

OMNI ENERGY SERVICES CORP

Form 10-K

March 17, 2008

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007.

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

COMMISSION FILE NUMBER 0-23383

OMNI ENERGY SERVICES CORP.

(Exact name of registrant as specified in our charter)

LOUISIANA
(State or other jurisdiction of
incorporation or organization)

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

4500 NE EVANGELINE THWY

CARENCRO, LOUISIANA
(Address of principal executive offices)

70520
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:

(337) 896-6664

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

COMMON STOCK, \$0.01 PAR VALUE PER SHARE

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SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NONE

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2007, based on the closing price of common stock on the Nasdaq Global Market for such date, was \$180,648,754.

The number of shares of the Registrant's common stock, \$0.01 par value per share, outstanding at March 13, 2008 was 19,145,115.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Form 10-K is incorporated by reference from the registrant's definitive proxy statement involving the election of directors at the annual meeting of the shareholders to be held in 2007, which definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Form 10-K relates.

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ANNUAL REPORT ON FORM 10-K FOR
THE YEAR ENDED DECEMBER 31, 2007**

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OMNI ENERGY SERVICES CORP.

Unless otherwise indicated by the context, references herein to the Company, OMNI, we, our or us mean OMNI Energy Services Corp., a Louisiana corporation, and its subsidiaries. Certain terms used herein relating to our operations and the oil and natural gas services industry are defined in ITEM 1. BUSINESS and ITEM 2. PROPERTIES.

FORWARD LOOKING INFORMATION

Certain of the statements contained in all parts of this document (including the portion, if any, to which this Form 10-K 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, 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, predict, should and 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 this document 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 the Company or to persons acting on its behalf are expressly qualified in their entirety by reference to these risks and uncertainties.

PART I

**ITEM 1. BUSINESS
GENERAL**

OMNI Energy Services Corp. is an integrated oilfield service company specializing in providing a range of (i) onshore seismic drilling, operational support, permitting, and survey services; (ii) dock-side and offshore hazardous and non-hazardous oilfield waste management and environmental cleaning services, including tank and vessel cleaning and safe vessel entry; (iii) drilling fluid transportation and disposal services; (iv) oilfield equipment rental, 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, environmental pit cleaning and wellhead preheating and installation. At December 31, 2007, we operated in five business divisions Seismic Drilling, Environmental Services, Equipment Leasing, Transportation Services and Other Services.

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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. We were formed as a Louisiana corporation on September 11, 1997 to acquire all of the outstanding common units of OMNI Geophysical, L.L.C.

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 a leading provider of seismic drilling support services. In addition, we have seismic drilling operations in the mountainous regions of the western United States, and have had operations 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 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 in 2002, we became the largest domestic provider of seismic drilling support services to geophysical companies.

In March 2007, we completed the acquisition of certain assets of Cypress Consulting Services, Inc. d/b/a Cypress Energy Services (Cypress), thereby expanding our fleet of seismic drilling equipment and allowing us to better serve the needs of our seismic drilling customers. In addition, Cypress operated in two distinct business segments Seismic Drilling Services and Employee Leasing. The acquisition of the assets of Cypress includes the assumption of approximately \$20 million of seismic drilling contracts. The Employee Leasing segment provides both skilled and unskilled contract labor services to various companies working in the oil and gas industry.

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). This acquisition provides us with additional opportunities to expand our environmental services segment with corrosion proofing and offshore cleaning capabilities. In addition, Holston offers: NORM surveys, cleaning and waste disposal; tank degassing and demolition; rig pit cleaning; oilfield waste disposal; hydro blasting; dockside and offshore cleaning; and offshore sandblasting and painting.

EQUIPMENT LEASING. We completed the acquisition of Preheat, Inc. (Preheat) in February 2006. Preheat is a premier provider of rental equipment and specialized environmental services principally to drilling contractors operating in the Gulf of Mexico. Preheat has a vast fleet of rental equipment including pressure washers, reverse osmosis machines and steam cleaners. In addition to the oilfield rental equipment, Preheat operates from locations in Belle Chasse and Broussard, Louisiana; Freer, Texas and Rock Springs, Wyoming.

In November 2006, we completed the acquisition of Rig Tools, Inc. (Rig Tools). Rig Tools maintains an extensive fleet of rental equipment for various oilfield and commercial applications including water, mud and disposal pumps; mud, fuel and frac tanks; air compressors; wireline units; generators; high pressure washers; light towers; tubing; and, handling tools. It also offers certain land based environmental cleaning services. Rig Tools has operating facilities in Youngsville, Louisiana; and Navasota, Alice, Timpson and Teague, Texas.

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Additionally, the acquisition of Holston in 2007 brings complementary additions to our equipment rental fleet. Holston maintains a fleet of rental equipment including frac tanks, gas buster tanks, generators, lighting systems and roll-off containers.

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 we expect to be 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. Not only did we acquire an exceptional 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.

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

INDUSTRY OVERVIEW

SEISMIC SERVICES. Seismic data generally consists of computer-generated three-dimensional (3-D) images or two-dimensional (2-D) cross sections of subsurface geologic formations and is used in the exploration of new hydrocarbon reserves and as a tool for enhancing production from existing reservoirs. Onshore seismic data is acquired by recording subsurface seismic waves produced by an energy source, usually dynamite, at various points (source points) at a project site. Historically, 2-D surveys were the primary technique used to acquire seismic data. However, advances in computer technology have made 3-D seismic data, which provides a more comprehensive geophysical image, a practical and capable oil and gas exploration and development tool. 3-D seismic data has proven to be more accurate and effective than 2-D data at identifying potential hydrocarbon-bearing geological formations. The use of 3-D seismic data to identify locations to drill both exploration and development wells has improved the economics of finding and producing oil and gas reserves, which in turn has created increased demand for 3-D seismic surveys and seismic support services.

Oil and gas companies generally contract with independent geophysical companies to acquire seismic data. Once an area is chosen for seismic analysis, permits and landowner consents are obtained, either by us, by the geophysical company or by special permitting agents. The geophysical company then determines the layout of the source and receiving points. For 2-D data, the typical configuration of source and receiving points is a straight line with a source point and small groups of specialized sensors (geophones) or geophone stations placed evenly every few hundred feet along the line. For 3-D data, the configuration is generally a grid of perpendicular lines spaced a few hundred to a few thousand feet apart, with geophone stations spaced evenly every few hundred feet along one set of parallel lines, and source points spaced evenly every few hundred feet along the perpendicular lines. This configuration is designed by the geophysical company to provide the best imaging of the targeted geological structures while taking into account surface obstructions such as water wells, oil and gas wells, pipelines and areas where landowner consents cannot be obtained. A survey team then marks the source points and geophone locations, and the source points are drilled and loaded with dynamite.

After the source points have been drilled and loaded and the network of geophones and field recording boxes deployed over a portion of the project area, the dynamite is detonated at a source point. Seismic waves generated by the blast move through the geological formations under the project area and are reflected by various

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subsurface strata back to the surface where they are detected by geophones. The signals from the geophones are collected and digitized by recording boxes and transmitted to a central recording system. In the case of 2-D data, the geophones and recording devices from one end of the line are then shuttled, or rolled forward, to the other end of the line and the process is repeated. In the case of 3-D data, numerous source points, typically located between the first two lines of a set of three or four parallel lines of geophone stations, are activated in sequence. The geophone stations and recording boxes from the first of those lines are then rolled forward to form the next line of geophone stations. The process is repeated, moving a few hundred feet at a time, until the entire area to be analyzed has been covered.

After the raw seismic data has been acquired, it is sent to a data processing facility. The processed data can then be manipulated and viewed on computer workstations by geoscientists to map the subsurface structures to identify formations where hydrocarbons are likely to have accumulated and to monitor the movement of hydrocarbons in known reservoirs. Domestically, seismic drilling and survey services are typically contracted to companies, such as OMNI, as geophysical companies have found it more economical to outsource these services and focus their efforts and capital on the acquisition and interpretation of seismic data.

ENVIRONMENTAL SERVICES. The demand for our environmental services is directly impacted by offshore drilling and production activity in the Gulf of Mexico. We provide specialized environmental cleaning and maintenance equipment and trained personnel to oil and gas companies operating in the Gulf Coast region of the United States. We also assist production operators in the maintenance and replacement of anodes, mist extractors, valves, glycol systems, chemical electric units and fire tubes. Our customer list includes more than 350 major and independent oil and gas companies operating in the Gulf of Mexico. Our dock side services are dependent upon the movement of vessels from offshore production platforms or drilling rigs which operate non-stop throughout the year.

We charge for our environmental services on a time and materials basis. Our ability to successfully secure and maintain future environmental services for our customers is dependent upon our ability to provide quick, safe and efficient maintenance and cleaning services at a competitive price. Project backlogs are maintained for NORM decontamination, abandonment and decommissioning and scheduled offshore maintenance.

EQUIPMENT LEASING. With our acquisition of Preheat, Rig Tools and Holston, we have expanded the list of equipment and services that we offer to customers. We now have a vast fleet of rental equipment including pressure washers, reverse osmosis systems, steam cleaners, frac tanks, wireline units, gas buster tanks, roll off containers and generators available for rent to drilling contractors operating in the Gulf of Mexico and Rocky Mountain regions. Additionally, services offered by Preheat include wellhead installation, stress relieving and environmental pit cleaning services. Preheat's customer list includes approximately 250 major and independent oil and gas companies operating in the Gulf of Mexico and the Rocky Mountains. Rig Tools' customer list includes approximately 200 major and independent oil and gas companies operating in Louisiana and Texas.

Rental equipment is charged on a daily basis. Wellhead installations, stress relieving and other services are billed on a per job basis. Our ability to successfully secure and maintain future rental and service opportunities with Preheat customers is dependent upon our ability to continue to provide high-quality, dependable rental equipment and reliable services to these customers at a competitive price.

TRANSPORTATION SERVICES. With our acquisition of Holston in March 2007, we expanded our transportation services to include vacuum truck, winch truck, roll-off truck and flat bed services supporting both drilling and production. The Company operates a fleet of over 60 owned and leased power units supporting south Louisiana, east Texas and the Barnett Shale and Rocky Mountain regions. The Company also operates four production water treatment and disposal facilities with locations in south Louisiana and the Barnett Shale. Holston's customer list includes approximately 200 major and independent oil and gas companies operating in Louisiana, Texas and the Rocky Mountains.

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DESCRIPTION OF OPERATIONS

We provide an integrated range of services including (i) onshore seismic drilling, operational support, permitting and surveying to geophysical companies operating in logistically difficult and environmentally sensitive terrain in the United States, and (ii) dock-side 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 in the Gulf of Mexico. We have available an extensive fleet of oilfield rental equipment for our customers. With the acquisition of certain assets of Cypress in March 2007, we further extended our ability to provide seismic drilling and support services to our customers. Through the acquisition of Holston in March 2007, we expanded our list of services to include the disposal of non-hazardous byproducts, such as saltwater and spent drilling fluids. The acquisition of BOI in June 2007 further expanded our capacity for disposal of non-hazardous byproducts and gave us market presence in the Barnett Shale region of North Texas. Holston also brought an expansion of our market into the Rocky Mountains with an equipment rental outlet in Vernal, Utah and the necessary permitting and licensing to transport oilfield waste in the State of Louisiana.

SEISMIC DRILLING. Our primary activity is the drilling and loading of source points for seismic analysis. Once the geophysical company has plotted the various source points and a survey crew has marked their locations, our drill crews are deployed to drill and load the source points.

In the Transition Zone, we use water pressure rotary drills mounted on various types of vehicles to drill the source holes. The nature, accessibility and environmental sensitivity of the terrain surrounding the source point determine the type of vehicle used. Transition Zone source holes are generally drilled to depths of 40 to 180 feet, depending on the nature of the terrain and the needs of the geophysical company. We generally use ten-foot sections of drill pipe that are carried with the drilling unit. Our Transition Zone vehicles are typically manned with a driver and one or two helpers. The driver is responsible for maneuvering the vehicle into position and operating the drilling unit, while the helper sets and guides the drill into position, attaches the drilling unit's water source, when drilling in dry areas, and loads the drill pipe sections used in the drilling process. Once the hole has been drilled to the desired depth, it is loaded with dynamite, which is carried onboard our vehicles in special containers. The explosive charge is set at the bottom of the drill hole and then tested to ensure that the connection has remained intact. Once the charge has been tested, the hole is plugged in accordance with local, state and federal regulations and marked so that the geophysical company can identify it for detonation at a later date. This process is repeated throughout the survey area until all source points have been drilled and loaded.

In seismic rock drilling, we use compressed air rotary/hammer drills to drill holes that are typically shallower than Transition Zone holes. Rock drills are manned by a two-man or three-man crew and are transported to and from locations by hand, surface vehicle or helicopter. Once the hole has been drilled to the desired depth, it is loaded with explosives, which are delivered to the job site in an explosive magazine carried by hand, vehicle or helicopter.

PERMITTING. We maintain a Geophysical Permit Acquisition Operation Division within the seismic drilling division. Our staff of contract permit agents first conducts research in public land title records to determine ownership of the lands located in the seismic projects. The permit agents then contact, negotiate and acquire permits and landowner consents for the survey, drilling and recording crews to conduct their operations. Throughout the seismic data acquisition process, the permit agents assist the crews in the field with landowner relations and permit restrictions in order to reduce field-crew downtime for noncompliance with landowner requests. Our permit services are enhanced with the assistance of a proprietary database software program specifically designed for efficient management of seismic projects.

SURVEY. Once all permits and landowner consents for a seismic project have been obtained and the geophysical company has determined the placement of source and receiving points, contract survey crews are sent into the field to plot each source and receiving point prior to drilling. We employ both GPS (global positioning satellite) equipment, which is more efficient for surveying in open areas, and conventional survey equipment, which is generally used to survey wooded areas. We have successfully integrated both types of equipment in order to complete projects throughout the varied terrain of the Transition Zone and elsewhere. In

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addition, the contract survey crews have access to our extensive fleet of specialized transportation equipment, as opposed to most other survey companies, which must rent this equipment.

OPERATIONAL SUPPORT. We are able to coordinate a variety of related services to customers performing 3-D seismic data acquisition projects that produce significant economies of scale and value. Our substantial base of experience gained from years of work supporting 3-D seismic projects enables us to provide significant pre-job planning information to the customer during job design analysis. Typical 3-D seismic data acquisition projects in the field involve large amounts of equipment, personnel and logistics coordination. Coordination of movements between permitting, drilling, survey and recording crews is of critical importance to timely, safe and cost effective execution of the job. We have a pool of senior field supervisors, who have broad seismic industry experience and are able to coordinate the activities of drill crews, permit agents and survey teams with the recording crews to achieve improved results. These personnel also have the ability to recommend changes to the customer field representatives in the manner of executing the job in the field to improve performance and reduce costs. By having the ability to perform significant field coordination, we are able to streamline field decision making and information flow and reduce customer overhead costs that otherwise would be required to perform these supervisory tasks. We also have one of the industry's leading Quality, Health, Safety and Environmental (QHSE) programs. The involvement of our experienced personnel monitoring QHSE field practices greatly reduces customer involvement in this area. By offering the only integrated combination of seismic drilling, permit acquisition, seismic survey and operational support, in addition to an equipment fleet that is one of the largest in terms of number of units and most diverse in the industry, we provide significant operational advantages to the customer.

We completed the acquisition of certain assets of Cypress in March 2007. Cypress operates in two distinct business segments Seismic Drilling and Employee Leasing. The Employee Leasing segment provides both skilled and unskilled contract labor services to various companies working in the oil and gas industry.

FABRICATION AND MAINTENANCE. At our Carencro facilities, we perform repairs and maintenance for our Transition Zone and highland drilling equipment. We design and fabricate aluminum marsh all terrain vehicles (ATVs), support boats and pontoon boats, and the drilling units that we use on our Transition Zone equipment. We purchase airboats directly from the manufacturer and then modify the airboats to install the drilling equipment. We have also designed and built a limited number of highland drilling units by installing our drilling equipment on tractors bought directly from the manufacturer. We also fabricate rock-drilling equipment and have the capability of fabricating other key equipment, such as swamp ATVs. Because of our ability to fabricate and maintain much of our equipment, we do not believe that we are dependent on any one supplier for our drilling equipment or parts.

ENVIRONMENTAL SERVICES. We are an environmental and maintenance service contractor working primarily for onshore and offshore oil and gas companies. Our environmental services unit (Trussco, Inc.) provides equipment and personnel to perform environmental cleaning services including drilling rig, tank and vessel cleaning, NORM decontamination, platform abandonment services, pipeline flushing, hydro blasting and gas dehydration services. We operate in the onshore, dockside and offshore regions of the Gulf of Mexico where we are considered to be the leading provider of such environmental services. Our cleaning operations are performed at six locations along the Louisiana Gulf Coast.

In March 2007, we completed the acquisition of Holston. This acquisition provides us with additional opportunities to expand our environmental services segment with corrosion proofing and offshore cleaning capabilities. In addition, Holston offers transportation of non-hazardous byproducts, such as saltwater and spent drilling fluids; NORM surveys, cleaning and waste disposal; tank degassing and demolition; rig pit cleaning; oilfield waste disposal; hydro blasting; dockside and offshore cleaning; and offshore sandblasting and painting. Holston also operates two saltwater disposal wells for the disposal of non-hazardous byproducts. Holston operates from three locations including a Rocky Mountain location in Vernal, Utah located in the Rocky Mountain region.

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EQUIPMENT LEASING. Through our Preheat subsidiary, we offer a vast fleet of rental equipment including pressure washers, reverse osmosis machines and steam cleaners. In addition to providing rental equipment, Preheat offers wellhead installation, stress relieving and environmental pit cleaning services. Our subsidiary, Rig Tools, maintains an extensive fleet of rental equipment for various oilfield and commercial applications including: water, mud and disposal pumps; mud, fuel and frac tanks; air compressors; wireline units; generators; high pressure washers; light towers; tubing; and, handling tools.

Our acquisition of Holston brings complementary additions to our equipment rental fleet. Holston maintains a fleet of rental equipment including frac tanks, gas buster tanks, generators, lighting systems and roll-off containers.

The rental and services operations are serviced from twelve locations.

DESCRIPTION OF EQUIPMENT

TRANSITION ZONE TRANSPORTATION AND DRILLING EQUIPMENT. Because of the varied terrain throughout the Transition Zone and the prevalence of environmentally sensitive areas, we employ a wide variety of drilling vehicles. We believe that we are the only company currently operating in the Transition Zone that owns and operates all of the following types of equipment:

TYPES OF EQUIPMENT	NUMBER OF UNITS AS OF DECEMBER 31, 2007
Highland Drilling Units	123
Water Buggies	94
Aluminum Marsh ATVs	23
Stainless Steel Marsh ATVs(1)	8
Airboat-Drilling Units	40
Swamp ATVs	30
Pullboats	21
Pontoon Boats	16
Boats	9
Skid-Mounted Drilling Units	20
Heli-portable and Seismic Rock Drilling Equipment	11

(1) This equipment is currently held for sale (See Note 1 Property, Plant and Equipment to the Consolidated Financial Statements). Because of our extensive fleet of Transition Zone transportation and seismic drilling equipment, much of which we fabricated, we believe that we are the only company that currently can provide an integrated range of seismic drilling and survey services in all of the varied terrain of the Transition Zone and simultaneously support operations for multiple, large-scale seismic projects.

HIGHLAND DRILLING UNITS AND WATER BUGGIES. We currently own 123 highland drilling units for seismic drilling in dry land areas. These units generally consist of a tractor-like vehicle with a drilling unit mounted on the rear of the vehicle. This highland drilling unit can be driven over land from point to point and is accompanied by a unit referred to as a water buggy (of which we own 94) that carries water required for water pressure rotary drills. This type of vehicle is used around the world for this type of terrain.

MARSH ATVs. The environmentally sensitive wetlands along the U.S. Gulf Coast contain water grasses on dry land and in shallow water and areas mixed with open water are referred to as marsh areas. Marsh ATVs, which are amphibious vehicles supported by pontoons that are surrounded by tracks, are used to provide seismic drilling services in the marsh areas. The pontoons enable the marsh ATV to float while the tracks propel the vehicle through the water and over dry marsh areas. Each marsh ATV is equipped with a drilling unit and a backhoe for digging a small hole to collect water necessary for drilling.

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Some marsh areas have sufficient surrounding water to support drilling without an external water source, but often water must be pumped into the area from a remote water source or a portable supply must be carried by the marsh ATV.

We own and operate 31 marsh ATVs, of which eight are made of stainless steel and 23 are made of aluminum. All of the stainless steel marsh ATVs are currently held for sale. The aluminum ATVs are lighter than steel vehicles and are specifically designed for the environmentally sensitive areas typically found in marsh terrain. Landowner consents will often require the use of aluminum ATVs in an effort to reduce the environmental impact of seismic drilling. The aluminum marsh ATV is the most widely accepted marsh vehicle for drilling operations in all Louisiana's state and federal refuges. We fabricated our own aluminum marsh ATVs at our facilities in Carencro, Louisiana.

AIRBOAT DRILLING UNITS. We own 40 airboat-drilling units. An airboat-drilling unit consists of a drilling unit fabricated and installed on a large, three-engine airboat. Because of their better mobility, airboat-drilling units are used in shallow waters and all marsh areas where sufficient water is present.

SWAMP ATVs AND PULLBOATS. Wooded lowlands typically covered with water are referred to as the swamp areas of the Transition Zone. Our swamp ATVs are used to provide drilling services in these areas. Swamp ATVs are smaller, narrower versions of the marsh ATVs. The smaller unit is needed in swamp areas due to the dense vegetation typical in this terrain. Because of its smaller size, the swamp ATV uses a skid-mounted drilling unit installed in a pullboat, a non-motorized craft towed behind the swamp ATV. We own and 30 swamp ATVs and 21 pullboats. Swamp ATVs are also used in connection with survey operations in swamp areas.

PONTOON BOATS. We own and 16 pontoon boats that are used in shallow or protected inland bays and lakes and shallow coastal waters. Each pontoon boat uses a skid-mounted drilling unit installed on board.

SKID-MOUNTED DRILLING UNITS. A skid-mounted drilling unit is a drilling unit mounted on I-beam supports, which allows the drilling unit to be moved easily between pullboats, pontoon boats, jack-up rigs and other equipment we operate based on customer needs. We manufacture our skid-mounted drilling units at our facilities in Carencro, Louisiana and we currently have 20 of these units.

HELI-PORTABLE AND SEISMIC ROCK DRILLING EQUIPMENT. We have 11 heli-portable and man-portable drilling units dedicated to seismic drilling. We also have the ability to manufacture our own heli-portable and man-portable seismic drilling units, and have exported and provided servicing of heli-portable and man-portable drilling units.

MISCELLANEOUS. We own 87 single engine airboats and 9 outboard powered boats, which we use to ferry personnel and supplies to locations throughout the Transition Zone. We also maintain a fleet of five tractor-trailer trucks and numerous other trucks, trailers and vehicles to move our equipment and personnel to projects throughout the Transition Zone.

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ENVIRONMENTAL EQUIPMENT. The following table sets forth the type and quantity of our key equipment operated by our Environmental division.

TYPES OF EQUIPMENT	NUMBER OF UNITS AS OF DECEMBER 31, 2007
Offshore Tool House Cleaning Packages	7
Offshore Skid Cleaning Packages	11
Dockside & Land Tank Cleaning Packages	11
Air Compressors	41
Steam / Degas Generators	6
Liquid Vacuum Truck (60BBL)	2
Wet / Dry Vacuum Truck (80BBL)	3
Trailer Mounted Vacuum Units	2
Water Blasters (10K - 40K)	5
15 BBL Cutting Boxes (Disposal)	19
NORM Pipe Decontamination System	3
6 X 12 Cargo Baskets	7
4 X 8 Cargo Baskets	4
Generators	6

EQUIPMENT LEASING. The following table sets forth the type of and quantity of our key equipment available for rental in our equipment rental division as a result of our acquisitions of Preheat and Rig Tools in 2006:

TYPES OF EQUIPMENT	NUMBER OF UNITS AS OF DECEMBER 31, 2007
PREHEAT	
Pressure Washers	383
Wellhead Units	23
Stress Relieving Units	7
Reverse Osmosis Units	22
Water Blasters	12
Vacuum Units	136
Pit Cleaning Units	12
Mud Savers	45
Oilfield Fans	123
RIG TOOLS	
Air Compressors	14
Bug Blowers	11
Frac Tanks	201
Generators	20
Light Towers	56
Pumps	387
Pressure Washers	26
Rig Vacuums	16
Tanks	69
Transformers	14
Trip Tanks	8
Wireline Units	55

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In March 2007, we completed the acquisition of Holston. The environmental, transportation and rental equipment acquired in that transaction includes the following:

TYPES OF EQUIPMENT	NUMBER OF UNITS
Frac Tanks	154
Vacuum Tractors	25
Vacuum Trailers	43
Vacuum Trucks Bob-tail	2
Roll-off Boxes	38
Skid Tanks	8
Offshore Packages Paint and Blast	10
Winch Trucks	7
Light Towers	10
Water Trucks	1
Hot Shot Trucks	1
Air Compressors	9
After Cooler/Tank Combo	3
LEL Meters	3
Confined Space Monitor Kit	10
Gas Buster Tanks	7
Crane Truck	1

MATERIALS AND EQUIPMENT. The principal materials and equipment used in our seismic drilling operations, which include drills, heli-portable and man-portable drills, drill casings, drill bits, engines, gasoline and diesel fuel, dynamite, aluminum and steel plate, welding gasses, trucks and other vehicles, are currently in adequate supply from many sources. We do not depend upon any single supplier or source for such materials.

Environmental cleaning equipment and materials such as compressors, pressure washers, diaphragm pumps, electric generators, water blasters, vacuum trucks, hoses, personnel protection equipment, and cleaning agents are readily available from many sources throughout the Gulf of Mexico Region. We do not depend upon any single supplier or source for such materials.

Equipment included in our rental fleet such as frac tanks, wireline units and pressure washers are readily available from many sources throughout the region. We do not depend upon any single supplier or source for such materials.

SAFETY AND QUALITY ASSURANCE

We maintain a stringent safety assurance program to reduce the possibility of accidents. Our QHSE department establishes guidelines to ensure compliance with all applicable state and federal safety regulations and provides training and safety education, including first aid and CPR training through orientations for new employees. Our QHSE manager reports directly to our Chief Executive Officer and supervises six QHSE field advisors and one instructor who provides Occupational Safety and Health Act (OSHA) mandated training. In addition, Preheat also employs one QHSE field advisor. We believe that our safety program and commitment to quality are vital to attracting and retaining customers and employees.

Each drilling crew is supervised at the project site by a field supervisor and, depending on the project's requirements, an assistant supervisor and powderman who is in charge of all explosives. For large projects or when required by a customer, a separate advisor from our QHSE department is also located at the project site. Management is provided with daily updates for each project and believes that our daily review of field performance together with the on-site presence of supervisory personnel helps ensure high quality performance for all of our projects.

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Environmental employees work in many facilities, most which have site specific requirements. Our crews attend pre-job meetings to formulate job specific work plans. These plans are monitored and audited by our supervisors and in-house QHSE Advisors.

We have implemented an extensive program that provides training for adverse conditions in remote locations. In addition to our internal requirements, our employee training is conducted in accordance with federal, state, and customer requirements.

CUSTOMERS, MARKETING AND CONTRACTING

CUSTOMERS. Historically, our customers have primarily been geophysical companies, although in many cases the oil and gas company participates in determining which drilling, permitting, survey or aviation company will be used on our seismic projects. A few customers have historically generated a large portion of our seismic drilling revenue. For example, our largest customers (those which individually accounted for more than 10% of revenue in a given year, listed alphabetically) collectively accounted for 38% (Quantum Geophysical and Veritas DGC), 32% (Quantum Geophysical and Veritas DGC), and 11% (Veritas DGC) of revenue for fiscal 2005, 2006, and 2007, respectively, all of which relate to the drilling division. While we expect oil and gas companies utilizing our environmental and newly acquired rental equipment services will eventually comprise a greater share of our revenue base, we currently derive a significant amount of our revenue from a small number of large geophysical companies and independent oil and gas operators. The loss of one of these significant customers, if not offset by sales to new or other existing customers, could have a material adverse effect on our business and operations.

The majority of our customers are engaged in the oil and gas industry. This concentration of customers may impact our overall exposure to credit risk, either positively or negatively, in that customers may be similarly affected by changes in economics and industry conditions. We do not generally require collateral in support of trade receivables, but we do maintain reserves for credit losses. Actual losses historically have been within expectations.

