Allis Chalmers Energy Inc.
Form 10-Q
November 22, 2011

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

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2011

OR

o **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 1-02199

ALLIS-CHALMERS ENERGY INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**27-3321250**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10613 W Sam Houston Parkway, Suite 600, HOUSTON, TEXAS	**77064**
(Address of principal executive offices)	(Zip Code)

(713) 856-4222

Registrant s telephone number, including area code

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. As of November 18, 2011, the 1,000 issued and outstanding shares of Allis-Chalmers Energy Inc. were held by Archer Limited.

Allis-Chalmers Energy Inc. meets the conditions set forth in general instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

ALLIS-CHALMERS ENERGY INC.
FORM 10-Q
For the Quarterly Period Ended September 30, 2011
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLIS-CHALMERS ENERGY INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands, except for share and per share amounts)

	Successor September 30, 2011 (Unaudited)	Predecessor December 31, 2010
Assets		
Cash and cash equivalents	$ 10,191	$ 20,940
Trade receivables, net	173,742	144,960
Inventories	56,357	42,140
Prepaid expenses and other	15,019	9,273
Total current assets	255,309	217,313
Property and equipment, net	670,785	723,234
Goodwill	267,428	46,333
Other intangible assets, net	91,957	33,899
Debt issuance costs, net		7,405
Deferred income tax asset		1,969
Other assets	6,188	8,116
Total assets	$ 1,291,667	$ 1,038,269
Liabilities and Stockholders Equity		
Current maturities of long-term debt	$ 6,915	$ 15,215
Trade accounts payable	53,395	46,042
Accrued salaries, benefits and payroll taxes	32,879	32,790
Accrued interest	3,525	15,524
Accrued expenses	35,476	30,676
Total current liabilities	132,190	140,247
Deferred income tax liability	17,054	8,240
Long-term debt, net of current maturities	454,693	478,225
Payable to parent	91,322	
Other long-term liabilities	3	233
Total liabilities	695,262	626,945
Commitments and Contingencies		
Stockholders Equity		

Preferred stock, $0.01 par value (0 shares authorized, 0 issued and outstanding at September 30, 2011 and 25,000,000 shares authorized, 36,393 issued and outstanding at December 31, 2010)				34,183
Common stock, $0.01 par value (1,000 shares authorized, 1,000 issued and outstanding at September 30, 2011 and 200,000,000 authorized, 73,722,347 issued and outstanding at December 31, 2010)				737
Capital in excess of par value		600,885		429,924
Accumulated deficit		(4,480)		(53,520)
Total stockholders equity		596,405		411,324
Total liabilities and stockholders equity	$	1,291,667	$	1,038,269

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

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ALLIS-CHALMERS ENERGY INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(In thousands)
(Unaudited)

	Successor			Predecessor	
	Three Months Ended September 30, 2011	Seven Months Ended September 30, 2011	Two Months Ended February 28, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Revenues	$ 222,408	$ 513,272	$ 126,885	$ 174,288	$ 473,302
Operating costs and expenses:					
Direct costs	164,729	378,493	97,130	127,622	356,060
Depreciation	24,785	55,131	15,026	21,094	61,799
Selling, general and administrative	18,600	38,777	23,752	12,772	36,949
Impairment of intangible assets		5,100			
Amortization	2,933	8,743	811	1,255	3,567
Total operating costs and expenses	211,047	486,244	136,719	162,743	458,375
Income (loss) from operations	11,361	27,028	(9,834)	11,545	14,927
Other income (expense):					
Interest expense	(9,327)	(23,140)	(7,854)	(11,881)	(33,986)
Interest income	9	20	5	45	499
Other	(431)	(452)	122	(661)	(2,479)
Total other expense	(9,749)	(23,572)	(7,727)	(12,497)	(35,966)
Income (loss) before income taxes	1,612	3,456	(17,561)	(952)	(21,039)
Income tax benefit (expense)	(3,400)	(7,936)	(1,736)	(1,614)	3,563
Net loss	(1,788)	(4,480)	(19,297)	(2,566)	(17,476)
Preferred stock dividend			(375)	(637)	(1,911)
Net loss attributed to common stockholders	$ (1,788)	$ (4,480)	$ (19,672)	$ (3,203)	$ (19,387)

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

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ALLIS-CHALMERS ENERGY INC.
CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS EQUITY
(In thousands, except share amounts)
(Unaudited)

	Preferred Stock		Common Stock		Capital in Excess of Par	Retained Earnings	Total Stockholders
	Shares	Amount	Shares	Amount	Value	(Deficit)	Equity
Predecessor							
Balances, December 31, 2010	36,393	$ 34,183	73,722,347	$ 737	$ 429,924	$ (53,520)	$ 411,324
Net loss						(19,297)	(19,297)
Preferred stock dividend						(375)	(375)
Issuance of common stock:							
Issuance under stock plans, net of tax			650,727	7	(1,828)		(1,821)
Stock-based compensation					6,084		6,084
Balances, February 28, 2011	36,393	$ 34,183	74,373,074	$ 744	$ 434,180	$ (73,192)	$ 395,915
Successor							
Capitalization at Merger		$	1,000	$	$ 600,885	$	$ 600,885
Net loss						(4,480)	(4,480)
Balances, September 30, 2011		$	1,000	$	$ 600,885	$ (4,480)	$ 596,405

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

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ALLIS-CHALMERS ENERGY INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Successor	Predecessor	
	Seven Months Ended September 30, 2011	Two Months Ended February 28, 2011	Nine Months Ended September 30, 2010
Cash Flows from Operating Activities:			
Net loss	$ (4,480)	$ (19,297)	$ (17,476)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	63,874	15,837	65,366
Amortization of deferred issuance costs		366	1,661
Debt premium amortization	(1,900)		
Stock-based compensation		6,084	4,374
Impairment of intangible assets	5,100		
Allowance for bad debts	75	195	43
Deferred income taxes	229	140	(12,016)
Loss on investment			1,466
Equity in loss (income) of unconsolidated affiliates	(258)		409
Loss on debt extinguishment	351		
Loss on sale of property and equipment	509	416	150
Changes in operating assets and liabilities, net of acquisitions:			
Increase in trade receivable	(14,345)	(15,944)	(30,361)
Increase in inventories	(12,407)	(1,810)	(2,697)
Decrease (increase) in prepaid expenses and other assets	(6,443)	550	8,024
Decrease (increase) in other assets	(756)	674	1,265
(Decrease) increase in trade accounts payable	(5,601)	12,954	8,380
Decrease in accrued interest	(8,106)	(3,893)	(8,904)
(Decrease) increase in accrued expenses	(3,493)	8,555	5,488
Decrease in other liabilities	(89)	(141)	(690)
(Decrease) increase in accrued salaries, benefits and payroll taxes	1,768	(1,679)	2,401
Net cash provided by operating activities	14,028	3,007	26,883
Cash Flows from Investing Activities:			
Decrease (increase) in restricted cash	4,141	(4,141)	
Purchases of investment interests		(1,177)	
Business acquisition, net of cash acquired			(18,237)
Proceeds from sale of investments			368
Purchases of property and equipment	(48,125)	(22,758)	(50,893)
Deposits on asset commitments	(225)	82	(12,967)

Proceeds from sale of property and equipment	4,106	1,009	5,284
Net cash used in investing activities	(40,103)	(26,985)	(76,445)
Cash Flows from Financing Activities:			
Proceeds from issuance of long-term debt	64		4,000
Payments on long-term debt	(135,305)	(7,819)	(14,588)
Net borrowings (repayments) on lines of credit	130,000	(36,500)	36,500
Proceeds from parent	19,872	71,450	
Payment of preferred stock dividend		(637)	(1,911)
Exercise of options and restricted stock awards, net of tax		(1,821)	
Debt issuance costs			(189)
Net cash provided by financing activities	14,631	24,673	23,812
Net increase (decrease) in cash and cash equivalents	(11,444)	695	(25,750)
Cash and cash equivalents at beginning of period	21,635	20,940	41,072
Cash and cash equivalents at end of period	$ 10,191	$ 21,635	$ 15,322
Supplemental information:			
Interest paid (net of capitalized interest)	$ 28,263	$ 10,991	$ 40,680
Income taxes paid (refunds)	$ 10,529	$ (580)	$ 667

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

ALLIS-CHALMERS ENERGY INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Allis-Chalmers Energy Inc. and subsidiaries (Allis-Chalmers , we , our or us) is a multi-faceted oilfield service company that provides services and equipment to oil and natural gas exploration and production companies throughout the United States including Texas, Louisiana, Pennsylvania, Arkansas, West Virginia, Oklahoma, Colorado, offshore in the Gulf of Mexico, and internationally, primarily in Argentina, Brazil, Bolivia and Mexico. We operate in two sectors of the oil and natural gas service industry: Well Services and Drilling Services.

We derive operating revenues from rates per day and rates per job that we charge for the labor and equipment required to provide a service and rates per day for equipment and tools that we rent to our customers. The price we charge for our services depends upon several factors, including the level of oil and natural gas drilling activity and the competitive environment in the particular geographic regions in which we operate. Contracts are awarded based on price, quality of service and equipment and general reputation and experience of our personnel. The principal operating costs are direct and indirect labor and benefits, repairs and maintenance of our equipment, insurance, equipment rentals, fuel, depreciation and general and administrative expenses.

Basis of Presentation

On February 23, 2011, Allis-Chalmers Energy Inc., a Delaware corporation, completed its merger (the Merger) with and into Wellco Sub Company (Wellco), a Delaware corporation and wholly owned subsidiary of Seawell Limited (Seawell), with Wellco continuing as the surviving entity under the name Allis-Chalmers Energy Inc. The Merger was effected pursuant to the Agreement and Plan of Merger, dated as of August 10, 2010, by and among Allis-Chalmers, Seawell and Wellco, as amended by the Amendment Agreement, dated as of October 10, 2010, by and among Allis-Chalmers, Seawell and Wellco (as so amended, the Merger Agreement). Following the Merger, Seawell began operating under the name Archer Limited (Archer or Parent). As of the Merger date, our assets and liabilities have been adjusted to their fair values (see Note 2) based on the purchase price resulting in changes to depreciation, amortization and interest in the successor period; therefore, the financial information for the period subsequent to the Merger is not fully comparable. The financial statements and accompanying footnotes have been separated with a black line to present pre-merger activity as the Predecessor company and post-merger activity as the Successor company. Predecessor refers to the operations of Allis-Chalmers prior to the consummation of the Merger and Successor refers to the operations of Allis-Chalmers subsequent to the Merger. The Merger date for accounting purposes has been designated as March 1, 2011.

Our unaudited consolidated condensed financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or SEC. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. We believe that the presentations and disclosures herein are adequate to make the information not misleading. The unaudited consolidated condensed financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the interim periods. These unaudited consolidated condensed financial statements should be read in conjunction with our restated audited consolidated financial statements included in Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on September 1, 2011 (the Form 10-K/A). The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be perceived with certainty. Accordingly, our 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; stock-based compensation; income taxes and 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 or as our operating environment changes.

