

OMNI ENERGY SERVICES CORP

Form 10-Q

November 07, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Quarterly period ended September 30, 2008

or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 0-23383

**OMNI ENERGY SERVICES CORP.**

(Exact name of registrant as specified in its charter)

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**LOUISIANA**  
(State or other jurisdiction of  
incorporation or organization)

**72-1395273**  
(I.R.S. Employer  
Identification No.)

**4500 N.E. EVANGELINE THRUWAY**

**CARENCRO, LOUISIANA**  
(Address of principal executive offices)

**70520**  
(Zip Code)

**Registrant's telephone number, including area code: (337) 896-6664**

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition 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  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

As of November 5, 2008 there were 20,647,496 shares of the Registrant's common stock, \$0.01 par value per share, outstanding.

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**OMNI ENERGY SERVICES CORP**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****OMNI ENERGY SERVICES CORP.****CONSOLIDATED BALANCE SHEETS**

|  | December 31,<br>2007   | September 30,<br>2008 |
|--|------------------------|-----------------------|
|  | (Dollars in thousands) |                       |
|  | (unaudited)            |                       |
| <b>ASSETS</b>                                      |                        |                       |
| <b>CURRENT ASSETS:</b>                             |                        |                       |
| Cash and cash equivalents                          | \$ 13,431              | \$ 2,181              |
| Restricted cash                                    | 1,114                  | 1,130                 |
| Trade receivables, net                             | 26,566                 | 33,082                |
| Other receivables                                  | 627                    | 562                   |
| Due from related party                             | 262                    | 262                   |
| Parts and supplies inventory                       | 5,950                  | 7,990                 |
| Prepaid expenses and other current assets          | 7,587                  | 5,901                 |
| Deferred income taxes                              | 5,818                  | 2,505                 |
| <b>Total current assets</b>                        | <b>61,355</b>          | <b>53,613</b>         |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b>          | <b>61,037</b>          | <b>82,902</b>         |
| <b>OTHER ASSETS:</b>                               |                        |                       |
| Goodwill   | 15,038                 | 23,303                |
| Customer intangible assets, net                    | 13,780                 | 14,203                |
| Licenses, permits and other intangible assets, net | 9,082                  | 13,320                |
| Loan closing costs, net                            | 4,359                  | 5,252                 |
| Other assets                                       | 343                    | 326                   |
|  | 42,602                 | 56,404                |
| <b>TOTAL ASSETS</b>                                | <b>\$ 164,994</b>      | <b>\$ 192,919</b>     |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>         |                        |                       |
| <b>CURRENT LIABILITIES:</b>                        |                        |                       |
| Accounts payable                                   | \$ 15,706              | \$ 15,142             |
| Accrued expenses                                   | 4,645                  | 7,988                 |
| Current maturities of long-term debt               | 14,456                 | 19,578                |
| Insurance notes payable                            | 4,808                  | 2,552                 |
| Line of credit                                     | 17,349                 | 9,260                 |
| <b>Total current liabilities</b>                   | <b>56,964</b>          | <b>54,520</b>         |
| <b>LONG-TERM LIABILITIES:</b>                      |                        |                       |
| Long-term debt, less current maturities            | 34,827                 | 47,876                |
| Other long-term liabilities                        | 1,060                  | 610                   |
| Deferred income taxes                              | 11,984                 | 19,081                |

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|   |                   |                   |
|---|-------------------|-------------------|
| Total long-term liabilities   | 47,871            | 67,567            |
| Total liabilities   | 104,835           | 122,087           |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                   |                   |
| <b>STOCKHOLDERS EQUITY:</b>   |                   |                   |
| Convertible preferred stock, no par value, 5,000,000 shares authorized; 29 shares of Series B issued and outstanding at December 31, 2007 and September 30, 2008 and 5,484 and 5,396 shares of Series C issued and outstanding at December 31, 2007 and September 30, 2008, respectively, liquidation preference of \$1,000 per share | 1,162             | 1,074             |
| Common stock, \$0.01 par value, 45,000,000 shares authorized; 18,727,615 and 20,692,496 issued and 18,682,615 and 20,647,496 outstanding at December 31, 2007 and September 30, 2008, respectively  | 187               | 207               |
| Preferred stock dividends declared  | 3                 | 3                 |
| Additional paid-in capital  | 93,997            | 99,658            |
| Accumulated deficit   | (35,190)          | (30,110)          |
| Total stockholders equity   | 60,159            | 70,832            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>  | <b>\$ 164,994</b> | <b>\$ 192,919</b> |

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

**Table of Contents****OMNI ENERGY SERVICES CORP.****CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

|  | <b>Three Months Ended<br/>September 30,<br/>2007      2008</b> |                 | <b>Nine Months Ended<br/>September 30,<br/>2007      2008</b> |                 |
|--|--|-----------------|---|-----------------|
|  | <b>(in thousands, except per share amounts)</b>                |                 |   |                 |
| <b>Operating revenue:</b>  |  |                 |   |                 |
| Services   | \$ 35,731  | \$ 40,676       | \$ 107,519  | \$ 111,496      |
| Rentals  | 8,406  | 12,608          | 23,628  | 31,669          |
| <b>Total operating revenue</b>   | <b>44,137</b>  | <b>53,284</b>   | <b>131,147</b>  | <b>143,165</b>  |
| <b>Operating expenses:</b>   |  |                 |   |                 |
| Direct costs (exclusive of depreciation and amortization shown separately below)   |  |                 |   |                 |
| Services   | 24,806   | 27,856          | 72,849  | 79,524          |
| Rentals  | 3,970  | 6,392           | 10,674  | 15,945          |
| Depreciation and amortization  | 2,749  | 3,620           | 7,736   | 9,776           |
| General and administrative expenses (exclusive of depreciation and amortization shown separately above) (includes litigation settlement of \$2,400 in the first quarter of 2008) | 5,434  | 7,282           | 16,311  | 23,417          |
| <b>Total operating expenses</b>  | <b>36,959</b>  | <b>45,150</b>   | <b>107,570</b>  | <b>128,662</b>  |
| Operating income   | 7,178  | 8,134           | 23,577  | 14,503          |
| Interest expense   | (1,568)  | (1,518)         | (4,897)   | (5,231)         |
| Loss on debt extinguishment  |  |                 | (1,004)   |                 |
| Other income (expense), net  | 234  | 65              | 299   | (137)           |
| Income before income tax expense   | 5,844  | 6,681           | 17,975  | 9,135           |
| Provision for income tax expense   | (1,656)  | (2,572)         | (6,343)   | (3,688)         |
| Net income   | 4,188  | 4,109           | 11,632  | 5,447           |
| Dividends and accretion of preferred stock   | (124)  | (123)           | (378)   | (367)           |
| Non-cash charge attributable to beneficial conversion feature of preferred stock   |  |                 | (255)   |                 |
| <b>Net income available to common stockholders</b>   | <b>\$ 4,064</b>  | <b>\$ 3,986</b> | <b>\$ 10,999</b>  | <b>\$ 5,080</b> |
| <b>Basic income per share:</b>   |  |                 |   |                 |
| Net income available to common stockholders  | \$ 0.22  | \$ 0.20         | \$ 0.62   | \$ 0.26         |
| <b>Diluted income per share:</b>   |  |                 |   |                 |
| Net income available to common stockholders  | \$ 0.16  | \$ 0.15         | \$ 0.45   | \$ 0.21         |
| <b>Weighted average common shares outstanding:</b>   |  |                 |   |                 |
| Basic  | 18,509   | 19,919          | 17,881  | 19,460          |
| Diluted  | 26,359   | 27,480          | 26,067  | 26,384          |

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



**Table of Contents****OMNI ENERGY SERVICES CORP.****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(unaudited)**

|   | Preferred Stock<br>Shares            | Preferred Stock<br>Amount | Common Stock<br>Shares | Common Stock<br>Amount |
|---|--------------------------------------|---------------------------|------------------------|------------------------|
|   | (in thousands, except share amounts) |                           |                        |                        |
| BALANCE, December 31, 2007  | 5,513                                | \$ 1,162                  | 18,727,615             | \$ 187                 |
| Stock based compensation  |                                      |                           |                        |                        |
| Stock options and warrants exercised and other                      |                                      |                           | 1,057,766              | 11                     |
| Restricted stock awards, net of forfeitures                         |                                      |                           | 462,500                | 5                      |
| Tax benefit associated with exercise of non-qualified stock options |                                      |                           |                        |                        |
| Common stock issued in legal settlement                             |                                      |                           | 400,000                | 4                      |
| Preferred stock dividends declared                                  |                                      |                           |                        |                        |
| Preferred stock conversion  | (88)                                 | (88)                      | 44,615                 |                        |
| Net income  |                                      |                           |                        |                        |
| BALANCE, September 30, 2008   | 5,425                                | \$ 1,074                  | 20,692,496             | \$ 207                 |

|   | Preferred Stock<br>Dividends<br>Declared | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total     |
|---|--|----------------------------------|------------------------|-----------|
|   | (in thousands)                           |                                  |                        |           |
| BALANCE, December 31, 2007  | \$ 3                                     | \$ 93,997                        | \$ (35,190)            | \$ 60,159 |
| Stock based compensation  |  | 990                              |                        | 990       |
| Stock options and warrants exercised and other                      |  | 2,512                            |                        | 2,523     |
| Restricted stock awards, net of forfeitures                         |  | 1,218                            |                        | 1,223     |
| Tax benefit associated with exercise of non-qualified stock options |  | 857                              |                        | 857       |
| Common stock issued in legal settlement                             |  | (4)                              |                        |           |
| Preferred stock dividends declared                                  |  |                                  | (367)                  | (367)     |
| Preferred stock conversion  |  | 88                               |                        |           |
| Net income  |  |                                  | 5,447                  | 5,447     |
| BALANCE, September 30, 2008   | \$ 3                                     | \$ 99,658                        | \$ (30,110)            | \$ 70,832 |

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



**Table of Contents****OMNI ENERGY SERVICES CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

|  | <b>Nine Months Ended<br/>September 30,<br/>2007                  2008<br/>(in thousands)</b> |                 |
|--|--|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |  |                 |
| Net income   | \$ 11,632  | \$ 5,447        |
| Adjustments to reconcile net income to net cash provided by operating activities:          |  |                 |
| Depreciation and amortization  | 7,736  | 9,776           |
| Amortization of deferred loan issuance costs   | 759  | 860             |
| (Gain) loss on fixed asset disposition   | (163)  | 311             |
| Provision for doubtful accounts  |  | 275             |
| Stock based compensation expense   | 743  | 990             |
| Accretion of discount on convertible notes   | 448  | 116             |
| Loss on debt extinguishment  | 1,004  |                 |
| Deferred income taxes  | 6,343  | 2,637           |
| Changes in operating assets and liabilities:   |  |                 |
| Trade receivables  | (7,195)  | (3,711)         |
| Other receivables  | (492)  | 101             |
| Parts and supplies inventory   | (1,444)  | (200)           |
| Prepaid expenses and other current assets  | 2,794  | 4,753           |
| Other assets   | 90   | (132)           |
| Accounts payable and accrued expenses  | 2,724  | 688             |
| <b>Net cash provided by operating activities</b>   | <b>24,979</b>  | <b>21,911</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |  |                 |
| Purchase of property, plant and equipment  | (11,884)   | (9,686)         |
| Proceeds from disposal of property, plant and equipment                                    | 1,302  | 424             |
| Acquisitions, net of cash received   | (23,673)   | (20,836)        |
| Proceeds from collection of other receivable   | 184  |                 |
| Tax benefit associated with exercise of non-qualified stock options                        |  | 857             |
| Return of restricted cash  |  | 489             |
| Investment in restricted cash  |  | (1,130)         |
| <b>Net cash used in investing activities</b>   | <b>(34,071)</b>  | <b>(29,882)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |  |                 |
| Proceeds from the issuance of long-term debt   | 14,934   | 19,232          |
| Proceeds from issuance of common stock for cash and exercise of stock options and warrants | 8,399  | 2,648           |
| Preferred stock dividends  | (129)  | (491)           |
| Principal payments on long-term debt   | (19,773)   | (14,827)        |
| Loan closing costs   | (2,299)  | (1,752)         |
| Borrowings (payments) on line of credit, net   | 8,856  | (8,089)         |
| <b>Net cash provided by (used in) financing activities</b>                                 | <b>9,988</b>   | <b>(3,279)</b>  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                | <b>896</b>   | <b>(11,250)</b> |
| Cash and cash equivalents, at beginning of period  | 12,576   | 13,431          |

|   |           |          |
|---|-----------|----------|
| Cash and cash equivalents, at end of period | \$ 13,472 | \$ 2,181 |
|---|-----------|----------|

**Table of Contents****OMNI ENERGY SERVICES CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)****(unaudited)**

|  | <b>Nine Months Ended<br/>September 30,<br/>2007      2008<br/>(in thousands)</b> |          |
|--|--|----------|
| <b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>                               |  |          |
| Cash paid for interest   | \$ 4,172   | \$ 4,262 |
| Cash paid for taxes  | \$   | \$ 205   |
| <b>NON-CASH TRANSACTIONS:</b>  |  |          |
| Application of restricted cash to capital lease payable and other        | \$   | \$ 625   |
| Equipment financed through capital lease                                 | \$ 58  | \$       |
| Equipment note paid off under sale/leaseback                             | \$ 201   | \$       |
| Preferred stock issued as dividends paid-in-kind                         | \$ 256   | \$       |
| Beneficial conversion feature of preferred stock                         | \$ 255   | \$       |
| Conversion of preferred stock to common                                  | \$ 377   | \$ 88    |
| Premiums financed with insurance carrier                                 | \$ 5,256   | \$ 3,109 |
| Notes payable issued to former owners of acquired entities               | \$ 8,500   | \$ 8,000 |
| Equipment transferred in satisfaction of settlement of accrued liability | \$   | \$ 750   |

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

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**OMNI ENERGY SERVICES CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PRESENTATION**

The financial statements included herein, which have not been audited pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ), reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods on a basis consistent with the annual audited statements. All such adjustments are of a normal recurring nature. The results of operations for interim periods are not necessarily indicative of the results that may be expected for any other interim period of a full year. Certain information, accounting policies and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K, for the year ended December 31, 2007 filed with the Securities and Exchange Commission on March 17, 2008.

