which resulted from a miscalculation of the number of basic and diluted shares outstanding on a weighted average basis in accordance with SFAS No. 128, Earnings Per Share. The deficiency resulted from errors discovered by our independent accountants on August 1, 2005, while reviewing our financial statements for the quarter ended June 30, 2005. The major components of the

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errors were as follows:

- o For all periods involved we had not applied the treasury stock method of accounting for options and warrants as prescribed in SFAS No. 128. Specifically, we overstated diluted shares outstanding because we failed to reduce diluted shares outstanding by the number of shares that could be purchased with the proceeds to us from the exercise of dilutive warrants and options.
- o In 2003 and 2004, we overstated diluted shares by not correctly calculating the number of common shares into which our preferred stock was convertible; by not applying the "if converted" method of calculating diluted net earnings which requires that dividends actually paid on preferred stock be added to net income attributed to common shares in calculating diluted earnings per common share; and by continuing to report the preferred shares as dilutive after the preferred shares were converted to common stock on April 2, 2004.
- o During the third quarter of 2004, we misstated the number of common shares outstanding on a weighted average basis due to a mathematical error in calculating the number of days certain shares issued during the quarter were outstanding.

In addition, in March 2005, we restated our financial statements for the year ended December 31, 2003 and for the three quarters ended September 30, 2004, relating to our acquisition of a 55% interest in our AirComp, LLC subsidiary in 2003. We originally accounted for the formation of AirComp as a joint venture, but in February 2005, determined that the transaction should have been accounted for using purchase accounting pursuant to SFAS No. 141, BUSINESS COMBINATIONS and accounting for the sale of an interest in a subsidiary in accordance with SAB No. 51.

We have restated our financial statements as set forth in Note 2 to the Consolidated Financial Statements contained in Part I, Item 1.

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Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 2 identifies a number of circumstances that, because of their likely significant negative effect on internal control over financial reporting, are to be regarded as at least significant deficiencies as well as strong indicators that a material weakness exists, including the restatement of previously-issued financial statements to reflect the correction of a misstatement. Management evaluated the impact of the restatement of our previously-issued financial statements on our assessment of our system of internal control and has concluded that the restatements resulted from the lack of sufficient experienced accounting personnel resulting in a lack of effective control over the financial reporting process.

We have implemented a number of actions that we believe address the deficiencies in our financial reporting process, including the following:

- o The addition of experienced accounting personnel with appropriate experience and qualifications to perform quality review procedures and to satisfy our financial reporting obligation. During August 2004, we hired a new chief financial officer and in October of 2004 we hired a full-time general counsel. In March 2005, we hired a certified public accountant as our financial reporting manager and in July 2005 we hired as chief accounting officer a certified public accountant who has significant prior experience as a chief accounting officer of a publicly traded company.
- o In the fourth quarter of 2004, we engaged an independent internal controls consulting firm which is in the process of documenting, analyzing,

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- identifying and correcting weaknesses and testing our internal controls and procedures, including our controls over internal financial reporting.
- o Our audit committee dismissed our prior independent auditors in October 2004 and engaged new independent auditors who we believe have greater experience with publicly traded companies.
  - o We are in the process of implementing new accounting software to facilitate timely and accurate reporting.

### CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING.

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II

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

#### (a) Exhibits

The exhibits listed on the Exhibit Index located at Page 30 of this Quarterly Report are filed as part of this Form 10-Q.

#### (b) Reports on Form 8-K

Reports on Form 8-K were filed on June 3, 2004 and on June 24, 2004.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 16, 2005.

ALLIS-CHALMERS CORPORATION

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(REGISTRANT)

/S/ MUNAWAR H. HIDAYATALLAH

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MUNAWAR H. HIDAYATALLAH  
CHIEF EXECUTIVE OFFICER  
AND CHAIRMAN

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### EXHIBIT INDEX

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- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.