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ALLIS-CHALMERS ENERGY INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable and payable, and debt. The carrying value of cash and cash equivalents and accounts receivable and payable approximate fair value due to their short-term nature. We believe the fair values and the carrying value of our debt, excluding the senior notes, would not be materially different due to the instruments interest rates approximating market rates for similar borrowings at September 30, 2011. Our senior notes, in the approximate aggregate amount of $318.3 million, trade over the counter in limited amounts and on an infrequent basis. In connection with the Merger, the recorded fair value of our senior notes was increased by $19.3 million based on the traded value at Merger date. The price at which our senior notes trade is based on many factors such as the level of interest rates, the economic environment, the outlook for the oilfield services industry and the perceived credit risk.

Recent Accounting Pronouncements

We consider all newly issued but not yet adopted accounting pronouncements applicable to our operations and the preparation of our consolidated condensed financial statements. We do not believe that any issued accounting pronouncements not yet adopted by us will have a material impact on our consolidated condensed financial statements.

NOTE 2 BUSINESS COMBINATIONS

Merger with Archer

Pursuant to the Merger, each outstanding share of common stock of Allis-Chalmers was converted into the right to receive either $4.25 cash or 1.15 fully paid and nonassessable Archer common shares. The fair value of total consideration was approximately $600.9 million with approximately 95% of Allis-Chalmers stockholders electing to receive 97.1 million Archer common shares in the Merger and the remainder receiving an aggregate of approximately $18 million in cash. The following table summarizes the preliminary allocation of the purchase price to the estimated fair value of the assets at Merger (in thousands):

Current assets	$ 237,873
Property and equipment	682,406
Intangible assets, including goodwill	373,227
Other long-term assets	4,949
Total assets acquired	1,298,455
Current liabilities	148,360
Long-term liabilities	549,210
Merger net assets	$ 600,885

Our historical property and equipment values were decreased by $47.1 million, our senior notes were increased by $19.3 million, other assets were decreased by $13.8 million and other long-term liabilities were increased by $8.6 million. The fair value assigned to the debt was based on actively traded prices and changes in other assets and liabilities were based on third-party valuations or other market based approaches. Goodwill of $267.4 million was recognized for this acquisition and was calculated as the excess of the consideration transferred over the fair value of the net assets acquired. It includes the expected synergies and other benefits that we believe will result from the combined operations and intangible assets that do not qualify for separate recognition such as assembled workforce. Other intangible assets included approximately $91.2 million assigned to customer lists, $6.7 million to trade name, $5.6 million to patents and $2.3 million to backlogs (see note 4). Goodwill is not tax deductible. The amortizable intangibles have a weighted-average useful life of 8.9 years. The allocation of the purchase price has been based upon

preliminary fair values. Estimates and assumptions are subject to change upon management s review of the final valuation.

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ALLIS-CHALMERS ENERGY INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 2 BUSINESS COMBINATIONS (Continued)

Acquisition of AWC

On July 12, 2010, we acquired AWC Frac Valves Inc. (formerly known as American Well Control, Inc.), which we refer to herein as AWC, for a total consideration of approximately $19.2 million, which included approximately $17.2 million in cash and 1.0 million shares of our common stock. AWC is a leading manufacturer of premium high-pressure valves used in hydraulic fracturing in the unconventional gas shale plays. The following table summarizes the allocation of the purchase price to the estimated fair value of the assets acquired at the date of acquisition (in thousands):

Current assets	$ 7,585
Property and equipment	2,756
Intangible assets, including goodwill	11,749
Other long-term assets	2
Total assets acquired	22,092
Current liabilities	1,527
Long-term liabilities	1,401
Net assets acquired	$ 19,164

AWC s historical property and equipment values were increased by approximately $27,000 based on third-party valuations. Goodwill of $5.7 million was recognized for this acquisition and was calculated as the excess of the consideration transferred over the fair value of the net assets acquired. It includes the expected synergies and other benefits that we believe will result from the combined operations and intangible assets that do not qualify for separate recognition such as assembled workforce. Other intangible assets included approximately $5.6 million assigned to customer lists, $400,000 to trade name and $55,000 to non-competes. Goodwill is not tax deductible. The amortizable intangibles have a weighted-average useful life of 9.9 years.

NOTE 3 STOCK-BASED COMPENSATION

Under the Merger Agreement, holders of our outstanding stock options, whether or not then exercisable or vested, had the option to elect to receive, at the effective time of the Merger, either cash or fully exercisable and vested stock options to purchase Archer common shares. In addition, all restrictions on time-lapse and performance-based restricted stock awards were deemed to have lapsed and each restricted share was deemed to be an unrestricted share of our common stock. Our Incentive Stock Plans were terminated in connection with the Merger. Our net loss for the two months ended February 28, 2011 includes approximately $6.1 million of compensation costs related to share-based payments with approximately $5.4 million of this amount relating to the acceleration of stock based compensation expense associated with the Merger.

We recognize all share-based payments to employees and directors in the financial statements based on their grant-date fair values. We utilize the Black-Scholes model to determine fair value, which incorporates assumptions to value stock-based awards. The dividend yield on our common stock is assumed to be zero as we have historically not paid dividends and have no current plans to do so in the future. The expected volatility is based on historical volatility of our common stock. The risk-free interest rate is the related United States Treasury yield curve for periods within the expected term of the option at the time of grant. We estimate forfeiture rates based on our historical experience.

The following summarizes the Black-Scholes model assumptions used for the options granted in the nine months ended September 30, 2010 (no options were granted during the three and nine months ended September 30, 2011 and the three months ended September 30, 2010):

Nine Months

	Ended September 30, 2010
Expected dividend yield	
Expected price volatility	89.81%
Risk free interest rate	1.41%
Expected life of options	5 years
Weighted average fair value of options granted at market value	$ 2.63

ALLIS-CHALMERS ENERGY INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 3 STOCK-BASED COMPENSATION (Continued)

A summary of our stock option activity and related information is as follows:

	Shares Under Option	Weighted Average Exercise Price
Balance at December 31, 2010	1,751,018	$ 4.74
Granted		
Converted at Merger	(1,750,018)	4.74
Exercised	(1,000)	1.23
Outstanding at September 30, 2011		

Restricted stock awards, or RSAs, activity during the nine months ended September 30, 2011 is as follows:

	Number of Shares	**Weighted Average Grant-Date Fair Value Per Share**
Nonvested at December 31, 2010	1,702,067	$ 6.09
Granted		
Vested	(1,702,067)	6.09
Forfeited		
Nonvested at September 30, 2011		$

NOTE 4 GOODWILL AND INTANGIBLE ASSETS

Goodwill and other intangible assets with infinite lives are not amortized, but tested for impairment annually or more frequently if circumstances indicate that impairment may exist. Intangible assets with finite useful lives are amortized either on a straight-line basis over the asset s estimated useful life or on a basis that reflects the pattern in which the economic benefits of the intangible assets are realized. Goodwill was $267.4 million and $46.3 million at September 30, 2011 and December 31, 2010, respectively.

Definite-lived intangible assets that continue to be amortized relate to our purchase of customer-related and marketing-related intangibles patents and backlogs. These intangibles have useful lives ranging from four months to twenty years. Amortization of intangible assets for the three and seven months ended September 30, 2011 and two months ended February 28, 2011 was $2.9 million, $8.7 million and $811,000, respectively, compared to $1.3 million and $3.6 million for the three and nine months ended September 30, 2010, respectively. In connection with the Merger, a $5.1 million value was assigned to the Allis-Chalmers tradename. Following the Merger, Seawell and its subsidiaries, including us, have begun operating under the name Archer. As a result, it was determined that there was no material remaining value associated with the Allis-Chalmers tradename and the results for the seven months ended September 30, 2011 includes an intangible asset impairment charge of $5.1 million. At September 30, 2011, intangible assets totaled $92.0 million, net of $8.7 million of accumulated amortization. Future amortization of intangible assets at September 30, 2011 is approximately $2.9 million for the remainder of 2011 and an average of approximately

$11.6 million during the years ended 2012 through 2015.

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ALLIS-CHALMERS ENERGY INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 5 INVENTORIES

Inventories consisted of the following (in thousands):

	Successor September 30, 2011	Predecessor December 31, 2010
Manufactured		
Finished goods	$ 5,086	$ 4,238
Work in process	4,358	2,990
Raw materials	5,667	3,600
Total manufactured	15,111	10,828
Rig parts and related inventory	16,391	11,565
Shop supplies and related inventory	12,030	9,620
Chemicals and drilling fluids	6,267	4,814
Rental supplies	1,427	1,761
Hammers	3,101	2,380
Coiled tubing and related inventory	1,921	1,046
Drive pipe	109	126
Total inventories	$ 56,357	$ 42,140

NOTE 6 INCOME TAXES

In accordance with generally accepted accounting principles, we estimate the full-year effective tax rate from continuing operations and apply this rate to our year-to-date income from continuing operations. In addition, we separately calculate the tax impact of unusual items, if any. The consolidated effective tax rate for the two months ended February 28, 2011, three and seven months ended September 30, 2011 was (9.9)%, 210.9% and 229.6%, respectively, compared to (169.5)% and 16.9% for the three and nine months ended September 30, 2010. The fluctuations in the tax rates are principally the result of valuation allowances on losses generated in the United States and variances in withholding taxes from foreign operations as a percentage of pretax income (loss).

Income (loss) before income taxes which was subject to United States and non-United States income taxes was as follow (in thousands):

	Successor		Predecessor		
	Three Months Ended September 30, 2011	Seven Months Ended September 30, 2011	Two Months Ended February 28, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
United States	$ (732)	$ 386	$ (17,544)	$ (4,666)	$ (36,059)
Outside United States	2,344	3,070	(17)	3,714	15,020
	$ 1,612	$ 3,456	$ (17,561)	$ (952)	$ (21,039)

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ALLIS-CHALMERS ENERGY INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 6 INCOME TAXES (Continued)

The income tax provision consists of the following (in thousands):

	Successor			Predecessor	
	Three Months Ended September 30, 2011	Seven Months Ended September 30, 2011	Two Months Ended February 28, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Income tax expense (benefit):					
United States	$ 184	$ 424	$ 233	$ (810)	$ (11,323)
Outside United States	3,216	7,512	1,503	2,424	7,760
	$ 3,400	$ 7,936	$ 1,736	$ 1,614	$ (3,563)

The following table reconciles the statutory tax rates to our actual tax rate:

	Successor			Predecessor	
	Three Months Ended September 30, 2011	Seven Months Ended September 30, 2011	Two Months Ended February 28, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
United States statutory federal income tax rate	35.0%	35.0%	35.0%	35.0%	35.0%
United States State income taxes, net of federal benefit	1.2	1.2	0.7	2.2	2.2
Non-United States income taxed at different rates	19.2	31.8	0.3	64.5	10.4
Valuation allowance, permanent differences and other	155.5	161.6	(45.9)	(271.2)	(30.7)
Effective tax rate	210.9%	229.6%	(9.9)%	(169.5)%	16.9%

NOTE 7 DEBT

Our long-term debt consisted of the following (in thousands):

	Successor September 30,	Predecessor December 31,

	2011	2010
Senior notes	$ 318,331	$ 430,238
Revolving line of credit	130,000	36,500
Bank term loans	13,216	25,723
Other debt	61	979
Total debt	461,608	493,440
Less: current maturities of long-term debt	6,915	15,215
Long-term debt	$ 454,693	$ 478,225

Senior notes, bank loans and line of credit agreements

In January 2006 and August 2006, we closed on private offerings, to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, of $160.0 and $95.0 million aggregate principal amount of our senior notes, respectively. The senior notes are due January 15, 2014 and bear interest at 9.0%. The proceeds were used to fund the acquisitions of Specialty Rental Tools, Inc. and DLS, to repay existing debt and for general corporate purposes. In June 2009, we closed on a tender offer in which we purchased $30.6 million aggregate principal of our 9.0% senior notes for a total consideration of $650 per $1,000 principal amount. In connection with the Merger and based on actively traded prices of our senior notes, we increased the fair value of the 9.0% senior notes to $1,022 per $1,000 principal amount. In May 2011, pursuant to the terms of change of

ALLIS-CHALMERS ENERGY INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 7 DEBT (Continued)

control provisions in the indentures governing the senior notes and as a result of the Merger, holders had the right to require us to purchase, all or a portion of such holders Notes. Accordingly we purchased $1.8 million aggregate principal of our 9.0% senior notes for a total consideration of $1,010 per $1,000 principal amount. In July 2011, pursuant to the terms of the senior notes indenture, we redeemed $125.0 million aggregate principal of our 9.0% senior notes for a total consideration of $1,023 per $1,000 principal amount. In connection with this redemption we have drawn $130.0 million on our Parent s $1.2 billion Multicurrency Term and Revolving Facility. The $1.2 billion facility is divided into tranches with $350.0 million having a final maturity date of December 31, 2011 and the remainder having a final maturity date of November 11, 2015. The interest rate is based on LIBOR plus a margin.