**IMPAIRMENT OF LONG-LIVED ASSETS**

We review our long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 144 *Accounting for the Impairment and Disposal of Long-Lived Assets*. If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated undiscounted net cash flow, before interest, we will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value.

**CASH AND CASH EQUIVALENTS**

We consider highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The \$1.1 million included in restricted cash at December 31, 2007 represented cash held in escrow related to the purchase of an aircraft which was released from restriction during the first quarter of 2008. The proceeds were used to settle the outstanding balance of a capital lease payable with the remaining proceeds remitted to us. The \$1.1 million included in restricted cash at September 30, 2008 represents cash deposited into an irrevocable trust as part of a legal settlement to be paid to the trust beneficiary in October 2008 and January 2009.

**STOCK BASED COMPENSATION**

We follow the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123R ) which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity award).

**ACCOUNTING PRONOUNCEMENTS RECENTLY ADOPTED**

In September 2006, the Financial Accounting Standards Board (the FASB ) issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ). This statement defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and requires enhanced disclosures about fair value measurements. It does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Our financial statements have not been impacted by the adoption of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* ( SFAS No. 159 ). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. The Statement is effective for fiscal years beginning after November 15, 2007. At January 1, 2008, we did not elect the fair value option under the SFAS No. 159 and, therefore, there was no impact to our consolidated financial statements.

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In December 2007, the SEC issued Staff Accounting Bulletin No. 110 ( SAB No. 110 ). SAB No. 110 expresses the views of the SEC staff regarding the use of a simplified method, as discussed in SAB No. 107, in developing an estimate of expected term of plain vanilla share options in accordance with SFAS No. 123R. The SEC staff indicated in SAB No. 107 that it would accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term, for options granted prior to December 31, 2007. In SAB No. 110, the SEC staff states that it will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. We are currently utilizing the simplified method in our estimate of the expected term of share options.

**Table of Contents****ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations* ( SFAS No. 141R ). This Statement changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development costs, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited.

In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ( SFAS No. 160 ). This Statement changes the accounting for noncontrolling (minority) interests in consolidated financial statements, including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS No. 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. At this time we have no minority interest therefore we expect no impact from the adoption of this statement.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( SFAS No. 161 ). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning on or after November 15, 2008. We are currently evaluating the impact, if any, that the adoption of SFAS No. 161 will have on our results of operations and financial position.

In May 2008, the FASB issued its Staff Position APB No. 14-1 (FSP APB No. 14-1) *Accounting for Convertible Debt Instruments That May Be Settled Upon Conversion (Including Partial Cash Settlement)*. FSP APB No. 14-1 requires the proceeds from the issuance of exchangeable debt instruments to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount will be amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The provisions of FSP APB No. 14-1 are effective for fiscal years beginning after December 15, 2008 and will require retrospective application. We are currently evaluating the impact the adoption of FSP APB No. 14-1 will have on its results of operations and financial position.

**NOTE 2. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, net, consists of the following at December 31, 2007 and September 30, 2008, respectively:

|   | December 31,<br>2007 | September 30,<br>2008 |
|---|----------------------|-----------------------|
|   | (In thousands)       |                       |
| Land  | \$ 793               | \$ 782                |
| Construction in progress                        | 734                  | 801                   |
| Building and improvements                       | 8,200                | 9,187                 |
| Drilling, field and support equipment           | 79,382               | 103,903               |
| Shop equipment                                  | 1,153                | 719                   |
| Office equipment                                | 2,261                | 2,335                 |
| Aircraft  | 1,438                | 1,438                 |
| Vehicles  | 4,291                | 4,919                 |
|   | 98,252               | 124,084               |
| Less: accumulated depreciation                  | (37,215)             | (41,182)              |
| <b>Total property, plant and equipment, net</b> | <b>\$ 61,037</b>     | <b>\$ 82,902</b>      |

**Table of Contents****NOTE 3. LONG-TERM DEBT AND LINE OF CREDIT**

At December 31, 2007 and September 30, 2008, long-term debt consists of the following:

|  | December 31,<br>2007 | September 30,<br>2008 |
|--|----------------------|-----------------------|
|  | (In thousands)       |                       |
| Notes payable to a bank with interest payable at prime plus 1.50% (9.25% at December 31, 2007 and 6.50 % at September 30, 2008) maturing July 31, 2023, secured by real estate   | \$ 1,288             | \$ 1,255              |
| Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate   | 152                  | 134                   |
| Promissory notes payable to certain former owners of acquired companies with interest at 5%, maturing at various dates through April 2011  | 8,500                | 7,000                 |
| Convertible promissory notes payable to certain former stockholders of acquired companies with interest at 5%, maturing at various dates through April 2011, net of beneficial conversion of \$71 at December 31, 2007 and \$7 at September 30, 2008 | 4,929                | 12,492                |
| Promissory notes payable to finance companies secured by vehicles and equipment  | 642                  | 531                   |
| Capital leases payable to finance companies secured by an aircraft and equipment   | 549                  | 42                    |
| Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, unsecured, paid in full  | 197                  |                       |
| Term Loan payable to a bank, variable interest rate at LIBOR plus 2.75% (7.01% at September 30, 2008), secured by various equipment, maturing April 23, 2013   |                      | 46,000                |
| Term and Capex Loans payable to a bank, variable interest rate at LIBOR plus 2% (ranging from 6.63% to 6.93% at December 31, 2007), secured by various equipment, paid in full   | 33,026               |                       |
| Total  | \$ 49,283            | \$ 67,454             |
| Less: current maturities   | (14,456)             | (19,578)              |
| Long-term debt, less current maturities  | \$ 34,827            | \$ 47,876             |

**SENIOR CREDIT FACILITY**

Effective April 24, 2008, we increased our credit facility to \$90.0 million ( New Senior Credit Facility ), including a \$50.0 million term loan (the Term Loan ), a \$25.0 million working capital revolving line of credit (the Revolver ), and a \$15.0 million delayed draw term loan available to fund future acquisitions. The Revolver replaced our previous line of credit (the Line ). Availability under the Revolver is the lower of: (i) \$25.0 million or (ii) the sum of eligible accounts receivable and inventory, as defined under the agreement governing the Revolver. The Revolver accrues interest at the 30-day LIBOR plus 2.25% (6.46% at September 30, 2008) and matures in April 2013. The Revolver is collateralized by accounts receivable and inventory. As of September 30, 2008, we had \$9.3 million outstanding under the Revolver. Due to the lock-box arrangement and the subjective acceleration clause in the agreements governing the Revolver and the Line, the debt under the Line and the Revolver have been classified as a current liability as of December 31, 2007 and September 30, 2008, as required by Emerging Issues Task Force ( EITF ) No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-box Arrangement*.

On August 28, 2008, the New Senior Credit Facility was amended to remove the \$15.0 million delayed draw term loan. As an accommodation to our lender, we agreed to remove the delayed draw portion of the facility in order to make syndication of the loan more manageable.

Under the terms of the Term Loan, the funding limits are limited to the lesser of \$50.0 million and 80% of the orderly liquidation value of our equipment. In addition, the Term Loan matures in February 2012 and will be repaid quarterly in equal payments of \$2.0 million, with interest paid monthly in arrears and accruing at the annual interest rate of LIBOR plus 2.75% (7.01% at September 30, 2008). The Term Loan contains customary financial covenants and limitations on capital expenditures. With the proceeds from the New Senior Credit Facility, we (i) repaid approximately \$28.7 million of outstanding principal balance under our previous term loan; (ii) repaid approximately \$2.1 million of outstanding principal balance under our previous capital expenditure loan; (iii) repaid the balance on the Line; and (iv) closed the acquisition of Industrial Lift Truck and Equipment Co., Inc. ( ILT ). The balance of the proceeds available under the New Senior Credit Facility was used to pay fees and expenses of the aforementioned transaction and to provide additional working capital. As of September 30, 2008, we had \$46.0 million outstanding under the Term Loan.

**CAPITAL LEASES**

In December 2006, we acquired a corporate-configured helicopter under capital lease for internal use. The capital lease was paid off in the first quarter of 2008. In March 2007, we acquired equipment under a capital lease maturing in 2012.



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Total cost and accumulated depreciation of assets held under capital lease is as follows:

|                                | December 31,<br>2007 | September 30,<br>2008 |
|--------------------------------|----------------------|-----------------------|
|                                | (In thousands)       |                       |
| Aircraft                       | \$ 1,437             | \$                    |
| Equipment                      | 58                   | 58                    |
| Less: Accumulated depreciation | (101)                | (9)                   |
| Capitalized cost, net          | \$ 1,394             | \$ 49                 |

Depreciation expense for the three and nine months ended September 30, 2008 and 2007 was \$0.00 million and \$0.00 million and \$0.03 million and \$0.08 million, respectively, for all assets held under capital lease.

**SUBORDINATED PROMISSORY NOTES**

In May 2005, we issued approximately \$4.3 million of unsecured, subordinated promissory notes ( Subordinated Promissory Notes ). The Subordinated Promissory Notes were scheduled to be paid quarterly, with interest in arrears, over 36 months in level payments with interest accruing at the rate of 8% per annum. The Subordinated Promissory Notes were paid off in May 2008. At December 31, 2007 and September 30, 2008, the Subordinated Promissory Notes had a balance of approximately \$0.2 million and \$0.0 million, respectively.

**PREHEAT NOTES**

In connection with the purchase of all of the issued and outstanding stock of Preheat, Inc. ( Preheat ) in February 2006, we issued \$4.0 million in 5% promissory notes payable to certain Preheat stockholders ( Preheat Notes ). The Preheat Notes consist of three separate notes with \$2.7 million maturing in February 2008 and \$1.3 million maturing in February 2009. At December 31, 2007 and September 30, 2008, the Preheat Notes had a balance of \$4.0 million. In February 2008, we terminated the employment of one of the Preheat stockholders for cause. The terms of the Preheat Notes provide that a termination of either of the Preheat stockholders' employment for cause results in the cancellation of the Preheat Notes. The Preheat stockholders are contesting our assertion and have filed a lawsuit against the Company (see Note 4). Consequently, the Preheat Notes remain recorded as a liability in the financial statements pending resolution of the matter.

**RIG TOOLS NOTES**

In connection with the purchase of all of the issued and outstanding stock of Rig Tools, Inc. ( Rig Tools ) in November 2006, we issued \$4.0 million in 5% convertible promissory notes payable to certain Rig Tools stockholders ( Rig Tools Notes ). The Rig Tools Notes consist of three separate notes with \$3.0 million maturing in November 2007 and \$1.0 million maturing in November 2008. The Rig Tools Notes can be prepaid at any time and are convertible into shares of our common stock at a price of \$8.00 per share. We initially recorded a beneficial conversion feature of \$0.7 million related to the stock valuation at closing which was recorded as a debt discount and is being amortized over the life of the Rig Tools Notes. At December 31, 2007 and September 30, 2008, the Rig Tools Notes had a balance of \$1.0 million. The beneficial conversion feature had an unamortized balance of \$0.1 million and \$0.0 million at December 31, 2007 and September 30, 2008, respectively.

