 

# EXHIBIT C

ALLIS-CHALMERS ENERGY INC.
United States Securities and Exchange Commission
Form 10-Q for the Quarterly Period Ended March 31, 2010
Excerpt

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010 OR**

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

**FOR THE TRANSITION PERIOD FROM ______________ TO ______________**

***Commission file number 1-02199***

# ALLIS-CHALMERS ENERGY INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **DELAWARE** | **39-0126090** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **5075 WESTHEIMER, SUITE 890, HOUSTON, TEXAS** | **77056** |
| (Address of principal executive offices) | (Zip Code) |

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

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

Indicate by check mark whether the registrant 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 ☐ No ☐

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 ☐ | Accelerated filer ☑ | Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☐ |

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At May 3, 2010 there were 72,429,916 shares of common stock, par value $0.01 per share, outstanding.

## 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 30.*

### Overview of Our Business

We are a multi-faceted oilfield services company that provides services and equipment to oil and natural gas exploration and production companies, throughout the United States including Texas, Louisiana, Arkansas, Pennsylvania, Oklahoma, New Mexico, offshore in the Gulf of Mexico and internationally primarily in Argentina, Brazil, Bolivia and Mexico. We currently operate in three sectors of the oil and natural gas service industry: Oilfield Services; Drilling and Completion and Rental 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 our 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.

### Our Industry

The oilfield services industry is highly cyclical. Demand for our products and services is substantially dependent upon activity levels in the oil and gas industry, particularly our customers' willingness to spend capital on the exploration for and development of oil and natural gas reserves. The most critical factor in assessing the outlook for the industry is the worldwide supply and demand for oil and the domestic supply and demand for natural gas. Our customers' spending plans are generally based on their outlook for near-term and long-term commodity prices. As a result, demand for our products and services are highly sensitive to current and expected oil and natural gas prices. Other factors that can affect our business and financial results include the general global economic environment and regulatory changes in the United States and internationally.

### Company Outlook

Throughout the first half of 2009, we saw a significant decline in the global economy which led to reduced activity in the energy sector. Although there have been some indicators that suggest that economic improvement is underway, there remains a general weakness in the equity and credit capital markets that continues to generate a certain degree of uncertainty regarding the overall outlook of the global economy. Economic activity, generally, and exploration and development activities, specifically, have not returned to peak 2008 levels nor levels we experienced in the first half of 2009. Certain of our businesses continue to be negatively impacted by excess equipment and service capacity. However, our total revenues have increased sequentially in each of the past three quarters and in the first quarter of 2010 we saw increases in revenues in each of our business segments.

We believe that our revenue and operating income for all of our operating segments will improve in 2010. Our Oilfield Service segment is heavily based on oil and natural gas activity in the U.S. and a good indicator of that activity is the U.S. rig count. The Baker Hughes rig count in the U.S. for the first sixteen weeks of 2010 increased to an average of 1,378 compared to an average of 1,281 for the first sixteen weeks of 2009. This favorable trend in rig count should result in improved demand and pricing for our Oilfield Services segment. Our Rental Services segment has historically been very dependent on drilling activity in the Gulf of Mexico. The Baker Hughes average rig count in the Gulf of Mexico for the first sixteen weeks of 2010 decreased to 46 rigs compared to an average of 53 rigs for the first sixteen weeks of 2009, but increased when compared to 34 rigs for the last quarter of 2009. Additionally, we have shifted our focus to serving the onshore unconventional gas markets and redeploying rental equipment to the international markets such as Brazil, Colombia, Saudi Arabia and Egypt. We believe this strategy will result in increased utilization and pricing for our Rental Services segment. We anticipate our Drilling and Completion segment will exceed 2009 results for both revenue and operating income as drilling activity in Argentina has improved with all of our available rigs in Argentina and Bolivia being utilized. Our Drilling and Completion segment currently operates in Argentina, Brazil and Bolivia. Currently, we have no firm commitments of work for four drilling rigs that are currently under construction or refurbishment, so the impact of revenue and operating income from these rigs may have a negative impact on our Drilling and Completion segment’s operating results.

We expect our general and administrative expenses in 2010 to be relatively flat as we realize a full year benefit from reductions in our administrative staff made in 2009 to reflect the decline in our activity, offset by additional administrative positions created to handled our growing international activities and costs related to the purchase of new operational and financial reporting tools to improve our operating performance. We also anticipate an increase in stock-based compensation as a result of stock awards made during the first quarter of 2010. Our net interest expense is dependent upon our level of debt and cash on hand, which are principally dependent on acquisitions we complete, our capital expenditures and our cash flows from operations. Due to the shortage of liquidity and credit in the U.S. financial markets, we may see an increase in our effective interest rate in 2010. We do not anticipate the ability to record a gain on debt extinguishment in 2010 as our senior notes are trading close to face value. We anticipate that our effective tax rate will increase in 2010 due to a projected domestic tax loss at lower tax rate than the tax rate applied to our international operations which are expected to generate taxable income.

Our operating income is principally dependent on our level of revenues and the pricing environment of our services. In addition, demand for our services is dependent upon our customers’ capital spending plans, which are largely driven by current commodity prices and their expectations of future commodity prices.

We are monitoring the recent oil spill incident in the U.S. Gulf of Mexico as we do generate a significant amount of revenues for our Rental Services segment from activities in the U.S. Gulf of Mexico. At this time, we cannot predict what, if any, actions may be taken by the U.S. or state governments or our customers or other industry participants in response to the incident or what impact any such actions may have on our operations or the operations of our customers.

We believe that 2010 will be a challenging year for our operations although increased oil and natural gas prices and the resulting increased rig count should increase the utilization and pricing for our equipment and services. We believe our cost cuts in 2009, our strategy of international growth and our commitment to offer new equipment and technology to our customers and our focus on the U.S. land shale plays, will improve our operating results in 2010.

**Comparison of Three Months Ended March 31, 2010 and 2009**

Our revenues for the three months ended March 31, 2010 were $140.4 million, a decrease of 3.3% compared to $145.1 million for the three months ended March 31, 2009. The decrease in revenues is due to the decrease in revenues in our Oilfield Services and our Rental Services segments, offset in part by an increase in revenues in our Drilling and Completion segment. The increase in revenues in our Drilling and Completion segment was due to increased rig rates in Argentina and Bolivia. The Drilling and Completion segment generated $88.5 million in revenues for the three months ended March 31, 2010 compared to $79.1 million for the three months ended March 31, 2009. Our Oilfield Services segment revenues decreased to $39.6 million for the three months ended March 31, 2010 compared to $44.5 million for the three months ended March 31, 2009 due to decreased utilization and pricing compared to the three months ended March 31, 2009. Revenues for our Rental Services segment decreased to $12.2 million for the three months ended March 31, 2010 compared to $21.5 million for the three months ended March 31, 2009 due to decreased utilization and pricing compared to the three months ended March 31, 2009.