In January 2007, we closed on a private offering, to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, of $250.0 million principal amount of 8.5% senior notes due 2017. The proceeds of the senior notes offering, together with a portion of the proceeds of our concurrent common stock offering, were used to repay the debt outstanding under our $300.0 million bridge loan facility which we incurred to finance our acquisition of substantially all the assets of Oil & Gas Rental Services, Inc. On June 29, 2009, we closed on a tender offer in which we purchased $44.2 million aggregate principal of our 8.5% senior notes for a total consideration of $600 per $1,000 principal amount. In connection with the Merger and based on actively traded prices of our senior notes, we increased the fair value of the 8.5% senior notes to $1,070 per $1,000 principal amount. In May 2011, pursuant to the terms of change of control provisions in the indentures governing the senior notes and as a result of the Merger, we purchased $92,000 aggregate principal of our 8.5% senior notes for a total consideration of $1,010 per $1,000 principal amount.

We had a $90.0 million revolving line of credit with a final maturity date of April 26, 2012 pursuant to a revolving credit agreement that contained customary events of default and financial covenants and limited our ability to incur additional indebtedness, make capital expenditures, pay dividends or make other distributions, create liens and sell assets. Effective December 31, 2009, we amended the leverage and interest coverage ratio covenants of the revolving credit agreement. This amendment relaxed the required financial ratios for the quarter ended December 31, 2009 and for each of the quarters in 2010. Our obligations under the amended and restated credit agreement are secured by substantially all of our assets located in the United States. We were in compliance with all debt covenants as of December 31, 2010. As of December 31, 2010, we had $36.5 million of borrowings outstanding and $4.1 million in outstanding letters of credit under our revolving credit facility. The weighted-average interest rate was 7.8% at December 31, 2010. The revolving line of credit was repaid and terminated in connection with the Merger.

As part of our acquisition of DLS, we assumed various bank loans with floating interest rates based on LIBOR plus a margin and terms ranging from 2 to 5 years. The weighted average interest rate on these loans was 2.0% as of December 31, 2010. The outstanding amount due under these bank loans as of September 30, 2011 and December 31, 2010 was $0 and $350,000, respectively.

On February 15, 2008, through our DLS subsidiary in Argentina, we entered into a $25.0 million import finance facility with a bank. Borrowings under this facility were used to fund a portion of the purchase price of the new drilling and service rigs ordered for our Drilling Services segment. The loan is repayable over four years in equal semi-annual installments beginning one year after each disbursement with the final principal payment due not later than March 15, 2013. The import finance facility is unsecured and contains customary events of default and financial covenants and limits DLS ability to incur additional indebtedness, make capital expenditures, create liens and sell assets. We were in compliance with all debt covenants as of September 30, 2011 and December 31, 2010. The bank loan rates are based on LIBOR plus a margin. The weighted average interest rate was 5.2% at September 30, 2011 and 4.2% at December 31, 2010. The outstanding amount under the import finance facility as of September 30, 2011 and December 31, 2010 was $9.8 million and $14.4 million, respectively.

As part of our acquisition of BCH, we assumed a $23.6 million term loan credit facility with a bank. The credit agreement was dated June 2007 and contained customary events of default and financial covenants which were based on BCH s stand-alone financial statements. The facility was repayable in quarterly principal installments plus interest and was to mature in August 2012. Obligations under the facility were secured by substantially all of the BCH assets.

The bank waived certain financial ratio covenants for the December 31, 2010 measurement period and we classified the entire outstanding balance of the loan in the current portion of long-term debt. The interest rates were based on LIBOR plus a margin and the interest rate was 3.5% at December 31, 2010. The outstanding amount of the loan as of December 31, 2010 was $7.0 million. The term loan credit facility was paid in full in connection with the Merger.

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NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 7 DEBT (Continued)

On February 9, 2010, through our DLS subsidiary, we entered into a $4.0 million term loan facility. The loan is repayable in semi-annual installments beginning April 14, 2011 and bears interest at 8.5% per annum. The final maturity date is April 14, 2014 and the loan is unsecured. The outstanding amount under the term loan facility as of September 30, 2011 and December 31, 2010 was $3.4 million and $4.0 million, respectively.

Other Debt

In 2010, we obtained insurance premium financings in the aggregate amount of $2.9 million with a fixed weighted-average interest rate of 4.8%. Under terms of the agreements, amounts outstanding are paid over eight and 11 month repayment schedules. The outstanding balance of these notes was approximately $0 and $1.0 million at September 30, 2011 and December 31, 2010, respectively. We also have amounts outstanding under a capital lease that will expire in 2013. As of September 30, 2011, the amount outstanding under the capital lease was $61,000.

NOTE 8 STOCKHOLDERS EQUITY

During the two months ended February 28, 2011, we had option exercises and certain vesting in restricted stock grants which resulted in the issuance of 933,083 shares of our common stock. We retained 282,356 shares from employees in connection with the settlement of tax obligations arising from the vesting of restricted stock grants. We recognized approximately $6.1 million of compensation expense related to share-based payments during the two months ended February 28, 2011 that was recorded as capital in excess of par value (see Note 3).

Pursuant to the Merger, each share of our convertible preferred stock was converted to common stock and each outstanding share of common stock of Allis-Chalmers was converted into the right to receive either $4.25 cash or 1.15 fully paid and nonassessable Archer common shares. Holders of our outstanding stock options, whether or not then exercisable or vested, elected to receive, at the effective time of the Merger, either cash or fully exercisable and vested stock options to purchase Archer common shares. In addition, all restrictions on time-lapse and performance-based restricted stock awards were deemed to have lapsed and each restricted share was deemed to be an unrestricted share of our common stock. Subsequent to the Merger, we have 1,000 shares authorized all of which have been issued to Archer Limited at a par value of $0.01 per share.

NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Set forth on the following pages are the condensed consolidating financial statements of (i) Allis-Chalmers Energy Inc., (ii) its subsidiaries that are guarantors of the senior notes and (iii) the subsidiaries that are not guarantors of the senior notes (in thousands):

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NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
CONDENSED CONSOLIDATING BALANCE SHEETS
September 30, 2011 (Successor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Assets					
Cash and cash equivalents	$	$ 6,810	$ 3,381	$	$ 10,191
Trade receivables, net		105,720	100,358	(32,336)	173,742
Inventories		29,662	26,695		56,357
Intercompany receivables		105,122		(105,122)	
Note receivable from affiliate	18,862			(18,862)	
Prepaid expenses and other	12	5,306	9,701		15,019
Total current assets	18,874	252,620	140,135	(156,320)	255,309
Property and equipment, net		396,804	273,981		670,785
Goodwill		179,697	87,731		267,428
Other intangible assets, net		55,948	36,009		91,957
Note receivable from affiliates	1,500			(1,500)	
Investments in affiliates	1,177,161			(1,177,161)	
Other assets		5,328	860		6,188
Total assets	$ 1,197,535	$ 890,397	$ 538,716	$ (1,334,981)	$ 1,291,667
Liabilities and Stockholders Equity					
Current maturities of long-term debt	$	$	$ 6,915	$	$ 6,915
Trade accounts payable		20,991	64,740	(32,336)	53,395
Accrued salaries, benefits and payroll taxes		5,548	27,331		32,879
Accrued interest	3,296		229		3,525
Accrued expenses	265	15,720	19,491		35,476
Intercompany payables	57,916		47,206	(105,122)	
Note payable to affiliate			18,862	(18,862)	
Total current liabilities	61,477	42,259	184,774	(156,320)	132,190
Long-term debt, net of current maturities	448,331		6,362		454,693
Note payable to affiliate			1,500	(1,500)	
Payable to parent	91,322				91,322
Other long-term liabilities			17,057		17,057
Total liabilities	601,130	42,259	209,693	(157,820)	695,262

Commitments and Contingencies					
Stockholders Equity					
Common stock		3,527	42,963	(46,490)	
Capital in excess of par value	600,885	823,395	290,090	(1,113,485)	600,885
Retained earnings (deficit)	(4,480)	21,216	(4,030)	(17,186)	(4,480)
Total stockholders equity	596,405	848,138	329,023	(1,177,161)	596,405
Total liabilities and stockholders equity	$ 1,197,535	$ 890,397	$ 538,716	$ (1,334,981)	$ 1,291,667

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ALLIS-CHALMERS ENERGY INC.
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NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Three Months Ended September 30, 2011 (Successor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Revenues	$	$ 95,677	$ 126,794	$ (63)	$ 222,408
Operating costs and expenses:					
Direct costs		58,215	106,577	(63)	164,729
Depreciation `		17,370	7,415		24,785
Selling, general and administrative	67	10,861	7,672		18,600
Amortization		1,591	1,342		2,933
Total operating costs and expenses	67	88,037	123,006	(63)	211,047
Income (loss) from operations	(67)	7,640	3,788		11,361
Other income (expense):					
Equity earnings in affiliates, net of tax	6,995			(6,995)	
Interest, net	(8,379)	(1)	(938)		(9,318)
Other	(337)	237	(331)		(431)
Total other income (expense)	(1,721)	236	(1,269)	(6,995)	(9,749)
Net income (loss) before income taxes	(1,788)	7,876	2,519	(6,995)	1,612
Provision for income taxes		(184)	(3,216)		(3,400)
Net income (loss)	$ (1,788)	$ 7,692	$ (697)	$ (6,995)	$ (1,788)