**CHARLES HOLSTON NOTES**

In connection with the acquisition of BMJ Industrial Investments, L.L.C. and its wholly-owned subsidiary, Charles Holston, Inc. (collectively Holston ) in March 2007 (See Note 7), we issued \$5.0 million in 5% promissory notes payable to certain Holston owners ( Holston Notes ). The Holston Notes consist of three separate notes with \$1.0 million maturing in February 2008, \$2.0 million maturing in February 2009 and \$2.0 million maturing in February 2010. The Holston Notes maturing in 2009 and 2010 are convertible into shares of our common stock at a price of \$9.24 per share. Based upon the stock valuation at the time of issuance, no beneficial conversion feature existed. At December 31, 2007 and September 30, 2008, the Holston Notes had a balance of \$5.0 million and \$4.0 million, respectively.

**CYPRESS NOTES**

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In connection with the acquisition of certain assets of Cypress Consulting Services, Inc. d/b/a Cypress Energy Services ( Cypress ) in February 2007, we issued a \$3.0 million promissory note accruing interest at an annual rate of 5% payable to a Cypress stockholder (the Cypress Note ). The Cypress Note is payable over three years with \$1.0 million maturing in February 2008, \$1.0 million maturing in February 2009 and \$1.0 million maturing in February 2010. At December 31, 2007 and September 30, 2008, the Cypress Note had a balance of \$3.0 million and \$2.0 million, respectively.

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### **BAILEY NOTE**

In connection with the acquisition of certain assets of Bailey Operating, Inc. ( BOI ) in June 2007, we issued a \$0.5 million promissory note accruing interest at an annual rate of 5% payable to BOI ( Bailey Note ). The Bailey Note is payable on or before May 31, 2010. At December 31, 2007 and September 30, 2008, the Bailey Note had a balance of \$0.5 million.

### **BEG NOTES**

In connection with the acquisition of certain assets of B.E.G. Liquid Mud Services Corp. ( BEG ) (See Note 7) in January 2008, we issued \$4.0 million of 5% promissory notes payable to certain shareholders of BEG ( BEG Notes ). The BEG Notes are payable over three years with \$1.3 million maturing in January 2009, \$1.3 million maturing in January 2010 and \$1.4 million maturing in January 2011 and are convertible into shares of our common stock at a rate of \$3.70 per share under certain circumstances. Based upon the stock valuation at the time of the issuance, no beneficial conversion feature exists. At September 30, 2008, the BEG Notes had a balance of \$4.0 million.

### **ILT NOTES**

In connection with the acquisition of ILT (See Note 7), we issued \$4.0 million of promissory notes payable to the shareholders of ILT ( ILT Notes ). The ILT Notes are payable over three years with \$2.0 million maturing in April 2009, \$1.0 million maturing in April 2010 and \$0.5 million maturing in April 2011. The ILT Notes bear interest at a rate of 5% per annum payable in arrears and are convertible into shares of our common stock at a rate of \$10.50 per share under certain circumstances. Based upon the stock valuation at the time of the issuance, no beneficial conversion feature exists. An additional note in the amount of \$0.5 million, which is non-convertible and non-interest bearing, matures in April 2011. At September 30, 2008, the ILT Notes had a balance of \$4.0 million.

### **INSURANCE NOTES PAYABLE**

A portion of our property and casualty insurance premiums are financed through certain short-term installment loan agreements. The insurance notes are payable in monthly installments through June 2009 and accrue interest at 3.97%.

### **NOTE 4. COMMITMENTS AND CONTINGENCIES**

#### **EXECUTIVE COMPENSATION AGREEMENTS**

Effective January 5, 2007, we entered into new Restricted Stock and Stock-Based Award Incentive Agreements (collectively RSAs ) with James Eckert, our former Chief Executive Officer, and Darcy Klug, our former Executive Vice President. The RSAs provided for the granting of between 400,000 and 500,000 shares of our restricted common stock to each of the executive officers on the terms set forth in the RSAs. The number of shares of restricted stock became fixed and payable in the event of (i) a change in control or the receipt by our Board of Directors of a change of control offer as defined by the RSAs; (ii) termination without cause; or (iii) death or disability. Additionally, at the time of vesting in the restricted shares, each executive officer would have received the right to a cash payment of \$1.2 million. The revised RSAs would have terminated on December 31, 2008, and any unvested restricted common stock or stock-based awards would have terminated and lapsed.

The RSA for Mr. Klug was mutually terminated pursuant to a Termination and Mutual Release Agreement effective April 28, 2008, in connection with the termination of his employment and the settlement of litigation between Mr. Klug and us, among others.

On December 31, 2007, we entered into a new Restricted Stock Agreement ( NRSA ) with Mr. Eckert. Under the NRSA, we awarded Mr. Eckert 400,000 restricted shares of our common stock on January 1, 2008. The restricted shares vested immediately, but the shares will remain subject to transfer restrictions which lapse at a rate of 33,333 quarterly after the initial lapse of transfer restrictions on 100,000 shares on January 1, 2009.

In conjunction with the NRSA, we mutually terminated the RSA with Mr. Eckert and entered into an Amended and Restated Employment Agreement ( Amended Agreement ) with Mr. Eckert. The Amended Agreement was effective until June 30, 2008 unless we had otherwise terminated it in accordance with the Amended Agreement. Additionally, we entered into a Consulting Agreement ( Consulting Agreement ) with Mr. Eckert effective December 31, 2007. Under the terms of the Consulting Agreement, upon the termination of the Amended Agreement on June 30, 2008, we have retained Mr. Eckert as an independent contractor to perform consulting services for us for a period of one year.

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On May 1, 2008, the former owners of Preheat, which we acquired in February 2006, filed a lawsuit in federal court in the United States District Court for the Western District of Louisiana in Lafayette, Louisiana, against us, our directors, our current Chief Executive Officer, our current Senior Vice President/Chief Financial Officer, one of our investment advisors, and a principal of the investment advisor. The lawsuit seeks, among other things, (i) a declaratory judgment that the Preheat purchase agreement executed in December 2005 is null because of alleged securities fraud and bad faith breach of the purchase agreement and that one of the former Preheat owner's ERISA rights be clarified, (ii) injunctive relief to halt alleged securities disclosure violations by us and to remove three board members, and (iii) damages resulting from the nullification of the Preheat

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purchase agreement. At this point, we are unable to assess the ultimate impact of this litigation on our financial position, results of operations or cash flows. However, we believe the claims against us are without merit and will vigorously contest any legal action. Accordingly, we have not accrued any amounts related to this litigation.

### **OTHER**

In the normal course of our business, we become involved in various litigation matters including, among other things, claims by third parties for alleged property damages, personal injuries and other matters. While we believe we have meritorious defenses against these claims, management has used estimates in determining our potential exposure and has recorded reserves in our financial statements related thereto where appropriate. It is possible that a change in our estimates of that exposure could occur, but we do not expect such changes in estimated costs will have a material effect on our financial position or results of operations.

### **NOTE 5. STOCKHOLDERS EQUITY**

#### **COMMON STOCK**

On November 11, 2005, we entered into a Common Stock Purchase Agreement (the "Stock Purchase Agreement") with Fusion Capital Fund II, LLC ("Fusion Capital"). Under terms of the Stock Purchase Agreement, Fusion Capital has committed to purchase up to \$25.0 million of our common stock, at intervals determined by us, at prices determined by a formula set forth in the Stock Purchase Agreement. As of September 30, 2008, 665,429 shares have been issued under this agreement generating proceeds of \$6.4 million. No shares were issued during the first or second quarter of 2008. The Stock Purchase Agreement expired in August 2008.

On April 29, 2008, we issued 400,000 shares of our common stock in partial settlement of litigation between Mr. Klug and us (See Note 4).

#### **PREFERRED STOCK**

At December 31, 2007 and September 30, 2008, 29 shares of Series B Preferred Stock are outstanding and are convertible into 7,733 shares of our common stock at a conversion rate of \$1.25 per share.

On May 17, 2005, we entered into a Securities Purchase Agreement with certain of our affiliates and executive officers to issue up to \$5.0 million of Series C Preferred in conjunction with the completion of a senior credit facility. Our Series C Preferred is convertible into shares of our common stock at a conversion price of \$1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between \$1.95 and \$3.50 per share. The conversion prices of our Series C Preferred and the warrant exercise prices were supported by a fairness opinion issued by a third party. The proceeds of the issuance were allocated to the warrants and preferred stock based on the relative fair value of each instrument. The value attributed to the warrants was \$2.9 million (\$2.7 million net of offering costs) and was recorded as additional paid in capital while \$0.6 million was the attributed value to the preferred stock. In addition, the conversion terms of the preferred stock result in a beneficial conversion feature valued at approximately \$0.7 million. As a result of the terms of conversion, we recorded a one time charge to retained earnings for this amount representing a deemed dividend to the preferred stockholders with the offset recorded in additional paid in capital.

On August 29, 2005, the remainder of the Series C Preferred and warrants were issued generating gross proceeds of \$1.5 million. The proceeds of the issuance of the second tranche were allocated to the warrants and preferred stock based on the relative fair value of each instrument. The entire value of \$1.5 million was attributed to the fair value of the warrants and was recorded as additional paid in capital. In addition, the conversion terms of the preferred stock issued in the second tranche resulted in no beneficial conversion feature.

The prior term loan agreements and the prior senior credit facility restricted the payment of cash dividends. Consequently, the dividend obligation related to the Series C Preferred had been satisfied through the issuance of payment-in-kind ("PIK") dividends. The PIK dividends were paid through the issuance of additional shares of Series C Preferred. These additional shares of preferred stock did not have warrants attached to them. During the three and nine months ended September 30, 2007, 128 shares of Series C Preferred were issued as PIK dividends. In addition, the conversion terms of the Series C Preferred stock issued as PIK dividends resulted in a beneficial conversion feature totaling \$0.1 million. As a result of these PIK dividends, we recorded a one time charge to retained earnings representing a dividend to the preferred stockholders with the offset recorded in additional paid in capital.

The prior senior credit facility originally restricted the payment of cash dividends. Effective April 29, 2007, the loan and security agreement governing the prior term loan was amended to remove the restriction on cash dividend payments on the Series C Preferred, provided we had sufficient availability under our Line and were in compliance with all other loan covenants. We paid cash dividends on the Series C Preferred

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during the three and nine months ended September 30, 2008 in the amount of \$0.1 million and \$0.4 million, respectively.

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During the three and nine months ended September 30, 2008, 88 shares of Series C Preferred were converted into 44,615 shares of our common stock. At September 30, 2008, 5,396 shares of Series C Preferred remain outstanding and are convertible into 2,767,179 shares of our common stock.

**STOCK BASED COMPENSATION**

We have two stock-based compensation plans available to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted units and restricted stock to key employees. The Seventh Amended and Restated OMNI Energy Services Corp. Stock Incentive Plan ( Stock Plan ), provides for the issuance of 4,250,000 shares of our common stock under the Stock Plan. The principal awards outstanding under our stock-based compensation plans include non-qualified stock options. In addition, we have the 1999 Stock Option Plan (the 1999 Plan ) which became effective on November 11, 1999 and was not approved by the stockholders. The total number of shares of our common stock available for issuance under the 1999 Plan is 100,000 shares.

The exercise price, term and other conditions applicable to each stock option granted under the stock plans are generally determined by the Compensation Committee of the Board of Directors. The exercise price of stock options is set on the grant date and may not be less than the fair market value per share of our stock on that date. The options generally become exercisable over a three-year period and expire after ten years.

There was \$0.4 million and \$0.2 million for the three month period ended September 30, 2008 and 2007, respectively, and \$1.0 million and \$0.7 million for the nine month period ended September 30, 2008 and 2007, respectively of compensation cost related to non-qualified stock options recognized in operating results (included in general and administrative expenses).