MARKETING. Our Seismic Drilling services traditionally have been marketed by our principal executive officers. We believe that this marketing approach helps us preserve long-term relationships established by our executive officers. Even as our geographical and service capabilities expand, we intend to continue implementing these marketing efforts in both the Transition Zone and in the Rocky Mountain region from our principal offices in Carencro, Louisiana. Our Environmental services are marketed from offices in Louisiana and Texas. Preheat s, Rig Tools and Holston s equipment and services are marketed from offices in Louisiana, Texas, Arkansas, Utah and Wyoming. Our saltwater disposal operations are marketed from offices in Louisiana and Texas.

CONTRACTING SEISMIC DRILLING. We generally contract with our customers for seismic drilling services on a unit-price basis, either on a per hole or per foot basis. These contracts are often awarded after a competitive bidding process. We price our contracts based on detailed project specifications provided by the customer, including the number, location and depth of source holes and the project s completion schedule. As a result, we are generally able to make a relatively accurate determination prior to pricing a contract of the type and amount of equipment required to complete the contract on schedule.

Because of unit-price contracting, we sometimes bear a portion of the risk of production delays that are beyond our control, such as those caused by adverse weather. We often bill the customer standby charges if our operations are delayed due to delays in permitting or surveying or for other reasons within the geophysical company s control.

CONTRACTING PERMITTING SERVICES. We contract with our customers for permitting services on a day rate or per project basis. Under the per project basis, revenue is recognized when certain percentages of the permitting process are completed. Contracts are often awarded to us only after competitive bidding. In the case of the per project basis, we determine the price after we have taken into account such factors as the number of permit agents, the number of permits and the detailed project specification provided by the customer.

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CONTRACTING SURVEY SERVICES. We contract with our customers for seismic survey services on a day rate or per mile basis. Under the per mile basis, revenue is recognized when the source or receiving point is marked by one of our survey crews. Contracts are often awarded to us only after competitive bidding. In each case, the price is determined after we have taken into account such factors as the number of surveyors and other personnel, the type of terrain and transportation equipment, and the precision required for the project based on detailed project specifications provided by the customer.

CONTRACTING TRANSPORTATION SERVICES. We generally bill our customers an hourly rate for transportation services under a master service agreement or a work-specific purchase order. Any disposal charges are billed at a per barrel rate.

CONTRACTING ENVIRONMENTAL SERVICES. We generally bill for our environmental cleaning and maintenance services on a time and materials basis. Our customer list includes more than 225 major and independent oil and gas companies operating in the Gulf of Mexico. Our success in securing projects is often dependent on our ability to immediately provide personnel that operate in a quick, safe and efficient manner at a competitive price.

CONTRACTING EQUIPMENT LEASING. We generally bill our customers for equipment leasing on a monthly basis. Equipment is generally leased to our customers on a per day rate. Our customer list includes major and independent oil and gas companies operating in the Gulf of Mexico, the Southeastern United States and the Rocky Mountains. Our success is dependent upon maintaining our fleet of quality equipment and having the equipment available to our customers on short notice.

COMPETITION

SEISMIC DRILLING. The principal competitive factors for seismic drilling services are price and the ability to meet customer schedules, although other factors including safety, capability, reputation and environmental sensitivity are also considered by customers when deciding upon a provider of seismic drilling services. We have a limited number of competitors in the Transition Zone and numerous smaller competitors in the highland areas in which we operate. We believe that no other company operating in the Transition Zone owns a fleet of Transition Zone seismic drilling equipment as varied or as large as ours. Our extensive and diverse equipment base allows us to provide drilling services to our customers throughout the Transition Zone with the most efficient and environmentally appropriate equipment. We believe there are numerous competitors offering rock and heli-portable drilling in the Rocky Mountain region and internationally. We believe we are the largest provider of seismic drilling services in the United States.

PERMITTING SERVICES. Our competitors include a number of larger, well-established companies with a number of permit agents comparable to us.

SURVEY SERVICES. Our competitors include a number of larger, well-established companies with a number of crews comparable to us.

ENVIRONMENTAL SERVICES. We have several competitors offering identical environmental services to those offered by Trussco. Some of these competitors are larger and have more financial resources than we have available. Our ability to compete effectively is dependent upon our ability to have personnel available when needed at competitive prices.

TRANSPORTATION SERVICES. We have specific permits from various state agencies which allow us to transport and dispose of non-hazardous, spent drilling fluids. Our ability to compete effectively is dependent upon our ability to have personnel available when needed at competitive prices.

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EQUIPMENT LEASING. We have several competitors offering similar equipment rental and services to those offered by our subsidiaries Preheat and Rig Tools. Some of the competitors are larger and have more financial resources than we have available. Our ability to effectively compete is dependent upon having the desired rental equipment available to meet the customer's needs. In addition, it is imperative that the desired services can be performed for customers in a timely fashion at competitive prices. We feel that our recently acquired equipment and services are among the best in the market.

SEASONALITY AND WEATHER RISKS

SEISMIC DRILLING. Our Seismic Drilling operations are subject to seasonal variations in weather conditions and daylight hours. Since our activities take place outdoors, the average number of hours worked per day, and therefore the number of holes drilled or surveyed per day, generally is less in winter months than in summer months, due to an increase in rainy, foggy and cold conditions and a decrease in daylight hours. Furthermore, demand for seismic data acquisition activity by oil and gas companies at the end of the fourth quarter and in the first quarter is generally lower than at other times of the year. As a result, our revenue and gross profit during the fourth calendar quarter and the first calendar quarter of each year typically are lower than the second and third quarters for this business unit. Operations may also be affected by rainy weather, lightning, hurricanes and other storms prevalent along the Gulf Coast throughout the year and by seasonal climatic conditions in the Rocky Mountain area. In addition, prolonged periods of dry weather result in slower drill rates in marsh and swamp areas as water in the quantities needed to drill is more difficult to obtain and equipment movement is impeded. Adverse weather conditions and dry weather can also increase maintenance costs for our equipment and decrease the number of vehicles available for operations.

BACKLOG

Our backlog represents those seismic drilling and survey projects for which a customer has hired us and has scheduled a start date for the project. Projects currently included in our backlog are subject to termination or delay without penalty which could substantially reduce the amount of backlog currently reported, at the option of the customer. Backlog levels vary during the year depending on the timing of the completion of certain contracts and when we are awarded new contracts.

Our backlog as of December 31, 2007, was approximately \$50.6 million compared to \$56.1 million at December 31, 2006, with the decrease due largely to the timing of permitting and contracting processes. Backlog at December 31, 2007, includes seismic drilling and survey projects in the Transition Zone in addition to highland seismic drilling projects.

Our permitting, environmental (with the exception of NORM decontamination) and leasing divisions, historically, have not measured backlog due to the nature of our business and our contracts, which are generally cancelable by either party with thirty days written notice. Backlog for NORM decontamination projects is maintained but is not considered to be material.

GOVERNMENTAL REGULATION

SEISMIC DRILLING. Our operations and properties are subject to and affected by various types of governmental regulations, including laws and regulations governing the entry into and restoration of wetlands, the handling of explosives and numerous other federal, state and local laws and regulations. To date, our cost of complying with such laws and regulations has not been material. However, such laws and regulations frequently change and it is not possible for us to accurately predict the cost or impact such laws and regulations may have on our future operations.

Furthermore, we depend on the demand for our services by the oil and gas industry and are affected by tax legislation, price controls and other laws and regulations relating to the oil and gas industry in general. The adoption of laws and regulations curtailing exploration and development drilling for oil and gas in our areas of

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operations for economic, environmental or other policy reasons would adversely affect our operations by limiting the demand for our services. We cannot determine to what extent our future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations.

EXPLOSIVES. Because we use dynamite in our operations, we are subject to various local, state and federal laws and regulations concerning the handling and storage of explosives and are specifically regulated by the Bureau of Alcohol, Tobacco and Firearms of the U.S. Department of Justice and the Department of Homeland Security. We must take daily inventories of the dynamite and blasting caps that we keep for our seismic drilling and are subject to random checks by state and federal officials. We are licensed by the Louisiana State Police as an explosives handler. Any loss or suspension of these licenses would result in a material adverse effect on our results of operations and financial condition. We believe that we are in compliance with all material laws and regulations with respect to our handling and storage of explosives.

ENVIRONMENTAL. Our operations and properties are subject to a wide variety of increasingly complex and stringent federal, state and local environmental laws and regulations, including those governing discharges into the air and water, the handling and disposal of solid and hazardous wastes, the remediation of soil and groundwater contaminated by hazardous substances and the health and safety of employees. In addition, certain areas where we operate are federally protected or state protected wetlands or refuges where environmental regulation is particularly strict. These laws may provide for strict liability for damages to natural resources and threats to public health and safety, rendering a party liable for environmental damage without regard to negligence or fault on the part of such party. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Certain environmental laws provide for strict, joint and several liability for remediation of spills and other releases of hazardous substances, as well as damage to natural resources. In addition, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. Such laws and regulations may also expose us to liability for the conduct of, or conditions caused by, others, or for our acts that were in compliance with all applicable laws at the time such acts were performed.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, and similar laws provide for responses to and liability for releases of hazardous substances into the environment. Additionally, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Safe Drinking Water Act, the Emergency Planning and Community Right to Know Act, each as amended, and similar state or local counterparts to these federal laws, regulate air emissions, water discharges, hazardous substances and wastes, and require public disclosure related to the use of various hazardous substances. Compliance with such environmental laws and regulations may require the acquisition of permits or other authorizations for certain activities and compliance with various standards or procedural requirements. We believe that our facilities are in substantial compliance with current regulatory standards.

TRANSPORTATION. Our transportation operations are subject to a wide variety of stringent federal, state and local environmental laws and regulations, including those governing the disposal of saltwater. We have acquired the necessary permits from regulatory agencies to transport oilfield fluids and the necessary licenses and permits to operate saltwater disposal wells at certain sites in Louisiana and Texas.

WORKER SAFETY. Laws and regulations relating to workplace safety and worker health, primarily OSHA and regulations promulgated thereunder, govern our operations. In addition, various other governmental and quasi-governmental agencies require us to obtain certain permits, licenses and certificates with respect to our operations. The kind of permits, licenses and certificates required in our operations depend upon a number of factors. We believe that we have all permits, licenses and certificates necessary to the conduct of our existing business.

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INSURANCE

SEISMIC DRILLING. Our operations are subject to the inherent risks of inland marine activity, heavy equipment operations and the transporting and handling of explosives, including accidents resulting in personal injury, the loss of life or property, environmental mishaps, mechanical failures and collisions. We maintain insurance coverage, which we believe is reasonable and customary in the industry, against certain of these risks. We also maintain insurance coverage against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction to our equipment or facilities. All policies are subject to deductibles and other coverage limitations. We believe our insurance coverage is adequate. Historically, we have not experienced an insured loss in excess of our policy limits; however, there can be no assurance that we will be able to maintain adequate insurance at rates which we consider commercially reasonable, nor can there be any assurance such coverage will be adequate to cover all claims that may arise.

ENVIRONMENTAL SERVICES. Our operations involve a high degree of operational risk, particularly of personal injury and damage or loss of equipment. Failure or loss of our equipment could result in property damage, personal injury, environmental pollution and other damage for which we could be liable. We maintain insurance against risk that we believe is consistent with industry standards and required by our customers. Although we believe that our insurance protection is adequate and we have not experienced a loss in excess of our policy limits, we may not be able to maintain adequate insurance rates that we consider commercially reasonable, or ensure that our coverage will be adequate to cover all claims that may arise.

EQUIPMENT LEASING. Our operations involve the inherent risk of loss of equipment. Failure or loss of our equipment could result in property damage, personal injury, environmental pollution and other damage for which we could be liable. We maintain insurance against risk that we believe is consistent with industry standards and required by our customers. Although we believe that our insurance protection is adequate and we have not experienced a loss in excess of our policy limits, we may not be able to maintain adequate insurance rates that we consider commercially reasonable, or ensure that our coverage will be adequate to cover all claims that may arise.

TRANSPORTATION SERVICES. Our transportation operations involve risks associated with the transportation of goods and materials on state and federal highways. We maintain insurance against foreseeable risks that we believe is consistent with prevailing standards in our industry and required by our customers and lenders. Although we believe that our insurance protection is adequate and we have not experienced any loss in excess of our policy limits, we may not be able to maintain adequate insurance rates that we consider commercially reasonable, or ensure that our coverage will be adequate to cover all claims that may arise.

EMPLOYEES

As of December 31, 2007, we had approximately 800 employees including operating, corporate, administrative and management personnel. In addition, we had approximately 250 people working in our labor leasing operations. Our employees are not unionized or employed pursuant to any collective bargaining agreement or any similar agreement. We believe our relations with our employees are generally good.

AVAILABLE INFORMATION

Under the Exchange Act, we are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read a copy of any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. The SEC maintains a web site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information we file electronically with the SEC.

We make available, free of charge through our web site, our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after such reports are filed with the SEC.

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Additionally, we have adopted and posted on our web site a Code of Ethics for Officers that applies to our principal executive officer, principal financial and accounting officer and our General Code of Ethics for all other employees. Our web site also includes the charters for our Audit Committee and Corporate Governance and Nominating Committee. The address for our web site is <http://www.omnienergy.com>. The information contained on or accessible from our website does not constitute a part of this report and is not incorporated by reference herein. We will also provide a printed copy of any of these aforementioned documents free of charge upon request.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors, in addition to the other information set forth or incorporated by reference herein. Each of these risk factors could adversely affect our business, operating results and financial condition, and also adversely affect the value of an investment in our common stock.

INDUSTRY VOLATILITY MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

The demand for our services depends on the level of capital expenditures by oil and gas companies for developmental construction and these expenditures are critical to our operations. The levels of such capital expenditures are influenced by the following factors:

oil and gas prices and industry perceptions of future price levels;

the cost of exploring for, producing and delivering oil and gas;

the ability of oil and gas companies to generate capital;

the sale and expiration dates of leases in the United States;

the availability of current geophysical data;

the discovery rate of new oil and gas reserves; and

local and international political and economic conditions.

The cyclical nature of the oil and gas industry has a significant effect on our revenues and profitability. Historically, prices of oil and gas, as well as the level of exploration and developmental activity, have fluctuated substantially. This has, in the past, and may in the future, adversely affect our business. We are unable to predict future oil and gas prices or the level of oil and gas industry activity. A prolonged low level of activity in the oil and gas industry will likely depress development activity, adversely affecting the demand for our products and services and our financial condition and results of operations.

OUR GROWTH AND GROWTH STRATEGY INVOLVES RISKS.

We have grown over the last several years through internal growth and acquisitions of other companies. It will be important for our future success to manage our rapid growth and this will demand increased responsibility for management personnel. The following factors could present difficulties to us:

the lack of sufficient executive-level personnel;

the successful integration of the operations and management teams from our recent acquisitions;

increased levels of debt and administrative burdens; and

increased logistical problems of large, expansive operations.

If we do not manage these potential difficulties successfully, they could have a material adverse effect on our financial condition and results of operations.

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THE DANGERS INHERENT IN OUR OPERATIONS AND THE POTENTIAL LIMITS ON INSURANCE COVERAGE FOR CERTAIN RISKS COULD EXPOSE US TO POTENTIALLY SIGNIFICANT LIABILITY COSTS.

Our operations, and to a significant degree our seismic operations, are subject to risks or injury to personnel and loss of equipment. Our crews often conduct operations in extreme weather, in difficult terrain that is not easily accessible, and under other hazardous conditions. We maintain what we believe is prudent insurance protection. However, we cannot assure that our insurance will be sufficient or effective under all circumstances. A successful claim for which we are not fully insured may have a material adverse effect on our financial condition. Moreover, we do not carry business interruption insurance with respect to our operations.

WE OPERATE IN A HIGHLY COMPETITIVE INDUSTRY.

We compete with several other providers of seismic drilling, permitting, survey and environmental services. Competition among seismic contractors historically has been, and will continue to be, intense. Competitive factors have in recent years included price, crew experience, equipment availability, technological expertise and reputation for quality and dependability. Our revenues and earnings may be affected by the following factors:

changes in competitive prices and availability of trained personnel;

fluctuations in the level of activity and major markets;

general economic conditions; and

governmental regulation.

Additionally, in certain geographical areas, some of our competitors operate more crews than we do and may have substantially greater financial and other resources. These operators could enjoy an advantage over us if the competitive environment for contract awards shifts to one characterized principally by intense price competition.

SEASONALITY AND ADVERSE WEATHER CONDITIONS IN THE REGIONS IN WHICH WE OPERATE MAY ADVERSELY AFFECT OUR OPERATIONS.

Our operations are directly affected by the weather conditions in the Gulf of Mexico. Due to seasonal differences in weather patterns, we may operate more days in the spring, summer and fall periods and less in the winter months. The seasonality of oil and gas industry activity in the Gulf Coast region also affects our operations. Due to exposure to weather, we generally experience higher drilling activity in the spring, summer and fall months with the lowest activity in winter months, especially with respect to our operations in the mountainous regions of the western United States. The rainy weather, hurricanes and other storms prevalent in the Gulf of Mexico and along the Gulf Coast throughout the year may also affect our operations. As a result, full-year results are not likely to be a direct multiple of any particular quarter or combination of quarters.

WE ARE DEPENDENT ON KEY PERSONNEL.

Our success depends on, among other things, the continued active participation of our executive officers and certain of our other key operating personnel. Our officers and personnel have extensive experience in the domestic and international oilfield services industry. The loss of the services of any one of these persons could impact adversely our ability to implement our expansion strategy.

WE MAY INCUR ADDITIONAL EXPENDITURES TO COMPLY WITH GOVERNMENTAL REGULATIONS.

Our seismic and environmental operations are subject to extensive governmental regulation, violations of which may result in civil and criminal penalties, injunctions and cease and desist orders. These laws and regulations govern, among other things, operations in wetlands, the handling

of explosives and hazardous and

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non-hazardous waste. Although our cost of compliance with such laws has to date been immaterial, such laws frequently change. Accordingly, it is impossible to predict the cost or impact of such laws on our future operations. We are also required by various governmental agencies to obtain certain permits, licenses and certificates. To date, we believe that we possess all permits, licenses and certificates material to the operation of our business. The loss of any of the licenses required for our operation could have a material adverse effect on our operations.

We depend on demand for our services from the oil and gas industry, and this demand may be affected by changing tax laws and oil and gas regulations. As a result, the adoption of laws that curtail oil and gas production in our areas of operation may adversely affect us. We cannot determine to what extent our operations may be affected by any new regulations or changes in existing regulations.

ONE STOCKHOLDER HAS SUBSTANTIAL INFLUENCE OVER OUR AFFAIRS.

Dennis R. Sciotto beneficially owns approximately 32% of our outstanding common stock. Mr. Sciotto represents and controls The Dennis R. Sciotto Family Trust and was appointed to the Board of Directors by the holders of the Series C Preferred Stock on June 13, 2005 pursuant to the Securities Purchase Agreement dated May 17, 2005. As a result, Mr. Sciotto has the ability to substantially influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger, consolidation or sale of substantially all of our assets. This may have the effect of delaying, deferring or preventing a change in control, or impeding a merger or consolidation.

FUTURE TECHNOLOGICAL ADVANCES COULD IMPAIR OPERATING ASSETS OR REQUIRE SUBSTANTIAL UNBUDGETED CAPITAL EXPENDITURES.

We compete in providing services in a capital intensive business. The development of seismic data acquisition and processing equipment has been characterized by rapid technological advancements in recent years, and this trend may continue. Manufacturers of seismic equipment may develop new systems that have competitive advantages over systems now in use that could render our current equipment obsolete or require us to make significant unplanned capital expenditures to maintain our competitive position. Under such circumstances, there can be no assurance that we would be able to obtain necessary financing on favorable terms.

OUR SEISMIC DRILLING OPERATIONS DEPEND ON A FEW SIGNIFICANT CUSTOMERS.

We derive a significant amount of our revenue from a small number of geophysical companies. Our inability to continue to perform services for a number of our large existing customers, if not offset by sales to new or other existing customers, could have a material adverse effect on our business and operations. For example, our largest customers (those which individually accounted for more than 10% of revenue in a given year) collectively accounted for 38% (two customers), 32% (two customers), and 11% (one customer) of revenue for fiscal 2005, 2006 and 2007, respectively.

OUR BACKLOG MAY NOT BE TIMELY CONVERTED INTO REVENUE IN ANY PARTICULAR FISCAL PERIOD.

Our backlog represents those seismic drilling and survey projects for which a customer has hired us and has scheduled a start date for the project. Backlog levels vary during the year depending on weather, the timing of the completion of certain contracts and when we are awarded new contracts. Projects currently included in our backlog, at the option of the customer, are subject to termination or delay without penalty, which could substantially reduce the amount of backlog currently reported, and consequently, the conversion of that backlog into revenue.

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UNFAVORABLE RESULTS OF LITIGATION COULD HAVE A MATERIAL ADVERSE IMPACT ON OUR FINANCIAL STATEMENTS.

We are subject to a variety of other claims and lawsuits that arise from time to time in the ordinary course of our business. Management currently believes that resolving any of such matters, individually or in the aggregate, will not have a material adverse impact on our financial position or results of operations. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. There exists the possibility of a material adverse impact on our financial position and the results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

IF WE BREACH ANY OF THE MATERIAL FINANCIAL COVENANTS UNDER OUR VARIOUS INDEBTEDNESS, OR IF AN EVENT OF DEFAULT IS DECLARED WITH RESPECT TO ANY SUCH INDEBTEDNESS, OUR DEBT SERVICE OBLIGATIONS COULD BE ACCELERATED.

If we breach any of the material financial covenants under our various indebtedness, or if an event of default is declared with respect to any such indebtedness, our substantial debt service obligations could be accelerated. In the event of any such simultaneous acceleration, we would not be able to repay all of the indebtedness.

THE MARKET PRICE OF OUR COMMON STOCK IS HIGHLY VOLATILE.

The market price of our common stock has been and is expected to continue to be highly volatile. Factors, including announcements of technological innovations by us or other companies, regulatory matters, new or existing products or procedures, concerns about our financial position, operating results, litigation, government regulation, developments or disputes relating to agreements, patents or proprietary rights, may have a significant impact on the market price of our common stock. In addition, potential dilutive effects of future sales of shares of common stock by our shareholders and by us could have an adverse effect on the market price of our common stock.

THE HIGH FIXED COSTS OF OUR OPERATIONS COULD RESULT IN OPERATING LOSSES.

Our business has high fixed costs. As a result, any significant downtime or low productivity caused by reduced demand, weather interruptions, equipment failures, permit delays or other causes could adversely affect our results of operations.

FAILURE TO MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR STOCK PRICE.

If, in the future, we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure of our internal control over financial reporting may result in errors or omissions in our periodic filings which may require us to amend our prior filings. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on the price of our common stock.

CERTAIN OF OUR FACILITIES COULD BE DAMAGED BY HURRICANES AND OTHER NATURAL DISASTERS, WHICH COULD HAVE AN ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Certain of our facilities are located in regions of the United States that are susceptible to damage from hurricanes and other weather events, and, during 2005, were impacted by hurricanes or weather events.

Future hurricanes or similar natural disasters that impact our facilities may negatively affect our financial position and operating results for those periods. These negative effects may include reduced operations; costs

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associated with resuming operations; reduced demand for our services from customers that were similarly affected by these events; lost market share; late deliveries; additional costs to purchase materials and supplies from outside suppliers; uninsured property losses; inadequate business interruption insurance and an inability to retain necessary staff.

ITEM 1B. UNRESOLVED STAFF COMMENTS

NONE.

ITEM 2. PROPERTIES

FACILITIES. Our corporate headquarters are located on 34 acres of land situated in Carencro, Louisiana. The building provides approximately 20,000 square feet of office space. It is located adjacent to our primary repair and maintenance facilities. Our environmental unit operates from land and dock-side bases located along the Louisiana Gulf Coast.

SEISMIC DRILLING FACILITIES. Our primary fabrication and maintenance facilities are situated in a building located adjacent to our corporate headquarters. The building provides approximately 28,000 square feet of covered maintenance and fabrication space.

ENVIRONMENTAL SERVICES FACILITIES. The primary executive offices for our Environmental Services Unit are located in the Carencro, Louisiana facility. Our primary operations and offshore cleaning support facility is located in Carencro, Louisiana. We maintain six leased facilities along the Louisiana Gulf Coast to support our cleaning and maintenance operations. These locations include Cameron, Intracoastal City, Morgan City, Venice and Fourchon, Louisiana. Fourchon is Louisiana's largest and busiest deep water port. Our NORM decontamination site is located in a separate facility also in Intracoastal City, Louisiana.

The acquisition of Holston in March 2007 provides us with additional opportunities to expand our environmental services segment. Holston currently operates from its main facility in Jennings, Louisiana and operated satellite facilities in Cameron and Fourchon, Louisiana, which were consolidated with the facilities from which we previously operated. Additionally, Holston operates two saltwater disposal wells located in south Louisiana. In late 2007, we were notified of the approval of a third saltwater disposal well, which is expected to begin operation in the first quarter of 2008. Additionally, the BOI acquisition provides us with a saltwater disposal well in northern Texas.

As a result of Hurricanes Katrina and Rita in the third quarter of 2005, we sustained damage to our Gulf Coast environmental facilities. Damages to our facilities and to the municipal infrastructure caused interruptions in services from these facilities. With the exception of our facility in Venice, Louisiana, all of our facilities were operational by the end of the fourth quarter of 2005. In August 2006, we leased a new Venice facility which is being used primarily for dockside services.

TRANSPORTATION SERVICES FACILITIES. Our primary operations facility for our Transportation Services division is located in a leased facility in Jennings, Louisiana.

EQUIPMENT LEASING FACILITIES. Our primary operations facilities for our Equipment Leasing division are located in leased facilities in Broussard, Youngsville and Belle Chasse, Louisiana; Alice, Teague, and Freer, Texas; Rock Springs, Wyoming; and Wooster, Arkansas. We also own facilities in Timpson and Navasota, Texas.

In March 2007, we completed the acquisition of Holston. This acquisition brings complementary additions to our equipment rental fleet. Holston currently has equipment rental operations located in Jennings, Louisiana and Vernal, Utah.

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ITEM 3. LEGAL PROCEEDINGS

On December 12, 2007, Darcy Klug, an executive vice president of the Company, filed suit in the United States District Court for the Western District of Louisiana against the Company, Dennis Sciotto, Ed Colson, and Richard White, all of whom serve as directors of the Company, as well as Cove Partners, LLC and its principal, Richard Mager, an investment adviser to the Company. Mr. Sciotto was also sued in his capacity as trustee of the Dennis R. Sciotto Family Trust dated December 13, 1994, which is a shareholder of the Company. Mr. Colson was also sued in his capacity as trustee of the Edward E. Colson III Family Trust dated January 12, 1995, which is a shareholder of the Company. The claims against the Company are for breach of contract and Employee Retirement Income Security Act (ERISA) violations relating to Mr. Klug's restricted stock agreement with the Company. The claims against the other defendants are for securities law violations, intentional interference with contract and (as to the director defendants) ERISA violations, all in connection with Mr. Klug's restricted stock agreement with the Company. Mr. Klug requests relief that includes the following: (1) a judgment against all defendants, jointly and severally, in the amount of \$16.83 million; (2) pre-judgment and post-judgment interest; (3) attorneys' fees; (4) exemplary, treble, or punitive damages; and (5) expert witness fees and expenses and all litigation support costs.

We are involved in various additional legal and other proceedings that are incidental to the conduct of our business. We believe that none of these proceedings, if adversely determined, would have a material effect on our financial condition, results of operations or cash flows.

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

NONE.

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PERFORMANCE GRAPH**

The graph below compares the total shareholder return on the Common Stock from December 31, 2002 until December 31, 2007 with the total return on the S&P 500 Index and the Company's Peer Group Index for the same period, in each case assuming the investment of \$100 on December 31, 2002. The Company's Current Peer Group Index consists of Dawson Geophysical Co. (NASDAQ:DWSN), CGG Veritas (NYSE:CGV), Ion Geophysical Corp. (NYSE:IO), Mitcham Industries, Inc. (NASDAQ:MIND), Petroleum Geo-Services ASA (OSE:PGS), Seitel, Inc. (OTC:SELA.OB) and the Company.

	Cumulative Total Return					
	12/02	12/03	12/04	12/05	12/06	12/07
OMNI Energy Services Corp.	100.00	848.68	255.26	484.21	1,288.16	642.11
S & P 500	100.00	128.68	142.69	149.70	173.34	182.87
Peer Group	100.00	177.31	324.10	436.12	980.33	1,256.12

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Our Common Stock is traded on the Nasdaq Global Market under the symbol OMNI. The following table sets forth the range of high and low sales prices of our Common Stock as reported by the Nasdaq Global Market for the periods indicated.

	HIGH	LOW
2007		
First quarter	\$ 10.65	\$ 7.20
Second quarter	\$ 12.74	\$ 9.21
Third quarter	\$ 11.75	\$ 6.37
Fourth quarter	\$ 8.35	\$ 4.03
2006		
First quarter	\$ 4.94	\$ 3.23
Second quarter	\$ 11.93	\$ 4.29
Third quarter	\$ 12.60	\$ 6.63
Fourth quarter	\$ 11.81	\$ 7.25

On March 13, 2008, the reported last sales price of our common stock as reported by the Nasdaq Global Market was \$4.15. As of March 13, 2008, we had approximately 5,000 stockholders of record.

We have never paid cash dividends on our Common Stock. We intend to retain future earnings, if any, to meet our working capital requirements and to finance the future operations of our business. Therefore, we do not plan to declare or pay cash dividends to holders of our Common Stock in the foreseeable future. In addition, certain of our credit arrangements contain provisions that limit our ability to pay cash dividends on our Common Stock.

ISSUER PURCHASES OF EQUITY SECURITIES

There were no stock repurchases during the year ended December 31, 2007.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data as of and for the five years ended December 31, 2007 are derived from our audited consolidated financial statements. The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this document. Our selected historical results are not necessarily indicative of results expected in future periods.

We sold our Aviation Transportation Services segment effective June 30, 2005. The financial information related to the results of operations for the years ended December 31, 2003 through December 31, 2005 have been adjusted to present the operations of the Aviation Transportation Services segment as discontinued operations.

Table of Contents**Index to Financial Statements****SELECTED FINANCIAL DATA**

	2003	YEAR ENDED DECEMBER 31,			2007
		2004	2005	2006	
		(In thousands, except per share data)			
INCOME STATEMENT DATA:					
Operating revenue	\$ 31,555	\$ 39,064	\$ 43,350	\$ 98,998	\$ 172,479
Operating expenses					
Direct costs	21,586	28,510	27,515	59,830	110,252
Depreciation and amortization	3,355	4,282	4,627	5,660	10,761
General and administrative expense (includes transition incentives of \$5,000 in 2007)	3,718	9,464	8,497	13,780	28,117
Total operating expenses	28,659	42,256	40,639	79,270	149,130
Operating income (loss)	2,896	(3,192)	2,711	19,728	23,349
Interest expense	(943)	(3,288)	(2,836)	(4,966)	(6,936)
Gain (loss) on debenture conversion inducement and debt extinguishment		(729)	758	15	(1,100)
Other income (expense), net	114	(290)	835	233	360
Income (loss) before income taxes	2,067	(7,499)	1,468	15,010	15,673
Income tax benefit (expense)	1,092		508	6,805	(5,504)
Net income (loss) from continuing operations	3,159	(7,499)	1,976	21,815	10,169
Income (loss) from discontinued operations, net of taxes	324	(6,756)	(3,978)		
Loss on disposal of discontinued operations assets, net of taxes			(2,271)		
Net income (loss)	3,483	(14,255)	(4,273)	21,815	10,169
Dividends and accretion of preferred stock	(484)	(490)	(249)	(488)	(503)
Non-cash charge attributable to beneficial conversion features of preferred stock			(745)	(458)	(255)
Net income (loss) available to common stockholders	\$ 2,999	\$ (14,745)	\$ (5,267)	20,869	9,411
Basic income (loss) per common share:					
Income (loss) from continuing operations	\$ 0.30	\$ (0.73)	\$ 0.07	\$ 1.29	\$ 0.52
Income (loss) from discontinued operations	0.04	(0.62)	(0.30)		
Loss on disposal of discontinued operations assets			(0.17)		
Net income (loss) available to common stockholders	\$ 0.34	\$ (1.35)	\$ (0.40)	\$ 1.29	\$ 0.52
Diluted income (loss) per common share:					
Income (loss) from continuing operations	\$ 0.28	\$ (0.73)	\$ 0.07	\$ 0.89	\$ 0.40
Income (loss) from discontinued operations	0.03	(0.62)	(0.29)		
Loss on disposal of discontinued operations assets			(0.16)		
Net income (loss) available to common stockholders	\$ 0.31	\$ (1.35)	\$ (0.38)	\$ 0.89	\$ 0.40
Number of Weighted Average Shares:					
Basic	8,772	10,884	13,251	16,190	18,077

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Diluted	11,362	10,884	13,683	24,459	25,634
	DECEMBER 31,				
	2003	2004	2005	2006	2007
BALANCE SHEET DATA:					
Total assets	\$ 50,289	\$ 65,913	\$ 43,758	\$ 120,540	\$ 164,994
Long-term debt, less current maturities	9,624	12,952	15,801	32,935	34,827
Preferred Stock	12,100	29	806	1,285	1,162
Total Equity	24,386	4,864	11,135	39,426	60,159

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	YEAR ENDED DECEMBER 31,				
	2003	2004	2005	2006	2007
	(In thousands)				
STATEMENT OF CASH FLOW DATA:					
(for continuing and discontinued operations)					
Net cash provided by operating activities	\$ 5,664	\$ 5,550	\$ 2,894	\$ 22,363	\$ 34,581
Net cash provided by (used in) investing activities	(4,158)	(12,647)	11,474	(26,120)	(35,523)
Net cash provided by (used in) financing activities	(1,638)	7,568	(15,237)	16,162	1,797

ITEM 7. 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, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (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 headings Cautionary Statements, Risk Factors, and 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 and analysis should be read in conjunction with our consolidated financial statements and accompanying notes contained herein.

RECENT DEVELOPMENTS

On January 2, 2008, we announced the appointment of Ronald D. Mogel to the position of Senior Vice President and Chief Financial Officer. Mr. Mogel joined the Company in that capacity on January 14, 2008.

On January 7, 2008, we announced that James C. Eckert, the Company's President and Chief Executive Officer, has announced his intention to retire during 2008. Mr. Eckert will continue serving as the Chief Executive Officer, will assist the Company with the appointment and transition of the Company's next Chief Executive Officer, and has agreed to serve as a consultant to the Company after his retirement. Mr. Eckert and the Company have also agreed to a transition plan. See Note 8 to the Consolidated Financial Statements.

On January 18, 2008, we completed the acquisition of B.E.G. Liquid Mud Services Corp. (B.E.G.) pursuant to an Asset Purchase Agreement (B.E.G. Purchase Agreement). Subject to the terms and conditions of the B.E.G. Purchase Agreement, we purchased certain assets from B.E.G. for the total consideration of approximately \$11.75 million, including \$7.75 million of cash and the issuance of \$4.0 million of three-year, 5% promissory notes.

On January 23, 2008, we announced the appointment of Ronald E. Gerevas to our Board of Directors. Mr. Gerevas will serve as a director until the 2008 annual meeting of shareholders, or until his successor is duly elected and qualified.

RECLASSIFICATION OF FINANCIAL STATEMENTS

Effective June 30, 2005, we sold our Aviation Transportation Services segment. The income statements for the years ended December 31, 2003, 2004, and 2005 have been adjusted to properly present the operations of the Aviation Transportation Services segment as discontinued operations.

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GENERAL

DEMAND FOR OUR SERVICES. We receive our seismic services revenues from customers in the energy industry. Demand for our services is principally impacted by conditions affecting geophysical companies engaged in the acquisition of 3-D seismic data and oil and gas companies operating primarily in the shallow waters of the Gulf of Mexico. The level of activity for our services is primarily influenced by the level of capital expenditures by oil and gas companies.

A number of factors affect the decision of oil and gas companies to pursue the acquisition of seismic data and the exploration for oil and gas, including (i) prevailing and expected oil and gas demand and prices; (ii) the cost of exploring for, producing and developing oil and gas reserves; (iii) the discovery rate of new oil and gas reserves; (iv) the availability and cost of permits and consents from landowners to conduct seismic activity; (v) local and international political and economic conditions; (vi) governmental regulations; and (vii) the availability and cost of capital. The ability to finance the acquisition of seismic data in the absence of oil and gas companies' interest in obtaining the information is also a factor, as some geophysical companies will acquire seismic data on a speculative basis.

The demand for our environmental, equipment rental, transportation and other services are affected by the level of activity in the exploration and production of oil and gas companies in the Gulf of Mexico, the Rocky Mountains and the Barnett Shale region.

SEASONALITY AND WEATHER RISKS. Our seismic services operations are subject to seasonal variations in weather conditions and daylight hours as our activities take place outdoors. On average, fewer hours are worked per day and fewer holes are generally drilled or surveyed per day in winter months than in summer months due to an increase in rainy, foggy, and cold conditions and a decrease in daylight hours. Our environmental, equipment rental, transportation and other services are potentially affected by hurricanes in the Gulf of Mexico region. The hurricane season is from June 1 through November 30 each year.

Table of Contents**Index to Financial Statements****RESULTS OF OPERATIONS**

The following discussion provides information related to the results of our operations.

As discussed below in Discontinued Operations, we sold our Aviation Transportation Services segment effective June 30, 2005. The financial information related to the results of operations for the year ended December 31, 2005 has been adjusted to present the operations of the Aviation Transportation Services segment as discontinued operations. For more information regarding the discontinued operations of the Aviation Transportation Services segment refer to Note 13 of Consolidated Financial Statements included herein.

Year Ended December 31, 2006 Compared To The Year Ended December 31, 2007:

	YEAR ENDED DECEMBER 31,	
	2006	2007
	(In thousands)	
Operating revenue	\$ 98,998	\$ 172,479
Operating expenses		
Direct costs	59,830	110,252
Depreciation and amortization	5,660	10,761
General and administrative expenses (includes transition incentives of \$5,000 in 2007)	13,780	28,117
Total operating expenses	79,270	149,130
Operating income	19,728	23,349
Interest expense	(4,966)	(6,936)
Gain (loss) on debt extinguishment	15	(1,100)
Other income	233	360
Income before income taxes	15,010	15,673
Income tax benefit (expense)	6,805	(5,504)
Net income	21,815	10,169
Preferred stock dividends	(488)	(503)
Non-cash charge attributable to beneficial conversion features of preferred stock	(458)	(255)
Net income available to common stockholders	\$ 20,869	\$ 9,411

Operating revenues increased 74% or \$73.5 million, from \$99.0 million for the year ended December 31, 2006 to \$172.5 million for the year ended December 31, 2007. This increase was due partially to our acquisitions of Holston in March 2007 and Rig Tools in November 2006 which contributed \$22.7 million and \$12.9 million, respectively, in revenue for 2007. The Preheat acquisition, in February 2006 accounted for \$4.5 million of the increase in revenue for 2007. Our Seismic Drilling segment, enhanced by the Cypress transaction in February 2007, accounted for \$30.5 million of the increase. Our Environmental Services segment, enhanced by the offshore and dockside operations of the Holston acquisition in March 2007, accounted for \$2.9 million of the increase.

Direct costs increased 85%, or \$50.5 million, from \$59.8 million for the year ended December 31, 2006 to \$110.3 million for the year ended December 31, 2007. Direct costs as a result of the Holston, Rig Tools and Preheat acquisitions accounted for \$16.4 million, \$6.6 million and \$4.1 million, respectively, of the overall increase. Direct costs relating to the Seismic Drilling segment including the Cypress transaction and the Environmental Services segment, enhanced by the offshore and dockside operations of the Holston acquisition increased \$20.2 million and \$3.2 million, respectively. Approximately \$23.5 million of the total increase in direct costs relates to payroll costs, \$9.3 million relates to third-party contract services, \$10.0 million relates to parts and repairs and maintenance, \$2.7 million relates to fuel and oil and \$1.8 million relates to rentals and leases.

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Depreciation and amortization costs increased \$5.1 million from \$5.7 million for the year ended December 31, 2006 to \$10.8 million for year ended December 31, 2007. Depreciation expense increased \$3.9 million due primarily to the increase in revenue-producing assets from the acquisitions of Preheat in February 2006, Rig Tools in November 2006, Cypress in February 2007 and Holston in March 2007. Amortization expense increased \$1.2 million due to the increase in intangibles related to the aforementioned acquisitions.

General and administrative costs increased \$14.3 million, from \$13.8 million during the year ended December 31, 2006 to \$28.1 million for the year ended December 31, 2007 primarily as a result of the acquisitions of Preheat, Rig Tools, Cypress and Holston. Of this increase, \$4.6 million relates to increased payroll costs and \$1.2 million relates to professional services. Additionally, anticipated and negotiated transition incentive packages for two executives are included in 2007 in the amount of \$5.0 million.

Interest expense increased approximately \$1.9 million from \$5.0 million for the year ended December 31, 2006 to \$6.9 million for the year ended December 31, 2007. The increase in interest expense was primarily attributable to increased levels of debt including financing for the recent acquisitions.

Loss on debt extinguishment increased \$1.1 million from 2006 to 2007 primarily as a result of the early repayment of our previous revolving line of credit in March 2007. Accordingly, any remaining deferred loan cost attributable to line of credit was expensed at that time in addition to an early payment penalty.

Other income increased from \$0.2 million in 2006 to \$0.4 million in 2007. This increase was partially attributable to a \$0.1 million increase in gain on sale of assets.

Provision for income taxes for the year ended December 31, 2006 reflected a benefit of \$6.8 million as a result of reversing our previously recorded valuation allowance on our deferred tax assets. All of the benefits related to net operating loss carryforwards were recorded by the end of 2006. For the year ended December 31, 2007, the provision for income tax expense was \$5.5 million.

Preferred stock dividends were \$0.5 million each for the years ended December 31, 2006 and 2007. Furthermore, we recorded a non-cash charge (deemed dividend) of \$0.5 million attributable to the beneficial conversion feature associated with the Series C 9% Convertible Preferred Stock issued in 2006 and \$0.3 million issued in 2007.

Table of Contents**Index to Financial Statements****Year Ended December 31, 2005 Compared To The Year Ended December 31, 2006:**

	YEAR ENDED DECEMBER 31,	
	2005	2006
	(In thousands)	
Operating revenue	\$ 43,350	\$ 98,998
Operating expenses		
Direct costs	27,515	59,830
Depreciation and amortization	4,627	5,660
General and administrative expenses	8,497	13,780
Total operating expenses	40,639	79,270
Operating income	2,711	19,728
Interest expense	(2,836)	(4,966)
Gain on debt extinguishment		15
Gain on debenture conversion inducement	758	
Other income	835	233
Income before taxes	1,468	15,010
Income tax benefit	508	6,805
Net income from continuing operations	1,976	21,815
Loss from discontinued operations	(3,978)	
Loss on disposal of discontinued operations assets	(2,271)	
Net income (loss)	(4,273)	21,815
Preferred stock dividends	(249)	(488)
Non-cash charge attributable to beneficial conversion features of preferred stock	(745)	(458)
Net income (loss) available to common stockholders	\$ (5,267)	\$ 20,869

Operating revenues increased 128% or \$55.6 million, from \$43.4 million for the year ended December 31, 2005 to \$99.0 million for the year ended December 31, 2006. This increase was due partially to our acquisition of Preheat, Inc. (Preheat) effective February 10, 2006 which contributed \$25.1 million in revenue for 2006, our acquisition of Rig Tools, Inc. (Rig Tools) effective November 1, 2006 which contributed \$2.5 million in revenue for 2006, as well as an increase in activities from our seismic drilling and environmental services divisions, which accounted for \$24.6 million and \$3.4 million of the increase, respectively.

Direct costs increased 117%, or \$32.3 million, from \$27.5 million for the year ended December 31, 2005 to \$59.8 million for the year ended December 31, 2006. Direct costs as a result of the recent Preheat and Rig Tools acquisitions accounted for \$9.9 million and \$1.2 million of the overall increase, respectively. Direct costs relating to the other divisions increased \$21.2 million. Third-party contract services increased by \$9.0 million. We contract third parties to provide services when our existing workforce is working on other projects. Consistent with the increase in revenues, payroll related costs increased \$11.3 million and rental and lease expense increased \$1.5 million, fuel and oil expense increased \$1.6 million, explosives expenses increased \$2.9 million and repairs and maintenance expenses increased \$2.9 million.

Depreciation and amortization costs increased \$1.1 million from \$4.6 million for the year ended December 31, 2005 to \$5.7 million for year period ended December 31, 2006. Depreciation expense increased \$1.3 million due to the increase in revenue-producing assets, primarily from the acquisition of Preheat in February 2006 and Rig Tools in November 2006. Additionally, amortization expense decreased by \$0.2 million resulting primarily from the revised amortization of intangible assets related to our acquisition of Trussco, Inc. and Trussco Properties, L.L.C. (collectively Trussco) in June 2004.

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General and administrative costs increased \$5.3 million, from \$8.5 million during the year ended December 31, 2005 to \$13.8 million for the year ended December 31, 2006 primarily as a result of the acquisitions of Preheat and Rig Tools.

Interest expense increased approximately \$2.2 million from \$2.8 million for the year ended December 31, 2005 to \$5.0 million for the year ended December 31, 2006. The increase in interest expense was primarily attributable to increased levels of debt including financing for the Preheat and Rig Tools acquisitions. Interest expense includes \$0.9 million related to amortization of deferred loan costs.

In 2005, we recorded a \$0.8 million gain in connection with the early extinguishment of a portion of our debt. An additional loss of \$0.7 million is included in loss from discontinued operations for 2005.

Other income (expense) decreased from income of \$0.8 million for the year ended December 31, 2005 to income of \$0.2 million for the year ended December 31, 2006. This decrease in income was partially attributable to a \$0.8 million gain on sale of assets in 2005.

In 2005, an income tax benefit was recognized in the amount of \$0.5 million to establish the deferred tax asset balance to its estimated realizable amount compared to a tax benefit of \$6.8 million in 2006. This increase reflects the removal of the valuation allowance of our deferred tax assets primarily attributable to our net operating loss carryforwards.

As previously discussed, we sold our Aviation Transportation Services segment effective June 30, 2005. Accordingly, we recorded a loss from discontinued operations of \$4.0 million, net of tax benefit, for the year ended December 31, 2005. Additionally, we recorded a loss of \$2.3 million on the sale of our Aviation Transportation Services segment assets in 2005.

Preferred stock dividends were \$0.2 million and \$0.5 million, respectively, for the years ended December 31, 2005 and 2006. Furthermore, we recorded a non-cash charge (deemed dividend) of \$0.7 million attributable to the beneficial conversion feature associated with the Series C 9% Convertible Preferred Stock issued in 2005 and \$0.5 million in 2006.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007, we had approximately \$13.4 million in cash on hand and, because we borrowed the full availability under our revolving line of credit to illustrate our availability, we had approximately \$0.0 million available for future borrowings on our revolving line of credit. At December 31, 2007, we borrowed \$12.2 million on our revolving line of credit 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 January 2008. This compares to approximately \$12.6 million in cash on hand and approximately \$0.0 million available for future borrowings on our revolving line of credit at December 31, 2006. At December 31, 2007, we had working capital of approximately \$4.4 million as compared to approximately \$16.6 million at December 31, 2006. Our decrease in working capital is attributable to the increase in the current portion of long-term debt as a result of acquisitions in 2006 and 2007.

Cash provided by continuing operating activities was \$34.6 million, \$22.4 million, and \$3.2 million for the years ended December 31, 2007, 2006 and 2005, respectively. In 2005, the largest contributing factors were a result of non-cash transactions, an increase in receivables and a decrease in prepaid expenses and other current assets and accounts payable and accrued expenses. In 2006, the largest contributing factor to our increase over 2005 was income from operations. In 2007, the largest contributing factor to our increase over 2006 was income from operations.

Historically, our capital requirements have primarily related to the purchase or fabrication of new seismic drilling equipment and related support equipment, additions to our aviation fleet and new business acquisitions. For the year ended December 31, 2005, we acquired \$0.1 million of new vehicles and approximately \$0.1 million

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in aviation support equipment as well as \$0.2 million in equipment and approximately \$0.3 million in facility improvements. In 2005, we sold the assets of our Aviation Transportation Services segment. Proceeds from the sale were used to repay capital lease obligations related to that division. In 2006 we acquired Preheat and Rig Tools, purchased approximately \$5.1 million in equipment and refinanced our rolling stock of vehicles previously accounted for as capital leases into operating leases. In 2007, we acquired Holston and certain assets of Cypress and BOI, and purchased approximately \$13.8 million in equipment. In 2008, we plan to continue to explore strategic business opportunities and expand and upgrade our facilities and equipment to improve efficiency of our operations. (See Recent Developments).

Loan closing costs related to our various credit facilities of \$2.4 million were incurred during the year ended December 31, 2007 compared to \$1.0 million for the year ended December 31, 2006.

In March 2007, we completed \$64.5 million of new senior credit facilities with LaSalle Business Credit, L.L.C (LaSalle). This credit facility allowed us additional financing capacity at more favorable interest rates. The funds were used to replace existing debt as well as finance the acquisition of Holston and certain assets of Cypress in March 2007.

LONG-TERM DEBT

At December 31, 2006 and 2007, long-term debt consists of the following:

	DECEMBER 31, 2006	DECEMBER 31, 2007
	(in thousands)	
Notes payable to a bank with interest payable at Prime plus 1.50% (9.75% at December 31, 2006 and 9.25 % at December 31, 2007) maturing July 31, 2023, secured by real estate	\$ 1,321	\$ 1,288
Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate	174	152
Promissory notes payable to certain former owners of acquired companies with interest at 5%, maturing at various dates from February 2008 through February 2010	4,000	8,500
Convertible promissory notes payable to certain former stockholders of acquired companies with interest at 5%, maturing at various dates from November 2007 through February 2010, net of beneficial conversion(1) of \$582 at December 31, 2006 and \$71 at December 31, 2007	3,418	4,929
Promissory notes payable to finance companies secured by vehicles and equipment	1,078	642
Capital leases payable to finance companies secured by an aircraft and equipment	683	549
Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, maturing May 13, 2008, unsecured	569	197
Term B notes payable to a finance company, variable interest rate at LIBOR plus 8% (13.37% at December 31, 2006) maturing August 29, 2010, secured by various property and equipment, paid in full	15,000	
Term A notes payable to a finance company, variable interest rate at LIBOR plus 4% (9.37% at December 31, 2006), maturing May 18, 2010, secured by various equipment, paid in full	14,381	
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), maturing March 2012, secured by various equipment		33,026
Total	\$ 40,624	\$ 49,283
Less: current maturities	(7,689)	(14,456)
Long-term debt, less current maturities	\$ 32,935	\$ 34,827

(1) See Note 12 to the consolidated financial statements regarding Rig Tools stockholder notes.

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SENIOR CREDIT FACILITY

Effective March 2, 2007, we increased our credit facility to \$64.5 million (Senior Credit Facility), including a \$37.0 million term loan (Term Loan), a \$25.0 million working capital revolving line of credit (Revolver), and a \$2.5 million capital expenditure loan (Capex Loan), with a bank. 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. The Revolver accrues interest at the 30-day LIBOR interest rate plus 2% (6.63% at December 31, 2007) and matures in March 2012. The Revolver is collateralized by accounts receivable and inventory. As of December 31, 2007, we had \$17.3 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 Revolver and the Line have been classified as a current liability as of December 31, 2006 and 2007, 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*.

Under the terms of the Term Loan, the funding limits will be limited to the lesser of \$37.0 million and 70% of the orderly liquidation value of our equipment. In addition, the Term Loan matures in March 2012 and will be repaid monthly in equal payments of \$0.6 million, with interest paid in arrears and accruing at the annual interest rate of LIBOR plus 2% (6.63% at December 31, 2007). The Term Loan contains customary financial covenants and limitations on capital expenditures. With the proceeds from the Senior Credit Facility, we (i) repaid approximately \$22.0 million of outstanding principal under our previous Term A and Term B loans; (ii) closed the acquisition of Holston; and (iii) completed the acquisition of certain assets of Cypress. The balance of the proceeds available under the Senior Credit Facility was used to pay fees and expenses of the aforementioned transactions and provide additional working capital. Effective April 29, 2007, the loan and security agreement governing the Term Loan was amended to remove the restriction on cash dividend payments on the preferred equity shares, provided we had sufficient availability and were in compliance with all other covenants. As of December 31, 2007, we had \$30.8 million outstanding under the Term Loan.

Under the terms of the Capex Loan, the funding will be limited to 75% of the purchase price of equipment to be purchased with the proceeds of the Capex Loan. On June 8, 2007, we drew \$2.5 million on the Capex Loan. The Capex Loan matures in March 2012 and will be repaid monthly in equal payments of \$0.04 million, with interest paid in arrears and accruing at the annual interest rate of LIBOR plus 2% (6.93% at December 31, 2007). As of December 31, 2007, we had \$2.2 million outstanding under the Capex Loan.

During 2007, we exceeded our allowable annual capital expenditures as prescribed by the Senior Credit Facility. As such, on March 5, 2008, we entered into the Waiver and Third Amendment to Loan and Security Agreement which modifies the Senior Credit Facility by increasing the covenant governing the level of allowable annual capital expenditures to \$14.0 million in 2007 and \$9.0 million for each year thereafter until the loan matures.

CAPITAL LEASES

Prior to February 2006, we leased several vehicles used in our seismic drilling operations under 40-month capital leases. In February 2006, in accordance with a 2005 agreement, the capital leases on those vehicles were paid off through a refinance transaction with a third party leasing company. The capital leases were replaced with 24-month operating leases expiring in the first quarter of 2008. In December 2006, we acquired for internal use a corporate-configured helicopter under capital lease maturing in 2008. As of December 31, 2007, the lease balance was \$0.5 million. In March 2007, we acquired equipment under a capital lease maturing in 2012. As of December 31, 2007 the lease balance was less than \$0.1 million.

TRUSSCO NOTES

In connection with the acquisition of Trussco, Inc. in June 2004, we issued \$3.0 million in 5% convertible promissory notes payable to certain stockholders (Stockholder Notes) maturing in June 2007. The Stockholder

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Notes could have been prepaid at any time and were convertible into shares of our common stock at a price of \$9.40 per share.

In May 2005, in connection with the completion of other financing, we entered into early debt extinguishment agreements with respect to \$2.0 million of the Stockholder Notes and \$1.0 million of the Earnout Note more fully described in Note 4. In August 2005, we (i) issued 0.2 million shares of our common stock; and (ii) paid certain holders of the Stockholder Notes \$1.0 million in cash, in full and complete satisfaction of \$2.0 million of the Stockholder Notes and \$1.0 million of the Earnout Note.

In July 2006, we prepaid the remaining amount of the Stockholder Notes resulting in a \$0.01 million gain from the early extinguishment of this debt. This transaction also resulted in the termination of the Earnout Note.

PREHEAT NOTES

In connection with the purchase 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, 2006 and 2007, the Preheat Notes had a balance of \$4.0 million. The amounts due in February 2008 were not paid pending negotiations with the former Preheat stockholders to restructure the Preheat Notes.

RIG TOOLS NOTES

In connection with the purchase of Rig Tools in November 2006, we issued \$4.0 million in 5% 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 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 notes. At December 31, 2006 and 2007, the Rig Tools Notes had a balance of \$4.0 million and \$1.0 million, respectively. The beneficial conversion feature had an unamortized balance of \$0.6 million and \$0.1 million at December 31, 2006 and 2007, respectively.

CHARLES HOLSTON NOTES

On March 2, 2007, we acquired Holston (See Note 12). Subject to the terms and conditions of the purchase agreement, 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 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, the Holston Notes had a balance of \$5.0 million.

CYPRESS NOTES

In connection with the acquisition of certain assets of Cypress (See Note 12) effective February 16, 2007, we issued \$3.0 million in a 5% promissory note payable to a certain Cypress Energy 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, the Cypress Note had a balance of \$3.0 million.

BAILEY NOTE

In connection with the acquisition of BOI (See Note 12) effective June 7, 2007, we issued \$0.5 million in a 5% promissory note payable to BOI (Bailey Note). The Bailey Note is payable on or before May 31, 2010. At December 31, 2007, the Bailey Note had a balance of \$0.5 million.

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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 September 2008 and accrue interest at 5.25%

SUBORDINATED PROMISSORY NOTES

On May 18, 2005, we entered into settlement agreements (*Debenture Settlement Agreements*) with each of the holders of our 6.5% convertible debentures and other third parties (the *Debenture Holders*) in exchange for our dismissal of our lawsuit filed against the Debenture Holders in which we alleged the Debenture Holders violated Section 16(b) of the Securities Exchange Act of 1934, as amended (see Note 4 to the Consolidated Financial Statements). Under the terms of the Debenture Settlement Agreements, we agreed to (i) pay the Debenture Holders approximately \$4.0 million cash; (ii) immediately issue the Debenture Holders 2.0 million shares of our common stock at an agreed upon value of \$3.4 million; and, (iii) issue the Debenture Holders approximately \$4.3 million of unsecured, subordinated promissory notes (*Subordinated Debenture Notes*). The Company recorded a gain of \$0.2 million at the close of these transactions. The Subordinated Debenture 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. Execution of the Debenture Settlement Agreements extinguished the terms of the original Debentures and released all parties from any future claims.

On August 26, 2005, we entered into a settlement agreement and mutual release (*Agreement and Release*) with two of the three holders of the Subordinated Debenture Notes. Under terms of the Agreement and Release, we paid \$1.5 million in cash from the proceeds of a new \$25.0 million multiple draw term credit facility, and issued 750,000 shares of our common stock in full satisfaction of the applicable Subordinated Debenture Notes. At December 31, 2006 and 2007, the remaining Subordinated Debenture Note had a balance of approximately \$0.6 million and \$0.2 million, respectively.

SERIES C 9% CONVERTIBLE PREFERRED STOCK

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 9% Convertible Preferred Stock (the *Series C Preferred*) in conjunction with the completion of the Term A Loan more fully described above. 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 transactions contemplated by the Securities Purchase Agreement closed in two tranches. On May 17, 2005, the closing date of the first tranche, we issued an aggregate of 3,500 shares of Series C Preferred and warrants to acquire 4,585,000 shares of our common stock, in exchange for \$3.5 million. The second tranche closed on August 29, 2005, at which time the remainder of the Series C Preferred and warrants were issued generating proceeds of \$1.5 million and we granted the remaining 1,965,000 warrants.

The prior term loan agreements and senior credit facility restricted the payment of cash dividends. Consequently, a portion of the 9% dividend obligation related to the Series C Preferred were 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 years ended December 31, 2006 and 2007, 479 shares and 256 shares of Series C Preferred were issued, respectively, as PIK dividends at par. Effective April 29, 2007, the loan and security agreement governing the Term Loan was amended to remove the restriction on cash dividend payments on the preferred equity shares, provided we have sufficient availability and are in compliance with all other covenants. Consequently, the accrued dividends from April 2007 to December 2007 of \$0.1 million were paid in cash.

RELATED PARTY TRANSACTIONS

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 the

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Term A Loan more fully described above. Our Series C Preferred is convertible into 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 transactions contemplated by the Securities Purchase Agreement closed in two tranches. On May 17, 2005, the closing date of the first tranche, we issued an aggregate of 3,500 shares of Series C Preferred and warrants to acquire 4,585,000 shares of our common stock, in exchange for \$3.5 million. The second tranche closed on August 29, 2005, at which time the remainder of the Series C Preferred and warrants were issued generating proceeds of \$1.5 million and we granted the remaining 1,965,000 warrants.

During the years ended December 31, 2006 and 2007, 479 shares and 256 shares of Series C Preferred were issued, respectively, as PIK dividends at par. The accrued dividends from April 2007 to December 2007 were paid in cash.

Effective February 10, 2006, we purchased all of the issued and outstanding stock of Preheat for an aggregate acquisition price of \$23.0 million, including \$16.0 million in cash, 900,000 shares of our common stock, \$4.0 million in 5% promissory notes payable to certain stockholders (Preheat Notes) and the assumption of approximately \$1.5 million in debt and other liabilities. The Preheat Notes consist of three separate notes issued to the former owners who became employees of the Company with \$2.7 million maturing in February 2008 and \$0.5 million and \$0.8 million maturing in February 2009. At December 31, 2006 and 2007, the Preheat Notes had a balance of \$4.0 million.

Effective November 1, 2006, we purchased all of the issued and outstanding stock of Rig Tools for an aggregate acquisition price of \$14.0 million, including \$10.0 million in cash and \$4.0 million in 5% convertible promissory notes payable to certain stockholders (Rig Tools Notes), and the assumption of approximately \$2.5 million in debt and other liabilities. The Rig Tools Notes consist of three separate notes issued to the former owners who are now employees of the Company with \$3.0 million that matured 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 notes. At December 31, 2006 and 2007, the Rig Tools Notes had a balance of \$4.0 million less unamortized beneficial conversion of \$0.6 million and \$1.0 million less unamortized beneficial conversion of \$0.1 million, respectively.

On March 2, 2007, we acquired Holston pursuant to 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 Holston stockholders and the assumption of approximately \$3.6 million in debt and other liabilities. The Holston Notes consist of three separate notes issued to the former owners who are now employees of the Company with \$1.0 million maturing in February 2008, \$2.0 million maturing in February 2009 and \$2.0 million maturing in February 2010. The 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, the Holston Notes had a balance of \$5.0 million. In conjunction with the acquisition of Holston, we acquired a receivable from an entity owned by the former shareholders of Holston who are now employees of the Company. This receivable had a balance at December 31, 2007 in the amount of \$0.3 million.

In connection with the acquisition of certain assets of Cypress effective February 16, 2007, we issued \$3.0 million in a 5% promissory note payable to a certain Cypress stockholder who is now an employee of the Company. 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, the Cypress Note had a balance of \$3.0 million.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

USE OF ESTIMATES

The discussion and analysis of financial condition and results of operation are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

ACCOUNTS RECEIVABLE

We extend credit to customers and other parties in the normal course of business. We regularly review outstanding receivables, and provide for estimated losses through an allowance for doubtful accounts. In evaluating the level of established reserves, we make judgments regarding the customer's ability to make required payments, economic events and other factors. As the financial condition of these parties change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful account may be required. Due to the nature of our industry, we may periodically have concentration of credit risks. As a result, adjustments to the allowance for doubtful accounts may be significant.

INVENTORY

We have made significant investments in inventory to service our equipment. On a routine basis, we use judgments in determining the level of reserves required to state inventory at the lower of average cost or market. Technological innovations, market activity levels and the physical condition of products primarily influence our estimates. Changes in these or other factors may result in adjustments to the carrying value of inventory.

INCOME TAXES

Deferred tax assets and liabilities are recognized for differences between the book basis and tax basis of our assets and liabilities. In providing for deferred taxes, we consider current tax regulations, estimates of future taxable income and available tax planning strategies. If tax regulations change, operating results or the ability to implement tax planning strategies vary, adjustments to the carrying value of our net deferred tax assets and liabilities may be required. In making this determination, we have considered future taxable income in assessing the ultimate recoverability of the recognized net deferred tax asset.

OTHER CONTINGENCIES

We record liabilities for environmental obligations when remedial efforts are probable and the costs can be reasonably estimated. Our estimates are based on currently enacted laws and regulations. As more information becomes available or environmental laws and regulations change, such liabilities may be required to be adjusted. Additionally, in connection with acquisitions, we obtain indemnifications from the seller related to environmental matters. If the indemnifying parties do not fulfill their obligations, adjustments to recorded amounts may be required.

We maintain insurance coverage for various aspects of our business and operations. We retain a portion of losses that occur through the use of deductibles and, to a limited extent, self-funded insurance programs. We regularly review estimates of reported and unreported claims and provide for losses through insurance reserves. As claims develop and additional information becomes available, adjustments to loss reserves may be required.

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STOCK BASED COMPENSATION

Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R) requiring 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). Prior to January 1, 2006, we accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related interpretations. We also followed the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. We adopted SFAS No. 123R using the modified prospective method and, accordingly, financial statement amounts for prior periods presented in this Form 10-K have not been restated to reflect the fair value method of recognizing compensation cost relating to non-qualified stock options.

DISCONTINUED OPERATIONS

Effective June 30, 2005, we sold the equipment and related assets of our Aviation Transportation Services segment for a cash price of \$11.0 million. The proceeds were used to repay advances under our Term A Loan and for additional working capital. See Note 13 to the Consolidated Financial Statements included herein.

IMPAIRMENT OF LONG-LIVED ASSETS AND ASSETS HELD FOR SALE

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. 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.

Assets held for sale are recorded at the lower of their net book value or their net realizable value, which is determined based upon an estimate of their fair market value less the cost of selling the assets. An impairment is recorded to the extent that the amount that was carried on the books is in excess of the net realizable value. Assets held for sale at December 31, 2007 and 2006 are comprised of eight marsh buggies. Three helicopters held for sale at December 31, 2004 totaling \$3.5 million were disposed of during the three months ended March 31, 2005 generating proceeds of \$0.6 million and the extinguishment of lease obligations of approximately \$2.9 million.

During the quarter ended June 30, 2005, the aviation-related improvements at the Mouton Cove facility were deemed to be impaired as a result of the sale of our Aviation Transportation Services segment. A charge was recorded against operations in the amount of \$0.5 million reflecting the impairment of the value of that facility. The facility was not included in the sale of our Aviation Transportation Services segment.

COMMITMENTS AND CONTINGENCIES

On June 30, 2004, we amended our Restricted Stock Incentive Agreements with James Eckert, our Chief Executive Officer, and Darcy Klug, our Executive Vice President, into Amended and Restated Incentive Agreements (collectively referred to hereinafter as the Incentive Agreements) that award stock and/or cash on various vesting dates. Under the terms and conditions of the Incentive Agreements, two executive officers received 40,454 shares and 50,000 shares. The stock was held in escrow, registered in the name of the executive officers, until it vested 100% on November 4, 2004. Tax equalization payments were also paid to the two executive officers totaling \$0.1 million at June 30, 2004. The awards were fair valued at a per share price of \$5.05 at June 30, 2004 and recorded, in full, as compensation expense of \$0.5 million.

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The Incentive Agreements also granted these executive officers the right to receive two cash payments each equal to the fair market value of 60,673 shares and 75,000 shares of our common stock, respectively, on the first business day following our annual stockholders' meeting in 2005 and in 2006. The amounts of such stock-based awards to the executive officers on each vesting date may be paid in cash or, at the sole option of the Compensation Committee, in additional common stock, provided such shares are available for issuance pursuant to the terms of the Fourth Amended and Restated OMNI Energy Services Corp. Stock Incentive Plan (hereinafter the "Plan"). Such shares were not available until November 30, 2004, when the number of shares available under the Plan was increased after approval by the stockholders. From June 30, 2004 until November 30, 2004, the awards were accounted for under FASB Interpretation (FIN) No. 28 *Accounting for Stock Appreciation Right and Other Variable Stock Option or Award Plans* as a variable plan, which requires that compensation will be measured at the end of each period at the quoted market price of a share of our common stock and the change in the value of the incentive awards be charged to expense. As such, the awards were revalued at the end of each reporting period at the quoted market price of a share of our common stock. At November 30, 2004, the market value of a share of our common stock was \$2.93 resulting in compensation expense under variable accounting of \$0.5 million recognized through that date. Effective November 30, 2004, the Company amended these incentive agreements to provide for 100% vesting of the restricted stock and put into escrow the number of shares of common stock to settle the award. Accordingly the previous unvested portion of the award was charged to expense which totaled \$0.8 million and was recorded as compensation expense as of December 31, 2004.

We also entered into Stock-Based Award Incentive Agreements (hereinafter "SBA") with Mr. Eckert and Mr. Klug on June 30, 2004. Effective January 5, 2007, we entered into new Restricted Stock and Stock-Based Award Incentive Agreements (collectively "RSA") with Mr. Eckert and Mr. Klug. The new RSAs replaced the prior SBAs. The RSAs provide 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 becomes 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 will receive the right to a cash payment of \$1.2 million. The revised RSAs will terminate on December 31, 2008, and any unvested restricted common stock or stock-based awards will terminate and lapse.

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 vest one year after the date of grant, 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. The RSA for Mr. Eckert was terminated in connection with his execution of the NRSA.

The intrinsic value of the remaining RSA to Mr. Klug at December 31, 2007 is \$1.2 million but no compensation expense has been recorded at December 31, 2007 because the award is contingent on future events none of which are considered probable at December 31, 2007.

In conjunction with the NSRA, we entered into an Amended and Restated Employment Agreement ("Amended Agreement") with Mr. Eckert. The Amended Agreement is effective until June 30, 2008 unless otherwise terminated 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 or the earlier termination by us without cause, we will, for a period of one year, retain Mr. Eckert as an independent contractor to perform consulting services for us.

In addition, we have entered into employment contracts with certain key executive management effective until December 31, 2008 with automatic extensions for additional, successive one year periods commencing January 1, 2009, unless either party gives notice of non-renewal as provided for under the terms of the employment contracts.

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On December 12, 2008, we entered into an employment agreement with one of our divisional vice presidents. The contract is effective until December 2010 and has provisions for automatic renewals unless either party gives notice of non-renewal as provided under the terms of the employment contract.

In connection with the Preheat acquisition, we entered into employment contracts with the two former Preheat stockholders effective until December 31, 2007 with an automatic extension, granted at our option, for one additional twelve month period commencing January 1, 2008. Subsequently, one contract has been renewed and one contract has been terminated.

In connection with the Rig Tools acquisition, we entered into an employment contract with one of the former stockholders of Rig Tools effective until October 31, 2008 with an automatic extension, granted at our option, for one additional twelve month period commencing November 1, 2008.

In connection with the Holston acquisition, we entered into a consulting agreement with one of the former stockholders and employment contracts with two of the former stockholders of Holston effective until December 31, 2009 with an automatic extension, granted at our option, for one additional twelve month period commencing January 1, 2010.

In connection with the Cypress acquisition, we entered into an employment contract with one of the former stockholders of Cypress effective until December 31, 2009 with an automatic extension, granted at our option, for one additional twelve month period commencing January 1, 2010.

We have entered into employment agreements with two of our divisional vice presidents. Each of the contracts is effective until December 2008 and have provisions for automatic annual renewals unless either party gives notice of non-renewal as provided under the terms of the employment contracts.

TRUSSCO EARNOUT

In connection with the acquisition of Trussco, we issued to certain former stockholders of Trussco a promissory note (Earnout Note) that earned interest at a rate of 5% per annum of the amount owed. Under the terms of the Earnout Note, we agreed to pay these stockholders on or before June 30, 2007, the lesser of (i) the amount of \$3 million, or (ii) the sum of the product of 3.12 times Trussco's average annual EBITDA for the 36-month period ending December 31, 2006, less the sum of \$9 million, plus the long-term and former stockholder debt existing as of June 30, 2004 of Trussco that we assumed, which totaled \$1.5 million.

On May 18, 2005, we entered into early Debt Extinguishment Agreements on \$2.0 million of the Stockholder Notes and \$1.0 million of the Earnout Note more fully described in Note 4 of our Consolidated Financial Statements contained herein. Under the terms of the Debt Extinguishment Agreements, in full and complete satisfaction of \$2.0 million of the Stockholder Notes and \$1.0 million of the Earnout Note, we agreed to (i) immediately issue 0.2 million shares of our common stock; and, (ii) pay certain holders of the Stockholder Notes \$1.0 million on or before August 16, 2005, in full and complete satisfaction of \$2.0 million of the Stockholder Notes and \$1.0 million of the Earnout Note.

At December 31, 2005, we had \$1.0 million of Stockholder Notes outstanding bearing interest at 5% and maturing in June 2007. In July 2006, we prepaid this indebtedness resulting in a \$0.01 million gain from the early extinguishment of this debt. This transaction also resulted in the termination of the Earnout Note.

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We have the following contractual debt obligations as of December 31, 2007:

	TOTAL	PAYMENTS DUE BY PERIOD		
		LESS THAN	1-3	AFTER
		1 YEAR	YEARS	4 YEARS
		(In thousands)		
Long-term debt	\$ 48,805	\$ 14,017	\$ 32,320	\$ 2,468
Capital lease obligations	549	510	37	2
Line of credit	17,349	17,349		
Insurance notes	4,808	4,808		
Total Contractual Cash	\$ 71,511	\$ 36,684	\$ 32,357	\$ 2,470

We have the following operating lease commitments as of December 31, 2007:

	PAYMENTS DUE BY PERIOD				
	2008	2009	2010	2011	2012
	(In thousands)				
Operating leases	\$ 2,870	\$ 2,106	\$ 1,315	\$ 484	\$ 332

We believe that cash flow generated from operations in 2008 will be sufficient to fund our working capital needs, satisfy our debt service requirements and contractual commitments, and fulfill our un-financed capital expenditure needs for at least the next twelve months.

OFF BALANCE SHEET ARRANGEMENTS

As mentioned above, we have various vehicle and facilities leases which are classified as operating leases for reporting purposes. The total future commitments under these leases total \$7.1 million.

RECENTLY ISSUED UNIMPLEMENTED ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 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. We are currently evaluating the impact this statement adoption may have on our consolidated financial statements.

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. FASB 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 FASB No. 159 and, therefore, there was no impact to our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations* (SFAS No. 141). 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

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related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No 141 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited.

In December 2007, Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 110 (SAB 110). SAB 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 FAS 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 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 evaluating the impact of SAB 110 on our consolidated financial statements.

SUBSEQUENT EVENTS

On January 18, 2008, we completed the acquisition of B.E.G. Liquid Mud Services Corp. (B.E.G.) pursuant to an Asset Purchase Agreement (B.E.G. Purchase Agreement). Subject to the terms and conditions of the B.E.G. Purchase Agreement, we purchased certain assets from B.E.G. for the total consideration of approximately \$11.75 million, including \$7.75 million of cash and the issuance of \$4.0 million of three-year, 5% promissory notes.

On January 24, 2008, we entered into a settlement agreement whereby our restricted cash (\$1.1 million) was released from restrictions. As a result of the agreement, we fully satisfied the capital lease payable related to the aviation equipment in the amount of \$0.6 million and we took clear title to the aircraft.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
INTEREST RATE RISK**

We are exposed to interest rate risk due to changes in interest rates, primarily in the United States. Our policy is to manage interest rates through the use of a combination of fixed and floating rate debt. We currently do not use any derivative financial instruments to manage our exposure to interest rate risk. The table below provides information about the future maturities of principal for outstanding debt instruments at December 31, 2007 subject to interest rate risk. All instruments described are non-traded instruments and approximate fair value.

	2008	2009	DECEMBER 31, 2010		
			2011	2012	
	(Dollars in thousands)				
Long-term debt					
Fixed Rate	\$ 6,548	\$ 4,534	\$ 3,688	\$ 177	\$ 92
Average interest rate	5.5%	5.1%	5.2%	8.4%	8.7%
Variable Rate	\$ 7,979	\$ 7,983	\$ 7,986	\$ 7,989	\$ 2,378
Average interest rate	6.7%	6.7%	6.7%	6.7%	8.0%
Short-term debt					
Fixed Rate	\$ 4,808				
Average interest rate	5.3%				
Variable Rate	\$ 17,349				
Average interest rate	6.6%				

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INTEREST RATE EXPOSURE

Our exposure to changes in interest rates primarily results from our long-term debt with both fixed and floating interest rates. The debt on our consolidated financial statements at December 31, 2007 with fixed interest rates totals \$19.8 million. At December 31, 2007, 72% of our consolidated long-term debt was subject to variable interest rates. The detrimental effect of a hypothetical 100 basis point increase in interest rates would be to decrease net income before provision for income taxes by approximately \$0.4 million for the year ended December 31, 2007.

FOREIGN CURRENCY RISKS

We transact 100% of our business in U.S. dollars, thus we are not subject to foreign currency exchange risks.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
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<u>Consolidated Balance Sheets as of December 31, 2006 and 2007</u>	47
<u>Consolidated Statements of Operations for the Years Ended December 31, 2005, 2006 and 2007</u>	48
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* All financial statement schedules are omitted as the required information is either inapplicable or is included in the financial statements or related notes.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

OMNI Energy Services Corp:

We have audited the accompanying consolidated balance sheets of OMNI Energy Services Corp. as of December 31, 2006 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Omni Energy Services Corp as of December 31, 2006 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), OMNI Energy Service Corp.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 17, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

As discussed in Note 1, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*, on January 1, 2007.

/s/ Pannell Kerr Forster of Texas, P.C.

Houston, Texas

March 17, 2008

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OMNI ENERGY SERVICES CORP.
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2006 2007 (Dollars in thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,576	\$ 13,431
Restricted cash	1,114	1,114
Trade receivables, net	16,634	26,566
Other receivables	315	627
Parts and supplies inventory	3,792	5,950
Prepaid expenses and other current assets	4,663	7,412
Deferred tax assets	11,842	5,818
Current assets of discontinued operations	67	67
Due from related party		262
Assets held for sale	108	108
Total current assets	51,111	61,355
PROPERTY, PLANT AND EQUIPMENT, net	44,827	61,037
OTHER ASSETS:		
Goodwill	14,521	15,038
Customer intangible assets, net	1,852	13,780
Licenses, permits and other intangible assets, net	4,308	9,082
Loan closing costs, net	3,356	4,359
Other assets	565	343
Total other assets, net	24,602	42,602
TOTAL ASSETS	\$ 120,540	\$ 164,994
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 7,435	\$ 15,706
Accrued expenses	3,702	4,645
Current maturities of long-term debt	7,689	14,456
Insurance notes payable	3,275	4,808
Line of credit	12,179	17,349
Current liabilities of discontinued operations	219	
Total current liabilities	34,499	56,964
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	32,935	34,827
Other long-term liabilities		1,060
Deferred tax liability	13,680	11,984
Total long-term liabilities	46,615	47,871
Total liabilities	81,114	104,835

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COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS EQUITY:

Convertible preferred stock, no par value, 5,000,000 shares authorized; 29 shares of Series B issued and outstanding at December 31, 2006 and 2007 and 5,607 and 5,484 shares of Series C issued and outstanding at December 31, 2006 and 2007, respectively, liquidation preference of \$1,000 per share	1,285	1,162
Common stock, \$0.01 par value, 45,000,000 shares authorized; 16,909,949 and 18,727,615 issued and 16,864,949 and 18,682,615 outstanding at December 31, 2006 and 2007, respectively	169	187
Preferred stock dividends declared	132	3
Additional paid-in capital	82,441	93,997
Accumulated deficit	(44,601)	(35,190)
Total stockholders equity	39,426	60,159
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 120,540	\$ 164,994

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

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2005	2006	2007
	(In thousands, except per share data)		
Operating revenue	\$ 43,350	\$ 98,998	\$ 172,479
Operating expenses:			
Direct costs	27,515	59,830	110,252
Depreciation and amortization	4,627	5,660	10,761
General and administrative expenses (includes transition incentives of \$5,000 in 2007)	8,497	13,780	28,117
Total operating expenses	40,639	79,270	149,130
Operating income	2,711	19,728	23,349
Interest expense	(2,836)	(4,966)	(6,936)
Gain (loss) on debt extinguishment		15	(1,100)
Gain on debenture conversion inducement	758		
Other income	835	233	360
Income before income taxes	1,468	15,010	15,673
Income tax benefit (expense)	508	6,805	(5,504)
Net income from continuing operations	1,976	21,815	10,169
Loss from discontinued operations, net of taxes	(3,978)		
Loss on disposal of discontinued operations assets, net of taxes	(2,271)		
Net income (loss)	(4,273)	21,815	10,169
Dividends on preferred stock	(249)	(488)	(503)
Non-cash charge attributable to beneficial conversion feature of preferred stock	(745)	(458)	(255)
Net income (loss) available to common stockholders	\$ (5,267)	\$ 20,869	\$ 9,411
Basic income (loss) per common share:			
Income from continuing operations	\$ 0.07	\$ 1.29	\$ 0.52
Loss from discontinued operations	(0.30)		
Loss on disposal of discontinued operations assets, net of taxes	(0.17)		
Net income (loss) available to common stockholders	\$ (0.40)	\$ 1.29	\$ 0.52
Diluted income (loss) per common share:			
Income from continuing operations	\$ 0.07	\$ 0.89	\$ 0.40
Loss from discontinued operations	(0.29)		
Loss on disposal of discontinued operations assets, net of taxes	(0.16)		
Net income (loss) available to common stockholders	\$ (0.38)	\$ 0.89	\$ 0.40
Number of weighted average shares:			
Basic	13,251	16,190	18,077
Diluted	13,683	24,459	25,634

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

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	PREFERRED STOCK		COMMON STOCK		TREASURY STOCK
	SHARES	AMOUNT	SHARES	AMOUNT	AMOUNT
	(Dollars in thousands)				
BALANCE, December 31, 2004	29	\$ 29	11,679,565	\$ 117	\$ (529)
Issuance of common stock for services			284,000	3	
Stock based compensation			30,000		
Stock options and warrants exercised for cash			283,556	3	
Preferred stock dividends declared					
Preferred stock dividends paid in kind	128	128			
Issuance of preferred stock and warrants, net of offering costs	5,000	649			
Beneficial conversion feature associated with preferred stock					
Issuance of treasury shares for stock based compensation					265
Issuance of common stock in payment of debt			995,000	10	
Issuance of common stock in payment of convertible debentures			2,000,000	20	
Net loss					
BALANCE, December 31, 2005	5,157	806	15,272,121	153	(264)
Stock based compensation					
Stock based compensation forfeited			(24,000)		
Stock options and warrants exercised for cash and other			761,828	7	
Preferred stock dividends declared					
Preferred stock dividends paid in kind	479	479			
Common stock issued in acquisition			900,000	9	
Beneficial conversion feature associated with preferred stock					
Issuance of treasury shares for stock based compensation					264
Beneficial conversion feature associated with convertible notes issued in acquisition, net of accretion					
Net income					
BALANCE, December 31, 2006	5,636	1,285	16,909,949	169	
Stock based compensation					
Restricted stock awards, net of forfeitures			12,500		
Stock options and warrants exercised for cash and other			945,378	9	
Preferred stock dividends declared					
Preferred stock dividends paid in kind	256	256			
Common stock issued for cash, net of offering costs			665,429	7	
Beneficial conversion feature associated with preferred stock					
Preferred stock conversion	(379)	(379)	194,359	2	
Net income					
BALANCE, December 31, 2007	5,513	\$ 1,162	18,727,615	\$ 187	\$

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Continued)

	PREFERRED STOCK DIVIDEND DECLARED	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
	(Dollars in thousands)			
BALANCE, December 31, 2004	\$ 2	\$ 65,448	\$ (60,203)	\$ 4,864
Issuance of common stock for services		267		270
Stock based compensation		9		9
Stock options and warrants exercised for cash		526		529
Preferred stock dividends declared	249		(249)	
Preferred stock dividends paid in kind	(128)			
Issuance of preferred stock and warrants, net of offering costs		3,788		4,437
Beneficial conversion feature associated with preferred stock		745	(745)	
Issuance of treasury shares for stock based compensation		(265)		
Issuance of common stock in payment of debt		2,089		2,099
Issuance of common stock in payment of convertible debentures		3,180		3,200
Net loss			(4,273)	(4,273)
BALANCE, December 31, 2005	123	75,787	(65,470)	11,135
Stock based compensation		617		617
Stock based compensation forfeited		3		3
Stock options and warrants exercised for cash and other		2,127		2,134
Preferred stock dividends declared	488		(488)	
Preferred stock dividends paid in kind	(479)			
Common stock issued in acquisition		3,033		3,042
Beneficial conversion feature associated with preferred stock		458	(458)	
Issuance of treasury shares for stock based compensation		(264)		
Beneficial conversion feature associated with convertible notes issued in acquisition, net of accretion		680		680
Net income			21,815	21,815
BALANCE, December 31, 2006	132	82,441	(44,601)	39,426
Stock based compensation		2,487		2,487
Restricted stock, net of forfeitures				
Stock options and warrants exercised for cash and other		2,216		2,225
Preferred stock dividends declared	127		(503)	(376)
Preferred stock dividends paid in kind	(256)			
Common stock issued for cash, net of offering costs		6,221		6,228
Beneficial conversion feature associated with preferred stock		255	(255)	
Preferred stock conversion		377		
Net income			10,169	10,169
BALANCE, December 31, 2007	\$ 3	\$ 93,997	\$ (35,190)	\$ 60,159

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

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OMNI ENERGY SERVICES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2005	YEAR ENDED DECEMBER 31, 2006 (In thousands)	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations	\$ 1,976	\$ 21,815	\$ 10,169
Loss from discontinued operations	(6,249)		
	(4,273)	21,815	10,169
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	4,627	5,660	10,761
Gain on property, plant and equipment disposals	(826)	(48)	(173)
Stock based compensation expense	8	620	2,487
Accretion of discount on convertible notes		100	511
Amortization of loan closing costs	417	850	1,013