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NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Seven Months Ended September 30, 2011 (Successor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Revenues	$	$ 226,559	$ 287,065	$ (352)	$ 513,272
Operating costs and expenses:					
Direct costs		137,094	241,751	(352)	378,493
Depreciation `		38,167	16,964		55,131
Selling, general and administrative	167	21,858	16,752		38,777
Impairment of intangible assets		4,400	700		5,100
Amortization		3,714	5,029		8,743
Total operating costs and expenses	167	205,233	281,196	(352)	486,244
Income (loss) from operations	(167)	21,326	5,869		27,028
Other income (expense):					
Equity earnings in affiliates, net of tax	17,186			(17,186)	
Interest, net	(21,180)	(3)	(1,937)		(23,120)
Other	(319)	317	(450)		(452)
Total other income (expense)	(4,313)	314	(2,387)	(17,186)	(23,572)
Net income (loss) before income taxes	(4,480)	21,640	3,482	(17,186)	3,456
Provision for income taxes		(424)	(7,512)		(7,936)
Net income (loss)	$ (4,480)	$ 21,216	$ (4,030)	$ (17,186)	$ (4,480)

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NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Two Months Ended February 28, 2011 (Predecessor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Revenues	$	$ 59,044	$ 67,923	$ (82)	$ 126,885
Operating costs and expenses:					
Direct costs		37,335	59,877	(82)	97,130
Depreciation		10,174	4,852		15,026
Selling, general and administrative	5,998	15,034	2,720		23,752
Amortization	8	678	125		811
Total operating costs and expenses	6,006	63,221	67,574	(82)	136,719
Income (loss) from operations	(6,006)	(4,177)	349		(9,834)
Other income (expense):					
Equity earnings in affiliates, net of tax	(6,057)			6,057	
Interest, net	(7,253)	(8)	(588)		(7,849)
Other	19	(232)	335		122
Total other expense	(13,291)	(240)	(253)	6,057	(7,727)
Net income (loss) before income taxes	(19,297)	(4,417)	96	6,057	(17,561)
Provision for income taxes		(233)	(1,503)		(1,736)
Net loss	(19,297)	(4,650)	(1,407)	6,057	(19,297)
Preferred stock dividend	(375)				(375)
Net loss attributed to common stockholders	$ (19,672)	$ (4,650)	$ (1,407)	$ 6,057	$ (19,672)

ALLIS-CHALMERS ENERGY INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW
For the Seven Months Ended September 30, 2011 (Successor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Cash Flows from Operating Activities:					
Net income (loss)	$ (4,480)	$ 21,216	$ (4,030)	$ (17,186)	$ (4,480)
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:					
Depreciation and amortization		41,881	21,993		63,874
Debt premium amortization	(1,900)				(1,900)
Equity earnings in affiliates	(17,186)			17,186	
Impairment of intangible assets		4,400	700		5,100
Allowance for bad debts		75			75
Deferred income taxes			229		229
Loss on debt extinguishment	351				351
Loss on sale of equipment		469	40		509
Equity in income of unconsolidated affiliates		(258)			(258)
Changes in operating assets and liabilities, net of acquisitions:					
Increase in trade receivables		(3,614)	(10,731)		(14,345)
Increase in inventories		(6,162)	(6,245)		(12,407)
Increase in prepaid expenses and other current assets	(6)	(2,322)	(4,115)		(6,443)
Increase in other assets		(523)	(233)		(756)
(Decrease) increase in trade accounts payable		(6,650)	1,049		(5,601)
Decrease in accrued interest	(7,983)		(123)		(8,106)
Decrease in accrued expenses	(650)	(1,647)	(1,196)		(3,493)
(Decrease) increase in accrued salaries, benefits and payroll taxes		(3,418)	5,186		1,768
Decrease in other long- term liabilities			(89)		(89)
Net cash (used) provided by operating activities	(31,854)	43,447	2,435		14,028
Cash Flows from Investing Activities:					
Notes receivable from affiliates	(89)			89	

Decrease in restricted cash		4,141			4,141
Deposits on asset commitments			(225)		(225)
Proceeds from sale of property and equipment		3,319	787		4,106
Purchases of property and equipment		(27,498)	(20,627)		(48,125)
Net cash used in investing activities	(89)	(20,038)	(20,065)	89	(40,103)

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW
For the Seven Months Ended September 30, 2011 (Successor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Cash Flows from Financing Activities:					
Accounts receivable from affiliates		(33,113)		33,113	
Accounts payable to affiliates	11,768		21,345	(33,113)	
Note payable to affiliate			89	(89)	
Proceeds from issuance of long-term debt			64		64
Borrowings on lines of credit	130,000				130,000
Payments on long-term debt	(129,697)	(350)	(5,258)		(135,305)
Proceeds from Parent	19,872				19,872
Net cash (used) provided by financing activities	31,943	(33,463)	16,240	(89)	14,631
Net change in cash and cash equivalents		(10,054)	(1,390)		(11,444)
Cash and cash equivalents at beginning of year		16,864	4,771		21,635
Cash and cash equivalents at end of period	$	$ 6,810	$ 3,381	$	$ 10,191

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW
For the Two Months Ended February 28, 2011 (Predecessor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Cash Flows from Operating Activities:					
Net loss	$ (19,297)	$ (4,650)	$ (1,407)	$ 6,057	$ (19,297)
Adjustments to reconcile net loss to net cash (used) provided by operating activities:					
Depreciation and amortization	8	10,852	4,977		15,837
Amortization of deferred issuance costs	366				366
Stock based compensation	6,084				6,084
Equity earnings in affiliates	6,057			(6,057)	
Allowance for bad debts		195			195
Deferred income taxes		34	106		140
Loss on sale of equipment		352	64		416
Changes in operating assets and liabilities, net of acquisitions:					
Increase in trade receivables		(3,714)	(12,230)		(15,944)
Increase in inventories		(1,434)	(376)		(1,810)
Decrease (increase) in prepaid expenses and other current assets	2,057	235	(1,742)		550
Decrease in other assets		432	242		674
Increase in trade accounts payable		8,417	4,537		12,954
(Decrease) increase in accrued interest	(4,031)		138		(3,893)
(Decrease) increase in accrued expenses	(15)	(1,137)	9,707		8,555
Decrease in accrued salaries, benefits and payroll taxes		(17)	(1,662)		(1,679)
Decrease in other long- term liabilities			(141)		(141)
Net cash (used) provided by operating activities	(8,771)	9,565	2,213		3,007
Cash Flows from Investing Activities:					
Notes receivable from affiliates	(114)			114	
Increase in restricted cash		(4,141)			(4,141)

Purchases of investment interests		(1,177)			(1,177)
Deposits on asset commitments			82		82
Proceeds from sale of property and equipment		924	85		1,009
Purchase of property and equipment		(16,931)	(5,827)		(22,758)
Net cash used in investing activities	(114)	(21,325)	(5,660)	114	(26,985)

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For the Two Months Ended February 28, 2011 (Predecessor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Cash Flows from Financing Activities:					
Accounts receivable from affiliates		12,811		(12,811)	
Accounts payable to affiliates	(23,607)		10,796	12,811	
Note payable to affiliate			114	(114)	
Payments on long-term debt		(567)	(7,252)		(7,819)
Net borrowings (repayments) on line of credit	(36,500)				(36,500)
Proceeds from Parent	71,450				71,450
Payment of preferred stock dividend	(637)				(637)
Exercise of options and restricted stock awards, net of tax	(1,821)				(1,821)
Net cash provided by financing activities	8,885	12,244	3,658	(114)	24,673
Net change in cash and cash equivalents		484	211		695
Cash and cash equivalents at beginning of year		16,380	4,560		20,940
Cash and cash equivalents at end of period	$	$ 16,864	$ 4,771	$	$ 21,635

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NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
CONDENSED CONSOLIDATING BALANCE SHEETS
December 31, 2010 (Predecessor)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Assets					
Cash and cash equivalents	$	$ 16,380	$ 4,560	$	$ 20,940
Trade receivables, net		79,100	77,397	(11,537)	144,960
Inventories		22,066	20,074		42,140
Intercompany receivables		84,766		(84,766)	
Note receivable from affiliate	18,359			(18,359)	
Prepaid expenses and other	2,068	3,280	3,925		9,273
Total current assets	20,427	205,592	105,956	(114,662)	217,313
Property and equipment, net		461,187	262,047		723,234
Goodwill		28,944	17,389		46,333
Other intangible assets, net	414	27,278	6,207		33,899
Debt issuance costs, net	7,405				7,405
Note receivable from affiliates	1,800			(1,800)	
Investments in affiliates	934,274			(934,274)	
Other assets		7,390	2,695		10,085
Total assets	$ 964,320	$ 730,391	$ 394,294	$ (1,050,736)	$ 1,038,269
Liabilities and Stockholders Equity					
Current maturities of long-term debt	$	$ 979	$ 14,236	$	$ 15,215
Trade accounts payable		18,634	38,945	(11,537)	46,042
Accrued salaries, benefits and payroll taxes		8,983	23,807		32,790
Accrued interest	15,310		214		15,524
Accrued expenses	1,192	18,504	10,980		30,676
Intercompany payables	69,756		15,010	(84,766)	
Note payable to affiliate			18,359	(18,359)	
Total current liabilities	86,258	47,100	121,551	(114,662)	140,247
Long-term debt, net of current maturities	466,738		11,487		478,225
Note payable to affiliate			1,800	(1,800)	
Other long-term liabilities			8,473		8,473
Total liabilities	552,996	47,100	143,311	(116,462)	626,945

Commitments and contingencies					
Stockholders Equity					
Preferred Stock	34,183				34,183
Common stock	737	3,527	42,963	(46,490)	737
Capital in excess of par value	429,924	589,676	137,439	(727,115)	429,924
Retained earnings (deficit)	(53,520)	90,088	70,581	(160,669)	(53,520)
Total stockholders equity	411,324	683,291	250,983	(934,274)	411,324
Total liabilities and stock holders equity	$ 964,320	$ 730,391	$ 394,294	$ (1,050,736)	$ 1,038,269

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ALLIS-CHALMERS ENERGY INC.
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NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Three Months Ended September 30, 2010 (Predecessor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Revenues	$	$ 78,034	$ 96,325	$ (71)	$ 174,288
Operating costs and expenses					
Direct costs		47,152	80,541	(71)	127,622
Selling, general and administrative	1,176	7,677	3,919		12,772
Depreciation and amortization	12	15,547	6,790		22,349
Total operating costs and expenses	1,188	70,376	91,250	(71)	162,743
Income (loss) from operations	(1,188)	7,658	5,075		11,545
Other income (expense):					
Equity earnings in affiliates, net of tax	9,376			(9,376)	
Interest, net	(10,769)	(505)	(562)		(11,836)
Other	15	(166)	(510)		(661)
Total other expense	(1,378)	(671)	(1,072)	(9,376)	(12,497)
Net income (loss) before income taxes	(2,566)	6,987	4,003	(9,376)	(952)
Provision for income taxes		811	(2,425)		(1,614)
Net income (loss)	(2,566)	7,798	1,578	(9,376)	(2,566)
Preferred stock dividend	(637)				(637)
Net income (loss) attributed to common stockholders	$ (3,203)	$ 7,798	$ 1,578	$ (9,376)	$ (3,203)

