

OMNI ENERGY SERVICES CORP

Form 10-Q

August 08, 2008

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

Washington, D.C. 20549

**FORM 10-Q**

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

or

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

COMMISSION FILE NUMBER 0-23383

**OMNI ENERGY SERVICES CORP.**

(Exact name of registrant as specified in its charter)

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

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

**4500 N.E. EVANGELINE THRUWAY**

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

**70520**  
(Zip Code)

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

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

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

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

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

As of August 6, 2008, there were 19,594,994 shares of the Registrant's common stock, \$0.01 par value per share, outstanding.

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**OMNI ENERGY SERVICES CORP**

**FORM 10-Q**

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

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

	<b>December 31, 2007</b>	<b>June 30, 2008</b>
	<b>(Dollars in thousands)</b>	
	<b>(unaudited)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 13,431	\$ 1,920
Restricted cash	1,114	1,130
Trade receivables, net	26,566	29,656
Other receivables	627	601
Due from related party	262	262
Parts and supplies inventory	5,950	8,050
Prepaid expenses and other current assets	7,587	4,178
Deferred tax assets	5,818	4,339
<b>Total current assets</b>	<b>61,355</b>	<b>50,136</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>61,037</b>	<b>82,716</b>
<b>OTHER ASSETS:</b>		
Goodwill	15,038	19,571
Customer intangible assets, net	13,780	14,465
Licenses, permits and other intangible assets, net	9,082	13,401
Loan closing costs, net	4,359	5,662
Other assets	343	444
	<b>42,602</b>	<b>53,543</b>
<b>TOTAL ASSETS</b>	<b>\$ 164,994</b>	<b>\$ 186,395</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 15,706	\$ 13,930
Accrued expenses	4,645	9,376
Current maturities of long-term debt	14,456	18,695
Insurance notes payable	4,808	1,218
Line of credit	17,349	12,401
<b>Total current liabilities</b>	<b>56,964</b>	<b>55,620</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, less current maturities	34,827	50,796
Other long-term liabilities	1,060	1,092
Deferred income taxes	11,984	15,857

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Total long-term liabilities	47,871	67,745
Total liabilities	104,835	123,365
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS EQUITY:</b>		
Convertible preferred stock, no par value, 5,000,000 shares authorized; 29 shares of Series B issued and outstanding at December 31, 2007 and June 30, 2008 and 5,484 and 5,396 shares of Series C issued and outstanding at December 31, 2007 and June 30, 2008, respectively, liquidation preference of \$1,000 per share	1,162	1,074
Common stock, \$0.01 par value, 45,000,000 shares authorized; 18,727,615 and 19,639,328 issued and 18,682,615 and 19,594,328 outstanding at December 31, 2007 and June 30, 2008, respectively	187	196
Preferred stock dividends declared	3	3
Additional paid-in capital	93,997	95,853
Accumulated deficit	(35,190)	(34,096)
Total stockholders equity	60,159	63,030
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 164,994</b>	<b>\$ 186,395</b>

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
	<b>(in thousands, except per share amounts)</b>			
Operating revenue	\$ 48,121	\$ 48,920	\$ 87,010	\$ 89,881
Operating expenses:				
Direct costs	31,172	32,122	54,747	61,220
Depreciation and amortization	2,922	3,342	4,987	6,156
General and administrative expenses (includes litigation settlement of \$2,400 in the first quarter of 2008)	5,762	7,357	10,877	16,135
Total operating expenses	39,856	42,821	70,611	83,511
Operating income	8,265	6,099	16,399	6,370
Interest expense	(1,759)	(1,723)	(3,329)	(3,713)
Loss on debt extinguishment			(1,004)	
Other income (expense), net	54	44	65	(203)
Income before income tax expense	6,560	4,420	12,131	2,454
Provision for income tax expense	(2,543)	(1,678)	(4,687)	(1,116)
Net income	4,017	2,742	7,444	1,338
Dividends and accretion of preferred stock	(127)	(121)	(254)	(244)
Non-cash charge attributable to beneficial conversion feature of preferred stock	(127)		(255)	
Net income available to common stockholders	\$ 3,763	\$ 2,621	\$ 6,935	\$ 1,094
Basic income per share:				
Net income available to common stockholders	\$ 0.21	\$ 0.14	\$ 0.39	\$ 0.06
Diluted income per share:				
Net income available to common stockholders	\$ 0.15	\$ 0.10	\$ 0.29	\$ 0.05
Weighted average common shares outstanding:				
Basic	17,914	19,384	17,562	19,227
Diluted	26,412	27,544	25,802	22,521

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

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount
	(in thousands, except share amounts)			
BALANCE, December 31, 2007	5,513	\$ 1,162	18,727,615	\$ 187
Stock based compensation				
Stock options and warrants exercised			4,598	
Restricted stock awards, net of forfeitures			462,500	5
Common stock issued in legal settlement			400,000	4
Preferred stock dividends declared				
Preferred stock conversion	(88)	(88)	44,615	
Net income				
BALANCE, June 30, 2008	5,425	\$ 1,074	19,639,328	\$ 196

	Preferred Stock Dividends Declared	Additional Paid-In Capital	Accumulated Deficit	Total
	(in thousands)			
BALANCE, December 31, 2007	\$ 3	\$ 93,997	\$ (35,190)	\$ 60,159
Stock based compensation		541		541
Stock options and warrants exercised		13		13
Restricted stock awards, net of forfeitures		1,218		1,223
Common stock issued		(4)		
Preferred stock dividends declared			(244)	(244)
Preferred stock conversion		88		
Net income			1,338	1,338
BALANCE, June 30, 2008	\$ 3	\$ 95,853	\$ (34,096)	\$ 63,030