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility is based on implied volatilities from historical trading of our stock. We used the simplified method to derive an expected term. The expected term represents an estimate of the time options are expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. treasury yield curve in effect at the time of grant. The following table sets forth the assumptions used to determine compensation cost for our non-qualified stock options consistent with the requirements of SFAS No. 123R. The weighted average fair value at date of grant for options granted during the nine months ended September 30, 2007 and 2008 was \$4.61 and \$2.68 per option, respectively.

|                                | Nine Months Ended<br>September 30, 2007 | Nine Months Ended<br>September 30, 2008 |
|--------------------------------|---|---|
| Expected volatility            | 37.69%                                  | 52.98%                                  |
| Expected annual dividend yield | 0.00%                                   | 0.00%                                   |
| Risk free rate of return       | 4.61%                                   | 3.39%                                   |
| Expected option term (years)   | 6.50                                    | 6.50                                    |

The following table summarizes information about stock option activity for the three and nine months ended September 30, 2008 (in thousands, except option amounts):

|                                  | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (years) | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|-------------------------|--|---|---------------------------------|
| Outstanding at December 31, 2007 | 901,530                 | \$ 6.65                                  |   |                                 |
| Granted                          | 350,000                 | 4.49                                     |   |                                 |
| Exercised                        |                         |  |   |                                 |
| Lapsed or canceled               | (38,083)                | 8.91                                     |   |                                 |
| Outstanding at March 31, 2008    | 1,213,447               | \$ 5.95                                  | 8.5   | \$                              |
| Granted                          | 446,000                 | 5.05                                     |   |                                 |
| Exercised                        | (4,598)                 | 2.87                                     |   |                                 |
| Lapsed or canceled               | (36,681)                | 7.53                                     |   |                                 |

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|                                   |           |         |     |          |
|-----------------------------------|-----------|---------|-----|----------|
| Outstanding at June 30, 2008      | 1,618,168 | \$ 5.68 | 8.7 | \$ 1,181 |
| Granted                           | 1,000     | 3.72    |     |          |
| Exercised                         | (3,168)   | 3.13    |     |          |
| Lapsed or canceled                | (24,371)  | 7.06    |     |          |
| Outstanding at September 30, 2008 | 1,591,629 | \$ 5.66 | 8.4 | \$       |
| Exercisable at September 30, 2008 | 743,205   | \$ 5.54 | 7.9 | \$       |



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A summary of our warrants as of September 30, 2008 and changes during the three and nine months then ended are presented below:

|                               | WEIGHTED AVERAGE<br>EXERCISE PRICE | WARRANTS    |
|-------------------------------|------------------------------------|-------------|
| Balance at December 31, 2007  | \$ 2.78                            | 6,242,650   |
| Granted                       |                                    |             |
| Exercised                     |                                    |             |
| Forfeited                     |                                    |             |
| Balance at March 31, 2008     | \$ 2.78                            | 6,242,650   |
| Granted                       |                                    |             |
| Exercised                     |                                    |             |
| Forfeited                     |                                    |             |
| Balance at June 30, 2008      | \$ 2.78                            | 6,242,650   |
| Granted                       |                                    |             |
| Exercised                     | 2.50                               | (1,050,000) |
| Forfeited                     |                                    |             |
| Balance at September 30, 2008 | \$ 2.84                            | 5,192,650   |
| Exercisable                   | \$ 2.84                            | 5,192,650   |

**RESTRICTED STOCK**

During the three and nine month periods ended September 30, 2008, we issued 0 and 400,000 shares of restricted stock, respectively, under our Stock Plan in accordance with the NRSA described in Note 4 above. We also issued 0 and 62,500 shares of our restricted stock, respectively, under the Stock Plan in accordance with two employment agreements entered into with our executives.

The following table summarizes activity of unvested restricted stock awards for the three and nine months ended September 30, 2008:

|                                | SHARES    | WEIGHTED AVERAGE<br>GRANT DATE<br>FAIR VALUE | AGGREGATE<br>INTRINSIC<br>VALUE<br>(in<br>thousands) |
|--------------------------------|-----------|--|--|
| Unvested at December 31, 2007  | 12,500    | \$ 5.43                                      |  |
| Granted                        | 462,500   | \$ 4.82                                      |  |
| Vested                         | (400,000) | \$ 4.88                                      |  |
| Unvested at March 31, 2008     | 75,000    | \$ 4.58                                      | \$ 278   |
| Granted                        |           | \$   |  |
| Vested                         |           | \$   |  |
| Unvested at June 30, 2008      | 75,000    | \$ 4.58                                      | \$ 481   |
| Granted                        |           | \$   |  |
| Vested                         |           | \$   |  |
| Unvested at September 30, 2008 | 75,000    | \$ 4.58                                      | \$ 242   |

At September 30, 2008, \$0.3 million of total unrecognized compensation cost related to the unvested portion of the restricted stock awards is expected to be recognized over a weighted average period of 3.5 years.

**EARNINGS PER SHARE**

Basic earnings per share ( EPS ) is determined by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the potential dilution that could occur if options and other contracts to issue shares of common stock were exercised or converted into common stock.

For the three and nine months ended September 30, 2007, we had 413,486 and 259,439 options, respectively, and 151,500 and 0 warrants, respectively, that were excluded from the calculation of Diluted EPS as they were antidilutive. In addition,

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stockholder notes convertible into 500,000 shares of common stock were excluded from the calculation for the three and nine months ended September 30, 2007 because they were antidilutive.

For the three and nine months ended September 30, 2008, we had 1,450,132 and 1,233,052 options and restricted shares, respectively, and 598,650 warrants that were excluded from the calculation of Diluted EPS as they were antidilutive. In addition, Rig Tools Notes convertible into 125,000 shares of common stock, Holston Notes convertible into 0 and 432,900 shares of common stock and ILT Notes convertible into 0 and 193,431 shares of common stock were excluded from the calculation for the three and nine months ended September 30, 2008, respectively.

The following table reconciles net income available to common stockholders and common equivalent shares for the Basic EPS calculation to net income available to common stockholders and common equivalent shares for the Diluted EPS calculation for the three and nine months ended September 30, 2008 and 2007, respectively:

|  | Three Months Ended<br>September 30, 2007 |                               | Three Months Ended<br>September 30, 2008 |                               |
|--|--|-------------------------------|--|-------------------------------|
|  | Dollars                                  | Weighted<br>Average<br>Shares | Dollars                                  | Weighted<br>Average<br>Shares |
| (in thousands)   |  |                               |  |                               |
| Basic EPS net income available to common stockholders                                | \$ 4,064                                 | 18,509                        | \$ 3,986                                 | 19,919                        |
| Add:   |  |                               |  |                               |
| Stock options  |  | 257                           |  | 96                            |
| Warrants   |  | 4,295                         |  | 2,707                         |
| Contingently issuable shares   |  | 45                            |  | 120                           |
| Preferred stock  | 124                                      | 2,820                         | 123                                      | 2,775                         |
| Shareholder notes  | 50                                       | 433                           | 88                                       | 1,863                         |
| Total dilutive effect  | 174                                      | 7,850                         | 211                                      | 7,561                         |
| Diluted EPS net income available to common stockholders and common equivalent shares | \$ 4,238                                 | 26,359                        | \$ 4,197                                 | 27,480                        |

|  | Nine Months Ended<br>September 30, 2007 |                               | Nine Months Ended<br>September 30, 2008 |                               |
|--|---|-------------------------------|---|-------------------------------|
|  | Dollars                                 | Weighted<br>Average<br>Shares | Dollars                                 | Weighted<br>Average<br>Shares |
| (in thousands)   |   |                               |   |                               |
| Basic EPS net income available to common stockholders and common equivalent shares   | \$ 10,999                               | 17,881                        | \$ 5,080                                | 19,460                        |
| Add:   |   |                               |   |                               |
| Stock options  |   | 344                           |   | 101                           |
| Warrants   |   | 4,561                         |   | 2,907                         |
| Contingently issuable shares   |   | 45                            |   | 116                           |
| Preferred stock  | 633                                     | 2,896                         | 367                                     | 2,790                         |
| Shareholder notes  | 116                                     | 340                           | 86                                      | 1,010                         |
| Total dilutive effect  | 749                                     | 8,186                         | 453                                     | 6,924                         |
| Diluted EPS net income available to common stockholders and common equivalent shares | \$ 11,748                               | 26,067                        | \$ 5,533                                | 26,384                        |

**NOTE 6. SEGMENT INFORMATION**

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SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. Currently, we conduct our operations principally in five segments – Seismic Drilling, Fluid and Transportation Services, Environmental Services, Equipment Leasing, and Other Services, all of which operate exclusively in North America. The Seismic Drilling segment is comprised of three divisions – Drilling, Survey and Permitting. All remaining assets, primarily our corporate offices, warehouses and underlying real estate, also are located in North America. A sixth segment, classified as corporate, includes all other operating activities to support the executive offices, capital structure and costs of being a public registrant. These costs are not allocated to the business segments by management when determining segment profit or loss.

Drilling revenue is derived primarily from drilling and loading of the source points for seismic analysis. Survey revenue is recorded after the customer has determined the placement of source and receiving points, and after survey crews are sent into

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the field to plot each source and receiving point prior to drilling. Permitting revenue is derived from services provided in conjunction with obtaining permits from landowners. Transportation revenues are billed by the hour, load or barrel. Environmental revenue is earned from tank, vessel and rig pit cleaning. Equipment leasing revenue is derived from the rental of various pieces of oilfield equipment to offshore and land-based oil production rigs. Other services revenue is comprised of metal stress relieving, wellhead installation and offshore painting and blasting services.

The following table shows segment information (net of intercompany transactions) for the three months and nine months ended September 30, 2008 and 2007 (in thousands):

| Three Months Ended September 30,<br>(in thousands) | Fluid and<br>Transportation |              |               | Equipment<br>Leasing        | Other<br>Services | Corporate | Total      |
|--|-----------------------------|--------------|---------------|-----------------------------|-------------------|-----------|------------|
|  | Seismic                     | Services (1) | Environmental |                             |                   |           |            |
| <b>2008</b>  |                             |              |               |                             |                   |           |            |
| Operating revenues                                 | \$ 19,592                   | \$ 11,470    | \$ 6,654      | \$ 12,608                   | \$ 2,960          | \$        | \$ 53,284  |
| Operating income (loss)                            | 4,582                       | 2,722        | 708           | 2,241                       | 833               | (2,952)   | 8,134      |
| Interest expense                                   | 30                          | 106          | 6             | 112                         |                   | 1,264     | 1,518      |
| Depreciation and amortization                      | 438                         | 753          | 499           | 1,750                       | 68                | 112       | 3,620      |
| Identifiable assets                                | 31,211                      | 41,161       | 16,125        | 83,482                      | 3,722             | 17,218    | 192,919    |
| Capital expenditures                               | 119                         | 580          | 301           | 2,009                       |                   | 71        | 3,080      |
| <b>2007</b>  |                             |              |               |                             |                   |           |            |
| Operating revenues                                 | \$ 18,910                   | \$ 3,831     | \$ 9,364      | \$ 8,406                    | \$ 3,626          | \$        | \$ 44,137  |
| Operating income (loss)                            | 3,679                       | 164          | 2,261         | 2,034                       | 965               | (1,925)   | 7,178      |
| Interest expense                                   | 46                          | 40           | 7             | 256                         | 25                | 1,194     | 1,568      |
| Depreciation and amortization                      | 622                         | 420          | 454           | 1,055                       | 93                | 105       | 2,749      |
| Identifiable assets                                | 33,787                      | 19,202       | 20,816        | 60,977                      | 4,091             | 30,920    | 169,793    |
| Capital expenditures                               | 25                          | 244          | 159           | 2,087                       | 41                | 99        | 2,655      |
| Nine Months Ended September 30,<br>(in thousands)  | Fluid and<br>Transportation |              |               | Equipment<br>Leasing<br>(2) | Other<br>Services | Corporate | Total      |
|  | Seismic                     | Services (1) | Environmental |                             |                   |           |            |
| <b>2008</b>  |                             |              |               |                             |                   |           |            |
| Operating revenues                                 | \$ 54,284                   | \$ 27,728    | \$ 20,765     | \$ 31,669                   | \$ 8,719          | \$        | \$ 143,165 |
| Operating income (loss)                            | 10,522                      | 4,397        | 2,734         | 3,308                       | 2,017             | (8,475)   | 14,503     |
| Interest expense                                   | 101                         | 311          | 20            | 1,076                       | 5                 | 3,718     | 5,231      |
| Depreciation and amortization                      | 1,465                       | 2,337        | 1,434         | 3,944                       | 266               | 330       | 9,776      |
| Identifiable assets                                | 31,211                      | 41,161       | 16,125        | 83,482                      | 3,722             | 17,218    | 192,919    |
| Capital expenditures                               | 266                         | 2,021        | 1,311         | 5,724                       | 247               | 117       | 9,686      |
| <b>2007</b>  |                             |              |               |                             |                   |           |            |
| Operating revenues                                 | \$ 61,930                   | \$ 9,739     | \$ 27,384     | \$ 23,628                   | \$ 8,466          | \$        | \$ 131,147 |
| Operating income (loss)                            | 14,620                      | 627          | 6,586         | 5,447                       | 1,878             | (5,581)   | 23,577     |
| Interest expense                                   | 109                         | 104          | 31            | 765                         | 41                | 3,847     | 4,897      |
| Depreciation and amortization                      | 1,865                       | 991          | 1,302         | 3,075                       | 209               | 294       | 7,736      |
| Identifiable assets                                | 33,787                      | 19,202       | 20,816        | 60,977                      | 4,091             | 30,920    | 169,793    |
| Capital expenditures                               | 117                         | 1,166        | 1,015         | 8,215                       | 419               | 952       | 11,884     |

- (1) The transportation segment began in conjunction with the acquisition of Holston in March 2007. The fluid services began with the acquisition of BEG in January 2008.
- (2) The Equipment Leasing segment includes the provision for the settlement of the Siemens litigation in the amount of \$2.4 million in the first quarter of 2008. Additionally, interest expense in that segment includes approximately \$0.7 million of judicial interest related to the Siemens litigation in the same period.

**Table of Contents****NOTE 7. ACQUISITIONS****CHARLES HOLSTON, INC.**

On March 2, 2007, we acquired Holston pursuant to a Membership Interest Purchase and Sale Agreement (the "Holston Purchase Agreement"). Subject to the terms and conditions of the Holston Purchase Agreement, we purchased 100% of the membership interests and equity interests of Holston for the total consideration of approximately \$23.0 million, including \$18.0 million in cash, \$5.0 million in 5% promissory notes payable to certain owners and the assumption of approximately \$3.4 million in debt and other liabilities. The Holston Notes consist of three separate notes with \$1.0 million maturing in February 2008, \$2.0 million maturing in February 2009 and \$2.0 million maturing in February 2010. The Holston Notes maturing in 2009 and 2010 are convertible into shares of our common stock at \$9.24 per share. The acquisition was accounted for using purchase accounting. Holston provides a full range of environmental services including transportation of non-hazardous oilfield byproducts, such as salt water and spent drilling fluids; naturally occurring radioactive material ( NORM ) surveys, cleaning and waste disposal; tank degreasing and demolition; rig pit cleaning; oilfield waste disposal; hydro blasting; dockside and offshore cleaning; and offshore sandblasting and painting. Holston also operates salt water disposal wells. The addition of Holston expands our Environmental Services operations into the transportation and disposal of non-hazardous oilfield byproducts, and is an extension of that business unit. Holston also offers a wide variety of rental equipment including frac tanks, gas busters, generators, lighting systems and roll-off containers, which complements the equipment currently offered by our oilfield rental equipment units, Preheat and Rig Tools. The results of Holston's operations are included in our consolidated financial statements since the effective date of the acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The property and equipment are amortized over three to ten years with no residual value. The allocation of the purchase price is as follows (in thousands):

|   |           |
|---|-----------|
| Current assets (includes cash of \$2,676) | \$ 9,158  |
| Property and equipment                    | 13,362    |
| Other assets, including intangibles       | 11,621    |
| Deferred income tax liability             | (4,431)   |
| Current liabilities                       | (3,284)   |
| Assumption of debt                        | (3,426)   |
| <br>                                      |           |
| Purchase price                            | \$ 23,000 |

**BEG**

On January 18, 2008, we completed the acquisition of BEG pursuant to an Asset Purchase Agreement (the "BEG Purchase Agreement"). Subject to the terms and conditions of the BEG Purchase Agreement, we purchased certain assets from BEG for the total consideration of approximately \$11.95 million, including \$7.45 million of cash, a payable of \$0.5 million held in escrow pending final reconciliation of purchase matters and the issuance of \$4.0 million of three-year, 5% convertible promissory notes.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of this acquisition. The property and equipment are amortized over three to ten years with no residual value. The final allocation of the purchase price has not been completed. The allocation of the purchase price is subject to adjustment as acquired asset and liability values are finalized and certain look back provisions are resolved (in thousands):

|   |           |
|---|-----------|
| Current assets (includes cash of \$341) | \$ 2,505  |
| Property and equipment                  | 4,554     |
| Other assets, including intangibles     | 5,402     |
| Current liabilities                     | (511)     |
| <br>                                    |           |
| Purchase price                          | \$ 11,950 |

**INDUSTRIAL LIFT**

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On April 24, 2008, pursuant to a Stock Purchase and Sale Agreement we completed the acquisition of 100% of the issued and outstanding shares of common stock of ILT for an aggregate acquisition price of \$20.3 million, including \$16.3 million of cash and the issuance of \$4.0 million of three-year, 5% promissory notes, of which \$3.5 million of such notes are convertible.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of this acquisition. The property and equipment are amortized over three to ten years with no residual value. The final allocation of the purchase price has not been completed. The allocation of the purchase price is subject to adjustment as acquired asset and liability values are finalized and certain look back provisions are resolved (in thousands):

|   |           |
|---|-----------|
| Current assets (includes cash of \$2,523) | \$ 5,736  |
| Property and equipment                    | 16,538    |
| Other assets, including intangibles       | 5,419     |
| Deferred income tax liability             | (3,732)   |
| Current liabilities                       | (2,886)   |
| Assumption of debt                        | (825)     |
| <br>                                      |           |
| Purchase price                            | \$ 20,250 |

The pro forma unaudited results summarized below reflect our consolidated pro forma results of operations as if CHI, Cypress, BEG and ILT were acquired on January 1, 2007. The results of BOI prior to acquisition are considered immaterial and are therefore not included below.

|  | Three Months Ended                       |           | Nine Months Ended     |            |
|--|--|-----------|-----------------------|------------|
|  | September 30,<br>2007                    | 2008      | September 30,<br>2007 | 2008       |
|  | (in thousands, except per share amounts) |           |                       |            |
| <b>Operating revenue:</b>  |  |           |                       |            |
| Services   | \$ 39,261                                | \$ 40,676 | \$ 124,802            | \$ 111,887 |
| Rentals  | 12,247                                   | 12,608    | 34,647                | 37,001     |
| <br>   |  |           |                       |            |
| Total operating revenue  | 51,508                                   | 53,284    | 159,449               | 148,888    |
| <br><b>Operating expenses:</b>   |  |           |                       |            |
| Direct costs (exclusive of depreciation and amortization shown separately below)   |  |           |                       |            |
| Services   | 27,269                                   | 27,856    | 85,411                | 79,800     |
| Rentals  | 5,125                                    | 6,392     | 15,782                | 18,492     |
| Depreciation and amortization  | 3,531                                    | 3,620     | 10,558                | 10,454     |
| General and administrative expenses (exclusive of depreciation and amortization shown separately above) (includes litigation settlement of \$2,400 in the first quarter of 2008) | 5,793                                    | 7,282     | 17,841                | 23,758     |
| <br>   |  |           |                       |            |
| Total operating expenses   | 41,718                                   | 45,150    | 129,592               | 132,504    |
| <br>   |  |           |                       |            |
| Operating income   | 9,790                                    | 8,134     | 29,857                | 16,384     |
| Interest expense   | (2,054)                                  | (1,518)   | (6,713)               | (5,672)    |
| Loss on debt extinguishment  |  |           | (1,004)               |            |
| Other income (expense), net  | 267                                      | 65        | 344                   | (76)       |
| <br>   |  |           |                       |            |
| Income before income tax expense   | 8,003                                    | 6,681     | 22,484                | 10,636     |
| Provision for income tax expense   | (2,487)                                  | (2,572)   | (8,079)               | (4,266)    |
| <br>   |  |           |                       |            |
| Net income   | 5,516                                    | 4,109     | 14,405                | 6,370      |
| Dividends and accretion of preferred stock   | (123)                                    | (123)     | (378)                 | (367)      |
| Non-cash charge attributable to beneficial conversion feature of preferred stock   |  |           | (255)                 |            |
| <br>   |  |           |                       |            |
| Net income available to common stockholders  | \$ 5,393                                 | \$ 3,986  | \$ 13,772             | \$ 6,003   |



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Basic income per share:

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Net income available to common stockholders | \$ 0.29 | \$ 0.20 | \$ 0.77 | \$ 0.31 |
|---|---------|---------|---------|---------|

Diluted income per share:

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Net income available to common stockholders | \$ 0.20 | \$ 0.15 | \$ 0.53 | \$ 0.24 |
|---|---------|---------|---------|---------|

Weighted average common shares outstanding:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 18,509 | 19,919 | 17,881 | 19,460 |
| Diluted | 27,773 | 27,480 | 27,544 | 26,455 |

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**Table of Contents****NOTE 8. INCOME TAXES**

As of September 30, 2008, for tax purposes, we had a recorded net tax liability of \$0.5 million. We account for income taxes under the provision of SFAS No. 109, which requires recognition of future tax benefits (temporary differences), subject to a valuation allowance based on more-likely-than-not that such asset will be realized. In determining whether it is more-likely-than-not that we will realize such tax asset, SFAS No. 109 requires that all negative and positive evidence be considered (with more weight given to evidence that is objective and verifiable) in making the determination. We recorded income tax expense \$6.0 million and \$3.7 million for the nine months ended September 30, 2007 and 2008, respectively.

On January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*, or FIN 48. As a result of the implementation of FIN 48, management assessed its various income tax positions and this assessment resulted in no adjustment to the tax asset or liability. We will account for interest and penalties relating to uncertain tax positions in the current period income statement, as necessary. The 2004, 2005, 2006 and 2007 tax years remain subject to examination by various federal, state and foreign tax jurisdictions.

**NOTE 9. RELATED PARTY TRANSACTIONS**

As mentioned in Note 5, the prior term loan had previously restricted the payment of cash dividends. Consequently, a portion of the 9% dividend obligation related to the Series C Preferred, which was issued to certain of our affiliates and executive officers, had been satisfied through the issuance of additional shares of Series C Preferred as PIK dividends. These additional shares of preferred stock did not have warrants attached to them. During the three months ended March 31, 2007, 128 shares of Series C Preferred were issued as PIK dividends at par. In addition, PIK dividends representing 127 shares of Series C Preferred were declared during that same period. Since the prior term loan was amended in April 2007 to allow dividend payments to be made in cash, dividends of \$0.1 million each were accrued for the last quarter of 2007 and the first, second and third quarters of 2008 were paid in cash during the first, second and third quarters of 2008.

In connection with the purchase of all of the issued and outstanding stock of Preheat, we issued the Preheat Notes payable to certain Preheat stockholders. The Preheat Notes consist of three separate notes with \$2.7 million maturing in February 2008 and \$0.5 million and \$0.8 million maturing in February 2009. At December 31, 2007 and September 30, 2008, the Preheat Notes had a balance of \$4.0 million. In February 2008, we terminated the employment of one of the Preheat stockholders because we concluded that he had violated his employment agreement by actions that included becoming involved with another company during his employment. The terms of the Preheat Notes provide that a termination of either of the Preheat stockholders' employment for cause results in the cancellation of the Preheat Notes. The Preheat stockholders are contesting our assertion and have filed a lawsuit against the Company. Consequently, the Preheat Notes remain recorded as a liability in the financial statements pending resolution of the matter.

In connection with the purchase of all of the issued and outstanding stock of Rig Tools, we issued the Rig Tools Notes payable to certain Rig Tools stockholders. The Rig Tools Notes consist of three separate notes with \$3.0 million maturing in November 2007 and \$1.0 million maturing in November 2008. The Rig Tools Notes can be prepaid at any time and are convertible into shares of our common stock at a price of \$8.00 per share. We recorded a beneficial conversion feature of \$0.7 million related to the stock valuation at closing which is being amortized over the life of the Rig Tools Notes. At December 31, 2007 and September 30, 2008, the Rig Tools Notes had a balance of \$1.0 million. The beneficial conversion feature had an unamortized balance of \$0.1 million and \$0.0 million at December 31, 2007 and September 30, 2008, respectively.

In connection with the acquisition of Holston, we issued the Holston Notes payable to certain Holston stockholders. The Holston Notes consist of three separate notes with \$1.0 million maturing in February 2008, \$2.0 million maturing in February 2009 and \$2.0 million maturing in February 2010. The Holston Notes maturing in 2009 and 2010 are convertible into shares of our common stock at a price of \$9.24 per share. Based upon the stock valuation at the time of issuance, no beneficial conversion feature existed. At December 31, 2007 and September 30, 2008, the Holston Notes had a balance of \$5.0 million and \$4.0 million, respectively. In conjunction with the acquisition of Holston, we acquired a receivable from an entity owned by the former shareholders of Holston who are now our employees. This receivable had a balance at December 31, 2007 and September 30, 2008 of \$0.3 million.

In connection with the acquisition of certain assets of Cypress, we issued the Cypress Note payable to a Cypress stockholder. The Cypress Note is payable over three years with \$1.0 million maturing in February 2008, \$1.0 million maturing in February 2009 and \$1.0 million maturing in February 2010. At December 31, 2007 and September 30, 2008, the Cypress Note had a balance of \$3.0 million and \$2.0 million, respectively.

In connection with the acquisition of certain assets of BEG, we issued the BEG Notes payable to certain shareholders of BEG. The BEG Notes are payable over three years with \$1.3 million maturing in January 2009, \$1.3 million maturing in January 2010 and \$1.4 million maturing in

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January 2011 and are convertible into shares of our common stock at a rate of \$3.70 per share under certain circumstances. Based upon the stock valuation at the time of issuance, no beneficial conversion feature existed. At September 30, 2008, the BEG Notes had a balance of \$4.0 million.

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In connection with the acquisition of ILT, we issued the ILT Notes payable to shareholders of ILT. The ILT Notes are payable over three years with \$2.0 million maturing in April 2009, \$1.0 million maturing in April 2010 and \$0.5 million maturing in April 2011 and bear interest at a rate of 5% per annum payable in arrears and are convertible into shares of our common stock at a rate of \$10.50 per share under certain circumstances. Based upon the stock valuation at the time of issuance, no beneficial conversion feature existed. An additional note in the amount of \$0.5 million is non-interest bearing and matures in April 2011. At September 30, 2008, the ILT Notes had a balance of \$4.0 million.

In August 2008, certain holders of the Series C Preferred elected to exercise their warrants with an exercise price of \$2.50. As a result, the Company received \$2.6 million in proceeds and a total of 1,050,000 additional shares of our common stock were issued.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 (the Securities Act) and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), which reflect management's best judgment based on factors currently known. Actual results could differ materially from those anticipated in these forward looking statements as a result of a number of factors, including but not limited to those discussed under the heading Forward-Looking Statements. Forward looking statements provided by us pursuant to the safe harbor established by the federal securities laws should be evaluated in the context of these factors.

This discussion should be read in conjunction with the financial statements and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K, for the year ended December 31, 2007 filed with the Securities and Exchange Commission on March 17, 2008.

## **FORWARD-LOOKING STATEMENTS**

Certain of the statements contained in all parts of this document (including the portion, if any, to which this Form 10-Q is attached), including, but not limited to, those relating to our acquisition plans, the effect of changes in strategy and business discipline, future tax matters, future general and administrative expenses, future growth and expansion, expansion of our operations, review of acquisitions, expansion and improvement of our capabilities, integration of new technology into operations, credit facilities, redetermination of our borrowing base, attraction of new members to the management team, future compensation programs, new alliances, future capital expenditures (or funding thereof) and working capital, sufficiency of future working capital, borrowings and capital resources and liquidity, projected rates of return, timely conversion of backlog into revenue, retained earnings and dividend policies, projected cash flows from operations, future, outcome, effects or timing of any legal proceedings or contingencies, the impact of any change in accounting policies on our financial statements, realization of post-closing price adjustments with respect to the recent acquisitions, management's assessment of internal control over financial reporting, the identification of material weaknesses in internal control over financial reporting and any other statements regarding future operations, financial results, opportunities, growth, business plans and strategy and other statements that are not historical facts are forward looking statements. These forward-looking statements reflect our current view of future events and financial performance. When used in this document, the words budgeted, anticipate, estimate, expect, may, project, believe, intend, plan, potential, forecast, might, similar expressions are intended to be among the statements that identify forward-looking statements. These forward-looking statements speak only as of their dates and should not be unduly relied upon. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise. Such statements involve risks and uncertainties, including, but not limited to, those set forth under ITEM 1A. RISK FACTORS and other factors detailed in our Form 10-K for the year ended December 31, 2007 filed on March 17, 2008 and our other filings with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by reference to these risks and uncertainties.

## **RECENT DEVELOPMENTS**

None.

## **GENERAL**

We were founded in 1987, as OMNI Drilling Corporation, to provide drilling services to the geophysical industry. In July 1996, OMNI Geophysical, L.L.C. acquired substantially all of the assets of OMNI Geophysical Corporation, the successor to the business of OMNI Drilling Corporation. OMNI Energy Services Corp. ( OMNI ) was formed as a Louisiana corporation on September 11, 1997 to acquire all of the

outstanding common units of OMNI Geophysical L.L.C.

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We are a leading oilfield service company specializing in providing an integrated range of (i) onshore seismic drilling, operational support, permitting, and survey services to geophysical companies operating in logistically difficult and environmentally sensitive terrain, (ii) dockside and offshore hazardous and non-hazardous oilfield waste management and environmental cleaning services, including tank and vessel cleaning and safe vessel entry for oil and gas companies operating primarily in the Gulf of Mexico, (iii) drilling fluid transportation and disposal services, (iv) a large fleet of oilfield equipment available for leasing on a daily basis for oil and gas companies operating in the Gulf of Mexico, the Rocky Mountain region and the Barnett Shale region in North Texas, and (v) other specialized services such as metal stress relieving, offshore cleaning, and wellhead reheating and installation. We operate in five business segments: Seismic Drilling (which includes seismic drilling, permitting and survey services), Environmental Services, Equipment Leasing, Fluid and Transportation and Other Services (which includes metal stress relieving, offshore cleaning and blasting and wellhead installations).

### **EXECUTIVE OVERVIEW**

Our business is driven by the supply and demand of hydrocarbon commodities in the United States and, to a certain extent, the international markets. Virtually all of our customers are involved in the exploration and/or production of oil and natural gas in the continental United States and the coastal waters of the Gulf of Mexico. Not surprisingly, a higher demand for oil and gas results in a higher demand for our equipment and services. We experienced a slight reduction in Seismic Drilling in the first quarter of 2008 related to weather and permitting issues but have seen higher activity levels in the second and third quarters.

In the immediate past, we have been very active in acquiring companies which we believe are well aligned with our Company philosophy. The companies acquired have been complementary to our core business segments. We plan to diversify into other service lines and other service areas through additional acquisitions as such opportunities arise that we believe fit into our overall business strategy.

We continue to maintain a large and visible presence along the coast of Louisiana to service our customers in the offshore exploration and production markets. While the offshore rig counts in the Gulf of Mexico have fallen in recent years and remained stagnant from 2007 into 2008, we feel that there is still adequate activity in the area to allow us to remain profitable in that region.

Our acquisitions have allowed us to expand our operations into what currently appear to be more prolific areas of activity, such as the Rocky Mountains, Barnett Shale region in Northern Texas, the Haynesville Shale region in Northern Louisiana and the Fayetteville Shale region in Arkansas.

We anticipate that the Rocky Mountain region will continue to be a very active area in terms of natural gas exploration. During 2006, we opened an equipment leasing location in Rock Springs, Wyoming to allow us to establish a presence in the Rocky Mountain region. In conjunction with the acquisition of Holston, we were able to expand our visibility in the Rocky Mountains with the addition of an additional equipment leasing location in Vernal, Utah.

The Barnett Shale region in Northern Texas also appears to be a very active area in terms of oil and gas exploration and production. Our acquisition of Rig Tools in November 2006 allowed us to position ourselves in the Barnett Shale and other Texas regions to take advantage of the anticipated growth in that geographical area. It is our intention to continue to expand in that area. We have recently expanded the operations of ILT into Northern Texas to allow us to better serve our customers in the Barnett Shale and Haynesville Shale regions.

#### *Seismic Drilling.*

The principal market of our Seismic Drilling division is the marsh, swamp, shallow water and contiguous dry land areas along the Gulf of Mexico (the Transition Zone), primarily in Louisiana and Texas, where we are the leading provider of seismic drilling support services. In addition, we have seismic drilling operations in the mountainous regions of the Western United States, and in various Transition Zone regions of Mexico.

We own and operate a fleet of specialized seismic drilling and transportation equipment for use in the Transition Zone. We believe we are the only domestic company that currently can both provide an integrated range of seismic drilling, permitting, and survey services in all of the varied terrain of the Transition Zone and simultaneously support operations for multiple, large-scale seismic projects. With the acquisition of all of the assets of AirJac Drilling, a division of Veritas Land DGC, we became the largest domestic provider of seismic drilling services to geophysical companies.

Effective February 16, 2007, we completed the acquisition of certain assets of Cypress Consulting Services, Inc. d/b/a Cypress Energy Services (Cypress). Cypress currently operates in two distinct business areas (both of which are included in our Seismic Drilling Segment) Seismic Drilling and Employee Leasing. The acquisition included the assumption of approximately \$20 million of seismic drilling contracts. The

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acquisition of the seismic drilling assets of Cypress substantially improves our market position as a leading provider of domestic highland seismic drilling services. We have previously been considered the leading domestic provider of seismic drilling services in the Transition Zone. The acquisition of the assets of

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Cypress further strengthens the permitting and survey services offered to our customers. With the Cypress acquisition, we also acquired their employee leasing division which employs skilled and unskilled personnel who provide contract labor services to various companies operating in the oil and gas industry. By integrating this workforce into our existing employee intensive business units, we believe we will be able to better manage temporary fluctuations in employee demands within those business units.

### *Environmental Services.*

We provide dock-side and offshore hazardous and non-hazardous oilfield waste management and environmental cleaning services, including drilling rig, tank and vessel cleaning, safe vessel entry, naturally occurring radioactive material ( NORM ) decontamination, platform abandonment services, pipeline flushing, gas dehydration, and hydro blasting. Demand for our dock-side vessel and tank cleaning and non-hazardous waste treatment businesses are primarily driven by drilling and well-site abandonment activity in the shallow waters of the Gulf of Mexico, as reflected by the drilling rig count. Much of the cleaning and waste treatment is from residual waste created in the drilling process.

In March 2007, we completed the acquisition of BMJ Industrial Investments L.L.C. and its wholly-owned subsidiary Charles Holston, Inc. (collectively Holston ). Holston provides a full range of environmental services including transportation of non-hazardous oilfield byproducts, such as saltwater and spent drilling fluids; NORM surveys, cleaning and waste disposal; tank degreasing and demolition; rig pit cleaning; oilfield waste disposal; hydro blasting; dockside and offshore cleaning; and offshore sandblasting and painting. Holston also operates salt water disposal wells in Richard and Gueydan, Louisiana. During early 2007, Holston expanded its equipment rental operations into the Rocky Mountain region of the United States. Holston maintains an operations facility in Jennings, Louisiana and dockside facilities in Cameron and Fourchon, Louisiana. Holston s rental operations are located in Vernal, Utah.

### *Equipment Leasing.*

We provide rental equipment for various oilfield and commercial applications including pressure washers, steam cleaners, water, mud and disposal pumps; mud, fuel and frac tanks; air compressors; wireline units; generators; high pressure washers; light towers; tubing; and handling tools.

The April 2008 acquisition of Industrial Lift Truck and Equipment Co., Inc. ( ILT ) allowed us to further expand the line of products that we provide for lease into specialized lifting units such as industrial forklifts and manlifts.

### *Fluid and Transportation Services.*

As mentioned above, we completed the acquisition of Holston in March 2007. Holston offers transportation of non-hazardous byproducts, such as saltwater and spent drilling fluids. Holston also operates two saltwater disposal wells for the disposal of non-hazardous byproducts. In late 2007, Holston received the necessary licensing and permits to go forward with the addition of a third saltwater disposal well, which became operational in the first quarter of 2008.

In June 2007, we acquired certain assets of Bailey Operating, Inc. ( BOI ). The acquisition of the assets of BOI geographically extends our core businesses into the Barnett Shale region in North Texas, currently one of the most prolific onshore regions in the United States for oil and gas exploration. In addition to the acquisition of a facility for the disposal of non-hazardous oilfield waste by-products, the acquisition also establishes a platform for further geographic expansion of our core businesses. We expect to immediately expand our Transportation Services and Equipment Leasing operations into this Barnett Shale region. Thereafter, follow-on expansion will occur through a combination of increased asset utilization, planned capital expenditures and other strategic transactions currently under consideration.

In January 2008, we completed the acquisition of the assets of B.E.G. Liquid Mud Services Corp. ( BEG ). The acquisition of the assets of BEG is an extension of our fluid transportation services and our land-based equipment leasing operations. It allows us to better serve our customers by offering a drilling support package including the supply of drilling fluids, chemicals, storage, mixing and fluid pumping services as well as fluid trucking, recycling, tank cleaning and disposal services. Through Holston, we currently handle the transportation of oilfield drilling and production fluids in Louisiana. Our land-based equipment leasing operation through Rig Tools has been primarily focused on drilling equipment rental in Louisiana and Central Texas. The acquisition of BEG strategically positions us for further geographic expansion of these services and also extends our transportation and land-based equipment leasing operations into the southern regions of the Barnett Shale and into East Texas. Additionally, we believe we will be able to capitalize on our existing customer relationships to geographically expand BEG s fluid service distribution facilities into other prolific onshore regions of the United States.

### *Other Services.*



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The acquisition of Preheat allowed us to offer additional services to our customers including wellhead installation, stress relieving services and environmental pit cleaning.

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All of our operations are subject to seasonal variations in weather conditions and available daylight hours. Since our drilling and environmental activities take place outdoors, on average we experience lower production in winter months than in summer months, due to an increase in rain, fog, and cold conditions and a decrease in daylight hours. These winter conditions also generally result in fewer hours worked per day and fewer holes drilled or surveyed per day during that season.

**RESULTS OF OPERATIONS**

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2007                                | 2008      | 2007                               | 2008       |
| (in thousands, except per share amounts)   |                                     |           |                                    |            |
| <b>Operating revenue:</b>  |                                     |           |                                    |            |
| Services   | \$ 35,731                           | \$ 40,676 | \$ 107,519                         | \$ 111,496 |
| Rentals  | 8,406                               | 12,608    | 23,628                             | 31,669     |
| Total operating revenue  | 44,137                              | 53,284    | 131,147                            | 143,165    |
| <b>Operating expenses:</b>   |                                     |           |                                    |            |
| Direct costs (exclusive of depreciation and amortization shown separately below)   |                                     |           |                                    |            |
| Services   | 24,806                              | 27,856    | 72,849                             | 79,524     |
| Rentals  | 3,970                               | 6,392     | 10,674                             | 15,945     |
| Depreciation and amortization  | 2,749                               | 3,620     | 7,736                              | 9,776      |
| General and administrative expenses (exclusive of depreciation and amortization shown separately above) (includes litigation settlement of \$2,400 in the first quarter of 2008) | 5,434                               | 7,282     | 16,311                             | 23,417     |
| Total operating expenses   | 36,959                              | 45,150    | 107,570                            | 128,662    |
| Operating income   | 7,178                               | 8,134     | 23,577                             | 14,503     |
| Interest expense   | (1,568)                             | (1,518)   | (4,897)                            | (5,231)    |
| Loss on debt extinguishment  |                                     |           | (1,004)                            |            |
| Other income (expense), net  | 234                                 | 65        | 299                                | (137)      |
| Income before income tax expense   | 5,844                               | 6,681     | 17,975                             | 9,135      |
| Provision for income tax expense   | (1,656)                             | (2,572)   | (6,343)                            | (3,688)    |
| Net income   | 4,188                               | 4,109     | 11,632                             | 5,447      |
| Dividends and accretion of preferred stock   | (124)                               | (123)     | (378)                              | (367)      |
| Non-cash charge attributable to beneficial conversion feature of preferred stock   |                                     |           | (255)                              |            |
| Net income available to common stockholders  | \$ 4,064                            | \$ 3,986  | \$ 10,999                          | \$ 5,080   |

**THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2007**

Operating revenues increased \$9.2 million, from \$44.1 million for the three months ended September 30, 2007 to \$53.3 million for the three months ended September 30, 2008. Operating revenues related to services increased \$5.0 million. Our transportation and fluid services segment, enhanced by the BEG acquisition effective January 2008, and our seismic services segment accounted for \$7.7 million and \$0.7 million of the increase, respectively. These increases were offset by decreases in our environmental services segment, and our other services segment of \$2.7 million and \$0.7 million, respectively. Operating revenues related to our equipment leasing segment, enhanced by the ILT acquisition effective April 2008, increased \$4.2 million.

Direct costs related to services increased \$3.1 million, from \$24.8 million for the three months ended September 30, 2007 to \$27.9 million for the three months ended September 30, 2008. Direct costs for our transportation and fluid services segment, enhanced by the BEG acquisition, accounted for \$4.6 million of the increase. This increase was offset by a decrease for the environmental services segment. Direct costs related to rentals increased \$2.4 million, from \$4.0 million for the three months ended September 30, 2007 to \$6.4 million for the three months ended

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September 30, 2008. Direct costs as a result of the ILT acquisition accounted for \$2.1 million of the increase. Of the total increase in direct costs, \$3.7 million relates to repairs and maintenance and cost of parts sold, \$1.3 million relates to explosives and down-hole supplies, \$0.8 million relates to third-party contract services, \$0.7 million relates to fuel and oil, and \$0.4 million relates to hurricane damages, offset by decreases in payroll costs of \$1.8 million.

Depreciation and amortization costs increased \$0.9 million from \$2.7 million for the three month period ended September 30, 2007 to \$3.6 million for the three month period ended September 30, 2008. Depreciation expense increased \$1.0 million due primarily to the increase in revenue-producing assets from the acquisitions of BEG in January 2008 and ILT in April 2008.

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Amortization expense decreased \$0.2 million despite the increase in intangibles related to the aforementioned acquisitions due to a 2007 purchase price adjustment related to the Preheat acquisition.

General and administrative costs increased \$1.9 million, from \$5.4 million during the three month period ended September 30, 2007 to \$7.3 million during the same three month period of 2008 partially as a result of the acquisitions of BEG and ILT. Of this increase, \$0.9 million relates to increased payroll costs and \$0.5 million relates to professional services.

Interest expense decreased approximately \$0.1 million from \$1.6 million for the three month period ended September 30, 2007, to \$1.5 million for the three month period ended September 30, 2008. The decrease in interest expense was attributable to decreased interest rates on variable interest debt between the periods. Interest expense includes \$0.3 million and \$0.4 million in the three month periods ended September 30, 2007 and 2008, respectively, related to amortization of deferred loan costs.

### **NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2007**

Operating revenues increased \$12.1 million, from \$131.1 million for the nine months ended September 30, 2007 to \$143.2 million for the nine months ended September 30, 2008. Operating revenues related to services increased \$4.1 million. Our fluid and transportation segment, enhanced by the Holston acquisition effective March 2007 and the BEG acquisition effective January 2008, and our other services segment accounted for \$18.0 million and \$0.3 million of the increase, respectively. These increases were offset by decreases in our seismic services segment and our environmental services segment of \$7.6 million and \$6.6 million, respectively. Operating revenues related to our equipment rental segment, enhanced by the ILT acquisition effective April 2008, increased \$8.0 million.

Direct costs related to services increased \$6.7 million, from \$72.8 million for the nine months ended September 30, 2007 to \$79.5 million for the nine months ended September 30, 2008. Direct costs for our transportation and fluid services segment, enhanced by the BEG acquisition accounted for \$12.3 million of the increase. Our other services and corporate segments also recognized increases of \$0.5 million and \$0.2 million, respectively. These increases were offset by decreases for the seismic services segment and the environmental services segment of \$2.8 million and \$3.5 million, respectively. Direct costs related to rentals increased \$5.3 million, from \$10.7 million for the nine months ended September 30, 2007 to \$16.0 million for the nine months ended September 30, 2008. Direct costs as a result of the ILT acquisition accounted for \$3.2 million of the increase. Of the total increase in direct costs, \$8.3 million relates to repairs and maintenance and cost of parts sold, \$2.4 million relates to explosives and down-hole supplies, \$1.7 million relates to fuel and oil, and \$1.2 million relates to insurance offset by decreases in payroll costs of \$2.3 million.

Depreciation and amortization costs increased \$2.1 million from \$7.7 million for the nine month period ended September 30, 2007 to \$9.8 million for the nine month period ended September 30, 2008. Depreciation expense increased \$0.4 million due primarily to the increase in revenue-producing assets from the aforementioned acquisitions, offset by a decrease related to a large amount of the seismic services segment's assets being fully depreciated. Amortization expense increased \$1.7 million due to the increase in intangibles related to the aforementioned acquisitions.

General and administrative costs increased \$7.1 million, from \$16.3 million during the nine month period ended September 30, 2007 to \$23.4 million for the same nine month period ended September 30, 2008 partially as a result of the acquisitions of BEG, ILT, Cypress and Holston. Of this increase, \$2.3 million relates to increased payroll costs, \$2.4 million relates to the settlement of litigation with Siemens Water Technologies and \$1.8 million relates to professional services.

Interest expense increased approximately \$0.3 million from \$4.9 million for the nine month period ended September 30, 2007, to \$5.2 million for the nine month period ended September 30, 2008. The increase in interest expense was attributable to lower interest rates on variable interest debt offset by increased levels of debt including financing for recent acquisitions and judicial interest as a result of a litigation settlement. Interest expense includes \$0.8 million and \$1.1 million for the nine months ended September 30, 2007 and 2008, respectively, related to amortization of deferred loan costs.

Loss on debt extinguishment decreased \$1.0 million from \$1.0 million for the first nine months of 2007 to \$0.0 million for the first nine months of 2008 as a result of the early payment of our previous revolving line of credit in March 2007.

### **LIQUIDITY AND CAPITAL RESOURCES**

Effective as of April 24, 2008, we completed a modified \$90.0 million credit facility ( New Senior Credit Facility ), including a \$50.0 million term loan (the Term Loan ), a \$25.0 million working capital revolving line of credit (the Revolver ), and a \$15.0 million delayed draw term loan available to fund future acquisitions. With the proceeds from the New Senior Credit Facility, we (i) repaid approximately \$28.7 million of

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outstanding principal balance under our previous term loan; (ii) repaid approximately \$2.1 million of outstanding principal balance under our previous capital expenditure loan; (iii) repaid the balance on the previous line of credit (the Line ); and (iv) closed the acquisition of ILT. The balance of the proceeds available under the New Senior Credit Facility was used to pay fees and expenses of the aforementioned transaction and to provide additional working capital.

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On August 28, 2008, the New Senior Credit Facility was amended to remove the \$15.0 million delayed draw term loan. As an accommodation to our lender, we agreed to remove the delayed draw portion of the facility in order to make syndication of the loan more manageable.

At September 30, 2008, we had approximately \$3.3 million in cash and restricted cash compared to \$14.5 million at December 31, 2007, and a working capital deficit of \$0.9 million at September 30, 2008, compared to a surplus of \$4.4 million at December 31, 2007. The decrease in working capital from December 31, 2007 to September 30, 2008 is primarily due to an increase in the amount borrowed on the Revolver due to our acquisitions of BEG and ILT. At December 31, 2007, we borrowed \$12.2 million on the Line (the predecessor to the Revolver) to better illustrate for investors and financial analysts our funds availability at the end of the year. The amount was repaid on the first business day of the following year. No such additional borrowing was done at September 30, 2008. Cash provided by operating activities was \$21.9 million for the nine months ended September 30, 2008 compared to \$25.0 million for the same period in 2007.

Historically, our capital requirements have primarily related to the purchase or fabrication of new drilling equipment and related support equipment and new business acquisitions. Thus far in 2008, we have completed the acquisitions of BEG and ILT and expended approximately \$9.7 million on equipment and other fixed assets. For the remainder of 2008, we expect to continue renewing our rolling stock, expand our fleet of assets available for lease in our equipment leasing segment and explore strategic business opportunities.

On November 11, 2005, we entered into a Common Stock Purchase Agreement (the "Stock Purchase Agreement") with Fusion Capital Fund II, LLC ("Fusion Capital"). Under terms of the Stock Purchase Agreement, Fusion Capital committed to purchase up to \$25.0 million of our common stock, at intervals determined by us, at prices determined by a formula set forth in the Stock Purchase Agreement. As of September 30, 2008, 665,429 shares were issued under this agreement generating proceeds of \$6.4 million. The Stock Purchase Agreement expired in August 2008.

**LONG-TERM DEBT AND LINE OF CREDIT**

At December 31, 2007 and September 30, 2008, long-term debt consists of the following:

|  | December 31,<br>2007 | September 30,<br>2008 |
|--|----------------------|-----------------------|
|  | (In thousands)       |                       |
| Notes payable to a bank with interest payable at prime plus 1.50% (9.25% at December 31, 2007 and 6.50 % at September 30, 2008) maturing July 31, 2023, secured by real estate   | \$ 1,288             | \$ 1,255              |
| Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate   | 152                  | 134                   |
| Promissory notes payable to certain former owners of acquired companies with interest at 5%, maturing at various dates through April 2011  | 8,500                | 7,000                 |
| Convertible promissory notes payable to certain former stockholders of acquired companies with interest at 5%, maturing at various dates through April 2011, net of beneficial conversion of \$71 at December 31, 2007 and \$7 at September 30, 2008 | 4,929                | 12,492                |
| Promissory notes payable to finance companies secured by vehicles and equipment  | 642                  | 531                   |
| Capital leases payable to finance companies secured by an aircraft and equipment   | 549                  | 42                    |
| Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, unsecured, paid in full  | 197                  |                       |
| Term Loan payable to a bank, variable interest rate at LIBOR plus 2.75% (7.01% at September 30, 2008), secured by various equipment, maturing April 23, 2013   |                      | 46,000                |
| Term and Capex Loans payable to a bank, variable interest rate at LIBOR plus 2% (ranging from 6.63% to 6.93% at December 31, 2007), secured by various equipment, paid in full   | 33,026               |                       |
| Total  | \$ 49,283            | \$ 67,454             |
| Less: current maturities   | (14,456)             | (19,578)              |
| Long-term debt, less current maturities  | \$ 34,827            | \$ 47,876             |

**SENIOR CREDIT FACILITY**

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Effective April 23, 2008, we increased our credit facility to \$90.0 million, including the \$50.0 million Term Loan, the \$25.0 million Revolver, and a \$15.0 million delayed draw term loan available to fund future acquisitions. The Revolver replaced our previous Line. Availability under the Revolver is the lower of: (i) \$25.0 million or (ii) the sum of eligible accounts receivable and inventory, as defined under the agreement governing the Revolver. The Revolver accrues interest at the 30-day LIBOR plus 2.25% (6.46% at September 30, 2008) and matures in April 2013. The Revolver is collateralized by accounts receivable and inventory. As of September 30, 2008, we had \$9.3 million outstanding under the Revolver. Due to the lock-box arrangement and the subjective acceleration clause in the agreements governing the Revolver and the Line, the debt under the Line and the Revolver have been classified as a current liability as of December 31, 2007 and September 30, 2008, as required

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by Emerging Issues Task Force ( EITF ) No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-box Arrangement*.

On August 28, 2008, the New Senior Credit Facility was amended to remove the \$15.0 million delayed draw term loan. As an accommodation to our lender, we agreed to remove the delayed draw portion of the facility in order to make syndication of the loan more manageable.

Under the terms of the Term Loan, the funding limits are limited to the lesser of \$50.0 million and 80% of the orderly liquidation value of our equipment. In addition, the Term Loan matures in February 2012 and will be repaid quarterly in equal payments of \$2.0 million, with interest paid monthly in arrears and accruing at the annual interest rate of LIBOR plus 2.75% (7.01% at September 30, 2008). The Term Loan contains customary financial covenants and limitations on capital expenditures. With the proceeds from the New Senior Credit Facility, we (i) repaid approximately \$28.7 million of outstanding principal balance under our previous term loan; (ii) repaid approximately \$2.1 million of outstanding principal balance under our previous capital expenditure loan; (iii) repaid the balance on the Line; and (iv) closed the acquisition of ILT. The balance of the proceeds available under the New Senior Credit Facility was used to pay fees and expenses of the aforementioned transaction and to provide additional working capital. As of September 30, 2008, we had \$46.0 million outstanding under the Term Loan.

**CAPITAL LEASES**

In December 2006, we acquired a corporate-configured helicopter under capital lease for internal use. The capital lease was paid off in the first quarter of 2008. In March 2007, we acquired equipment under a capital lease maturing in 2012.

Total cost and accumulated depreciation of assets held under capital lease is as follows:

|                                | December 31,<br>2007 | September 30,<br>2008 |
|--------------------------------|----------------------|-----------------------|
|                                | (In thousands)       |                       |
| Aircraft                       | \$ 1,437             | \$                    |
| Equipment                      | 58                   | 58                    |
| Less: Accumulated depreciation | (101)                | (9)                   |
| Capitalized cost, net          | \$ 1,394             | \$ 49                 |

Depreciation expense for the three and nine months ended September 30, 2008 and 2007 was approximately \$0.00 million and \$0.00 million, and \$0.03 million and \$0.08 million, respectively, for all assets held under capital lease.

**SUBORDINATED PROMISSORY NOTES**

In May 2005, we issued approximately \$4.3 million of unsecured, subordinated promissory notes ( Subordinated Promissory Notes ). The Subordinated Promissory Notes were scheduled to be paid quarterly, with interest in arrears, over 36 months in level payments with interest accruing at the rate of 8% per annum. The Subordinated Promissory Notes were paid off in May 2008. At December 31, 2007 and September 30, 2008, the Subordinated Promissory Notes had a balance of approximately \$0.2 million and \$0.0 million, respectively.

**PREHEAT NOTES**

In connection with the purchase of all of the issued and outstanding stock of Preheat in February 2006, we issued \$4.0 million in 5% promissory notes payable to certain Preheat stockholders ( Preheat Notes ). The Preheat Notes consist of three separate notes with \$2.7 million maturing in February 2008 and \$1.3 million maturing in February 2009. At December 31, 2007 and September 30, 2008, the Preheat Notes had a balance of \$4.0 million. In February 2008, we terminated the employment of one of the Preheat stockholders for cause. The terms of the Preheat Notes provide that a termination of either of the Preheat stockholders' employment for cause results in the cancellation of the Preheat Notes. The Preheat stockholders are contesting our assertion and have filed a lawsuit against the Company (see Note 4). Consequently, the Preheat Notes remain recorded as a liability in the financial statements pending resolution of the matter.

**RIG TOOLS NOTES**



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In connection with the purchase of all of the issued and outstanding stock of Rig Tools in November 2006, we issued \$4.0 million in 5% convertible promissory notes payable to certain Rig Tools stockholders ( Rig Tools Notes ). The Rig Tools Notes consist of three separate notes with \$3.0 million maturing in November 2007 and \$1.0 million maturing in November 2008. The Rig Tools Notes can be prepaid at any time and are convertible into shares of our common stock at a price of \$8.00 per share. We initially recorded a beneficial conversion feature of \$0.7 million related to the stock valuation at closing which was recorded as a debt discount and is being amortized over the life of the Rig Tools Notes. At December 31, 2007 and September 30, 2008, the Rig Tools Notes had a balance of \$1.0 million. The beneficial conversion feature had an unamortized balance of \$0.1 and \$0.0 million at December 31, 2007 and September 30, 2008, respectively.

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### **CHARLES HOLSTON NOTES**

In connection with the acquisition of Holston (See Note 7), we issued \$5.0 million in 5% promissory notes payable to certain Holston owners ( Holston Notes ). The Holston Notes consist of three separate notes with \$1.0 million maturing in February 2008, \$2.0 million maturing in February 2009 and \$2.0 million maturing in February 2010. The Holston Notes maturing in 2009 and 2010 are convertible into shares of our common stock at a price of \$9.24 per share. Based upon the stock valuation at the time of issuance, no beneficial conversion feature existed. At December 31, 2007 and September 30, 2008, the Holston Notes had a balance of \$5.0 million and \$4.0 million, respectively.

### **CYPRESS NOTES**

In connection with the acquisition of certain assets of Cypress in February 2007, we issued a \$3.0 million promissory note accruing interest at an annual rate of 5% payable to a Cypress stockholder ( Cypress Note ). The Cypress Note is payable over three years with \$1.0 million maturing in February 2008, \$1.0 million maturing in February 2009 and \$1.0 million maturing in February 2010. At December 31, 2007 and September 30, 2008, the Cypress Note had a balance of \$3.0 million and \$2.0 million, respectively.

### **BAILEY NOTE**

In connection with the acquisition of certain assets of BOI in June 2007, we issued a \$0.5 million promissory note accruing interest at an annual rate of 5% payable to BOI ( Bailey Note ). The Bailey Note is payable on or before May 31, 2010. At December 31, 2007 and September 30, 2008, the Bailey Note had a balance of \$0.5 million.

### **BEG NOTES**

In connection with the acquisition of certain assets of BEG (See Note 7) in January 2008, we issued \$4.0 million of 5% promissory notes payable to certain shareholders of BEG ( BEG Notes ). The BEG Notes are payable over three years with \$1.3 million maturing in January 2009, \$1.3 million maturing in January 2010 and \$1.4 million maturing in January 2011 and are convertible into shares of our common stock at a rate of \$3.70 per share under certain circumstances. Based upon the stock valuation at the time of issuance, no beneficial conversion feature existed. At September 30, 2008, the BEG Notes had a balance of \$4.0 million.

### **ILT NOTES**

In connection with the acquisition of ILT (See Note 7) in April 2008, we issued \$4.0 million of promissory notes payable to the shareholders of ILT ( ILT Notes ). The ILT Notes are payable over three years with \$2.0 million maturing in April 2009, \$1.0 million maturing in April 2010 and \$0.5 million maturing in April 2011 and bear interest at a rate of 5% per annum payable in arrears and are convertible into shares of our common stock at a rate of \$10.50 per share under certain circumstances. Based upon the stock valuation at the time of issuance, no beneficial conversion feature existed. An additional note in the amount of \$0.5 million is non-convertible and non-interest bearing and matures in April 2011. At September 30, 2008, the ILT Notes had a balance of \$4.0 million.

### **INSURANCE NOTES PAYABLE**

A portion of our property and casualty insurance premiums are financed through certain short-term installment loan agreements. The insurance notes are payable in monthly installments through June 2009 and accrue interest at 3.97%.

### **CRITICAL ACCOUNTING POLICIES**

#### **Stock Based Compensation**

We follow the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123R ) which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity award).

#### **Impairment Of Long-Lived Assets And Assets Held For Sale**

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We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with SFAS No. 144 *Accounting for the Impairment and Disposal of Long-Lived Assets*. If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated undiscounted net cash flow, before interest, we will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes in our market risks since the year ended December 31, 2007 except as noted in Item 1A Risk Factors below. For more information, please read the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on March 17, 2008.

**ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission ( SEC ) under the Securities Exchange Act of 1934, as amended (the Exchange Act ), is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our CEO and CFO, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of September 30, 2008.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

On May 1, 2008, the former owners of Preheat, Inc., which we acquired in February 2006, filed a lawsuit in federal court in the United States District Court for the Western District of Louisiana in Lafayette, Louisiana, against us, our directors, our current Chief Executive Officer, our current Senior Vice President/Chief Financial Officer, one of our investment advisors, and a principal of the investment advisor. The lawsuit seeks, among other things, (i) a declaratory judgment that the Preheat purchase agreement executed in December 2005 is null because of alleged securities fraud and bad faith breach of the purchase agreement and that one of the former owner s ERISA rights be clarified, (ii) injunctive relief to halt alleged securities disclosure violations by us and to remove three board members, and (iii) damages resulting from the nullification of the Preheat purchase agreement. At this point, we are unable to assess the ultimate impact of this litigation on our financial position, results of operations or cash flows. However, we believe the claims against us are without merit and will vigorously contest any legal action, if served.

**ITEM 1A. RISK FACTORS**

There have been no material changes from our risk factors set forth under Part I, Item 1A. Risk Factors in our 2007 Form 10-K, except as noted below. In addition to the other information set forth in this report, you should carefully consider these risk factors which could materially affect our business, financial condition or future results. The risks described in this report, in our 2007 Form 10-K and our subsequent filings with the Securities and Exchange Commission are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

**Possible worldwide recession and effect on exploration and production activity.**

The recent worldwide financial and credit crisis has reduced the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. The shortage of liquidity and credit combined with recent substantial losses in worldwide equity markets could lead to an extended worldwide economic recession. A slowdown in economic activity caused by a recession would likely reduce worldwide demand for energy and result in lower oil and natural gas prices. Forecasted crude oil prices for the remainder of 2008 and for 2009 have dropped substantially in the last month. For example, crude oil prices declined from record levels in July 2008 of approximately \$145 per barrel to approximately \$65 per barrel as of October 31, 2008. Forecasted average annual crude oil prices for 2008 and 2009 have declined by \$15 and \$21 per barrel, respectively, since previous projections. Demand for our services and products depends on oil and natural gas industry activity and expenditure levels that are directly affected by trends in oil and natural gas prices. Demand for our services and products is particularly sensitive to the level of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas companies, including national oil companies. Any prolonged reduction in oil and natural gas prices will depress the immediate levels of exploration, development, and production activity. Perceptions of longer-term lower oil and natural gas prices by oil and gas companies can

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similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Lower levels of activity result in a corresponding decline in the demand for our oil and natural gas well services and products, which could have a material adverse effect on our revenue and profitability.

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**The global financial and credit crisis may have impacts on our liquidity and financial condition that we currently cannot predict.**

The continued credit crisis and related turmoil in the global financial system may have a material impact on our liquidity and our financial condition, and we may ultimately face major challenges if conditions in the financial markets do not improve. Our ability to access the capital markets or borrow money may be restricted at a time when we would like, or need, to raise capital, which could have an adverse impact on our flexibility to react to changing economic and business conditions and on our ability to fund our operations and capital expenditures in the future. The economic situation could have an impact on our lenders or customers, causing them to fail to meet their obligations to us. Should that occur, the amount of credit available to us may be reduced if not replaced by a suitable lender at similar terms. While the ultimate outcome and impact of the current financial crisis cannot be predicted, it may have a material adverse effect on our future liquidity, results of operations and financial condition.

**ITEM 2. UNREGISTERED SALE OF SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Description of Exhibits</b>                                      |
|--------------------|---|
| 10.1               | Second Amendment and Waiver to Loan Agreement as of August 28, 2008 |
| 31.1               | Section 302 Certification of Chief Executive Officer                |
| 31.2               | Section 302 Certification of Chief Financial Officer                |
| 32.1               | Section 906 Certification of Chief Executive Officer                |
| 32.2               | Section 906 Certification of Chief Financial Officer                |

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**SIGNATURES**

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

**OMNI ENERGY SERVICES CORP.**

Dated: November 7, 2008

*/s/ Brian J. Recatto*  
Brian J. Recatto  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: November 7, 2008

*/s/ Ronald D. Mogel*  
Ronald D. Mogel  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)