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NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Nine Months Ended September 30, 2010 (Predecessor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Subsidiary Non-Guarantors	Consolidating Adjustments	Consolidated Total
Revenues	$	$ 192,676	$ 282,025	$ (1,399)	$ 473,302
Operating costs and expenses					
Direct costs		124,528	232,931	(1,399)	356,060
Selling, general and administrative	3,708	22,033	11,208		36,949
Depreciation and amortization	35	45,779	19,552		65,366
Total operating costs and expenses	3,743	192,340	263,691	(1,399)	458,375
Income (loss) from operations	(3,743)	336	18,334		14,927
Other income (expense):					
Equity earnings in affiliates, net of tax	17,643			(17,643)	
Interest, net	(31,421)	(291)	(1,775)		(33,487)
Other	45	(1,944)	(580)		(2,479)
Total other expense	(13,733)	(2,235)	(2,355)	(17,643)	(35,966)
Net income (loss) before income taxes	(17,476)	(1,899)	15,979	(17,643)	(21,039)
Provision for income taxes		11,323	(7,760)		3,563
Net income (loss)	(17,476)	9,424	8,219	(17,643)	(17,476)
Preferred stock dividend	(1,911)				(1,911)
Net income (loss) attributed to common stockholders	$ (19,387)	$ 9,424	$ 8,219	$ (17,643)	$ (19,387)

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NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW

For the Nine Months Ended September 30, 2010 (Predecessor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
Cash Flows from Operating Activities:					
Net income (loss)	$ (17,476)	$ 9,424	$ 8,219	$ (17,643)	$ (17,476)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	35	45,779	19,552		65,366
Amortization and write-off of debt issuance costs	1,643	18			1,661
Stock-based compensation	4,374				4,374
Allowance for bad debts		43			43
Equity earnings in affiliates	(17,643)			17,643	
Deferred taxes	(11,847)	(332)	163		(12,016)
Loss on sale of equipment		74	76		150
Loss on investment		1,466			1,466
Equity in losses of unconsolidated affiliates		409			409
Changes in operating assets and liabilities, net of acquisitions:					
(Increase) in trade receivables		(15,869)	(14,492)		(30,361)
(Increase) in inventories		(867)	(1,830)		(2,697)
Decrease in prepaid expenses and other current assets	129	3,791	4,104		8,024
Decrease in other assets		549	716		1,265
(Decrease) increase in trade accounts payable		(4,637)	13,017		8,380
(Decrease) increase in accrued interest	(9,016)	(25)	137		(8,904)
Increase in accrued expenses	258	3,430	1,800		5,488
(Decrease) increase in accrued salaries, benefits and payroll taxes		(850)	3,251		2,401
(Decrease) in other long-term liabilities			(690)		(690)
Net Cash Provided By (Used In) Operating Activities	(49,543)	42,403	34,023		26,883

Cash Flows from Investing Activities:					
Investment in affiliates	(19,467)			19,467	
Notes receivable from affiliates	8,328			(8,328)	
Deposits on asset commitments		(12,694)	(273)		(12,967)
Proceeds from sale of investments		368			368
Proceeds from sale of property and equipment		4,911	373		5,284
Business acquisitions		(18,237)			(18,237)
Purchase of property and equipment		(30,158)	(20,735)		(50,893)
Net Cash Used in Investing Activities	(11,139)	(55,810)	(20,635)	11,139	(76,445)

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NOTE 9 CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW
For the Nine Months Ended September 30, 2010 (Predecessor)
(Unaudited)

	Allis-Chalmers (Guarantor)	Subsidiary Guarantors	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
Cash Flows from Financing Activities:					
Accounts receivable from affiliates		(25,492)	(790)	26,282	
Accounts payable to affiliates	26,282			(26,282)	
Notes payable to affiliates			(8,328)	8,328	
Proceeds from parent contributions		19,467		(19,467)	
Proceeds from long-term debt			4,000		4,000
Borrowings under line of credit	36,500				36,500
Payments on long-term debt		(4,646)	(9,942)		(14,588)
Payment of preferred stock dividend	(1,911)				(1,911)
Debt issuance costs	(189)				(189)
Net Cash Provided By (Used In) Financing Activities	60,682	(10,671)	(15,060)	(11,139)	23,812
Net change in cash and cash equivalents		(24,078)	(1,672)		(25,750)
Cash and cash equivalents at beginning of period		31,858	9,214		41,072
Cash and cash equivalents at end of period	$	$ 7,780	$ 7,542	$	$ 15,322

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ALLIS-CHALMERS ENERGY INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 10 SEGMENT INFORMATION

In conjunction with the Merger, we reviewed the presentation of our operating segments. Based on this review, we determined that our operational performance would be segmented and reviewed by the Drilling Services and Well Services segments. The split of our organization and aggregation of our business into two segments was based on differences in management structure and reporting, economic characteristics, customer base, asset class and contract structure. The Drilling Services segment includes our international and domestic drilling, directional drilling, underbalanced drilling, tubular services and rental services operations. The Well Services segment includes our production services and valve manufacturing operations. As a result, we realigned our financial reporting segments and now report the Drilling Services and Well Services operations as separate, distinct reporting segments. Our historical segment data previously reported for the three and nine months ended September 30, 2010 and as of December 31, 2010 have been restated to conform to the new presentation.

All of our segments provide services to the energy industry. Indirect general and administrative expenses are allocated to each segment based on estimated use. The revenues, operating income (loss), depreciation and amortization, capital expenditures and assets of each of the reporting segments are reported below (in thousands):

	Successor		Predecessor		
	Three Months Ended September 30, 2011	Seven Months Ended September 30, 2011	Two Months Ended February 28, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Revenues:					
Drilling Services	$ 195,446	$ 442,723	$ 106,050	$ 151,536	$ 428,977
Well Services	26,962	70,549	20,835	22,752	44,325
Total revenues	$ 222,408	$ 513,272	$ 126,885	$ 174,288	$ 473,302
Operating Income (Loss):					
Drilling Services	$ 8,206	$ 16,694	$ (9,943)	$ 6,969	$ 11,276
Well Services	3,155	10,334	109	4,576	3,651
Total income (loss) from operations	$ 11,361	$ 27,028	$ (9,834)	$ 11,545	$ 14,927
Depreciation and Amortization Expense:					
Drilling Services	$ 24,569	$ 56,346	$ 13,792	$ 19,781	$ 58,362
Well Services	3,149	7,528	2,045	2,568	7,004
Total depreciation and amortization expense	$ 27,718	$ 63,874	$ 15,837	$ 22,349	$ 65,366

Capital Expenditures:					
Drilling Services	$ 17,767	$ 39,386	$ 19,939	$ 17,350	$ 44,537
Well Services	4,786	8,739	2,819	2,554	6,356
Total capital expenditures	$ 22,533	$ 48,125	$ 22,758	$ 19,904	$ 50,893
Revenues:					
United States	$ 92,950	$ 219,685	$ 57,651	$ 75,833	$ 182,756
Argentina	105,805	243,123	57,458	77,115	226,140
Brazil	12,035	24,038	5,250	10,031	30,033
Other international	11,618	26,426	6,526	11,309	34,373
Total revenues	$ 222,408	$ 513,272	$ 126,885	$ 174,288	$ 473,302

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ALLIS-CHALMERS ENERGY INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
NOTE 10 SEGMENT INFORMATION (Continued)

	Successor	Predecessor
	September 30, 2011	December 31, 2010
Goodwill:		
Drilling Services	$ 206,441	$ 40,639
Well Services	60,987	5,694
Total goodwill	$ 267,428	$ 46,333
Assets:		
Drilling Services	$ 1,133,183	$ 940,481
Well Services	158,484	97,788
Total assets	$ 1,291,667	$ 1,038,269
Long Lived Assets:		
United States	$ 611,551	$ 501,117
Argentina	293,848	167,137
Brazil	69,395	86,949
Other international	61,564	65,753
Total long lived assets	$ 1,036,358	$ 820,956

NOTE 11 LEGAL MATTERS

We are named from time to time in legal proceedings related to our activities prior to our predecessor s bankruptcy in 1988. However, we believe that we were discharged from liability for all such claims in the bankruptcy and believe the likelihood of a material loss relating to any such legal proceeding is remote.

We are also involved in litigation or proceedings that have arisen in our ordinary business activities. We insure against these risks to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss but at this time any such expected loss are immaterial to our financial condition and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

Shortly following the announcement of the Merger Agreement with Seawell (now Archer) in August 2010, multiple stockholder class-action lawsuits were filed in Delaware and in Texas against various combinations of us, members of our board of directors and the Archer parties to the Merger Agreement. These lawsuits had challenged the Merger and generally alleged that our directors had breached their fiduciary duties owed to our public stockholders by approving

the Merger and failing to take steps to maximize our value to our public stockholders. In February 2011, the Delaware court denied plaintiffs request for an injunction and the Merger closed on February 23, 2011. After the Merger, the consolidated Delaware lawsuit was dismissed as moot and several of the Texas lawsuits have also been dismissed. Two Texas lawsuits remain on file, but both are entirely inactive and we believe both will be dismissed in due course. The case of *Nexen Petroleum U.S.A., Inc. et al v. Allis-Chalmers Rental Services, LLC, Cameron, Hydril and Tri-City Pipe & Machine* involved a blow out on a well operated by Nexen in Vermilion Parish, Louisiana and was settled in September 2011. The settlement was funded by our insurers and we were responsible for our standard insurance deductible amount. We have no further liability under these claims.

ALLIS-CHALMERS ENERGY INC.
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 12 TRANSACTIONS WITH PARENT

In connection with the Merger, we received approximately $71.4 million in funding from our Parent. The proceeds were mainly used to pay off debt, debt related interest and Merger related expenses. The Merger related expenses were primarily for legal and professional fees and change of control provisions. The three and seven months ended September 30, 2011 includes Parent allocations of interest charges of approximately $1.2 million and $2.5 million, respectively, and other administrative charges of approximately $5.9 million and $7.7 million. Parent administrative charges are allocated proportional to the average EBIT and revenue contribution. The allocation method used is considered reasonable by management and our estimated costs that would have been incurred on a standalone basis would not have been materially different. The amount due to Parent was approximately $91.3 million at September 30, 2011 and balance is classified as a long-term liability. The interest rate used for allocation of interest charges was 6.2% as of September 30, 2011.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this report. This report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in such forward-looking statements. Factors that might cause such differences include, but are not limited to, the general condition of the oil and natural gas drilling industry, demand for our oil and natural gas service and rental products, and competition. For more information on forward-looking statements please refer to the section entitled Forward-Looking Statements on page 39.

Overview of Our Business

We are a multi-faceted oilfield service company that provides services and equipment to oil and natural gas exploration and production companies, throughout the United States including Texas, Louisiana, Pennsylvania, Arkansas, West Virginia, Oklahoma, Colorado, offshore in the Gulf of Mexico and internationally primarily in Argentina, Brazil, Bolivia and Mexico. We operate in two sectors of the oil and natural gas service industry: Well Services and Drilling Services.

We derive operating revenues from rates per day and rates per job that we charge for the labor and equipment required to provide a service and rates per day for equipment and tools that we rent to our customers. The price we charge for our services depends upon several factors, including the level of oil and natural gas drilling activity and the competitive environment in the particular geographic regions in which we operate. Contracts are awarded based on price, quality of service and equipment and the general reputation and experience of our personnel. The demand for drilling services has historically been volatile and is affected by the capital expenditures of oil and natural gas exploration and development companies, which can fluctuate based upon the prices of oil and natural gas, or the expectation for the prices of oil and natural gas.