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

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

	<b>Six Months Ended</b>	
	<b>2007</b>	<b>2008</b>
	<b>June 30,</b>	
	<b>(in thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 7,444	\$ 1,338
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,987	6,156
Amortization of deferred loan issuance costs	507	556
Loss on fixed asset disposition	13	294
Provision for doubtful accounts		136
Stock based compensation expense	497	541
Accretion of discount on convertible notes	298	77
Loss on debt extinguishment	1,004	
Deferred income taxes	4,687	922
Changes in operating assets and liabilities:		
Trade receivables	(7,734)	(128)
Other receivables	(3)	62
Parts and supplies inventory	(1,022)	(410)
Prepaid expenses and other current assets	1,743	3,893
Other assets	138	42
Accounts payable and accrued expenses	4,042	1,528
<b>Net cash provided by operating activities</b>	<b>16,601</b>	<b>15,007</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(9,229)	(6,606)
Proceeds from disposal of property, plant and equipment	190	369
Acquisitions, net of cash received	(23,673)	(20,836)
Proceeds from collection of other receivable	184	
Increase in restricted cash		(641)
<b>Net cash used in investing activities</b>	<b>(32,528)</b>	<b>(27,714)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the issuance of long-term debt	14,934	19,232
Proceeds from issuance of common stock for cash and exercise of stock options and warrants	8,043	13
Preferred stock dividends paid in cash	(6)	(248)
Principal payments on long-term debt	(16,057)	(10,994)
Loan closing costs	(2,289)	(1,859)
Borrowings (payments) on line of credit, net	11,268	(4,948)
<b>Net cash provided by financing activities</b>	<b>15,893</b>	<b>1,196</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(34)</b>	<b>(11,511)</b>
Cash and cash equivalents, at beginning of period	12,576	13,431
<b>Cash and cash equivalents, at end of period</b>	<b>\$ 12,542</b>	<b>\$ 1,920</b>





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

	<b>Six Months Ended June 30, 2007      2008 (in thousands)</b>	
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Cash paid for interest	\$ 2,784	\$ 2,880
Cash paid for taxes	\$	\$ 205
<b>NON-CASH TRANSACTIONS:</b>		
Application of restricted cash to capital lease payable and other	\$	\$ 625
Equipment financed through capital lease	\$ 58	\$
Equipment note paid off under sale/leaseback	\$ 201	\$
Preferred stock issued as dividends paid-in-kind	\$ 127	\$
Beneficial conversion feature of preferred stock	\$ 255	\$
Conversion of preferred stock to common	\$ 377	\$ 88
Premiums financed with insurance carrier	\$ 609	\$
Notes payable issued to former owners of acquired entities	\$ 8,500	\$ 8,000
Equipment transferred in satisfaction of settlement of accrued liability	\$	\$ 750

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

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**OMNI ENERGY SERVICES CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**BASIS OF PRESENTATION**

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

**IMPAIRMENT OF LONG-LIVED ASSETS**

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

**CASH AND CASH EQUIVALENTS**

We consider highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The \$1.1 million included in restricted cash at December 31, 2007 represented cash held in escrow related to the purchase of an aircraft which was released from restriction during the first quarter of 2008. The proceeds were used to settle the outstanding balance of a capital lease payable with the remaining proceeds remitted to us.

**STOCK BASED COMPENSATION**

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

**ACCOUNTING PRONOUNCEMENTS RECENTLY ADOPTED**

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

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

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

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

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

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

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

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

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

	December 31, 2007	June 30, 2008
	(In thousands)	
Land	\$ 793	\$ 793
Construction in progress	734	1,339
Building and improvements	8,200	8,414
Drilling, field and support equipment	79,382	101,288
Shop equipment	1,153	822
Office equipment	2,261	2,264
Aircraft	1,438	1,438
Vehicles	4,291	4,814
	98,252	121,172
Less: accumulated depreciation	(37,215)	(38,456)
<b>Total property, plant and equipment, net</b>	<b>\$ 61,037</b>	<b>\$ 82,716</b>

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

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

	December 31, 2007	June 30, 2008
	(In thousands)	
Notes payable to a bank with interest payable at prime plus 1.50% (9.25% at December 31, 2007 and 6.50 % at June 30, 2008) maturing July 31, 2023, secured by real estate	\$ 1,288	\$ 1,267
Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate	152	140
Promissory notes payable to certain former owners of acquired companies with interest at 5%, maturing at various dates through April 2011	8,500	7,000
Convertible promissory notes payable to certain former stockholders of acquired companies with interest at 5%, maturing at various dates through April 2011, net of beneficial conversion of \$71 at December 31, 2007 and \$28 at June 30, 2008	4,929	12,472
Promissory notes payable to finance companies secured by vehicles and equipment	642	568
Capital leases payable to finance companies secured by an aircraft and equipment	549	44
Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, unsecured, paid in full	197	
Term Loan payable to a bank, variable interest rate at LIBOR plus 2.75% (5.21% at June 30, 2008), secured by various equipment, maturing April 23, 2013		48,000
Term and Capex Loans payable to a bank, variable interest rate at LIBOR plus 2% (ranging from 6.63% to 6.93% at December 31, 2007), secured by various equipment, paid in full	33,026	
Total	\$ 49,283	\$ 69,491
Less: current maturities	(14,456)	(18,695)
Long-term debt, less current maturities	\$ 34,827	\$ 50,796

**SENIOR CREDIT FACILITY**

Effective April 24, 2008, we increased our credit facility to \$90.0 million ( New Senior Credit Facility ), including a \$50.0 million term loan (the Term Loan ), a \$25.0 million working capital revolving line of credit (the Revolver ), and a \$15.0 million delayed draw term loan available to fund future acquisitions. The Revolver replaced our previous line of credit (the Line ). Availability under the Revolver is the lower of: (i) \$25.0 million or (ii) the sum of eligible accounts receivable and inventory, as defined under the agreement governing the Revolver. The Revolver accrues interest at the 30-day LIBOR plus 2.25% (4.96% at June 30, 2008) and matures in April 2013. The Revolver is collateralized by accounts receivable and inventory. As of June 30, 2008, we had \$12.4 million outstanding under the Revolver. Due to the lock-box arrangement and the subjective acceleration clause in the agreements governing the Revolver and the Line, the debt under the Line and the Revolver have been classified as a current liability as of December 31, 2007 and June 30, 2008, as required by Emerging Issues Task Force ( EITF ) No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-box Arrangement*.

Under the terms of the Term Loan, the funding limits are limited to the lesser of \$50.0 million and 80% of the orderly liquidation value of our equipment. In addition, the Term Loan matures in February 2012 and will be repaid quarterly in equal payments of \$2.0 million, with interest paid monthly in arrears and accruing at the annual interest rate of LIBOR plus 2.75% (5.21% at June 30, 2008). The Term Loan contains customary financial covenants and limitations on capital expenditures. With the proceeds from the New Senior Credit Facility, we (i) repaid approximately \$28.7 million of outstanding principal balance under our previous term loan; (ii) repaid approximately \$2.1 million of outstanding principal balance under our previous capital expenditure loan; (iii) repaid the balance on the Line; and (iv) closed the acquisition of Industrial Lift Truck and Equipment Co., Inc. ( ILT ). The balance of the proceeds available under the New Senior Credit Facility was used to pay fees and expenses of the aforementioned transaction and to provide additional working capital. As of June 30, 2008, we had \$48.0 million outstanding under the Term Loan.

**Table of Contents****CAPITAL LEASES**

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

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

	December 31, 2007	June 30, 2008
	(In thousands)	
Aircraft	\$ 1,437	\$
Equipment	58	58
Less: Accumulated depreciation	(101)	(8)
Capitalized cost, net	\$ 1,394	\$ 50

Depreciation expense for the three and six months ended June 30, 2008 and 2007 was nil and \$0.03 million and \$0.02 million, respectively, for all assets held under capital lease.

**SUBORDINATED PROMISSORY NOTES**

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

**PREHEAT NOTES**

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

**RIG TOOLS NOTES**

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

**CHARLES HOLSTON NOTES**

On March 2, 2007, we acquired BMJ Industrial Investments, L.L.C. and its wholly-owned subsidiary, Charles Holston, Inc. (collectively Holston ). 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 Holston Notes maturing in 2009 and 2010 are convertible into shares of our common stock at a price of \$9.24 per share. Based upon the stock valuation at the time of issuance, no beneficial conversion

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feature existed. At December 31, 2007 and June 30, 2008, the Holston Notes had a balance of \$5.0 million and \$4.0 million, respectively.

### **CYPRESS NOTES**

In connection with the acquisition of certain assets of Cypress Consulting Services, Inc. d/b/a Cypress Energy Services ( Cypress ) (See Note 7) in February 2007, we issued a \$3.0 million promissory note accruing interest at an annual rate of 5% payable to a Cypress stockholder (the Cypress Note ). The Cypress Note is payable over three years with \$1.0 million maturing in February 2008, \$1.0 million maturing in February 2009 and \$1.0 million maturing in February 2010. At December 31, 2007 and June 30, 2008, the Cypress Note had a balance of \$3.0 million and \$2.0 million, respectively.



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### **BAILEY NOTE**

In connection with the acquisition of certain assets of Bailey Operating, Inc. ( **BOI** ) (See Note 7) in June 2007, we issued a \$0.5 million promissory note accruing interest at an annual rate of 5% payable to BOI ( **Bailey Note** ). The Bailey Note is payable on or before May 31, 2010. At December 31, 2007 and June 30, 2008, the Bailey Note had a balance of \$0.5 million.

### **BEG NOTES**

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

### **ILT NOTES**

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

### **INSURANCE NOTES PAYABLE**

A portion of our property and casualty insurance premiums are financed through certain short-term installment loan agreements. The insurance notes are payable in monthly installments through September 2008 and accrue interest at 5.25%.

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

#### **EXECUTIVE COMPENSATION AGREEMENTS**

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

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

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

In conjunction with the NRSA, we mutually terminated the RSA with Mr. Eckert and entered into an Amended and Restated Employment Agreement ( **Amended Agreement** ) with Mr. Eckert. The Amended Agreement was effective until June 30, 2008 unless we had otherwise terminated it in accordance with the Amended Agreement. Additionally, we entered into a Consulting Agreement ( **Consulting Agreement** ) with Mr. Eckert effective December 31, 2007. Under the terms of the Consulting Agreement, upon the termination of the Amended Agreement on June 30, 2008 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.

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On May 1, 2008, the former owners of Preheat filed a lawsuit in federal court in the United States District Court for the Western District of Louisiana in Lafayette, Louisiana, against us, our directors, our Chief Operating Officer, our Chief Financial Officer, one of our investment advisors, and a principal of the investment advisor. The lawsuit seeks, among other things, (i) a declaratory judgment that the Preheat purchase agreement executed in December 2005 is null because of alleged securities fraud and bad faith breach of the purchase agreement and that one of the former Preheat owners' ERISA rights be

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clarified, (ii) injunctive relief to halt alleged securities disclosure violations by us and to remove three board members, and (iii) damages resulting from the nullification of the Preheat purchase agreement. We believe the claims against us are without merit and will vigorously contest any legal action.

### **OTHER**

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

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

#### **COMMON STOCK**

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

On April 29, 2008, we issued 400,000 shares of our common stock in partial settlement of a litigation matter.

#### **PREFERRED STOCK**

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

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

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

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

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

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during the three and six months ended June 30, 2008 in the amount of \$0.1 million and \$0.2 million, respectively.

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

**Table of Contents****STOCK BASED COMPENSATION**

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

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

There was \$0.3 million and \$0.5 million of compensation cost related to non-qualified stock options recognized in operating results (included in general and administrative expenses) for the three and six months ended June 30, 2008, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility is based on implied volatilities from historical trading of our stock. We used the simplified method to derive an expected term. The expected term represents an estimate of the time options are expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. treasury yield curve in effect at the time of grant. The following table sets forth the assumptions used to determine compensation cost for our non-qualified stock options consistent with the requirements of SFAS No. 123R. The weighted average fair value at date of grant for options granted during the six months ended June 30, 2007 and 2008 was \$4.68 and \$2.68 per option, respectively.

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2008
Expected volatility	37.81%	52.97%
Expected annual dividend yield	0.00%	0.00%
Risk free rate of return	4.61%	3.39%
Expected option term (years)	6.50	6.50

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

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	901,530	\$ 6.65		
Granted	350,000	4.49		
Exercised				
Lapsed or canceled	(38,083)	8.91		
Outstanding at March 31, 2008	1,213,447	\$ 5.95	8.5	\$
Granted	446,000	5.05		
Exercised	(4,598)	2.87		
Lapsed or canceled	(36,681)	7.53		
Outstanding at June 30, 2008	1,618,168	\$ 5.68	8.7	\$ 1,181
Exercisable at June 30, 2008	610,540	\$ 5.45	7.9	\$ 586



**Table of Contents****WARRANTS**

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

	WEIGHTED AVERAGE EXERCISE PRICE	WARRANTS
Balance at December 31, 2007	\$ 2.78	6,242,650
Granted		
Exercised		
Forfeited		
Balance at March 31, 2008	\$ 2.78	6,242,650
Granted		
Exercised		
Forfeited		
Balance at June 30, 2008	\$ 2.78	6,242,650
Exercisable	\$ 2.78	6,242,650

**RESTRICTED STOCK**

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

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

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

At June 30, 2008, \$0.3 million of total unrecognized compensation cost related to the unvested portion of the restricted stock awards is expected to be recognized over a weighted average period of 3.75 years.

**EARNINGS PER SHARE**

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

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issue shares of common stock were exercised or converted into common stock.

For the three and six months ended June 30, 2007, we had 289,888 and 181,957 options, respectively, that were excluded from the calculation of Diluted EPS as they were antidilutive. In addition, Stockholder Notes convertible into 500,000 shares of common stock were excluded from the calculation for the three and six months ended June 30, 2007.

For the three and six months ended June 30, 2008, we had 939,338 and 1,018,019 options and restricted shares, respectively, and 598,650 warrants that were excluded from the calculation of Diluted EPS as they were antidilutive. In addition, Rig Tools Notes convertible into 125,000 shares of common stock, Holston Notes convertible into 0 and 432,900 shares of common stock, BEG Notes convertible into 0 and 974,161 shares of common stock and ILT Notes convertible into 0 and 122,711 shares of common stock were excluded from the calculation for the three and six months ended June 30, 2008, respectively. Also, preferred stock convertible into 0 and 2,797,477 shares of common stock were excluded from the calculation of diluted EPS for the three months and six months ended June 30, 2008, respectively, because they were antidilutive.



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

	Three Months Ended June 30, 2007		Three Months Ended June 30, 2008	
	Dollars	Weighted Average Shares (in thousands)	Dollars	Weighted Average Shares
Basic EPS net income available to common stockholders	\$ 3,763	17,914	\$ 2,621	19,384
Add: Options, preferred stock, warrants and notes convertible into common stock	305	8,498	202	8,160
Diluted EPS net income available to common stockholders and common equivalent shares	\$ 4,068	26,412	\$ 2,823	27,544

	Six Months Ended June 30, 2007		Six Months Ended June 30, 2008	
	Dollars	Weighted Average Shares (in thousands)	Dollars	Weighted Average Shares
Basic EPS net income available to common stockholders and common equivalent shares	\$ 6,935	17,562	\$ 1,094	19,227
Add: Options, preferred stock, warrants and notes convertible into common stock	577	8,240		3,294
Diluted EPS net income available to common stockholders and common equivalent shares	\$ 7,512	25,802	\$ 1,094	22,521

**NOTE 6. SEGMENT INFORMATION**

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

Drilling revenue is derived primarily from drilling and loading of the source points for seismic analysis. Survey revenue is recorded after the customer has determined the placement of source and receiving points, and after survey crews are sent into the field to plot each source and receiving point prior to drilling. Permitting revenue is derived from services provided in conjunction with obtaining permits from landowners. Transportation revenues are billed by the hour, load or barrel. Environmental revenue is earned from tank, vessel and rig pit cleaning. Equipment leasing revenue is derived from the rental of various pieces of oilfield equipment to offshore and land-based oil production rigs. Other services revenue is comprised of metal stress relieving, wellhead installation and offshore painting and blasting services.

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

Three Months Ended June 30, (in thousands)	Fluid and Transportation				Equipment Leasing	Other Services	Corporate	Total
	Seismic	Services (1)	Environmental					
<b>2008</b>								
Operating revenues	\$ 19,176	\$ 8,783	\$ 7,124	\$ 10,690	\$ 3,147	\$	\$	\$ 48,920
Operating income (loss)	4,553	970	977	1,863	683	(2,947)		6,099
Interest expense	31	106	7	135		1,444		1,723
Depreciation and amortization	494	858	473	1,317	93	107		3,342
Identifiable assets	29,645	39,503	16,040	79,168	4,147	17,892		186,395
Capital expenditures	141	146	649	2,398	389	33		3,756
<b>2007</b>								
Operating revenues	\$ 22,645	\$ 4,464	\$ 10,362	\$ 7,283	\$ 3,367	\$	\$	\$ 48,121
Operating income (loss)	5,285	329	2,572	1,082	958	(1,961)		8,265
Interest expense	43	47	7	253	13	1,396		1,759
Depreciation and amortization	729	450	452	1,103	89	99		2,922
Identifiable assets	31,709	19,010	21,436	59,384	3,458	31,986		166,983
Capital expenditures	36	742	385	3,439	304	593		5,499

  

Six Months Ended June 30, (in thousands)	Fluid and Transportation				Equipment Leasing (2)	Other Services	Corporate	Total
	Seismic	Services (1)	Environmental					
<b>2008</b>								
Operating revenues	\$ 34,692	\$ 16,258	\$ 14,111	\$ 19,061	\$ 5,759	\$	\$	\$ 89,881
Operating income (loss)	5,939	1,675	2,027	1,068	1,184	(5,523)		6,370
Interest expense	70	205	14	964	5	2,455		3,713
Depreciation and amortization	1,026	1,584	935	2,194	198	219		6,156
Identifiable assets	29,645	39,503	16,040	79,168	4,147	17,892		186,395
Capital expenditures	147	1,441	1,010	3,565	397	46		6,606
<b>2007</b>								
Operating revenues	\$ 43,021	\$ 5,908	\$ 18,020	\$ 15,222	\$ 4,839	\$	\$	\$ 87,010
Operating income (loss)	10,941	463	4,324	3,413	913	(3,655)		16,399
Interest expense	63	64	24	509	17	2,652		3,329
Depreciation and amortization	1,243	570	848	2,020	117	189		4,987
Identifiable assets	31,709	19,010	21,436	59,384	3,458	31,986		166,983
Capital expenditures	92	922	856	6,128	378	853		9,229

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

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

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

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

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

**BEG**

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

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

Current assets (includes cash of \$341)	\$ 2,514
Property and equipment	4,555
Other assets, including intangibles	5,394
Current liabilities	(513)
Purchase price	\$ 11,950

**INDUSTRIAL LIFT**

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On April 24, 2008, we completed the acquisition of Industrial Lift Truck & Equipment Co, Inc. for an aggregate acquisition price of \$20.3 million, including \$16.3 million of cash and the issuance of \$4.0 million of three-year, 5% promissory notes, of which \$3.5 million of such notes are convertible.

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

Current assets (includes cash of \$2,523)	\$ 5,622
Property and equipment	16,421
Other assets, including intangibles	1,522
Current liabilities	(2,478)
Assumption of debt	(837)
 Purchase price	 \$ 20,250

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2008	2007	2008
	(in thousands, except per share amounts)			
Operating revenue	\$ 53,880	\$ 50,253	\$ 107,941	\$ 95,604
Operating expenses:				
Direct costs	34,305	32,759	68,800	64,044
Depreciation and amortization	3,654	3,471	7,027	6,775
General and administrative expenses (includes litigation settlement of \$2,400 in the first quarter of 2008)	6,070	7,466	12,048	16,535
Total operating expenses	44,029	43,696	87,875	87,354
Operating income	9,851	6,557	20,066	8,250
Interest expense	(2,246)	(1,825)	(4,658)	(4,153)
Loss on debt extinguishment			(1,004)	
Other income (expense), net	83	59	77	(142)
Income from continuing operations before income taxes	7,688	4,791	14,481	3,955
Provision for income tax expense	(2,977)	(1,821)	(5,593)	(1,694)
Net income	4,711	2,970	8,888	2,261
Dividends on preferred stock	(127)	(121)	(254)	(244)
Non-cash charge attributable to beneficial conversion feature of preferred stock	(127)		(255)	
Net income available to common stockholders	\$ 4,457	\$ 2,849	\$ 8,379	\$ 2,017
Basic income per share:				
Net income available to common stockholders	\$ 0.25	\$ 0.15	\$ 0.48	\$ 0.10
Diluted income per share:				
Net income available to common stockholders	\$ 0.17	\$ 0.11	\$ 0.33	\$ 0.10
Weighted average common shares outstanding:				
Basic	17,914	19,384	17,562	19,227

Diluted	27,826	27,632	27,289	22,521
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**NOTE 8. INCOME TAXES**

As of June 30, 2008, for tax purposes, we had net operating loss carryforwards (NOLs) of approximately \$3.5 million. The NOLs will expire commencing 2018. We account for income taxes under the provision of SFAS No. 109, which requires recognition of future tax benefits (NOLs and other temporary differences), subject to a valuation allowance based on more-likely-than-not that such asset will be realized. In determining whether it is more-likely-than-not that we will realize such tax asset, SFAS No. 109 requires that all negative and positive evidence be considered (with more weight given to evidence that is objective and verifiable) in making the determination. We recorded income tax expense \$4.6 million and \$1.1 million for the six months ended June 30, 2007 and 2008, respectively. We had approximately \$0.9 million of unrecognized income tax benefits related to the exercise of common stock options. We are unable to recognize any of this benefit until we experience actual cash tax savings attributable to this deduction.

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

**NOTE 9. RELATED PARTY TRANSACTIONS**

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

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

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

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

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

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

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





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

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

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

### **FORWARD-LOOKING STATEMENTS**

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

### **RECENT DEVELOPMENTS**

We have settled the judgment against us as a result of the Siemens Water Technologies (Siemens) lawsuit. Under the settlement, we paid approximately \$3.1 million (Settlement Amount) to Siemens. In partial satisfaction of this amount, we transferred twenty-two reverse osmosis units from our rental fleet to Siemens in exchange for \$0.8 million applied against the Settlement Amount. The remainder of the Settlement Amount was satisfied through the payment of a lump sum amount of \$2.3 million. The entire amount of the settlement was accrued as of March 31, 2008.

On May 1, 2008, the former owners of Preheat, Inc., which we acquired in February 2006, filed a lawsuit in federal court in the United States District Court for the Western District of Louisiana in Lafayette, Louisiana, against us, our directors, our Chief Operating Officer, our Chief Financial Officer, one of our investment advisors, and a principal of the investment advisor. The lawsuit seeks, among other things, (i) a declaratory judgment that the Preheat purchase agreement executed in December 2005 is null because of alleged securities fraud and bad faith breach of the purchase agreement and that one of the former owner's ERISA rights be clarified, (ii) injunctive relief to halt alleged securities disclosure violations by us and to remove three board members, and (iii) damages resulting from the nullification of the Preheat purchase agreement. We believe the claims against us are without merit and will vigorously contest any legal action.

### **GENERAL**

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

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

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

### *Seismic Drilling.*

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

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

Effective February 16, 2007, we completed the acquisition of certain assets of Cypress Consulting Services, Inc. d/b/a Cypress Energy Services (Cypress). Cypress currently operates in two distinct business areas (both of which are included in our Seismic Services Segment) Seismic Services and Employee Leasing. The acquisition included the assumption of approximately \$20 million of seismic drilling contracts. The acquisition of the seismic drilling assets of Cypress substantially improves our market position as a leading provider of domestic highland seismic drilling services. We have previously been recognized as the leading domestic provider of seismic drilling services in the transition zone. The acquisition of these assets of Cypress further strengthens the permitting and survey services offered to our customers. With the Cypress acquisition, we also acquired their employee leasing division which employs skilled and unskilled personnel who provide contract labor services to various companies operating in the oil and gas industry. By integrating this workforce into our existing employee intensive business units, we believe we will be able to better manage temporary fluctuations in employee demands within those business units.

### *Environmental Services.*

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

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

### *Equipment Leasing.*

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

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

**Table of Contents***Fluid and Transportation Services.*

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

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

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

*Other Services.*

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

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

**RESULTS OF OPERATIONS**

	Three Months Ended		Six Months Ended	
	June 30, 2007	2008	June 30, 2007	2008
	(in thousands, except per share amounts)			
Operating revenue	\$ 48,121	\$ 48,920	\$ 87,010	\$ 89,881
Operating expenses:				
Direct costs	31,172	32,122	54,747	61,220
Depreciation and amortization	2,922	3,342	4,987	6,156
General and administrative expenses (includes litigation settlement of \$2,400 in the first quarter of 2008)	5,762	7,357	10,877	16,135
Total operating expenses	39,856	42,821	70,611	83,511
Operating income	8,265	6,099	16,399	6,370
Interest expense	(1,759)	(1,723)	(3,329)	(3,713)
Loss on debt extinguishment			(1,004)	
Other income (expense), net	54	44	65	(203)

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Income before income taxes	6,560	4,420	12,131	2,454
Provision for income tax expense	(2,543)	(1,678)	(4,687)	(1,116)
Net income	4,017	2,742	7,444	1,338
Dividends and accretion of preferred stock	(127)	(121)	(254)	(244)
Non-cash charge attributable to beneficial conversion feature of preferred stock	(127)		(255)	
Net income available to common stockholders	\$ 3,763	\$ 2,621	\$ 6,935	\$ 1,094

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**Table of Contents****THREE MONTHS ENDED JUNE 30, 2008 COMPARED TO THREE MONTHS ENDED JUNE 30, 2007**

Operating revenues increased \$0.8 million, from \$48.1 million for the three months ended June 30, 2007 to \$48.9 million for the three months ended June 30, 2008. Our transportation and fluid services segment, enhanced by the BEG acquisition effective January 2008, and our equipment rental segment, enhanced by the ILT acquisition effective April 2008, accounted for \$4.3 million and \$3.4 million of the increase, respectively. These increases were offset by decreases in our seismic services segment, our environmental services segment, and our other services segment of \$3.5 million, \$3.2 million and \$0.2 million, respectively.

Direct costs increased \$0.9 million, from \$31.2 million for the three months ended June 30, 2007 to \$32.1 million for the three months ended June 30, 2008. Direct costs as a result of the BEG and ILT acquisitions accounted for \$3.2 million and \$1.1 million, respectively, of the overall increase. These increases were offset by decreases relating to the seismic services and environmental services segments. Of the total increase, \$1.2 million relates to explosives and down-hole supplies, \$2.1 million relates to repairs and maintenance and cost of parts sold and \$0.5 million relates to fuel and oil, offset by decreases in payroll costs of \$1.5 million and third-party contract services of \$1.4 million.

Depreciation and amortization costs increased \$0.4 million from \$2.9 million for the three month period ended June 30, 2007 to \$3.3 million for the three month period ended June 30, 2008. Depreciation expense increased \$0.2 million due primarily to the increase in revenue-producing assets from the acquisitions of BEG in January 2008 and ILT in April 2008. Amortization expense increased \$0.2 million primarily due to the increase in intangibles related to the aforementioned acquisitions.

General and administrative costs increased \$1.6 million, from \$5.8 million during the three month period ended June 30, 2007 to \$7.4 million during the same three month period of 2008 partially as a result of the acquisitions of BEG and ILT. Of this increase, \$0.7 million relates to increased payroll costs and \$0.8 million relates to professional services.

Interest expense decreased approximately \$0.1 million from \$1.8 million for the three month period ended June 30, 2007, to \$1.7 million for the three month period ended June 30, 2008. The decrease in interest expense was attributable to decreased interest rates on variable interest debt between the periods. Interest expense includes \$0.3 million and \$0.5 million in the three month periods ended June 30, 2007 and 2008, respectively, related to amortization of deferred loan costs.

**SIX MONTHS ENDED JUNE 30, 2008 COMPARED TO SIX MONTHS ENDED JUNE 30, 2007**

Operating revenues increased \$2.9 million, from \$87.0 million for the six months ended June 30, 2007 to \$89.9 million for the six months ended June 30, 2008. Our fluid and transportation segment, enhanced by the Holston acquisition effective March 2007 and the BEG acquisition effective January 2008, our equipment rental segment, enhanced by the ILT acquisition effective April 2008, and our other services segment accounted for \$10.4 million, \$3.8 million and \$0.9 million of the increase, respectively. These increases were offset by decreases in our seismic services segment and our environmental services segment of \$8.3 million and \$3.9 million, respectively.

Direct costs increased \$6.5 million, from \$54.7 million for the six months ended June 30, 2007 to \$61.2 million for the six months ended June 30, 2008. Direct costs as a result of the Holston, BEG and ILT acquisitions accounted for \$3.0 million, \$5.9 million and \$1.1 million, respectively, of the overall increase. These increases were offset by decreases relating to the seismic services and environmental services segments. Of the total increase, \$1.1 million relates to explosives and down-hole supplies, \$4.6 million relates to repairs and maintenance and cost of parts sold, \$0.9 million relates to insurance and \$1.0 million relates to fuel and oil, offset by decreases in third-party contract services of \$1.4 million.

Depreciation and amortization costs increased \$1.2 million from \$5.0 million for the six month period ended June 30, 2007 to \$6.2 million for the six month period ended June 30, 2008. Depreciation expense decreased \$0.3 million due primarily to a large amount of the seismic services segments' assets being fully depreciated, offset by the increase in revenue-producing assets from the aforementioned acquisitions. Amortization expense increased \$1.5 million due to the increase in intangibles related to the aforementioned acquisitions.

General and administrative costs increased \$5.2 million, from \$10.9 million during the six month period ended June 30, 2007 to \$16.1 million during the same six month period of 2008 partially as a result of the acquisitions of BEG, ILT, Cypress and Holston. Of this increase, \$1.4 million relates to increased payroll costs, \$2.5 million relates to the Siemens litigation settlement (See ITEM 1. Legal Proceedings above) and \$1.4 million relates to professional services.

Interest expense increased approximately \$0.4 million from \$3.3 million for the six month period ended June 30, 2007, to \$3.7 million for the six month period ended June 30, 2008. The increase in interest expense was attributable to lower interest rates on variable interest debt offset by increased levels of debt including financing for recent acquisitions and judicial interest as a result of a litigation settlement. Interest expense

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includes \$0.5 million and \$0.7 million for the six months ended June 30, 2007 and 2008, respectively, related to amortization of deferred loan costs.

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



**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

Effective as of April 23, 2008, we completed a modified \$90.0 million credit facility ( New Senior Credit Facility ), including a \$50.0 million term loan (the Term Loan ), a \$25.0 million working capital revolving line of credit (the Revolver ), and a \$15.0 million delayed draw term loan available to fund future acquisitions. With the proceeds from the New Senior Credit Facility, we (i) repaid approximately \$28.7 million of outstanding principal balance under our previous term loan; (ii) repaid approximately \$2.1 million of outstanding principal balance under our previous capital expenditure loan; (iii) repaid the balance on the previous line of credit; and (iv) closed the acquisition of ILT. The balance of the proceeds available under the New Senior Credit Facility was used to pay fees and expenses of the aforementioned transaction and to provide additional working capital.

At June 30, 2008, we had approximately \$3.1 million in cash and restricted cash compared to \$13.4 million at December 31, 2007, and a working capital deficit of \$5.5 million at June 30, 2008, compared to a surplus of \$4.4 million at December 31, 2007. The decrease in working capital from December 31, 2007 to June 30, 2008 is primarily due to an increase in the amount borrowed on the Revolver due to our recent acquisitions. At December 31, 2007, we borrowed \$12.2 million on the Line (the predecessor to the Revolver) to better illustrate for investors and financial analysts our funds availability at the end of the year. The amount was repaid on the first business day of the following year. No such additional borrowing was done at June 30, 2008. Cash provided by operating activities was \$15.0 million for the six months ended June 30, 2008 compared to \$16.6 million for the same period in 2007.

Historically, our capital requirements have primarily related to the purchase or fabrication of new drilling equipment and related support equipment and new business acquisitions. Thus far in 2008, we have completed the acquisitions of BEG and ILT and expended approximately \$6.6 million on equipment and other fixed assets. For the remainder of 2008, we expect to continue renewing our rolling stock, expand our fleet of assets available for lease in our equipment leasing segment and explore strategic business opportunities.

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

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

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

	December 31, 2007	June 30, 2008
	(In thousands)	
Notes payable to a bank with interest payable at prime plus 1.50% (9.25% at December 31, 2007 and 6.50 % at June 30, 2008) maturing July 31, 2023, secured by real estate	\$ 1,288	\$ 1,267
Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate	152	140
Promissory notes payable to certain former owners of acquired companies with interest at 5%, maturing at various dates through April 2011	8,500	7,000
Convertible promissory notes payable to certain former stockholders of acquired companies with interest at 5%, maturing at various dates through April 2011, net of beneficial conversion of \$71 at December 31, 2007 and \$28 at June 30, 2008	4,929	12,472
Promissory notes payable to finance companies secured by vehicles and equipment	642	568
Capital leases payable to finance companies secured by an aircraft and equipment	549	44
Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, unsecured, paid in full	197	
Term Loan payable to a bank, variable interest rate at LIBOR plus 2.75% (5.21% at June 30, 2008), secured by various equipment, maturing April 23, 2013		48,000
Term and Capex Loans payable to a bank, variable interest rate at LIBOR plus 2% (ranging from 6.63% to 6.93% at December 31, 2007), secured by various equipment, paid in full	33,026	
Total	\$ 49,283	\$ 69,491
Less: current maturities	(14,456)	(18,695)

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Long-term debt, less current maturities	\$ 34,827	\$ 50,796
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**Table of Contents****SENIOR CREDIT FACILITY**

Effective April 23, 2008, we increased our credit facility to \$90.0 million, including the \$50.0 million Term Loan, the \$25.0 million Revolver, and a \$15.0 million delayed draw term loan available to fund future acquisitions with a bank. The Revolver replaced our previous line of credit. 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 plus 2.25% (4.96% at June 30, 2008) and matures in April 2013. The Revolver is collateralized by accounts receivable and inventory. As of June 30, 2008, we had \$12.4 million outstanding under the Revolver. Due to the lock-box arrangement and the subjective acceleration clause in the agreements governing the Revolver and the Line, the debt under the Line and the Revolver have been classified as a current liability as of December 31, 2007 and June 30, 2008, as required by Emerging Issues Task Force ( EITF ) No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-box Arrangement*.

Under the terms of the Term Loan, the funding limits are limited to the lesser of \$50.0 million and 80% of the orderly liquidation value of our equipment. In addition, the Term Loan matures in February 2012 and will be repaid quarterly in equal payments of \$2.0 million, with interest paid monthly in arrears and accruing at the annual interest rate of LIBOR plus 2.75% (5.21% at June 30, 2008). The Term Loan contains customary financial covenants and limitations on capital expenditures. With the proceeds from the New Senior Credit Facility, we (i) repaid approximately \$28.7 million of outstanding principal balance under our previous term loan; (ii) repaid approximately \$2.1 million of outstanding principal balance under our previous capital expenditure loan; (iii) repaid the balance on the Line; and (iv) closed the acquisition of ILT. The balance of the proceeds available under the New Senior Credit Facility was used to pay fees and expenses of the aforementioned transaction and to provide additional working capital. As of June 30, 2008, we had \$48.0 million outstanding under the Term Loan.

**CAPITAL LEASES**

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

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

	December 31, 2007	June 30, 2008
	(In thousands)	
Aircraft	\$ 1,437	\$
Equipment	58	58
Less: Accumulated depreciation	(101)	(8)
Capitalized cost, net	\$ 1,394	\$ 50

Depreciation expense for the three and six months ended June 30, 2008 and 2007 was approximately \$0.00 million and \$0.00 million, and \$0.03 million and \$0.02 million, respectively, for all assets held under capital lease.

**SUBORDINATED PROMISSORY NOTES**

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

**PREHEAT NOTES**

In connection with the purchase of all of the issued and outstanding stock of Preheat in February 2006, we issued \$4.0 million in 5% promissory notes payable to certain Preheat stockholders ( Preheat Notes ). The Preheat Notes consist of three separate notes with \$2.7 million maturing in February 2008 and \$1.3 million maturing in February 2009. At December 31, 2007 and June 30, 2008, the Preheat Notes had a balance of \$4.0 million. In February 2008, we terminated the employment of one of the Preheat stockholders for cause. The terms of the Preheat Notes provide that a termination of either of the Preheat stockholders' employment for cause results in the cancellation of the promissory notes. The Preheat

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stockholders are contesting our assertion and have filed a lawsuit against the Company (see Note 4). Consequently, the Preheat Notes remain recorded as a liability in the financial statements pending resolution of the matter.

### **RIG TOOLS NOTES**

In connection with the purchase of all of the issued and outstanding stock of Rig Tools in November 2006, we issued \$4.0 million in 5% convertible promissory notes payable to certain Rig Tools stockholders ( Rig Tools Notes ). The Rig Tools

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

### **CHARLES HOLSTON NOTES**

On March 2, 2007, we acquired Holston. 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 Holston Notes maturing in 2009 and 2010 are convertible into shares of our common stock at a price of \$9.24 per share. Based upon the stock valuation at the time of issuance, no beneficial conversion feature existed. At December 31, 2007 and June 30, 2008, the Holston Notes had a balance of \$5.0 million and \$4.0 million, respectively.

### **CYPRESS NOTES**

In connection with the acquisition of certain assets of Cypress (See Note 7) in February 2007, we issued a \$3.0 million promissory note accruing interest at an annual rate of 5% payable to a Cypress stockholder ( Cypress Note ). The Cypress Note is payable over three years with \$1.0 million maturing in February 2008, \$1.0 million maturing in February 2009 and \$1.0 million maturing in February 2010. At December 31, 2007 and June 30, 2008, the Cypress Note had a balance of \$3.0 million and \$2.0 million, respectively.

### **BAILEY NOTE**

In connection with the acquisition of certain assets of BOI (See Note 7) in June 2007, we issued a \$0.5 million promissory note accruing interest at an annual rate of 5% payable to BOI ( Bailey Note ). The Bailey Note is payable on or before May 31, 2010. At December 31, 2007 and June 30, 2008, the Bailey Note had a balance of \$0.5 million.

### **BEG NOTES**

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

### **ILT NOTES**

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

### **INSURANCE NOTES PAYABLE**

A portion of our property and casualty insurance premiums are financed through certain short-term installment loan agreements. The insurance notes are payable in monthly installments through September 2008 and accrue interest at 5.25%.

### **CRITICAL ACCOUNTING POLICIES**

#### **Stock Based Compensation**

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

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### **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 Accounting for the Impairment and Disposal of Long-Lived Assets. If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated undiscounted net cash flow, before interest, we will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value.

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

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

### **ITEM 4. CONTROLS AND PROCEDURES**

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

In accordance with Exchange Act Rules 13a-13 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer we have concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

During our most recent fiscal quarter, there have not been any changes in our internal controls over financial reporting (as defined in Rules 13a-13(f) and 15d-15(f) of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

### **ITEM 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 17, 2008.

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

On April 29, 2008, we issued 400,000 shares of our common stock as part of the settlement of the litigation filed by Mr. Klug. The issuance of the shares was made pursuant to Section 4(2) of the Securities Act of 1933, as amended.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.



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

Our annual meeting of stockholders ( Annual Meeting ) was held at our principal executive offices at 4500 NE Evangeline Thruway, Carencro, Louisiana on Wednesday, June 4, 2008. The purpose of the Annual Meeting was to elect four directors for the ensuing year.

The following table provides the number of votes cast related to the election of directors:

(i) To Elect Directors

	<b>For</b>	<b>Against</b>
Ronald E. Gerevas	18,399,826	644,207
Barry E. Kaufman	18,062,525	981,508
Brian J. Recatto	18,439,292	604,741
Richard C. White	18,406,243	637,790

The following directors terms of office continued after the meeting:

Dennis R. Sciotto

Edward E. Colson III

No other business was submitted before the meeting.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

**Exhibit No. Description of Exhibits**

10.1	Loan and Security Agreement dated as of April 24, 2008 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on April 30, 2008).
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer

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**SIGNATURES**

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

**OMNI ENERGY SERVICES CORP.**

Dated: August 8, 2008

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

Dated: August 8, 2008

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