Our operating costs do not fluctuate in direct proportion to changes in revenues. Our operating expenses consist principally of our labor costs and benefits, equipment rentals, maintenance and repairs of our equipment, depreciation, insurance and fuel. Because many of our costs are fixed, our operating income as a percentage of revenues is generally affected by our level of revenues.

Merger with Archer

On February 23, 2011, we merged with and into Wellco Sub Company, a wholly owned subsidiary of Archer, and each share of our common stock was converted into the right to receive either 1.15 Archer common shares or $4.25 in cash. In connection with the Merger, Wellco Sub Company changed its name to Allis-Chalmers Energy Inc.

We recorded approximately $14.7 million and $2.5 million of costs related to the Merger during the two months ended February 28, 2011 and the seven months ended September 30, 2011, respectively, which are included in selling, general and administrative expense on our Consolidated Condensed Statements of Operations. Approval of the Merger resulted in certain of our contractual obligations being triggered or accelerated under the change of control provisions of such contractual arrangements. Examples of such arrangements include stock-based compensation awards, severance and retirement plan agreements applicable to executive officers, directors and certain employees and certain other debt obligations, including our senior notes.

Results of Operations

In July 2010, we acquired all of the outstanding stock of American Well Control, Inc., or AWC, which is reported as part of our Well Services segment. We consolidated the results of this transaction from the date it was effective.

In connection with the Merger with Archer, our assets and liabilities have been adjusted to their fair values based on the purchase price resulting in changes to depreciation, amortization and interest in the successor period.

The foregoing business combinations affect the comparability from period to period of our historical results, and our historical results may not be indicative of our future results.

Comparison of Three Months Ended September 30, 2011 and 2010

Our revenues for the three months ended September 30, 2011 were $222.4 million, an increase of 27.6% compared to $174.3 million for the three months ended September 30, 2010. The increase in revenues is due to the increase in revenues in both of our operating segments. Our Drilling Services segment revenues increased 29.0% to

$195.4 million for the three

months ended September 30, 2011 compared to $151.5 million for the three months ended September 30, 2010 due to capital expenditures, increased utilization and rig rates in Argentina, Bolivia and Brazil and increased utilization of our equipment and improved pricing domestically. Revenues for our Well Services segment increased 18.5% to $27.0 million for the three months ended September 30, 2011 compared to $22.8 million for the three months ended September 30, 2010 due to capital expenditures, increased demand from our valve manufacturing operations and improved pricing which was partially offset by a decrease in equipment utilization for our coiled tubing operations. The decrease in equipment utilization was primarily associated with additional repairs and maintenance on our coil tubing units.

Our direct costs for the three months ended September 30, 2011 increased 29.1% to $164.7 million, or 74.1% of revenues, compared to $127.6 million, or 73.2%, of revenues for the three months ended September 30, 2010. Our direct costs in all of our segments increased in absolute dollars in the three months ended September 30, 2011 compared to the three months ended September 30, 2010. Our Drilling Services segment revenues for the three months ended September 30, 2011 increased 29.0% from revenues for the three months ended September 30, 2010 and direct costs increased 28.5% over that same period. Our Well Services segment revenues for the three months ended September 30, 2011 increased 18.5% from revenues for the three months ended September 30, 2010, while direct costs increased 34.2% over that same period. The reduction in gross margin was due to the decreased utilization of equipment in our coiled tubing operations and related increase in repairs and maintenance costs.

Depreciation expense increased 17.5% to $24.8 million for the three months ended September 30, 2011 from $21.1 million for the three months ended September 30, 2010. The primary increase in depreciation expense is due to our capital expenditure programs for our Drilling Services segment. Depreciation expense as a percentage of revenues decreased to 11.1% for the third quarter of 2011, compared to 12.1% for the third quarter of 2010, due to the noted increases in revenues.

Selling, general and administrative expense was $18.6 million for the three months ended September 30, 2011 compared to $12.8 million for the three months ended September 30, 2010. Selling, general and administrative expense increased primarily due to $5.9 million allocated general and administrative expenses from our Parent and a general increase relating to additional operational activities which was partially offset by a reduction in stock based compensation expense. Stock based compensation for the three months ended September 30, 2010 was $1.4 million with no related expense for the three months ended September 30, 2011 due to the acceleration of stock based compensation expense as of the Merger date. As a percentage of revenues, selling, general and administrative expense was 8.4% for the three months ended September 30, 2011 compared to 7.3% for the same period in the prior year.

Amortization expense for the three months ended September 30, 2011 increased $1.6 million to $2.9 million compared to $1.3 million for the three months ended September 30, 2010. The increase is primarily related to the amortization of intangibles recorded in connection with the Merger.

We had income from operations of $11.4 million for the three months ended September 30, 2011, compared to income from operations of $11.5 million for the three months ended September 30, 2010. The decrease in income from operations was mainly due to the slight reduction in gross margin, the increases in depreciation, amortization and selling, general and administrative expenses.

Our interest expense was $9.3 million for the three months ended September 30, 2011, compared to $11.9 million for the three months ended September 30, 2010. Approximately $51.5 million of our debt was paid in connection with the Merger. Interest expense for the three months ended September 30, 2011 was reduced by approximately $849,000 in connection with debt premium amortization and interest expense for the three months ended September 30, 2010 includes amortization expense of deferred financing costs of $555,000. Interest expense for the three months ended September 30, 2011 included approximately $1.2 million of allocated interest charges from our Parent.

Income tax expense for the three months ended September 30, 2011 was $3.4 million or 210.9% of our income before income taxes compared to an income tax expense of $1.6 million or (169.5)% of our net loss before income taxes from 2010. The change in the tax rate is principally the result of valuation allowances on losses generated in the United States and variances in withholding taxes from foreign operations as a percentage of pretax income (loss).

We had a net loss of $1.8 million for the three months ended September 30, 2011, compared to net loss of $2.6 million for the three months ended September 30, 2010 due to the foregoing reasons.

The net loss attributed to common stockholders for the three months ended September 30, 2010 was $3.2 million after $637,000 in preferred stock dividends. The preferred stock dividend related to 36,393 preferred shares of $1,000 par value at 7.0%.

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The following table compares revenues and income from operations for each of our business segments for the quarter ended September 30, 2011 and 2010. Income from operations consists of our revenues less direct costs, selling, general and administrative expenses, depreciation and amortization:

	Revenues			**Income from Operations**		
	Successor	**Predecessor**		**Successor**	**Predecessor**	
	Three Months Ended September 30, 2011	**Three Months Ended September 30, 2010**	**Change**	**Three Months Ended September 30, 2011**	**Three Months Ended September 30, 2010**	**Change**
			(in thousands)			
Revenues:						
Drilling Services	$ 195,446	$ 151,536	$ 43,910	$ 8,206	$ 6,969	$ 1,237
Well Services	26,962	22,752	4,210	3,155	4,576	(1,421)
Total	$ 222,408	$ 174,288	$ 48,120	$ 11,361	$ 11,545	$ (184)

Drilling Services

Revenues for the quarter ended September 30, 2011 for the Drilling Services segment were $195.4 million, an increase of 29.0% compared to $151.5 million in revenues for the quarter ended September 30, 2010. Income from operations increased $1.2 million and resulted in income from operations of $8.2 million for the quarter ended September 30, 2011 compared to income from operations of $7.0 million in the three months ended September 30, 2010. The revenue increase was due to our investment in new equipment, increased utilization and rig rates in Argentina, Bolivia and Brazil and improved pricing and utilization for our directional drilling services, underbalanced services, rental services and tubular services domestically. The increase in income from operations was mainly due to the noted revenue increases which were partially offset by allocations of $4.6 million of Parent general and administration charges and an increase of $4.8 million, or 24.2%, in depreciation and amortization in the third quarter of 2011 compared to the third quarter of 2010. The increase in depreciation and amortization expense was the result of capital expenditure programs and Merger related adjustments to the fair value of intangible assets.

Well Services

Revenues for the quarter ended September 30, 2011 for the Well Services segment were $27.0 million, an increase of 18.5% compared to $22.8 million in revenues for the quarter ended September 30, 2010. Income from operations decreased $1.4 million and resulted in income from operations of $3.2 million for the quarter ended September 30, 2011 compared to $4.6 million in the three months ended September 30, 2010. The revenue increase was due to capital expenditures, increased demand from our valve manufacturing operations and improved pricing which was partially offset by a decrease in equipment utilization for our coiled tubing operations. The reduction in income from operations was primarily due to a decrease in equipment utilization for our coiled tubing operations, allocations of $1.3 million of Parent general and administration charges and an increase of $581,000, or 22.6%, in depreciation and amortization in the third quarter of 2011 compared to the third quarter of 2010. The increase in depreciation and amortization expense was the result of capital expenditure programs and Merger related adjustments to the fair value of intangible assets.

Comparison of Nine Months Ended September 30, 2011 and 2010

Our revenues for the nine months ended September 30, 2011 were $640.2 million, an increase of 35.3% compared to $473.3 million for the nine months ended September 30, 2010. The increase in revenues is due to the increase in revenues in both of our operating segments. Our Drilling Services segment revenues increased 27.9% to $548.8 million for the nine months ended September 30, 2011 compared to $429.0 million for the nine months ended

September 30, 2010 due to our investment in new equipment, increased utilization and rig rates in Argentina and Bolivia and increased utilization of our equipment and improved pricing domestically. Revenues for our Well Services segment increased 106.2% to $91.4 million for the nine months ended September 30, 2011 compared to $44.3 million for the nine months ended September 30, 2010 due to a $21.9 million increase in revenues from AWC, increased utilization of our equipment and improved pricing. AWC was acquired in July 2010.

Our direct costs for the nine months ended September 30, 2011 increased 33.6% to $475.6 million, or 74.3% of revenues, compared to $356.1 million, or 75.2%, of revenues for the nine months ended September 30, 2010. Our direct costs in all of our segments increased in absolute dollars in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. Our Drilling Services segment revenues for the nine months ended September 30, 2011 increased 27.9% from revenues for the nine months ended September 30, 2010, while direct costs increased 28.1% over that same period, resulting in a minor reduction in gross margin as a percentage of revenues to 23.7% for the nine months ended September 30,

2011 compared to 23.9% for the nine months ended September 30, 2010. The domestic operations in our Drilling Services segment realized price increases starting in the later part of the first quarter of 2010 and our domestic land drilling operations began in the first quarter of 2011 with the related improvement being offset by a decrease in utilization for our land drilling services in Brazil and increased compensation costs and other inflationary cost increases in Argentina and Brazil. Our Well Services segment revenues for the nine months ended September 30, 2011 increased 106.2% from revenues for the nine months ended September 30, 2010, while direct costs increased 93.9% over that same period. The improvement in gross margin is due to improved utilization of equipment and pricing.

Depreciation expense increased 13.5% to $70.2 million for the nine months ended September 30, 2011 from $61.8 million for the nine months ended September 30, 2010. The primary increase in depreciation expense is due to our capital expenditure programs for our Drilling Services segment. Depreciation expense as a percentage of revenues decreased to 11.0% for the nine months ended September 30, 2011, compared to 13.1% for the same period in the prior year, due to the noted increases in revenues.

Selling, general and administrative expense was $62.5 million for the nine months ended September 30, 2011 compared to $36.9 million for the nine months ended September 30, 2010. Selling, general and administrative expense increased primarily due to an increase in stock based compensation expense, severance expenses and professional and other fees for the nine months ended September 30, 2011 compared to the same period of the prior year all due principally to the Merger. Stock based compensation for the nine months ended September 30, 2011 was $6.1 million with approximately $5.4 million of this amount relating to the acceleration of stock based compensation expense associated with the Merger and was $4.4 million in the same period of the prior year. The nine months ended September 30, 2011 includes approximately $4.6 million of severance expense relating to the separation of certain executives after the Merger. Professional and other fees for the nine months ended September 30, 2011 included $7.1 million of costs related to the Merger. The nine months ended September 30, 2011 also includes $7.7 million of allocated general and administrative expenses from our Parent and other increases related to additional operating activities. As a percentage of revenues, selling, general and administrative expense was 9.8% for the nine months ended September 30, 2011 compared to 7.8% for the same period in the prior year.

During the nine months ended September 30, 2011, we recorded a $5.1 million loss on the impairment of intangible assets. In connection with the Merger, a $5.1 million value was assigned to the Allis-Chalmers tradename. Following the Merger, Seawell and its subsidiaries, including us, have begun operating under the name Archer. As a result, it was determined that there was no material remaining value associated with the Allis-Chalmers tradename.

Amortization expense for the nine months ended September 30, 2011 increased $6.0 million to $9.6 million compared to $3.6 million for the nine months ended September 30, 2010. The increase is primarily related to the amortization of intangibles recorded in connection with the Merger.

Income from operations was $17.2 million for the nine months ended September 30, 2011 compared to $14.9 million for the nine months ended September 30, 2010. The increase in income from operations was mainly due to the increase in revenues and improved margins which was partially offset by the impairment of intangible assets and increases in depreciation, amortization and selling, general and administrative expenses.

Our interest expense was $31.0 million for the nine months ended September 30, 2011, compared to $34.0 million for the nine months ended September 30, 2010. Approximately $51.5 million of our debt was paid in connection with the Merger. Interest expense for the nine months ended September 30, 2011 was reduced by approximately $1.9 million in connection with debt premium amortization and interest expense for the nine months ended September 30, 2010 includes amortization expense of deferred financing costs of $1.7 million. Interest expense for the three months ended September 30, 2011 included approximately $2.5 million of allocated interest charges from our Parent.

Other expense was $330,000 for the nine months ended September 30, 2011 compared to other expense of $2.5 million for the nine months ended September 30, 2010. Results for the nine months ended September 30, 2010 include a pre-tax non-cash loss of $1.5 million on the sale of an investment in a private oil and gas company that was assumed as part of an acquisition in 2006.

Income tax expense for the nine months ended September 30, 2011 was $9.7 million or (68.6)% of our net loss before income taxes compared to an income tax benefit of $3.6 million or 16.9% of our net loss before income taxes from

2010. The change in the tax rate is principally the result of valuation allowances on losses generated in the United States and variances in withholding taxes from foreign operations as a percentage of pretax income (loss).

We had a net loss of $23.8 million for the nine months ended September 30, 2011, compared to net loss of $17.5 million for the nine months ended September 30, 2010 due to the foregoing reasons.

The net loss attributed to common stockholders for the nine months ended September 30, 2011 and 2010 was $24.2 and $19.4 million after $375,000 and $1.9 million in preferred stock dividends, respectively. The preferred stock dividend related to 36,393 preferred shares of $1,000 par value at 7.0%.

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The following table compares revenues and income (loss) from operations for each of our business segments for the nine months ended September 30, 2011 and 2010. Income (loss) from operations consists of our revenues less direct costs, selling, general and administrative expenses, impairment of intangible assets, depreciation and amortization:

	Successor Seven Months Ended September 30, 2011	Predecessor Two Months Ended February 28, 2011	Combined 2011	Predecessor 2010	Change
Revenues:					
Drilling Services	$ 442,723	$ 106,050	$ 548,773	$ 428,977	$ 119,796
Well Services	70,549	20,835	91,384	44,325	47,059
Total	$ 513,272	$ 126,885	$ 640,157	$ 473,302	$ 166,855
Income (Loss) from Operations:					
Drilling Services	$ 16,694	$ (9,943)	$ 6,751	$ 11,276	$ (4,525)
Well Services	10,334	109	10,443	3,651	6,792
Total	$ 27,028	$ (9,834)	$ 17,194	$ 14,927	$ 2,267

Drilling Services

Revenues for the Drilling Services segment for the nine months ended September 30, 2011 were $548.8 million, an increase of 27.9% compared to $429.0 million in revenues for the nine months ended September 30, 2010. Income from operations for the nine months ended September 30, 2011 was $6.8 million compared to $11.3 million in the nine months ended September 30, 2010. The revenue increase was due to our investment in new equipment, increased utilization and rig rates in Argentina and Bolivia and improved pricing and utilization for our directional drilling services, underbalanced services, rental services and tubular services domestically. The decrease in income from operations was mainly due to: (1) allocations of Merger related costs consisting of accelerated stock based compensation expense of $3.9 million, severance expense of $3.4 million and professional and other fees of $5.1 million for the nine months ended September 30, 2011; (2) allocations of $5.9 million of Parent general and administration charges; (3) decrease in utilization and pricing for our land drilling services in Brazil; (4) a $2.9 million non-cash loss recorded in the nine months ended September 30, 2011 on an intangible asset impairment (5) increased compensation costs and other inflationary cost increases in Argentina and Brazil and (6) an increase of $11.8 million, or 20.2%, in depreciation and amortization for the nine months ended September 30, 2011 compared to the same period of the prior year. The increase in depreciation and amortization expense was the result of capital expenditure programs and Merger related adjustments to the fair value of intangible assets.

Well Services

Revenues for the Well Services segment for the nine months ended September 30, 2011 were $91.4 million, an increase of 106.2% compared to $44.3 million in revenues for the nine months ended September 30, 2010. Income from operations was $10.4 million for the nine months ended September 30, 2011 compared to $3.7 million in the nine months ended September 30, 2010. The acquisition of AWC provided our Well Services segment with $28.8 million of revenues and $6.3 million of operating income during the nine months ended September 30, 2011 compared to $6.8 million of revenues and $2.4 million of operating income during the nine months ended

September 30, 2010. AWC was acquired in July 2010. We also had improved utilization and pricing for our coil tubing units. Partially offsetting the improved results in the nine months ended September 30, 2011 were: (1) allocations of Merger related costs consisting of accelerated stock based compensation expense of $1.5 million, severance expense of $1.2 million and professional and other fees of $2.0 million for the nine months ended September 30, 2011; (2) allocations of $1.8 million of Parent general and administration charges; (3) a $2.2 million non-cash loss recorded in the nine months ended September 30, 2011 on an intangible asset impairment and (4) an increase of $2.6 million, or 36.7%, in depreciation and amortization for the nine months ended September 30, 2011 compared to the same period of the prior year. The increase in depreciation and amortization expense was the result of capital expenditure programs and Merger related adjustments to the fair value of intangible assets.

Liquidity

Our on-going capital requirements arise primarily from our need to service our debt, to acquire and maintain equipment, to fund our working capital requirements and to complete acquisitions. Our primary sources of liquidity are proceeds from Parent contributions and cash flows from operations. Cash flows from operations are expected to be our primary source of liquidity in fiscal 2011. We had cash and cash equivalents of $10.2 million at September 30, 2011 compared to $20.9 million at December 31, 2010.

Operating Activities

During the nine months ended September 30, 2011, our operating activities provided $17.0 million in cash. Our net loss for the nine months ended September 30, 2011 was $23.8 million. Non-cash expenses totaled $91.0 million during the first nine months of 2011 primarily consisting of $79.7 million of depreciation and amortization, $5.1 million on an impairment of intangible assets, $6.1 million for share based compensation expense, $366,000 in amortization of deferred financing fees, $925,000 loss on sale of property and equipment and $369,000 for deferred income taxes relating to timing differences net of $1.9 million of debt premium amortization.

During the nine months ended September 30, 2011, changes in operating assets and liabilities used $50.2 million in cash, principally due to an increase in accounts receivable of $30.3 million, an increase in inventories of 14.2 million, an increase in prepaid expenses and other assets of $5.9 million, a decrease in accrued interest of $12.0 million, offset by an increase in accounts payable of $7.4 million and an increase in accrued expenses of $5.1 million. Accounts receivable, inventory, accounts payable and accrued expense increases primarily related to the increase in our activity in the first nine months of 2011. The increase in prepaid expenses primarily relates to additional prepaid taxes in Argentina and Brazil. The decrease in accrued interest was due to the scheduled interest payments on our senior notes.

During the nine months ended September 30, 2010, our operating activities provided $26.9 million in cash. Our net loss for the nine months ended September 30, 2010 was $17.5 million. Non-cash expenses totaled $61.5 million during the first nine months of 2010 consisting of $65.4 million of depreciation and amortization, $4.4 million for share-based compensation expense, $1.7 million in amortization of debt issuance costs, $1.5 million loss on the sale of an investment, $150,000 of losses from asset disposals, $409,000 equity in loss of unconsolidated affiliates, partly offset by deferred income tax benefit of $12.0 million related to timing differences.

During the nine months ended September 30, 2010, changes in operating assets and liabilities used $17.1 million in cash, principally due to an increase in accounts receivable of $30.4 million, an increase in inventories of $2.7 million, a decrease in accrued interest of $8.9 million and a decrease in other long-term liabilities of $0.7 million, offset in part by an increase in accounts payable of $8.4 million, a decrease in prepaid expenses and other current assets of $8.0 million, an increase in accrued expenses of $5.5 million, an increase in accrued salaries, benefits and payroll taxes of $2.4 million and a decrease in other assets of $1.3 million. Accounts receivable, inventory, accounts payable, accrued expenses and accrued salaries, benefits and payroll taxes increased primarily due to the increase in our activity in the first nine months of 2010. The decrease in prepaid expense assets was the result of current operations in Argentina utilizing the prepaid taxes that existed at December 31, 2009, offset by a non-cash increase in prepaid expenses from the financing of $2.6 million of insurance premiums. Accrued interest decreased due to the scheduled interest payment on our senior notes in July of 2010.

Investing Activities

During the nine months ended September 30, 2011, we used $67.1 million in investing activities, consisting of $70.9 million for capital expenditures, $1.2 million cash contribution into our investment in our Saudi Arabia joint venture, offset by $5.2 million of proceeds from equipment sales. Included in the $70.9 million for capital expenditures were $59.3 million for additional equipment in our Drilling Services segment and $11.6 million for additional equipment in our Well Services segment. A majority of our equipment sales relate to items lost in hole or damaged beyond repair by our customers.

During the nine months ended September 30, 2010, we used $76.4 million in investing activities, consisting of $50.9 million for capital expenditures, $18.2 million net for the acquisition of AWC, $13.0 million for other assets, offset in part by $5.3 million of proceeds from equipment sales and $368,000 from the sale of an investment. Included in the $50.9 million for capital expenditures were $44.5 million for additional equipment in our Drilling Services segment and $6.4 million for additional equipment in our Well Services segment. A majority of our equipment sales

relate to items lost in hole or damaged beyond repair by our customers. The increase in other assets was primarily due to $12.7 million of advance payments made toward the construction of two drilling rigs. A majority of our equipment sales relate to items lost in hole or damaged beyond repair by our customers.

Financing Activities

During the nine months ended September 30, 2011, financing activities provided $39.3 million in cash. In connection with the Merger, we received approximately $71.4 million in funding from our Parent. Proceeds were mainly used to pay off debt, debt related interest and Merger related expenses. The Merger related expenses were primarily for legal and professional fees and change of control provisions. An additional $19.9 million in funding was subsequently received from our Parent. We repaid $143.3 million in borrowings under long-term debt facilities and borrowed $130.0 million under our Parent s Multicurrency Term and Revolving Facility. We had a net cash outlay of $1.8 million related to the payment of payroll taxes as a result of net exercises of restricted stock vestings and paid $637,000 in preferred stock dividends.

During the nine months ended September 30, 2010, financing activities provided $23.8 million in cash. We borrowed $36.5 million under our revolving credit facility and borrowed an additional $4.0 million under a long-term debt facility and repaid $14.6 million in borrowings under long-term debt facilities. We also incurred $189,000 in debt issuance costs related to an amendment to our revolving credit facility to modify our loan covenants, and we paid $1.9 million in preferred stock dividends. In addition, we financed our renewal of $2.6 million in insurance policy premiums and issued $2.0 million of our common stock in the acquisition of AWC in non-cash transactions.

At September 30, 2011, we had $461.6 million in outstanding indebtedness, of which $454.7 million was long-term debt and $6.9 million was due within one year.

In January 2006 and August 2006, we closed on private offerings, to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, of $160.0 and $95.0 million aggregate principal amount of our senior notes, respectively. The senior notes are due January 15, 2014 and bear interest at 9.0%. The proceeds were used to fund the acquisitions of Specialty Rental Tools, Inc. and DLS, to repay existing debt and for general corporate purposes. In June 2009, we closed on a tender offer in which we purchased $30.6 million aggregate principal of our 9.0% senior notes for a total consideration of $650 per $1,000 principal amount. In connection with the Merger and based on actively traded prices of our senior notes, we increased the fair value of the 9.0% senior notes to $1,022 per $1,000 principal amount. In May 2011, pursuant to the terms of change of control provisions in the indentures governing the senior notes and as a result of the Merger, holders had the right to require us to purchase, all or a portion of such holders Notes. Accordingly we purchased $1.8 million aggregate principal of our 9.0% senior notes for a total consideration of $1,010 per $1,000 principal amount. In July 2011, pursuant to the terms of the senior notes indenture, we redeemed $125.0 million aggregate principal of our 9.0% senior notes for a total consideration of $1,023 per $1,000 principal amount. In connection with this redemption we have drawn $130.0 million on our Parent s $1.2 billion Multicurrency Term and Revolving Facility. The $1.2 billion facility is divided into tranches with $350.0 million having a final maturity date of December 31, 2011 and the remainder having a final maturity date of November 11, 2015. The interest rate is based on LIBOR plus a margin.

In January 2007, we closed on a private offering, to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, of $250.0 million principal amount of 8.5% senior notes due 2017. The proceeds of the senior notes offering, together with a portion of the proceeds of our concurrent common stock offering, were used to repay the debt outstanding under our $300.0 million bridge loan facility which we incurred to finance our acquisition of substantially all the assets of Oil & Gas Rental Services, Inc. On June 29, 2009, we closed on a tender offer in which we purchased $44.2 million aggregate principal of our 8.5% senior notes for a total consideration of $600 per $1,000 principal amount. In connection with the Merger and based on actively traded prices of our senior notes, we increased the fair value of the 8.5% senior notes to $1,070 per $1,000 principal amount. In May 2011, pursuant to the terms of change of control provisions in the indentures governing the senior notes and as a result of the Merger, we purchased $92,000 aggregate principal of our 8.5% senior notes for a total consideration of $1,010 per $1,000 principal amount.

We had a $90.0 million revolving line of credit with a final maturity date of April 26, 2012 pursuant to a revolving credit agreement that contained customary events of default and financial covenants and limited our ability to incur additional indebtedness, make capital expenditures, pay dividends or make other distributions, create liens and sell assets. Effective December 31, 2009, we amended the leverage and interest coverage ratio covenants of the revolving credit agreement. This amendment relaxed the required financial ratios for the quarter ended December 31, 2009 and for each of the quarters in 2010. Our obligations under the amended and restated credit agreement are secured by

substantially all of our assets located in the United States. We were in compliance with all debt covenants as of December 31, 2010. As of December 31, 2010, we had $36.5 million of borrowings outstanding and $4.1 million in outstanding letters of credit under our revolving credit facility. The weighted-average interest rate was 7.8% at December 31, 2010. The revolving line of credit was repaid and terminated in connection with the Merger.

As part of our acquisition of DLS, we assumed various bank loans with floating interest rates based on LIBOR plus a margin

and terms ranging from 2 to 5 years. The weighted average interest rate on these loans was 2.0% as of December 31, 2010. The outstanding amount due under these bank loans as of September 30, 2011 and December 31, 2010 was $0 and $350,000, respectively.

On February 15, 2008, through our DLS subsidiary in Argentina, we entered into a $25.0 million import finance facility with a bank. Borrowings under this facility were used to fund a portion of the purchase price of the new drilling and service rigs ordered for our Drilling Services segment. The loan is repayable over four years in equal semi-annual installments beginning one year after each disbursement with the final principal payment due not later than March 15, 2013. The import finance facility is unsecured and contains customary events of default and financial covenants and limits DLS ability to incur additional indebtedness, make capital expenditures, create liens and sell assets. We were in compliance with all debt covenants as of September 30, 2011 and December 31, 2010. The bank loan rates are based on LIBOR plus a margin. The weighted average interest rate was 5.2% at September 30, 2011 and 4.2% at December 31, 2010. The outstanding amount under the import finance facility as of September 30, 2011 and December 31, 2010 was $9.8 million and $14.4 million, respectively.

As part of our acquisition of BCH, we assumed a $23.6 million term loan credit facility with a bank. The credit agreement was dated June 2007 and contained customary events of default and financial covenants which were based on BCH s stand-alone financial statements. The facility was repayable in quarterly principal installments plus interest and was to mature in August 2012. Obligations under the facility were secured by substantially all of the BCH assets. The bank waived certain financial ratio covenants for the December 31, 2010 measurement period and we classified the entire outstanding balance of the loan in the current portion of long-term debt. The interest rates were based on LIBOR plus a margin and the interest rate was 3.5% at December 31, 2010. The outstanding amount of the loan as of December 31, 2010 was $7.0 million. The term loan credit facility was paid in full in connection with the Merger.

On February 9, 2010, through our DLS subsidiary, we entered into a $4.0 million term loan facility. The loan is repayable in semi-annual installments beginning April 14, 2011 and bears interest at 8.5% per annum. The final maturity date is April 14, 2014 and the loan is unsecured. The outstanding amount under the term loan facility as of September 30, 2011 and December 31, 2010 was $3.4 million and $4.0 million, respectively.

In 2010, we obtained insurance premium financings in the aggregate amount of $2.9 million with a fixed weighted-average interest rate of 4.8%. Under terms of the agreements, amounts outstanding are paid over eight and 11 month repayment schedules. The outstanding balance of these notes was approximately $0 and $1.0 million at September 30, 2011 and December 31, 2010, respectively. We also have amounts outstanding under a capital lease that will expire in 2013. As of September 30, 2011, the amount outstanding under the capital lease was $61,000.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements, other than normal operating leases and employee contracts, that have or are likely to have a current or future material effect on our financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources. We have $4.7 million of outstanding letters of credit under our Parent s Multicurrency Term and Revolving Facility.

Critical Accounting Policies

Please see our Form 10-K/A for a description of other policies that are 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. No material changes to such information have occurred during the nine months ended September 30, 2011.

Recently Issued Accounting Standards

For a discussion of new accounting standards, see the applicable section in Note 1 to our Unaudited Consolidated Condensed Financial Statements included in Item 1. Financial Statements.

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Forward-Looking Statements

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, regarding our business, financial condition, results of operations and prospects. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions or variations of such words are intended to identify forward-looking statements. However, these are not the exclusive means of identifying forward-looking statements. Although such forward-looking statements reflect our good faith judgment, such statements can only be based on facts and factors currently known to us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. These factors include, but are not limited to, the following:

- the impact of the weak economic conditions and the future impact of such conditions on the oil and gas industry and demand for our services;
- unexpected future capital expenditures (including the amount and nature thereof);
- unexpected difficulties in integrating our operations as a result of any significant acquisitions;
- adverse weather conditions in certain regions;
- the impact of political disturbances, war, or terrorist attacks and changes in global trade policies;
- the availability (or lack thereof) of capital to fund our business strategy and/or operations;
- the potential impact of the loss of one or more key employees;
- the effect of environmental liabilities that are not covered by an effective indemnity or insurance;
- the impact of current and future laws;
- the impact of customer defaults and related bad debt expense;
- the potential impairment in the carrying value of goodwill and other acquired intangible assets;
- the risks associated with doing business outside the United States, including currency exchange rates; the effects of competition; and
- the effects of our indebtedness, which could adversely restrict our ability to operate, could make us vulnerable to general adverse economic and industry conditions, could place us at a competitive disadvantage compared to competitors that have less debt, and could have other adverse consequences

Further information about the risks and uncertainties that may impact us are described under Item 1A Risk Factors in our Form 10-K/A. You should read those sections carefully. You should not place undue reliance on forward-looking statements, which speak only as of the date of this quarterly report. We undertake no obligation to update publicly any forward-looking statements in order to reflect any event or circumstance occurring after the date of this quarterly report or currently unknown facts or conditions or the occurrence of unanticipated events.

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ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this quarterly report, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d 15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Management recognizes that any disclosure controls and procedures no matter how well designed and operated, can only provide reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and chief financial officer. Based on this evaluation, these officers concluded that, for the period ending September 30, 2011, our disclosure controls and procedures were not effective to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles because of a material weakness in our internal control over financial reporting described below.

Material Weakness in Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. Based on this assessment, management has concluded that we did not maintain effective internal control over financial reporting for the period ending September 30, 2011, because of a material weakness relating to accounting for income taxes. Specifically, we did not maintain effective controls over the identification and proper accounting treatment of the calculation and valuation of deferred tax assets. This material weakness resulted in a material misstatement of our income tax expense, deferred tax asset, net loss and accumulated deficit with accompanying notes and the restatement of our consolidated financial statements for the year ended December 31, 2010 as discussed in Note 2 to the consolidated financial statements included in our Form 10-K/A. Additionally, this deficiency could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected.

Plan for Remediation of Material Weakness

Management has developed a plan to remediate the material weakness noted above. Controls over the preparation of tax calculations and associated deferred tax balances have been enhanced through the implementation of external advisory services from an independent source, under the oversight of management. In the third quarter the Company hired a dedicated employee with tax expertise to oversee this area, along with enhanced procedural and review controls.

(b) Changes in Internal Control Over Financial Reporting.

Except as described above, there were not any 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) 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. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 11 to our Unaudited Consolidated Condensed Financial Statements included in Item 1. Financial Statements.

ITEM 6. EXHIBITS

(a) The exhibits listed on the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q are filed as part of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 22, 2011.

Allis-Chalmers Energy Inc.
(*Registrant)*

/s/ Christoph Bausch
Christoph Bausch
Chief Financial Officer

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EXHIBIT INDEX

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.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith