

OMNI ENERGY SERVICES CORP  
Form 10-K  
March 16, 2007  
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## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

### FORM 10-K

(MARK ONE)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006.
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

COMMISSION FILE NUMBER 0-23383

## OMNI ENERGY SERVICES CORP.

(Exact name of registrant as specified in our charter)

LOUISIANA (State or other jurisdiction of incorporation or organization)	72-1395273 (I.R.S. Employer Identification No.)
4500 NE EVANGELINE THWY	
CARENCRO, LOUISIANA (Address of principal executive offices)	70520 (Zip Code)
REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:	
(337) 896-6664	

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

COMMON STOCK, \$0.01 PAR VALUE PER SHARE

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

NONE

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2006, based on the closing price of common stock on the Nasdaq Global Market for such date, was \$173,841,168.

The number of shares of the Registrant's common stock, \$0.01 par value per share, outstanding at March 13, 2007 was 17,458,654.

### DOCUMENTS INCORPORATED BY REFERENCE

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

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**OMNI ENERGY SERVICES CORP.**

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

**FORWARD LOOKING INFORMATION**

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

**PART I**

**ITEM 1. BUSINESS  
GENERAL**

OMNI Energy Services Corp. is an integrated oilfield service company specializing in providing a range of (i) onshore seismic drilling, operational support, permitting, and survey services; (ii) dock-side and offshore hazardous and non-hazardous oilfield waste management and environmental cleaning services, including tank and vessel cleaning and safe vessel entry; and (iii) oilfield equipment rental, for oil and gas companies operating in the Gulf of Mexico. At December 31, 2006, we operated in four business divisions: Seismic Drilling, Environmental Services, Equipment Leasing and Other Services. As more fully described herein, we sold our Aviation Transportation Services segment effective June 30, 2005. This division provided helicopter transportation services to oil and gas companies operating in the shallow waters of the Gulf of Mexico as well as helicopter support services to our Seismic Drilling Division.

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

**SEISMIC DRILLING.** The principal market of our Seismic Drilling division is the marsh, swamp, shallow water and contiguous dry land areas along the Gulf of Mexico (the Transition Zone), primarily in Louisiana and Texas, where we are a leading provider of seismic drilling support services. In 1997, we commenced seismic drilling operations in the mountainous regions of the western United States, and in 2003 we initiated seismic drilling activities in various Transition Zone regions of Mexico.

We own and operate a fleet of specialized seismic drilling and transportation equipment for use in the Transition Zone. We believe we are the only company that currently can both provide an integrated range of seismic drilling, permitting, and survey services in all of the varied terrain of the Transition Zone and simultaneously support operations for multiple, large-scale seismic projects. In 2002, we acquired all of the assets of AirJac Drilling, a division of Veritas Land DGC. With this acquisition, we became the largest domestic provider of seismic drilling support services to geophysical companies.

As discussed in Management's Discussion and Analysis ( MD & A ) Recent Developments, we completed the acquisition of certain assets of Cypress Consulting Services, Inc. d/b/a Cypress Energy Services ( Cypress ) in March 2007 thereby expanding our fleet of seismic drilling equipment and allowing us to better serve the needs of our seismic drilling customers. In addition, Cypress employs approximately 225 people in two distinct business segments Seismic Drilling Services and Employee Leasing. The acquisition of the assets of Cypress includes the assumption of approximately \$20 million of seismic drilling contracts. The Employee Leasing segment provides both skilled and unskilled contract labor services to various companies working in the oil and gas industry.

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

As discussed in MD&A Recent Developments, we completed the acquisition of BMJ Industrial Investments, L.L.C. and its wholly-owned subsidiary Charles Holston, Inc. ( Holston ) in March 2007. This acquisition provides us with additional opportunities to expand our environmental services segment with corrosion proofing and offshore cleaning capabilities. In addition, Holston offers transportation of non-hazardous byproducts, such as saltwater and spent drilling fluids; NORM surveys, cleaning and waste disposal; tank degassing and demolition; rig pit cleaning; oilfield waste disposal; hydro blasting; dockside and offshore cleaning; and offshore sandblasting and painting. Holston also operates two saltwater disposal wells for the disposal of non-hazardous byproducts.

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

In November 2006 we completed the acquisition of Rig Tools, Inc. ( Rig Tools ). Rig Tools maintains an extensive fleet of rental equipment for various oilfield and commercial applications including water, mud and disposal pumps; mud, fuel and frac tanks; air compressors; wireline units; generators; high pressure washers;

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light towers; tubing; and, handling tools. It also offers certain land based environmental cleaning services. Rig Tools has operating facilities in Youngsville, Louisiana; and Navasota, Alice, Timpson and Teague, Texas.

As discussed above and in MD&A Recent Developments, we completed the acquisition of Holston in March 2007. This acquisition brings complementary additions to our equipment rental fleet. Holston maintains a fleet of rental equipment including frac tanks, gas buster tanks, generators, lighting systems and roll-off containers.

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

**AVIATION TRANSPORTATION.** We operated our Aviation Transportation Services segment for approximately six months during 2005 and all of 2004. Within our Aviation Transportation Services segment, we operated a fleet of 20 company-owned and leased helicopters, and one fixed-wing aircraft, from bases or heliports located along the Gulf Coast regions of Louisiana. Our land-based aviation customers were primarily geophysical companies operating in various regions of the United States. Our offshore aviation customers included oil and gas companies operating primarily in the shallow waters of the Gulf of Mexico. Our aviation services were utilized by oil and gas exploration and production companies and other offshore service companies for routine offshore transportation and, to transport personnel during medical and safety emergencies and to evacuate personnel during the threat of hurricane and other adverse weather conditions.

We maintained an inventory of aviation maintenance parts, turbine engines and other miscellaneous flight equipment used in connection with providing aviation services to our customers. As part of our expansion program, we acquired American Helicopters, Inc. in 2003.

Effective June 30, 2005, we sold the equipment and related assets of our Aviation Transportation Services segment for a cash price of \$11.0 million.

## **INDUSTRY OVERVIEW**

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

Oil and gas companies generally contract with independent geophysical companies to acquire seismic data. Once an area is chosen for seismic analysis, permits and landowner consents are obtained, either by us, by the geophysical company or by special permitting agents. The geophysical company then determines the layout of the source and receiving points. For 2-D data, the typical configuration of source and receiving points is a straight line with a source point and small groups of specialized sensors ( geophones ) or geophone stations placed evenly every few hundred feet along the line. For 3-D data, the configuration is generally a grid of perpendicular lines spaced a few hundred to a few thousand feet apart, with geophone stations spaced evenly every few hundred feet along one set of parallel lines, and source points spaced evenly every few hundred feet along the perpendicular lines. This configuration is designed by the geophysical company to provide the best imaging of the targeted geological structures while taking into account surface obstructions such as water wells,

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oil and gas wells, pipelines and areas where landowner consents cannot be obtained. A survey team then marks the source points and geophone locations, and the source points are drilled and loaded with dynamite.

After the source points have been drilled and loaded and the network of geophones and field recording boxes deployed over a portion of the project area, the dynamite is detonated at a source point. Seismic waves generated by the blast move through the geological formations under the project area and are reflected by various subsurface strata back to the surface where they are detected by geophones. The signals from the geophones are collected and digitized by recording boxes and transmitted to a central recording system. In the case of 2-D data, the geophones and recording devices from one end of the line are then shuttled, or rolled forward, to the other end of the line and the process is repeated. In the case of 3-D data, numerous source points, typically located between the first two lines of a set of three or four parallel lines of geophone stations, are activated in sequence. The geophone stations and recording boxes from the first of those lines are then rolled forward to form the next line of geophone stations. The process is repeated, moving a few hundred feet at a time, until the entire area to be analyzed has been covered.

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

**ENVIRONMENTAL SERVICES.** The demand for our environmental services is directly impacted by offshore drilling and production activity in the Gulf of Mexico. We provide specialized environmental cleaning and maintenance equipment and trained personnel to oil and gas companies operating in the Gulf Coast region of the United States. We also assist production operators in the maintenance and replacement of anodes, mist extractors, valves, glycol systems, chemical electric units and fire tubes. Our customer list includes more than 225 major and independent oil and gas companies operating in the Gulf of Mexico, and one customer accounted for more than 10% of this business unit's revenues. Our dock side services are dependent upon the movement of vessels from offshore production platforms or drilling rigs which operate twenty-four hours a day, seven days a week, 365 days a year.

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

**EQUIPMENT LEASING.** With our acquisition of Preheat in February 2006 and Rig Tools in November 2006, we have expanded the list of equipment and services that we offer to customers. We now have a vast fleet of rental equipment including pressure washers, reverse osmosis systems, steam cleaners, frac tanks, wireline units and generators available for rent to drilling contractors operating in the Gulf of Mexico and Rocky Mountain regions. Additionally, services offered by Preheat include wellhead installation, stress relieving and environmental pit cleaning services.

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

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**DESCRIPTION OF OPERATIONS**

We provide an integrated range of services including (i) onshore seismic drilling, operational support, permitting and surveying to geophysical companies operating in logistically difficult and environmentally sensitive terrain in the United States, and (ii) dock-side and offshore hazardous and non-hazardous oilfield waste management and environmental cleaning services, including tank and vessel cleaning and safe vessel entry for oil and gas companies operating in the Gulf of Mexico. With the acquisition of Preheat in February 2006 and the acquisition of Rig Tools in November 2006, we now have available an extensive fleet of oilfield rental equipment for our customers.

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

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

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

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

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



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

As discussed above and in Recent Developments, we completed the acquisition of certain assets of Cypress in March 2007. Cypress employs approximately 225 people in two distinct business segments Seismic Drilling Services and Employee Leasing. The Employee Leasing segment provides both skilled and unskilled contract labor services to various companies working in the oil and gas industry.

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

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

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

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**EQUIPMENT LEASING.** As mentioned above, we acquired Preheat in February 2006 and Rig Tools in November 2006. In addition to providing rental equipment, Preheat offers wellhead installation, stress relieving and environmental pit cleaning services. The rental and services operations are serviced from eight locations.

As discussed above and in MD&A Recent Developments, we completed the acquisition of Holston in March 2007. This acquisition brings complementary additions to our equipment rental fleet. Holston maintains a fleet of rental equipment including frac tanks, gas buster tanks, generators, lighting systems and roll-off containers.

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

TYPES OF EQUIPMENT	NUMBER OF UNITS AS OF DECEMBER 31, 2006
Highland Drilling Units(1)	73
Water Buggies	58
Aluminum Marsh ATVs	22
Stainless Steel Marsh ATVs(2)	8
Airboat-Drilling Units	40
Swamp ATVs	30
Pullboats	21
Pontoon Boats	15
Jack-Up Rigs	1
Skid-Mounted Drilling Units(3)	19
Heli-portable and Seismic Rock Drilling Equipment	11

- (1) Sixteen of these drilling units are currently dedicated to seismic rock drilling operations outside of the Transition Zone.  
(2) This equipment is currently held for sale (See Note 1 Property, Plant and Equipment to the Consolidated Financial Statements).  
(3) One of these drilling units is currently located outside of the Transition Zone.

As discussed above and in MD&A Recent Developments, we completed the acquisition of certain assets of Cypress in March 2007. The drilling and related seismic support equipment acquired in that transaction include the following:

***CYPRESS ENERGY***

TYPES OF EQUIPMENT	NUMBER OF UNITS
Highland Drilling Units	50
Water Buggies	36
Aluminum Marsh ATVs	1
Pontoon Boats	5
Skid-Mounted Drilling Units	1
Boats	9

Because of our extensive fleet of Transition Zone transportation and seismic drilling equipment, much of which we fabricated, we believe that we are the only company that currently can provide an integrated range of seismic drilling and survey services in all of the varied terrain of the Transition Zone and simultaneously support operations for multiple, large-scale seismic projects.

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**HIGHLAND DRILLING UNITS AND WATER BUGGIES.** We currently own and operate 73 highland drilling units for seismic drilling in dry land areas, 16 of which are currently dedicated to our seismic rock drilling operations outside of the Transition Zone. These units generally consist of a tractor-like vehicle with a drilling unit mounted on the rear of the vehicle. This highland drilling unit can be driven over land from point to point and is accompanied by a unit referred to as a water buggy (of which we own 58) that carries water required for water pressure rotary drills. This type of vehicle is used around the world for this type of terrain.

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

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

We own and operate 30 marsh ATVs, of which eight are made of stainless steel and 22 are made of aluminum. All of the stainless steel marsh ATVs are currently held for sale. The aluminum ATVs are lighter than steel vehicles and are specifically designed for the environmentally sensitive areas typically found in marsh terrain. Landowner consents will often require the use of aluminum ATVs in an effort to reduce the environmental impact of seismic drilling. The aluminum marsh ATV is the most widely accepted marsh vehicle for drilling operations in all Louisiana's state and federal refuges. We fabricated our own aluminum marsh ATVs at our facilities in Carencro, Louisiana.

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

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

**PONTOON BOATS.** We own and operate 15 pontoon boats that are used in shallow or protected inland bays and lakes and shallow coastal waters. Each pontoon boat uses a skid-mounted drilling unit installed on board.

**JACK-UP RIGS.** When a seismic survey requires source points to be drilled in deeper inland bays or lakes or in deeper coastal waters, we use jack-up rigs equipped with one of our skid-mounted drilling units. Seismic activity in water deeper than approximately 20 feet is generally conducted by using offshore seismic techniques that do not include the drilling and loading of source points. We currently have one jack-up rig.

**SKID-MOUNTED DRILLING UNITS.** A skid-mounted drilling unit is a drilling unit mounted on I-beam supports, which allows the drilling unit to be moved easily between pullboats, pontoon boats, jack-up rigs and other equipment we operate based on customer needs. We manufacture our skid-mounted drilling units at our facilities in Carencro, Louisiana and we own 19 of these units. One of the units is located outside of the Transition Zone.

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

**MISCELLANEOUS.** We own and operate 87 single engine airboats and 19 outboard powered boats, which we use to ferry personnel and supplies to locations throughout the Transition Zone. We also maintain a fleet of five tractor-trailer trucks and numerous other trucks, trailers and vehicles to move our equipment and personnel to projects throughout the Transition Zone.

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

<b>TYPES OF EQUIPMENT</b>	<b>NUMBER OF UNITS AS OF DECEMBER 31, 2006</b>
Offshore Tool House Cleaning Packages	7
Offshore Skid Cleaning Packages	11
Dockside & Land Tank Cleaning Packages	11
Air Compressors	31
Steam / Degas Generators	4
Liquid Vacuum Truck (60BBL)	2
Wet / Dry Vacuum Truck (80BBL)	3
Trailer Mounted Vacuum Units	2
Water Blasters (10K - 40K)	5
15 BBL Cutting Boxes (Disposal)	19
NORM Pipe Decontamination System	3

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

<b>TYPES OF EQUIPMENT</b>	<b>NUMBER OF UNITS AS OF DECEMBER 31, 2006</b>
<b>PREHEAT</b>	
Pressure Washers	385
Wellhead Units	23
Stress Relieving Units	7
Reverse Osmosis Units	16
Water Blasters	13
Vacuum Units	115
Pit Cleaning Units	10
Mud Savers	36
Oilfield Fans	109
<b>RIG TOOLS</b>	
Air Compressors	11
Bug Blowers	11
Frac Tanks	127
Generators	20
Light Towers	56
Pumps	332
Pressure Washers	38
Rig Vacuums	9

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Tanks	57
Transformers	14
Trip Tanks	7
Wireline Units	39

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As discussed above and in MD&A Recent Developments, we completed the acquisition of Holston in March 2007. The environmental, transportation and rental equipment acquired in that transaction includes the following:

**CHARLES HOLSTON**

<b>TYPES OF EQUIPMENT</b>	<b>NUMBER OF UNITS</b>
Frac Tanks	72
Vacuum Tractors	24
Vacuum Trailers	40
Vacuum Trucks Bob-tail	3
Roll-off Boxes	46
Skid Tanks	8
Offshore Packages Paint and Blast	10
Offshore Tool Houses	8
Winch Trucks	6
Guzzler Trucks	3
Gas Buster Tanks	9
Crane Truck	1

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

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

**SAFETY AND QUALITY ASSURANCE**

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

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

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

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

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**CUSTOMERS, MARKETING AND CONTRACTING**

**CUSTOMERS.** Historically, our customers have primarily been geophysical companies, although in many cases the oil and gas company participates in determining which drilling, permitting, survey or aviation company will be used on our seismic projects. A few customers have historically generated a large portion of our seismic drilling revenue. For example, our largest customers (those which individually accounted for more than 10% of revenue in a given year, listed alphabetically) collectively accounted for 50% (PGS, Quantum Geophysical, Seismic Exchange and Veritas DGC), 38% (Quantum Geophysical and Veritas DGC), and 32% (Quantum Geophysical and Veritas DGC) of revenue for fiscal 2004, 2005, and 2006, respectively, all of which relate to the drilling division. While we expect oil and gas companies utilizing our environmental and newly acquired rental equipment services will eventually comprise a greater share of our revenue base, we currently derive a significant amount of our revenue from a small number of large geophysical companies and independent oil and gas operators. The loss of one of these significant customers, if not offset by sales to new or other existing customers, could have a material adverse effect on our business and operations.

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

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

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

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

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

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

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

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

### **COMPETITION**

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

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

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

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

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

### **SEASONALITY AND WEATHER RISKS**

**SEISMIC DRILLING.** Our Seismic Drilling operations are subject to seasonal variations in weather conditions and daylight hours. Since our activities take place outdoors, the average number of hours worked per day, and therefore the number of holes drilled or surveyed per day, generally is less in winter months than in summer months, due to an increase in rainy, foggy and cold conditions and a decrease in daylight hours. Furthermore, demand for seismic data acquisition activity by oil and gas companies at the end of the fourth quarter and in the first quarter is generally lower than at other times of the year. As a result, our revenue and gross profit during the fourth calendar quarter and the first calendar quarter of each year typically are lower than



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the second and third quarters for this business unit. Operations may also be affected by rainy weather, lightning, hurricanes and other storms prevalent along the Gulf Coast throughout the year and by seasonal climatic conditions in the Rocky Mountain area. In addition, prolonged periods of dry weather result in slower drill rates in marsh and swamp areas as water in the quantities needed to drill is more difficult to obtain and equipment movement is impeded. Adverse weather conditions and dry weather can also increase maintenance costs for our equipment and decrease the number of vehicles available for operations.

**BACKLOG**

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

Due to increasing demand for our seismic drilling services our backlog as of December 31, 2006, was approximately \$56.1 million compared to \$40.4 million at December 31, 2005. Backlog at December 31, 2006, includes seismic drilling and survey projects in the Transition Zone in addition to seismic rock drilling projects.

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

**GOVERNMENTAL REGULATION**

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

Furthermore, we depend on the demand for our services by the oil and gas industry and are affected by tax legislation, price controls and other laws and regulations relating to the oil and gas industry in general. The adoption of laws and regulations curtailing exploration and development drilling for oil and gas in our areas of operations for economic, environmental or other policy reasons would adversely affect our operations by limiting the demand for our services. We cannot determine to what extent our future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations.

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

**ENVIRONMENTAL.** Our operations and properties are subject to a wide variety of increasingly complex and stringent federal, state and local environmental laws and regulations, including those governing discharges into the air and water, the handling and disposal of solid and hazardous wastes, the remediation of soil and groundwater contaminated by hazardous substances and the health and safety of employees. In addition, certain

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areas where we operate are federally protected or state protected wetlands or refuges where environmental regulation is particularly strict. These laws may provide for strict liability for damages to natural resources and threats to public health and safety, rendering a party liable for environmental damage without regard to negligence or fault on the part of such party. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Certain environmental laws provide for strict, joint and several liability for remediation of spills and other releases of hazardous substances, as well as damage to natural resources. In addition, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. Such laws and regulations may also expose us to liability for the conduct of, or conditions caused by, others, or for our acts that were in compliance with all applicable laws at the time such acts were performed.

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

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

### **INSURANCE**

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

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

**EQUIPMENT RENTAL.** Our operations involve the inherent risk of loss of equipment. Failure or loss of our equipment could result in property damage, personal injury, environmental pollution and other damage for which we could be liable. We maintain insurance against risk that we believe is consistent with industry standards and required by our customers. Although we believe that our insurance protection is adequate and we

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have not experienced a loss in excess of our policy limits, we may not be able to maintain adequate insurance rates that we consider commercially reasonable, or ensure that our coverage will be adequate to cover all claims that may arise.

**EMPLOYEES**

As of December 31, 2006, we had approximately 600 employees including operating, corporate, administrative and management personnel. These employees are not unionized or employed pursuant to any collective bargaining agreement or any similar agreement. We believe our relations with our employees are generally good.

**ITEM 1A. RISK FACTORS**

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

*INDUSTRY VOLATILITY MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.*

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

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

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

the ability of oil and gas companies to generate capital;

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

the availability of current geophysical data;

the discovery rate of new oil and gas reserves; and

local and international political and economic conditions.

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

*OUR GROWTH AND GROWTH STRATEGY INVOLVES RISKS.*

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

the lack of sufficient executive-level personnel;

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

increased levels of debt and administrative burdens; and

increased logistical problems of large, expansive operations.

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

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

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

*WE OPERATE IN A HIGHLY COMPETITIVE INDUSTRY.*

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

changes in competitive prices and availability of trained personnel;

fluctuations in the level of activity and major markets;

general economic conditions; and

governmental regulation.

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

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

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

*WE ARE DEPENDENT ON KEY PERSONNEL.*

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

*WE MAY INCUR ADDITIONAL EXPENDITURES TO COMPLY WITH GOVERNMENTAL REGULATIONS.*

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

of explosives and hazardous and non-hazardous waste. Although our cost of compliance with such laws has to date been immaterial, such laws

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

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

*ONE STOCKHOLDER HAS SUBSTANTIAL INFLUENCE OVER OUR AFFAIRS.*

Dennis R. Sciotto beneficially owns approximately 33% of our outstanding common stock. Mr. Sciotto represents and controls The Dennis R. Sciotto Family Trust and was appointed to the Board of Directors by the holders of the Series C Preferred Stock on June 13, 2005 pursuant to the Securities Purchase Agreement dated May 17, 2005. As a result, Mr. Sciotto has the ability to substantially influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger, consolidation or sale of substantially all of our assets. This may have the effect of delaying, deferring or preventing a change in control, or impeding a merger or consolidation.

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

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

*OUR SEISMIC DRILLING OPERATIONS DEPEND ON A FEW SIGNIFICANT CUSTOMERS.*

We derive a significant amount of our revenue from a small number of geophysical companies. Our inability to continue to perform services for a number of our large existing customers, if not offset by sales to new or other existing customers, could have a material adverse effect on our business and operations. For example, our largest customers (those which individually accounted for more than 10% of revenue in a given year) collectively accounted for 50% (four customers), 38% (two customers), and 32% (two customers), of revenue for fiscal 2004, 2005 and 2006, respectively.

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

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

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

We are subject to a variety of other claims and lawsuits that arise from time to time in the ordinary course of our business. Management currently believes that resolving any of such matters, individually or in the aggregate,

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will not have a material adverse impact on our financial position or results of operations. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. There exists the possibility of a material adverse impact on our financial position and the results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

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

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

*THE MARKET PRICE OF OUR COMMON STOCK IS HIGHLY VOLATILE.*

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

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

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

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

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

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

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

Future hurricanes or similar natural disasters that impact our facilities may negatively affect our financial position and operating results for those periods. These negative effects may include reduced operations; costs associated with resuming operations; reduced demand for our services from customers that were similarly affected by these events; lost market share; late deliveries; additional costs to purchase materials and supplies from outside suppliers; uninsured property losses; inadequate business interruption insurance and an inability to retain necessary staff.



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**ITEM 1B. UNRESOLVED STAFF COMMENTS**

NONE.

**ITEM 2. PROPERTIES**

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

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

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

As discussed above and in MD&A Recent Developments, we completed the acquisition of Holston in March 2007. This acquisition provides us with additional opportunities to expand our environmental services segment. Holston currently operates from its main facility in Jennings, Louisiana and operates satellite facilities in Cameron and Fourchon, Louisiana. Additionally, Holston operates two saltwater disposal wells located in south Louisiana.

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

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

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

**ITEM 3. LEGAL PROCEEDINGS**

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

On January 25, 2005, we filed suit in United States District Court, Western District of Louisiana against the holders of our 6.5% Subordinated Convertible Debentures (the Debentures) and other third parties (collectively, the Debenture Holders). In the suit, we alleged that the Debenture Holders violated Section 16(b) of the Securities Exchange Act of 1934, as amended and we sought the disgorgement of profits realized by the Debenture Holders from their purchases and sales of our common stock.

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On May 18, 2005, in connection with the completion of a new \$50.0 million senior credit facility, we entered into settlement and debt extinguishment agreements ( *Debenture Settlement Agreements* ) with each of the Debenture Holders in exchange for our dismissal of the lawsuit filed against the Debenture Holders (see Note 4 to the Consolidated Financial Statements). Under the terms of the Debenture Settlement Agreements, we agreed to (i) pay the Debenture Holders approximately \$4.0 million cash; (ii) immediately issue the Debenture Holders 2.0 million shares of our common stock at an agreed upon value of \$3.4 million; and, (iii) issue the Debenture Holders approximately \$4.3 million of unsecured, subordinated promissory notes ( *Subordinated Debenture Notes* ). We recorded a gain of \$0.2 million at the close of these transactions. The Subordinated Debenture Notes were scheduled to be paid quarterly, with interest in arrears, over 36 months in level payments with interest accruing at the rate of 8% per annum. Execution of the Debenture Settlement Agreements extinguished the terms of the original Debentures and released all parties from any future claims.

On August 26, 2005, we entered into a settlement agreement and mutual release ( *Agreement and Release* ) with two of the three holders of the Subordinated Debenture Notes. Under terms of the Agreement and Release, we paid \$1.5 million in cash from the proceeds of a new \$25.0 million multiple draw term credit facility, and issued 750,000 shares of our common stock in full satisfaction of the applicable Subordinated Debenture Notes. At December 31, 2005, the remaining Subordinated Debenture Note had a balance of approximately \$0.9 million.

On December 7, 2005, the Fourth Circuit Court of Appeal for the State of Louisiana granted our writ application for supervisory review and rendered a judgment granting our Motion for Partial Summary Judgment seeking a declaratory judgment against Steven T. Stull, a former director, and Advantage Capital Partners, et. al ( *ACP* ) in connection with our litigation against Mr. Stull and ACP, and their respective insurers seeking a declaratory judgment confirming our right to redeem, rather than convert, its shares of Series A and Series B 8% Convertible Preferred Stock under our Articles of Incorporation, as amended, and other applicable operative documents and agreements. The Court determined that we had the right to redeem, rather than convert both the Series A and Series B preferred stock within 30 days after receiving the notices of conversion from ACP.

On December 20, 2005, the United States District Court for the Eastern District of Louisiana granted our Motion to Dismiss a lawsuit filed by ACP and its affiliates against us and certain of our executive officers. In the lawsuit filed on March 26, 2004, ACP and its affiliates alleged that (i) we and the executive officers misrepresented material facts and failed to disclose material facts related to the intention to redeem our Series A Preferred and Series B Preferred, and (ii) our officers breached their fiduciary duties. The Court held that ACP had failed to satisfy the pleading requirements for alleging fraud under federal securities laws.

On February 13, 2007, our motion for partial summary judgment on ACP's first amended and superceding reconventional and third party demand was granted. ACP had filed the demand seeking damages for our redeeming rather than converting the Series A and B Preferred Stock. The court determined that ACP consequently abandoned its claim by retaining the proceeds.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**  
NONE.

**Table of Contents****Index to Financial Statements****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****PERFORMANCE GRAPH**

The graph below compares the total shareholder return on the Common Stock from December 31, 2001 until December 31, 2006 with the total return on the S&P 500 Index and the Company's Peer Group Index for the same period, in each case assuming the investment of \$100 on December 31, 2001. The Company's Current Peer Group Index consists of Dawson Geophysical Co. (NASDAQ:DWSN), Compagnie Generale de Geophysique (NYSE:CGV), Veritas DGC, Inc. (NYSE:VTS), Input/Output (NYSE:IO), Mitcham Industries, Inc. (NASDAQ:MIND), Petroleum Geo-Services ASA (OSE:PGS), Seitel, Inc. (OTC:SELA.OB) and the Company.

	<b>Cumulative Total Return</b>					
	<b>12/01</b>	<b>12/02</b>	<b>12/03</b>	<b>12/04</b>	<b>12/05</b>	<b>12/06</b>
OMNI Energy Services Corp.	100.00	26.95	228.72	68.79	130.50	347.16
S & P 500	100.00	77.90	100.24	111.15	116.61	135.03
Peer Group	100.00	39.05	59.16	108.31	150.42	298.26

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

	HIGH	LOW
<b>2006</b>		
First quarter	\$ 4.94	\$ 3.23
Second quarter	\$ 11.93	\$ 4.29
Third quarter	\$ 12.60	\$ 6.63
Fourth quarter	\$ 11.81	\$ 7.25
<b>2005</b>		
First quarter	\$ 2.84	\$ 1.21
Second quarter	\$ 2.66	\$ 1.43
Third quarter	\$ 5.35	\$ 2.01
Fourth quarter	\$ 4.22	\$ 2.30

On March 14, 2007, the reported last sales price of our common stock as reported by the Nasdaq Global Market was \$9.86. As of March 14, 2007, we had approximately 5,000 stockholders of record.

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

**ISSUER PURCHASES OF EQUITY SECURITIES**

There were no stock repurchases during the year ended December 31, 2006.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table gives information about our Common Stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2006:

PLAN CATEGORY	(A)	(B)	(C)	(D)
	NUMBER OF	WEIGHTED AVERAGE	NUMBER OF	TOTAL OF
	SECURITIES TO BE	EXERCISE	SECURITIES	SECURITIES
	ISSUED UPON THE	PRICE OF	REMAINING	REFLECTED
	EXERCISE OF	OUTSTANDING	AVAILABLE FOR	IN COLUMNS
	OUTSTANDING	OPTIONS,	FUTURE ISSUANCE	(A) & (C)
	OPTIONS,	AND RIGHTS	UNDER EQUITY	
	WARRANTS AND		COMPENSATION	
	RIGHTS		PLANS (EXCLUDING	

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SECURITIES

REFLECTED IN

COLUMNS (A) & (B)

Equity Compensation Plans Approved by Stockholders	2,278,810	\$	3.59	471,190	2,750,000
Equity Compensation Plans Not Approved by Stockholders	43,409	\$	2.32	56,591	100,000
<b>Total</b>	<b>2,322,219</b>	<b>\$</b>	<b>3.59</b>	<b>527,781</b>	<b>2,850,000</b>

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**PLAN NOT APPROVED BY STOCKHOLDERS**

In January 1999, we approved the Amended OMNI Energy Services Corp. 1999 Stock Option Plan (the "Option Plan") to provide for the grant of options to purchase shares of our Common Stock to our non-officer employees in lieu of year-end cash bonuses. The Option Plan is intended to increase stockholder value and advance our interests by providing an incentive to employees and by increasing employee awareness of us in the marketplace. Under the Option Plan, we may grant options to any of our employees with the exception of our officers. The options become exercisable immediately with respect to one-half of the shares, and the remaining one-half shall be exercisable one year following the date of the grant. The exercise price of any stock option granted may not be less than the fair market value of the Common Stock on the effective date of the grant. A total of 100,000 shares of Common Stock are authorized, of which 43,409 remain available for issuance at December 31, 2006.

**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data as of and for the five years ended December 31, 2006 are derived from our audited consolidated financial statements. The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this document. Our selected historical results are not necessarily indicative of results expected in future periods. The per share data gives retroactive effect to the one for three reverse stock split effective July 3, 2002.

We sold our Aviation Transportation Services segment effective June 30, 2005. In order to enhance the comparability of the amounts from year to year, the financial information related to the results of operations for the years ended December 31, 2002 through December 31, 2005 have been adjusted to present the operations of the Aviation Transportation Services segment as discontinued operations.

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	2002	YEAR ENDED DECEMBER 31,			2006
		2003	2004	2005	
		(In thousands, except per share data)			
<b>INCOME STATEMENT DATA:</b>					
Operating revenue	\$ 24,592	\$ 31,555	\$ 39,064	\$ 43,350	\$ 98,998
Operating expenses					
Direct costs	17,178	21,586	28,510	27,515	59,830
Depreciation and amortization	3,270	3,355	4,282	4,627	5,660
General and administrative expense	3,186	3,718	9,464	8,497	13,780
<b>Total operating expenses</b>	<b>23,634</b>	<b>28,659</b>	<b>42,256</b>	<b>40,639</b>	<b>79,270</b>
Operating income (loss)	958	2,896	(3,192)	2,711	19,728
Interest expense	(799)	(943)	(3,288)	(2,836)	(4,966)
Gain (loss) on debenture conversion inducement and debt extinguishment			(729)	758	15
Other income (expense), net	115	114	(290)	835	233
Income (loss) before income taxes	274	2,067	(7,499)	1,468	15,010
Income tax benefit	400	1,092		508	6,805
Net income (loss) from continuing operations	674	3,159	(7,499)	1,976	21,815
Income (loss) from discontinued operations, net of taxes	534	324	(6,756)	(3,978)	
Loss on disposal of discontinued operations assets, net of taxes				(2,271)	
Net income (loss)	1,208	3,483	(14,255)	(4,273)	21,815
Dividends and accretion of preferred stock	(484)	(484)	(490)	(249)	(488)
Non-cash charge attributable to beneficial conversion features of preferred stock				(745)	(458)
Net income (loss) available to common stockholders	\$ 724	\$ 2,999	\$ (14,745)	\$ (5,267)	20,869
<b>Basic Income (loss) per common share:</b>					
Income (loss) from continuing operations	\$ 0.02	\$ 0.30	\$ (0.73)	\$ 0.07	\$ 1.29
Income (loss) from discontinued operations	0.06	0.04	(0.62)	(0.30)	
Loss on disposal of discontinued operations assets				(0.17)	
Net Income (loss) available to common stockholders	\$ 0.08	\$ 0.34	\$ (1.35)	\$ (0.40)	\$ 1.29
<b>Diluted Income (loss) per common share:</b>					
Income (loss) from continuing operations	\$ 0.02	\$ 0.28	\$ (0.73)	\$ 0.07	\$ 0.89
Income (loss) from discontinued operations	0.06	0.03	(0.62)	(0.29)	
Loss on disposal of discontinued operations assets				(0.16)	
Net income (loss) available to common stockholders	\$ 0.08	\$ 0.31	\$ (1.35)	\$ (0.38)	\$ 0.89
<b>Number of Weighted Average Shares:</b>					
Basic	8,739	8,772	10,884	13,251	16,190
Diluted	8,745	11,362	10,884	13,683	24,459





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	2002	2003	DECEMBER 31,		
			2004	2005	2006
			(In thousands)		
<b>BALANCE SHEET DATA:</b>					
Total assets	\$ 41,325	\$ 50,289	\$ 65,913	\$ 43,758	\$ 118,884
Long-term debt, less current maturities	8,340	9,624	12,952	15,801	32,935
Preferred Stock	12,100	12,100	29	806	1,285
Total Equity	19,781	24,386	4,864	11,135	39,426

	2002	2003	YEAR ENDED DECEMBER 31,		
			2004	2005	2006
			(In thousands)		
<b>STATEMENT OF CASH FLOW DATA:</b>					
(for continuing and discontinued operations)					
Net cash provided by operating activities	\$ 5,015	\$ 5,664	\$ 5,550	\$ 2,894	\$ 22,363
Net cash provided by (used in) investing activities	(1,901)	(4,158)	(12,647)	11,474	(26,120)
Net cash provided by (used in) financing activities	(3,643)	(1,638)	7,568	(15,237)	16,162

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

This discussion and analysis should be read in conjunction with our consolidated financial statements and accompanying notes contained herein.

**RECENT DEVELOPMENTS**

Effective January 5, 2007, we entered into new Restricted Stock and Stock-Based Award Incentive Agreements (RSA) with certain executive officers. The new RSAs replace prior restricted stock agreements and reduce our contingent liability to the executive officers from approximately \$31.7 million to approximately \$10.0 million as of January 5, 2007. The RSAs provide for the granting of between 400,000 and 500,000 shares of our restricted common stock to each of the executive officers on the terms set forth in the RSAs. The number of shares of restricted stock becomes fixed and payable in the event of (i) a change in control or the receipt by our Board of Directors of a change of control offer as defined by the RSAs; (ii) termination without cause; or (iii) death or disability. Additionally, at the time of vesting in the restricted shares, each executive officer will receive the right to a cash payment of \$1.2 million. The revised RSAs will terminate on December 31, 2008, and any unvested restricted common stock or stock-based awards will terminate and lapse.

On February 13, 2007, our motion for partial summary judgment on ACP's first amended and superceding reconventional and third party demand was granted. ACP had filed the demand seeking damages for our redeeming rather than converting the Series A and B Preferred Stock. The court determined that ACP consequently abandoned its claim by retaining the proceeds.

On March 2, 2007, we completed the acquisition of Charles Holston, Inc., pursuant to a Membership Interest Purchase and Sale Agreement (Holston Purchase Agreement) to acquire BMJ Industrial Investments,

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L.L.C. and its wholly-owned subsidiary, Charles Holston, Inc., (collectively "Holston"). 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 of cash and the issuance of \$5.0 million of promissory notes accruing interest at 5% per annum with various maturities over a three-year period. In addition, we assumed approximately \$2.8 million of certain long-term debt of Holston. As a condition of closing, Holston was required to have on hand a minimum of \$7.5 million of excess working capital as defined in the Holston Purchase Agreement.

On March 2, 2007, we completed the acquisition of certain assets of Cypress Energy Consulting, Inc., d/b/a Cypress Energy Services ("Cypress") pursuant to an Asset Purchase Agreement ("Cypress Purchase Agreement"). Subject to the terms and conditions of the Cypress Purchase Agreement, we purchased certain assets from Cypress for the total consideration of approximately \$10.1 million, including \$7.1 million of cash and the issuance of a \$3.0 million, three-year 5% promissory note.

On March 2, 2007 we completed \$64.5 million of new credit facilities ("Senior Credit Facilities") with LaSalle Business Credit, LLC ("LaSalle"), a wholly-owned subsidiary of LaSalle Bank, N.A. and an affiliate of ABN AMRO. With the proceeds from the Senior Credit Facilities, we (i) repaid approximately \$22.0 million outstanding principal balance under our existing Term A and Term B loans; (ii) closed the acquisition of Holston; and (iii) completed the acquisition of certain assets of Cypress. The balance of the proceeds available under the Senior Credit Facilities was used to pay fees and expenses of the aforementioned transactions and provide additional working capital.

**RECLASSIFICATION OF FINANCIAL STATEMENTS**

Effective June 30, 2005, we sold our Aviation Transportation Services segment. The income statements for the years ended December 31, 2002, 2003, 2004, and 2005 have been revised to properly present the comparative information related to the Aviation Transportation Services segment. For these periods, the activities of the Aviation Transportation Services segment have been presented as discontinued operations.

**GENERAL**

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

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

**SEASONALITY AND WEATHER RISKS.** Our operations are subject to seasonal variations in weather conditions and daylight hours as our activities take place outdoors. On average, fewer hours are worked per day and fewer holes are generally drilled or surveyed per day in winter months than in summer months due to an increase in rainy, foggy, and cold conditions and a decrease in daylight hours.

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

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

As discussed below in Discontinued Operations, we sold our Aviation Transportation Services segment effective June 30, 2005. In order to enhance the comparability of the amounts reflected for the periods below, the financial information related to the results of operations for the years ended December 31, 2005 and 2004 have been revised to present the activities of the Aviation Transportation Services segment as discontinued operations. For more information regarding the discontinued operations of the Aviation Transportation Services segment refer to Note 13 of Consolidated Financial Statements included herein.

**Year Ended December 31, 2005 Compared To The Year Ended December 31, 2006:**

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

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

Direct costs increased 117%, or \$32.3 million, from \$27.5 million for the year ended December 31, 2005 to \$59.8 million for the year ended December 31, 2006. Direct costs as a result of the recent Preheat and Rig Tools acquisitions accounted for \$9.9 million and \$1.2 million of the overall increase, respectively. Direct costs relating



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to the other divisions increased \$21.2 million. Third-party contract services increased by \$9.0 million. We contract third parties to provide services when our existing workforce is working on other projects. Consistent with the increase in revenues, payroll related costs increased \$11.3 million and rental and lease expense increased \$1.5 million, fuel and oil expense increased \$1.6 million, explosives expenses increased \$2.9 million and repairs and maintenance expenses increased \$2.9 million.

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

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

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

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

Other income (expense) decreased from income of \$0.8 million to income of \$0.2 million. This decrease in income was partially attributable to a \$0.8 million gain on sale of assets in 2005.

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

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

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

**Table of Contents****Index to Financial Statements****Year Ended December 31, 2004 Compared To The Year Ended December 31, 2005:**

	YEAR ENDED DECEMBER 31,	
	2004	2005
	(In thousands)	
Operating revenue	\$ 39,064	\$ 43,350
Operating expenses		
Direct costs	28,510	27,515
Depreciation and amortization	4,282	4,627
General and administrative expenses	9,464	8,497
Total operating expenses	42,256	40,639
Operating income (loss)	(3,192)	2,711
Interest expense	(3,288)	(2,836)
Gain (loss) on debenture conversion inducement and debt extinguishment	(729)	758
Other income (expense)	(290)	835
Income (loss) before taxes	(7,499)	1,468
Income tax benefit		508
Net income (loss) from continuing operations	(7,499)	1,976
Loss from discontinued operations	(6,756)	(3,978)
Loss on disposal of discontinued operations assets		(2,271)
Net loss	(14,255)	(4,273)
Preferred stock dividends	(490)	(249)
Non-cash charge attributable to beneficial conversion features of preferred stock		(745)
Net loss available to common stockholders	\$ (14,745)	\$ (5,267)

Operating revenues increased 11%, or \$4.3 million, from \$39.1 million to \$43.4 million for the years ended December 31, 2004 and 2005, respectively, of which \$8.8 million of this increase was due to the June 30, 2004 acquisition of Trussco. Drilling revenues decreased from \$30.4 million for the year ended December 31, 2004 to \$25.9 million for the year ended December 31, 2005 due to permitting and weather-related delays.

Direct costs decreased 4%, or \$1.0 million, from \$28.5 million in 2004 to \$27.5 million in 2005. Operating payroll costs increased \$0.9 million from \$12.8 million to \$13.7 million for the years ended December 31, 2004 and 2005, respectively. Payroll costs from the Trussco acquisition accounted for a \$2.9 million increase while the drilling division accounted for a \$2.0 million decrease. Repairs and maintenance expenses decreased \$0.7 million from 2004 to 2005, with \$0.8 million of the decrease related to the drilling division offset by \$0.1 million related to Trussco. Explosives expense decreased \$0.4 million primarily as a result of the decreased drilling activity in 2005. Contract services decreased \$1.9 million company-wide, of which our drilling division accounted for \$2.0 million of the decrease with an offsetting increase of \$0.1 million related to Trussco. In 2004, we contracted third parties exclusively to provide services for heliportable drilling in the Rocky Mountains where we no longer provide these specialized drilling services. In 2004, we also contracted third parties to provide airboat drilling services during a period when most of our available employees were working on other projects. Rental and lease expenses increased \$0.6 million from 2004 to 2005, with a \$0.2 million decrease related to the drilling division offset by a \$0.8 million increase related to Trussco. Field office expenses and insurance expenses increased \$0.5 million collectively, due to the Trussco acquisition. While operating expenses are expected to continue to increase in 2006 as operating revenues increase, we expect these expenses to remain consistent as a percentage of revenues.

Depreciation and amortization costs increased \$0.3 million, from \$4.3 million in 2004 to \$4.6 million in 2005. Depreciation expense increased \$0.2 million due to the increase in revenue-producing assets, primarily



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from the acquisition of Trussco in June 2004. Additionally, amortization expense increased by \$0.1 million resulting primarily from amortization of intangible assets related to the Trussco acquisition.

General and administrative expenses decreased \$1.0 million from \$9.5 million for 2004 to \$8.5 million for 2005. Of this decrease, \$2.8 million relates to professional services, offset by a \$1.6 million increase attributable to the Trussco acquisition. Other general and administrative expense increased by \$0.2 million.

During 2004, we recorded asset impairment charges of \$4.2 million related to the revaluation of certain aviation equipment, prepaid repairs and assets held for sale resulting in a charge to expense of \$0.6 million, \$3.0 million and \$0.6 million, respectively. There was no impairment charge required to be recorded in 2005. This 2004 impairment charge, which relates entirely to the Aviation Transportation Services Segment, is included in the loss from discontinued operations.

Interest expense was \$2.8 million for the year ended December 31, 2005 compared to \$3.3 million for the year ended December 31, 2004. The decrease was partially attributable to decreased levels of debt including the convertible debentures. Interest expense allocated to loss from discontinued operations amounted to \$0.9 million and \$1.9 million for the year ended December 31, 2005 and 2004, respectively.

In 2005, we recorded a \$0.8 million accounting gain in connection with the early extinguishment of a portion of our debt compared to a \$0.7 million loss during 2004. An additional loss on debt extinguishment of \$0.7 million is included in loss from discontinued operations for 2005 compared to \$0.3 million for 2004.

Other (income) expense increased from an expense of \$0.3 million to income of \$0.8 million. This increase in income was partially attributable to costs incurred as a result of financing transactions that did not close in 2004, which were charged to expense, coupled with a \$0.8 million gain on sale of assets in 2005.

During 2004, the entire amount of the net operating loss carryforward generated in that year was fully reserved as it was determined that more likely than not this increase in deferred tax asset would not be realized in the near future. In 2005, an income tax benefit was recognized in the amount of \$0.5 million to increase the deferred tax asset balance to its estimated realizable amount.

As previously discussed, we sold our Aviation Transportation Services segment effective June 30, 2005. Accordingly, we recorded a loss from discontinued operations of \$4.0 million, net of tax benefit, for the year ended December 31, 2005 compared to \$6.8 million for the year ended December 31, 2004. Included in the 2004 loss from discontinued operations is the asset impairment charge of \$4.2 million mentioned above. Additionally, in 2005 we recorded a loss of \$2.3 million on the sale of our Aviation Transportation Services segment.

Preferred stock dividends were \$0.5 million and \$0.2 million, respectively, for the years ended December 31, 2004 and 2005. Furthermore, we recorded a non-cash charge (deemed dividend) attributable to the beneficial conversion feature associated with the Series C 9% Convertible Preferred Stock issued during 2005.

**LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2006, we had approximately \$12.6 million in cash on hand and approximately \$0.0 million available on our revolving line of credit. At December 31, 2006, we borrowed \$12.0 million on our revolving line of credit to better illustrate for investors and financial analysts our funds availability at the end of the year. The amount was repaid on the first business day of January 2007. This compares to approximately \$0.2 million in cash on hand and approximately \$2.4 million available on our revolving line of credit at December 31, 2005. At December 31, 2006, we had working capital of approximately \$16.6 million as compared to a working capital deficit of approximately \$0.02 million at December 31, 2005. Our increase in working capital is the result of our acquisitions of Preheat and Rig Tools and increased activity and profitability in our Drilling and Environmental segments during 2006.



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Cash provided by continuing operating activities was \$22.3 million, \$3.2 million, and \$6.0 million for the years ended December 31, 2006, 2005 and 2004, respectively. In 2004, the largest contributing factors were a result of non-cash transactions, an increase in accounts payable and accrued expenses and a decrease in prepaid expenses and other current assets. In 2005, the largest contributing factors were a result of non-cash transactions, an increase in receivables and a decrease in prepaid expenses and other current assets and accounts payable and accrued expenses. In 2006, the largest contributing factor was income from operations.

Historically, our capital requirements have primarily related to the purchase or fabrication of new seismic drilling equipment and related support equipment, additions to our aviation fleet and new business acquisitions. In 2004, we acquired Trussco, purchased approximately \$6.4 million of aircraft accounted for as capital leases, and purchased approximately \$0.8 million of new vehicles accounted for as capital leases. For the year ended December 31, 2005, we acquired \$0.1 million of new vehicles and approximately \$0.1 million in aviation support equipment as well as \$0.2 million in equipment and approximately \$0.3 million in facility improvements. In 2005, we sold the assets of our Aviation Transportation Services segment. Proceeds from the sale were used to repay capital lease obligations related to that division. In 2006 we acquired Preheat and Rig Tools, purchased approximately \$5.3 million in equipment and refinanced our rolling stock of vehicles previously accounted for as capital leases into operating leases. In 2007, we plan to continue to explore strategic business opportunities and expand and upgrade our facilities and equipment to improve efficiency of our operations. (See Recent Developments).

On February 14, 2006, we borrowed an additional \$7.0 million on the Term A Loan and an additional \$6.0 million on the Term B Loan to partially fund the Preheat acquisition. On November 1, 2006, we borrowed an additional \$5.9 million on the Term A Loan to partially fund the Rig Tools acquisition.

Loan closing costs of \$1.0 million were incurred during the year ended December 31, 2006 related to the Term A and Term B Loans compared to \$3.6 million for the year ended December 31, 2005, and a total of \$0.5 million was incurred during the year ended December 31, 2005 related to our various credit facilities.

As discussed in Recent Developments, we completed \$64.5 million of new Senior Credit Facilities with LaSalle in March 2007. This new credit facility allows us additional financing capacity at more favorable interest rates to meet our future credit needs. In addition, we completed the acquisition of Holston and certain assets of Cypress in March 2007.

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At December 31, 2005 and 2006, long-term debt consists of the following:

	<b>DECEMBER 31,</b>	
	<b>2005</b>	<b>2006</b>
	<b>(In thousands)</b>	
Notes payable to a bank with interest payable at Prime plus 1.50% (8.25% at December 31, 2005 and 9.75% at December 31, 2006) maturing July 31, 2023, secured by real estate	\$ 1,354	\$ 1,321
Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate	195	174
Convertible promissory notes payable to certain former stockholders of Trussco, Inc. with interest at 5%, maturing in June 2007	1,000	
Promissory notes payable to certain former stockholders of Preheat, Inc. with interest at 5%, maturing in February 2008		2,667
Promissory notes payable to certain former stockholders of Preheat, Inc. with interest at 5%, maturing in February 2009		1,333
Convertible promissory notes payable to certain former stockholders of Rig Tools, Inc. with interest at 5%, maturing in November 2007, net of beneficial conversion of \$426 (1)		2,574
Convertible promissory notes payable to certain former stockholders of Rig Tools, Inc. with interest at 5%, maturing in November 2008, net of beneficial conversion of \$156 (1)		844
Promissory note payable to finance companies secured by vehicles	729	587
Promissory note payable to finance companies secured by equipment	37	491
Capital lease payable to a finance company secured by an aircraft	941	683
Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, maturing May 13, 2008, unsecured	913	569
Term B notes payable to a finance company, variable interest rate at LIBOR plus 8.0% (12.41% at December 31, 2005 and 13.37% at December 31, 2006 ) maturing August 29, 2010, secured by various property and equipment	9,000	15,000
Term A notes payable to a finance company, variable interest rate at LIBOR plus 4.0% (10.80% at December 31, 2005 and 9.37% at December 31, 2006), maturing May 18, 2010, secured by various equipment	4,540	14,381
Other debt	15	
<b>Total</b>	<b>\$ 18,724</b>	<b>\$ 40,624</b>
Less: current maturities	(2,926)	(7,689)
<b>Long-term debt, less current maturities</b>	<b>\$ 15,798</b>	<b>\$ 32,935</b>

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

**LINE OF CREDIT**

We have a working capital revolving line of credit agreement (the "Line"). Availability under the Line is the lower of: (i) \$15.0 million or (ii) the eligible accounts receivable, as defined under the agreement. The Line accrues interest at the prime interest rate (8.25% at December 31, 2006) and matures in May 2010. The Line is collateralized by accounts receivable and is subject to certain customer concentration limitations. As of December 31, 2006, we had \$12.2 million outstanding under the Line. The weighted-average interest rate on borrowings under our revolving line of credit was 7.7% and 8.6% for the years ended December 31, 2005 and 2006, respectively. Due to the lock-box arrangement and the subjective acceleration clause of the Line agreement, the debt under the Line has been classified as a current liability as of December 31, 2005 and 2006, 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*.

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**SENIOR SECURED**

On October 21, 2004, we completed a \$6.5 million senior secured loan ( Bridge Loan ) with Beal Bank, SSB. The Bridge Loan accrued interest at the rate of 12% per annum, matured January 15, 2005, and was collateralized by specific seismic assets, certain Trussco equipment and three Bell helicopters. The proceeds were used to repay debt, pay the October Put Option on the Convertible Debentures discussed below and for working capital purposes.

On January 21, 2005, we entered into a forbearance agreement with Beal Bank, SSB, which increased the interest rate from 12% to 17% and extended the maturity of the Bridge Loan to March 15, 2005. On May 2, 2005, we entered into a second agreement to extend the maturity date to May 31, 2005. The Bridge Loan restricted the payment of dividends and contained customary financial covenants requiring, among other things, minimum levels of tangible net worth, debt to earnings before interest, taxes, depreciation and amortization ( EBITDA ) ratios, and limitations on annual capital expenditures and certain customer concentrations. This loan was repaid in full with proceeds from the Senior Credit Facility (see below) on May 18, 2005.

**CAPITAL LEASES**

During the year ended December 31, 2005, we had several capital leases for aircraft which generally had lease terms of 60 months at inception of the lease. Aircraft leases either contain a bargain purchase option at the end of the lease or a balloon amount due that can be refinanced over 36 months. From time to time, we acquired an aircraft through cash flows from operations or through the Line which was then sold to a financing company and leased back to us. These sales and lease back transactions were recorded as a capital lease and gains and losses incurred on the sale are deferred and amortized over the life of the lease term or the asset, whichever is shorter. These leases were paid in full from proceeds of our Term A Loan in the third quarter of 2005.

We also leased several vehicles used in our seismic drilling operations under 40-month capital leases. In February 2006, in accordance with a 2005 agreement, the capital leases on those vehicles were paid off through a refinance transaction with a third party leasing company. The capital leases were replaced with 24-month operating leases expiring in the first quarter of 2008.

At December 31, 2006, we had a capital lease with a finance company secured by an aircraft. The lease term expires in December 2008.

**CONVERTIBLE DEBENTURES**

Pursuant to a Securities Purchase Agreement dated February 12, 2004, we issued (i) \$10,000,000 in principal amount of 3-year, 6.5% fixed rate, Convertible Debentures (the Initial Debentures ) that were convertible into shares of common stock at an initial conversion price of \$7.15 per share, (ii) 1-year common stock Series A Warrants to purchase an aggregate of 700,000 shares of Common Stock at an initial exercise price of \$7.15 per share and (iii) 5-year Common Stock Series B Warrants to purchase an aggregate of 390,000 shares of Common Stock at an initial exercise price of \$8.50 per share. The warrants were not exercisable for a period of six months and one day after the issue date of such warrants and in no event would the exercise prices of such warrants be less than \$6.15 per share. In accordance with APB Opinion No. 14, the warrants were valued at a fair market value of \$0.9 million using the Black Scholes model. The value of these warrants was recorded as debt discount with a corresponding amount recorded to paid in capital at the date of issuance. The 1-year Series A warrants expired during 2005.

On April 15, 2004, in accordance with the Securities Purchase Agreement, we issued (i) \$5,050,000 in principal amount of 3-year, 6.5% fixed rate, Convertible Debentures (collectively with the Initial Debentures, hereinafter referred to as the Debentures ) that were convertible into shares of common stock at an initial conversion price of \$7.20 per share, and (ii) 5-year Common Stock Series A Warrants to purchase an aggregate

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of 151,500 shares of common stock at an initial exercise price of \$9.00 per share. The warrants were not exercisable for a period of six months and one day after the issue date of such warrants and in no event would the exercise prices of such warrants be less than \$7.11 per share. In accordance with APB Opinion No. 14, the warrants were valued at a fair market value of \$0.2 million using the Black Scholes model. The value of the warrants and beneficial conversion feature were recorded as a debt discount with a corresponding amount recorded to paid in capital at the date of issuance.

Total proceeds of \$14.2 million were received from the issue of these Debentures, after expenses. Of the total proceeds received, \$8.2 million was used to redeem the Series A Preferred Stock and dividends in February 2004, \$4.9 million was used to redeem the Series B Preferred Stock and dividends in March and April 2004 and the balance used for working capital purposes (See Note 9 to the Consolidated Financial Statements).

The debt discounts for the February 12, 2004 and April 15, 2004 debentures were \$0.9 million and \$0.2 million, respectively. The debt discounts are being amortized to interest expense using the effective interest method over the period in which the debentures can be put to us. A total of \$0.9 million is included in interest expense and \$0.2 million loss on extinguished related to the amortization of the debt discounts for the year ended December 31, 2004. Since the Debentures were in default at December 31, 2004, the entire amount of the debt discount was charged to expense during 2004.

Prior to maturity of the Debentures, the holders of the Debentures had the right to require the repayment or conversion of up to an aggregate of \$13.17 million of the Debentures (the Put Option). We registered 5,012,237 shares effective June 30, 2004 covering the common stock that may have been issuable pursuant to the conversion of the Debentures and the exercise of the Put Option and all associated warrants, including additional shares that may be issuable due to adjustments for conversion price upon the Debenture conversion, payment of interest with shares and/or the exercise of warrants due to subdivision or combination of our common stock. Pursuant to the Debenture agreement, the registration of the related common stock triggered the ability of the Debentures holders to exercise the Put Option in ten consecutive non-cumulative and equal monthly installments equal to 8.75% of the face value of the Debentures (\$1,316,875) beginning August 1, 2004. Accordingly the Debentures, net of debt discount, were classified as a current liability in the Consolidated Balance Sheet at December 31, 2004. We received, and redeemed for cash, notices from the holders of the Debentures exercising their Put Option for August, September and October 2004. Upon receipt of the Debenture Holders' intent to exercise a Put Option, we had the irrevocable option to deliver cash or, if certain conditions set forth in the Debentures were satisfied, shares of our common stock. If we elected to pay the Put Option with common stock, the underlying shares would have been valued at a 12.5% discount to the average trading price of our common stock for the applicable pricing period, as defined in the Debenture agreement. The number of shares we would have delivered was equal to the value of the Put Option installment due divided by the fair market value of our common stock for the applicable pricing period discounted at 12.5%. We did not redeem for cash or stock notices received from the Debenture Holders exercising their Put Option for the months of November and December 2004 and January, February, March and April 2005.

As provided for in the terms of the applicable Securities Purchase Agreements, the Debenture holders received Put Option payments of \$1.3 million in principal, plus accrued interest, each on August 5, 2004, on September 9, 2004 and on October 25, 2004. In accordance with APB Opinion No. 26 *Early Extinguishment of Debt*, we recorded \$0.2 million as a loss on extinguishment of debt in 2004 as a result of the early extinguishment of these portions of the Debentures. (See Note 4 to the Consolidated Financial Statements).

On October 8, 2004, we entered into an Amendment and Conditional Waiver Agreement (the Amendment) with the holders of the Debentures. Under the terms of the Amendment, the Debenture holders granted us, among other things, the right to pre-pay in cash all, but not less than all, of the outstanding Debentures held by each holder on or prior to November 15, 2004. In exchange for such right, we agreed to allow the holders of the Debentures to convert \$2,000 of the principal amount of the April 15, 2004 Debentures into 200,000 shares of common stock at a revised conversion price of \$0.01 per share. As a result of this conversion

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and in accordance with the requirements of Statement of Financial Accounting Standards ( SFAS ) No. 84, *Induced Conversions of Convertible Debt, an amendment to APB Opinion No. 26*, we recorded \$0.9 million in debt conversion expense in 2004.

On January 25, 2005, we filed suit in United States District Court, Western District of Louisiana against the holders of the Debentures and other third parties (collectively, the Debenture Holders ). In the suit, we alleged that the Debenture Holders violated Section 16(b) of the Securities Exchange Act of 1934, and we sought the disgorgement of profits realized by the Debenture Holders from their purchases and sales of our common stock.

On May 18, 2005, we entered into settlement agreements ( Debenture Settlement Agreements ) with each of the Debenture Holders in exchange for our dismissal of the lawsuit filed against the Debenture Holders (see Note 4 to the Consolidated Financial Statements). Under the terms of the Debenture Settlement Agreements, we agreed to (i) pay the Debenture Holders approximately \$4.0 million cash; (ii) immediately issue the Debenture Holders 2.0 million shares of our common stock at an agreed upon value of \$3.4 million; and, (iii) issue the Debenture Holders approximately \$4.3 million of unsecured, subordinated promissory notes ( Subordinated Debenture Notes ). The Company recorded a gain of \$0.2 million at the close of these transactions. The Subordinated Debenture Notes were scheduled to be paid quarterly, with interest in arrears, over 36 months in level payments with interest accruing at the rate of 8% per annum. Execution of the Debenture Settlement Agreements extinguished the terms of the original Debentures and released all parties from any future claims.

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

**SENIOR CREDIT FACILITY**

On May 18, 2005, we completed a \$50 million equipment term financing ( Term A Loan ) and increased our Line to \$15 million from its previous level of \$12.0 million (with the Term A Loan, collectively referred to herein as the Senior Credit Facility ). In conjunction with the disposition of the Aviation Transportation Services segment, effective June 2005, the borrowing base was reduced to \$30.0 million. On February 13, 2006, we entered into the First Amended and Restated Credit Agreement (the Amendment ) which amended the Term A Loan. Under the terms of the Amendment, the funding limits will be limited to the lesser of \$30.0 million and the sum of (i) 50% of the orderly liquidation value of our seismic drilling, environmental and leasing equipment, and (ii) 50% of the fair market value of certain real estate. In addition, the Term A Loan matures in May 2010 and will be repaid monthly in equal payments up to a 25% balloon at maturity date, with interest paid in arrears and accruing at the annual interest rate of 90-day LIBOR plus 4.0% (9.37% at December 31, 2006). The Term A Loan restricts the payment of cash dividends and contains customary financial covenants requiring, among other things, minimum levels of tangible net worth, debt to EBITDA ratios and limitations on capital expenditures. On February 14, 2006, we borrowed an additional \$7.0 million on the Term A Loan to partially fund the Preheat acquisition and on November 1, 2006, we borrowed an additional \$5.7 million on the Term A Loan to partially fund the Rig Tools acquisition (see Note 7), leaving an outstanding balance of \$14.4 million at December 31, 2006, after scheduled monthly principal payments.

**JUNIOR CREDIT FACILITY**

On August 29, 2005, we completed a \$25.0 million multiple draw term credit facility ( Term B Loan ). Under the terms of the Term B Loan, funding will be done through advances at our request in minimum amounts of \$2.0 million. Quarterly payments in the amount of \$0.2 million, plus interest, will begin on April 1, 2008. In the event that we no longer have any senior term debt outstanding, the annual principal amortization of the Term B Loan will be increased to 7.5% of the advances outstanding under the Term B Loan beginning December 31,

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2006. The Term B Loan matures in August 2010 and will accrue interest at the rate of 90-day LIBOR plus 8% (13.37% at December 31, 2006). The Term B Loan restricts the payment of cash dividends and contains customary financial covenants requiring, among other things, minimum levels of tangible net worth, debt to EBITDA ratios and limitations on annual capital expenditures. On February 14, 2006, we borrowed an additional \$6.0 million on the Term B Loan to partially fund the Preheat acquisition (see Note 7), leaving an outstanding balance of \$15.0 million at December 31, 2006.

**TRUSSCO NOTES**

On June 30, 2004, we purchased Trussco for an aggregate acquisition price of \$11.9 million, including \$7.3 million in cash, \$3.0 million in 5% convertible promissory notes payable to certain stockholders ( Stockholder Notes ) maturing in June 2007, and the assumption of approximately \$1.6 million in debt and other liabilities. The Stockholder Notes can be prepaid at any time and are convertible into shares of our common stock at a price of \$9.40 per share.

On May 18, 2005, we entered into early debt extinguishment agreements ( Debt Extinguishment Agreements ) with respect to \$2.0 million of the Stockholder Notes and \$1.0 million of the Earnout Note more fully described in Note 8 to the Consolidated Financial Statements contained herein. Under the terms of the Debt Extinguishment Agreements, we (i) immediately issued 0.2 million shares of our common stock; and (ii) paid certain holders of the Stockholder Notes \$1.0 million on or before August 16, 2005, in full and complete satisfaction of \$2.0 million of the Stockholder Notes and \$1.0 million of the contingent Earnout Note. We recognized a gain on debt extinguishment of \$0.3 million upon closing the transaction.

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

**PREHEAT NOTES**

Effective February 10, 2006, we purchased all of the issued and outstanding stock of Preheat, Inc. for an aggregate acquisition price of \$23.0 million, including \$16.0 million in cash, 900,000 shares of our common stock, \$4.0 million in 5% promissory notes payable to certain stockholders ( Preheat Notes ) and the assumption of approximately \$1.6 million in debt and other liabilities. 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, 2006, the Preheat Notes had a balance of \$4.0 million.

**RIG TOOLS NOTES**

Effective November 1, 2006, we purchased all of the issued and outstanding stock of Rig Tools, Inc. for an aggregate acquisition price of \$14.0 million, including \$10.0 million in cash and \$4.0 million in 5% promissory notes payable to certain stockholders ( Rig Tools Notes ), and the assumption of approximately \$2.5 million in debt and other liabilities. The Rig Tools Notes consist of three separate notes with \$3.0 million maturing in November 2007, \$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 conversion period of the notes. At December 31, 2006, the Rig Tools Notes had a balance of \$4.0 million less \$0.6 million in unamortized beneficial conversion discounts.

**SERIES C 9% CONVERTIBLE PREFERRED STOCK**

On May 17, 2005, we entered into a Securities Purchase Agreement with certain of our affiliates and executive officers to issue up to \$5.0 million of Series C 9% Convertible Preferred Stock (the Series C

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Preferred ) in conjunction with the completion of the Term A Loan more fully described above. Our Series C Preferred is convertible into shares of our common stock at a conversion price of \$1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between \$1.95 and \$3.50 per share. The transactions contemplated by the Securities Purchase Agreement closed in two tranches. On May 17, 2005, the closing date of the first tranche, we issued an aggregate of 3,500 shares of Series C Preferred and warrants to acquire 4,585,000 shares of our common stock, in exchange for \$3.5 million. The second tranche closed on August 29, 2005, at which time the remainder of the Series C Preferred and warrants were issued generating proceeds of \$1.5 million and we granted the remaining 1,965,000 warrants.

As mentioned above, the Term A Loan and the Term B Loan restrict the payment of cash dividends. Consequently, a portion of the 9% dividend obligation related to the Series C Preferred has been satisfied through the issuance of payment-in-kind ( PIK ) dividends. The PIK dividends are paid through the issuance of additional shares of Series C Preferred. These additional shares of preferred stock do not have warrants attached to them. During the years ended December 31, 2005 and December 31, 2006, 128 shares and 479 shares of Series C Preferred were issued, respectively, as PIK dividends at par.

**RELATED PARTY TRANSACTIONS**

During the three year period ended December 31, 2001, we privately placed with an affiliate subordinated debentures totaling \$7.5 million, \$3.4 million and \$1.5 million, respectively. The debentures matured five years from their date of issue and accrued interest at various rates ranging from a fixed rate of 12% per annum to a variable rate of interest starting at 12% per annum and escalating to 20% per annum. In October 2000, we agreed to convert \$4.6 million of the subordinated debentures into our Series A Preferred. In May 2001, we agreed to pay the affiliate \$3.0 million cash plus issue to the affiliate \$4.6 million of the Company's Series B Preferred in satisfaction of all of the remaining outstanding subordinated debentures including accrued interest of \$1.8 million. This transaction resulted in the affiliate agreeing to forgive \$1.0 million of indebtedness, which was reflected as a capital contribution from the affiliate (See Note 9 to the Consolidated Financial Statement for the accounting for preferred stock). In February 2004 and April 2004, we issued \$10 million and \$5.05 million, respectively, of 6.5% Subordinated Convertible Debentures (See Note 4 to the Consolidated Financial Statements). The proceeds were used to redeem \$8.2 million (7,475 shares) of the Series A Preferred Stock outstanding, including accrued dividends. The remaining 25 shares of Series A Preferred were redeemed in April 2004 for \$0.03 million. At December 31, 2004 there are no Series A Preferred outstanding. During the first quarter of 2004, we redeemed 2,286 shares of the Series B Preferred for \$2.4 million, including accrued dividends. In April 2004, we redeemed 2,285 shares of the total of 2,314 shares of the Series B Preferred outstanding for \$2.5 million, including accrued dividends. At December 31, 2006, 29 shares of Series B Preferred Stock remain outstanding.

In connection with the original issuance of the subordinated debentures, we issued to the affiliate detachable warrants to purchase 1,912,833 shares of our common stock, of which 293,055 warrants were transferred in 2003 to settle certain litigation (See Note 9 to the Consolidated Financial Statements) and 858,678 warrants were cancelled in 2003. The balance of 761,100 warrants was exercised in the first quarter of 2004 at an exercise price of \$2.25.

During 2003, we entered into an agreement to facilitate the private placement of approximately 1,650,000 shares of our common stock owned by an affiliate and certain investors. The sale of the stock covered by this agreement closed in the fourth quarter of 2003, resulting in our receipt of \$0.4 million cash which is reflected as a reduction in our general and administrative expenses in the accompanying Consolidated Financial Statements.

During 2003, in order to facilitate a settlement of ongoing litigation between certain of our affiliates, we agreed to re-price and extend the maturity dates of certain warrants owned by the defendant affiliates but transferred in settlement of the litigation to the plaintiff affiliates. The exercise prices of the transferred warrants ranged from \$2.25 to \$6.00 per share. The maturity dates of the transferred warrants ranged from November 1, 2004 to July 1, 2005. The transferred warrants were re-priced at \$1.54 per share and the maturity dates were

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extended to November 1, 2006. Our statement of operations includes a non-recurring charge of approximately \$0.1 million representing the differences in the fair market value of the originally issued warrants and the re-priced warrants. In 2004 all re-priced warrants were exercised.

On May 17, 2005, we entered into a Securities Purchase Agreement with certain of our affiliates and executive officers to issue up to \$5.0 million of Series C Preferred in conjunction with the completion of the Term A Loan more fully described above. Our Series C Preferred is convertible into our common stock at a conversion price of \$1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between \$1.95 and \$3.50 per share. The transactions contemplated by the Securities Purchase Agreement closed in two tranches. On May 17, 2005, the closing date of the first tranche, we issued an aggregate of 3,500 shares of Series C Preferred and warrants to acquire 4,585,000 shares of our common stock, in exchange for \$3.5 million. The second tranche closed on August 29, 2005, at which time the remainder of the Series C Preferred and warrants were issued generating proceeds of \$1.5 million and we granted the remaining 1,965,000 warrants.

The Term A Loan and the Term B Loan restrict the payment of cash dividends. Consequently, the dividend obligation related to the Series C Preferred has been satisfied through the issuance of PIK dividends. The PIK dividends are paid through the issuance of additional shares of Series C Preferred. These additional shares of preferred stock do not have warrants attached to them. During the years ended December 31, 2005 and December 31, 2006, 128 shares and 479 shares of Series C Preferred were issued, respectively, as PIK dividends at par.

Effective February 10, 2006, we purchased all of the issued and outstanding stock of Preheat for an aggregate acquisition price of \$23.0 million, including \$16.0 million in cash, 900,000 shares of our common stock, \$4.0 million in 5% promissory notes payable to certain stockholders ( Preheat Notes ) and the assumption of approximately \$1.6 million in debt and other liabilities. 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, 2006, the Preheat Notes had a balance of \$4.0 million.

Effective November 1, 2006, we purchased all of the issued and outstanding stock of Rig Tools for an aggregate acquisition price of \$14.0 million, including \$10.0 million in cash and \$4.0 million in 5% convertible promissory notes payable to certain stockholders ( Rig Tools Notes ), and the assumption of approximately \$2.5 million in debt and other liabilities. The Rig Tools Notes consist of three separate notes with \$3.0 million maturing in November 2007 and \$1.0 million maturing in November 2008. The Rig Tools Notes can be prepaid at any time and are convertible into shares of our common stock at a price of \$8.00 per share. We recorded a beneficial conversion feature of \$0.7 million related to the stock valuation at closing which is being amortized over the life of the notes. At December 31, 2006, the Rig Tools Notes had a balance of \$4.0 million less unamortized beneficial conversion of \$0.6 million.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

**USE OF ESTIMATES**

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

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



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#### **ACCOUNTS RECEIVABLE**

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

#### **INVENTORY**

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

#### **INCOME TAXES**

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

#### **OTHER CONTINGENCIES**

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

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

#### **STOCK BASED COMPENSATION**

Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123R ) requiring that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award). Prior to January 1, 2006, we accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB No. 25 ), and related interpretations. We also followed the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. We adopted SFAS No. 123R using the modified prospective method and, accordingly, financial statement amounts for prior periods presented in this Form 10-K have not been restated to reflect the fair value method of recognizing compensation cost relating to non-qualified stock options.

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**DISCONTINUED OPERATIONS**

In accordance with SFAS No. 144 *Accounting for the Impairment and Disposal of Long-Lived Assets* ( SFAS No. 144 ), we are accounting for the Brazoria market as a separate unit within American Helicopters, Inc. and have accounted for our exit from this market as discontinued operations in 2004. Effective June 30, 2005, we sold the equipment and related assets of our Aviation Transportation Services segment for a cash price of \$11.0 million. The proceeds were used to repay advances under our Term A Loan and for additional working capital. See Note 13 to the Consolidated Financial Statements included herein.

**IMPAIRMENT OF LONG-LIVED ASSETS AND ASSETS HELD FOR SALE**

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

Assets held for sale are recorded at the lower of their net book value or their net realizable value, which is determined based upon an estimate of their fair market value less the cost of selling the assets. An impairment is recorded to the extent that the amount that was carried on the books is in excess of the net realizable value. Assets held for sale at December 31, 2006 are comprised of eight marsh buggies. Three helicopters held for sale at December 31, 2004 totaling \$3.5 million were disposed of during the three months ended March 31, 2005 generating proceeds of \$573,000 and the extinguishment of lease obligations of approximately \$2.9 million. An impairment loss of \$0.6 million related to these helicopters was recognized during the year ended December 31, 2004 and there was no gain or loss recorded upon their disposition.

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

**COMMITMENTS AND CONTINGENCIES**

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

The Incentive Agreements also grant these executive officers the right to receive two cash payments each equal to the fair market value of 60,673 shares and 75,000 shares of our common stock, respectively, on the first business day following our annual stockholders meeting in 2005 and in 2006. The amounts of such stock-based awards to the executive officers on each vesting date may be paid in cash or, at the sole option of the Compensation Committee, in additional common stock, provided such shares are available for issuance pursuant to the terms of the Fourth Amended and Restated OMNI Energy Services Corp. Stock Incentive Plan (hereinafter the *Plan* ). Such shares were not available until November 30, 2004, when the number of shares available under the Plan was increased after approval by the stockholders. From June 30, 2004 until November 30, 2004, the awards were accounted for under FASB Interpretation (FIN) No. 28 *Accounting for Stock Appreciation Right and Other Variable Stock Option or Award Plans* as a variable plan, which requires that compensation will be measured at the end of each period at the quoted market price of a share of our common stock and the change in the value of the incentive awards be charged to expense. As such, the awards were revalued at the end of each

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reporting period at the quoted market price of a share of our common stock. At November 30, 2004, the market value of a share of our common stock was \$2.93 resulting in compensation expense under variable accounting of \$0.5 million to be recognized through that date. Effective November 30, 2004, the Company amended these incentive agreements to provide for 100% vesting of the restricted stock and have put into escrow the number of shares of common stock to settle the award. Accordingly the previous unvested portion of the award was charged to expense which totaled \$0.8 million and was recorded as compensation expense as of December 31, 2004.

We also entered into Stock-Based Award Incentive Agreements (hereinafter "SBA") with certain executive officers on June 30, 2004. The SBA shall become computed and payable: (a) on the date of the Employee's termination of employment (for any reason other than resignation or termination for cause), (b) 90 days after the executive's death or disability or (c) upon a Change in Control. The executive managers were awarded 45% and 55%, respectively, of: (1) 10% of the fair market value (hereinafter "FMV"), defined as the average closing price per share on the NASDAQ National Market over the five prior trading days times the number of issued and outstanding shares of the Company, of a share of the Company's common stock greater than or equal to \$1.00 but less than \$1.50, plus (2) 15% of the FMV of a share of the Company's common stock greater than or equal to \$1.50 but less than \$2.50, plus (3) 20% of the FMV of a share of the Company's common stock greater than or equal to \$2.50 but less than \$10.00, plus (4) 15% of the FMV of a share of the Company's common stock greater than or equal to \$10.00 but less than \$20.00, plus (5) 10% of the FMV of a share of the Company's common stock greater than or equal to \$20.00. If no payments have been made, the right terminates on December 31, 2008 or upon termination of employment for resignation or cause, whichever occurs first. The intrinsic value of this award at December 31, 2006 is \$32.8 million but no compensation expense has been recorded at December 31, 2006 because the award is contingent on future events none of which are considered probable at December 31, 2006. Subsequent to December 31, 2006, this agreement was replaced by a new Restricted Stock and Stock-Based Award Incentive Agreement (See Note 15 to the consolidated financial statements).

In addition, we entered into employment contracts with certain key executive management effective until various dates ranging from December 31, 2006 through December 31, 2008 with automatic extensions for additional, successive one year periods, unless either party gives notice of non-renewal as provided for under the terms of the employment contracts.

As discussed in MD&A Recent Developments, effective January 5, 2007, we entered into new RSAs with certain executive officers. The new RSAs replace prior restricted stock agreements and reduce our contingent liability to the executive officers from approximately \$31.7 million to approximately \$10.0 million as of January 5, 2007. The RSAs provide for the granting of between 400,000 and 500,000 shares of the Company's restricted common stock to each of the executive officers on the terms set forth in the RSAs. The number of shares of restricted stock becomes fixed and payable in the event of (i) a change in control of the Company or the receipt by the Company's Board of Directors of a change of control offer as defined by the RSAs; (ii) termination without cause; or (iii) death or disability. Additionally, at the time of vesting in the restricted shares, each executive officer will receive the right to a cash payment of \$1.2 million. The revised RSAs will terminate on December 31, 2008 and any unvested restricted common stock or stock-based awards will terminate and lapse.

In connection with the Trussco acquisition, we entered into employment contracts with three former Trussco stockholders effective until December 31, 2006 with automatic extensions for additional, successive one year periods commencing January 1, 2007, unless either party gives notice of non-renewal as provided for under the terms of the employment contracts. During 2005, two of these employment contracts were terminated.

In connection with the Preheat acquisition, we entered into employment contracts with the previous stockholders effective until December 31, 2007 with an automatic extension, granted at the option of Preheat, for one additional twelve-month period commencing on January 1, 2008.

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

**Table of Contents****Index to Financial Statements****TRUSSCO EARNOUT**

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

On May 18, 2005, we entered into early Debt Extinguishment Agreements on \$2.0 million of the Stockholder Notes and \$1.0 million of the Earnout Note more fully described in Note 8 of our Consolidated Financial Statements contained herein. Under the terms of the Debt Extinguishment Agreements, in full and complete satisfaction of \$2.0 million of the Stockholder Notes and \$1.0 million of the Earnout Note, we agreed to (i) immediately issue 0.2 million shares of our common stock; and, (ii) pay certain holders of the Stockholder Notes \$1.0 million on or before August 16, 2005, in full and complete satisfaction of \$2.0 million of the Stockholder Notes and \$1.0 million of the Earnout Note.

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

**CONTRACTUAL DEBT OBLIGATIONS**

We have the following contractual debt obligations as of December 31, 2006:

	TOTAL	PAYMENTS DUE BY PERIOD		
		LESS THAN 1 YEAR	1-3 YEARS	AFTER 4 YEARS
		(In thousands)		
Long-term debt	\$ 40,523	\$ 8,060	\$ 31,107	\$ 1,356
Capital lease obligations	683	169	514	
Line of credit	12,179	12,179		
Insurance notes	3,275	3,275		
<b>Total Contractual Cash</b>	<b>\$ 56,660</b>	<b>\$ 23,683</b>	<b>\$ 31,621</b>	<b>\$ 1,356</b>

We have the following operating lease commitments as of December 31, 2006:

	PAYMENTS DUE BY PERIOD				
	2007	2008	2009	2010	2011
	(In thousands)				
Operating leases	\$ 1,590	\$ 1,208	\$ 553	\$ 166	\$ 57

We believe that cash flow generated from operations in 2007 will be sufficient to fund our working capital needs, satisfy our debt service requirements and contractual commitments, and fulfill our un-financed capital expenditure needs for at least the next twelve months.

**OFF BALANCE SHEET ARRANGEMENTS**

As mentioned above, we have various vehicle and facilities leases which are classified as operating leases for reporting purposes. The total future commitments under these leases is \$3.6 million.



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**RECENTLY ISSUED UNIMPLEMENTED ACCOUNTING PRONOUNCEMENTS**

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109* ( FIN 48 ), which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more-likely-than-not of being sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50 percent likely of being recognized upon ultimate settlement with the taxing authority, is recorded. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements. At this time, we do not anticipate any material adverse impact on our financial statements from this pronouncement.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and requires enhanced disclosures about fair value measurements. It does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently assessing whether we will early adopt SFAS No. 157 as of the first quarter of fiscal 2007 as permitted, and are currently evaluating the impact adoption may have on our financial statements.

**SUBSEQUENT EVENTS**

Effective January 5, 2007, we entered into new Restricted Stock and Stock-Based Award Incentive Agreements ( RSA ) with certain executive officers. The new RSAs replace prior restricted stock agreements and reduce our contingent liability to the executive officers from approximately \$31.7 million to approximately \$10.0 million as of January 5, 2007. The RSAs provide for the granting of between 400,000 and 500,000 shares of our restricted common stock to each of the executive officers on the terms set forth in the RSAs. The number of shares of restricted stock becomes fixed and payable in the event of (i) a change in control or the receipt by our Board of Directors of a change of control offer as defined by the RSAs; (ii) termination without cause; or (iii) death or disability. Additionally, at the time of vesting in the restricted shares, each executive officer will receive the right to a cash payment of \$1.2 million. The revised RSAs will terminate on December 31, 2008, and any unvested restricted common stock or stock-based awards will terminate and lapse.

On February 13, 2007, our motion for partial summary judgment on ACP's first amended and superceding reconventional and third party demand was granted. ACP had filed the demand seeking damages for our redeeming rather than converting the Series A and B Preferred Stock. The court determined that ACP consequently abandoned its claim by retaining the proceeds.

On March 2, 2007, we completed the acquisition of BMJ Industrial Investments, L.L.C. and its wholly-owned subsidiary, Charles Holston, Inc., (collectively Holston ) pursuant to a Membership Interest Purchase and Sale Agreement ( Holston Purchase Agreement ) to acquire 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 of cash and the issuance of \$5.0 million of promissory notes accruing interest at 5% per annum with various maturities over a three-year period.. In addition, we assumed approximately \$2.8 million of certain long-term debt of Holston. As a condition of closing, Holston was required to have on hand a minimum of \$7.5 million of excess working capital as defined in the Holston Purchase Agreement.

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On March 2, 2007, we completed the acquisition of certain assets of Cypress Energy Consulting, Inc., d/b/a Cypress Energy Services ( Cypress ) pursuant to an Asset Purchase Agreement ( Cypress Purchase Agreement ). Subject to the terms and conditions of the Cypress Purchase Agreement, we purchased certain assets from Cypress for the total consideration of approximately \$10.1 million, including \$7.1 million of cash and the issuance of a \$3.0 million, three-year 5% promissory note.

On March 2, 2007 we completed \$64.5 million of new credit facilities ( Senior Credit Facilities ) with LaSalle Business Credit, LLC ( LaSalle ), a wholly-owned subsidiary of LaSalle Bank, N.A. and an affiliate of ABN AMRO. With the proceeds from the new Senior Credit Facilities, we (i) repaid approximately \$22 million outstanding principal balance under our existing Term A and Term B loans; (ii) closed the previously announced acquisition of Holston; and (iii) completed the previously announced acquisition of certain assets of Cypress. The balance of the proceeds available under the Senior Credit Facilities was used to pay fees and expenses of the aforementioned transactions and provide additional working capital.

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

We are exposed to interest rate risk due to changes in interest rates, primarily in the United States. Our policy is to manage interest rates through the use of a combination of fixed and floating rate debt. We currently do not use any derivative financial instruments to manage our exposure to interest rate risk. The table below provides information about the future maturities of principal for outstanding debt instruments at December 31, 2006 subject to interest rate risk. All instruments described are non-traded instruments and approximated fair value.

	2007	2008	2009	2010	2011
	(Dollars in thousands)				
Long-term debt					
Fixed Rate	\$ 3,825	\$ 4,650	\$ 1,584	\$ 191	\$ 254
Average interest rate	6.5%	5.7%	5.4%	8.2%	8.5%
Variable Rate	\$ 4,404	\$ 4,931	\$ 5,109	\$ 15,156	\$ 1,102
Average interest rate	9.37%	9.8%	9.9%	13.0%	9.8%
Short-term debt					
Fixed Rate	\$ 3,275				
Average interest rate	5.7%				
Variable Rate	\$ 12,179				
Average interest rate	8.25%				

**INTEREST RATE EXPOSURE**

Our exposure to changes in interest rates primarily results from our long-term debt with both fixed and floating interest rates. The debt on our consolidated financial statements at December 31, 2006 with fixed interest rates totals \$6.6 million. At December 31, 2006, 76% of our consolidated long-term debt was subject to variable interest rates. The detrimental effect of a hypothetical 100 basis point increase in interest rates would be to decrease net income before provision for income taxes by approximately \$0.3 million for the year ended December 31, 2006.

**FOREIGN CURRENCY RISKS**

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

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

OMNI Energy Services Corp:

We have audited the accompanying consolidated balance sheets of OMNI Energy Services Corp. as of December 31, 2005 and 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Omni Energy Services Corp as of December 31, 2005 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company changed its method of accounting for share based payments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Omni Energy Service Corp.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2007 expressed an unqualified opinion on management's assessment of internal control over financial reporting and a qualified opinion on the effective operation of internal control over financial reporting.

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

Houston, Texas

March 16, 2007

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**OMNI ENERGY SERVICES CORP.**  
**CONSOLIDATED BALANCE SHEETS**

	DECEMBER 31, 2005      2006 (Dollars in thousands)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 174	\$ 12,576
Restricted cash		1,114
Trade receivables, net	8,094	16,634
Other receivables	1,882	315
Parts and supplies inventory	1,787	3,792
Prepaid expenses and other current assets	2,458	4,663
Deferred tax asset	2,000	11,842
Current assets of discontinued operations	295	67
Assets held for sale	108	108
Total current assets	16,798	51,111
PROPERTY, PLANT AND EQUIPMENT, net	14,922	44,827
<b>OTHER ASSETS:</b>		
Goodwill	2,924	14,521
Customer intangible assets, net	1,520	1,852
Licenses, permits and other intangible assets, net	3,934	4,308
Loan closing costs, net	3,197	3,356
Other assets	463	565
Total other assets, net	12,038	24,602
<b>TOTAL ASSETS</b>	<b>\$ 43,758</b>	<b>\$ 120,540</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 5,374	\$ 7,435
Accrued expenses	1,382	3,702
Current maturities of long-term debt	2,926	7,689
Insurance notes payable	1,692	3,275
Line of credit	4,750	12,179
Current liabilities of discontinued operations	698	219
Total current liabilities	16,822	34,499
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, less current maturities	15,798	32,935
Deferred income taxes		13,680
Other long-term liabilities	3	
Total long-term liabilities	15,801	46,615

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Total liabilities	32,623	81,114
<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, 2005 and 2006 and 5,128 and 5,607 shares of Series C issued and outstanding at December 31, 2005 and 2006, respectively, liquidation preference of \$1,000 per share	806	1,285
Common stock, \$.01 par value, 45,000,000 shares authorized; 15,272,121 and 16,909,949 issued and 15,136,448 and 16,864,949 outstanding at December 31, 2005 and 2006, respectively	153	169
Treasury stock, 135,673 and 0 shares, at cost, at December 31, 2005 and 2006, respectively	(264)	
Preferred stock dividends declared	123	132
Additional paid-in capital	75,787	82,441
Accumulated deficit	(65,470)	(44,601)
<b>Total stockholders equity</b>	<b>11,135</b>	<b>39,426</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 43,758</b>	<b>\$ 120,540</b>

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

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	YEAR ENDED DECEMBER 31,		
	2004	2005	2006
	(In thousands, except per share data)		
Operating revenue	\$ 39,064	\$ 43,350	\$ 98,998
Operating expenses:			
Direct costs	28,510	27,515	59,830
Depreciation and amortization	4,282	4,627	5,660
General and administrative expenses	9,464	8,497	13,780
Total operating expenses	42,256	40,639	79,270
Operating income (loss)	(3,192)	2,711	19,728
Interest expense	(3,288)	(2,836)	(4,966)
Gain (loss) on debenture conversion inducement and debt extinguishment	(729)	758	15
Other income (expense), net	(290)	835	233
Income (loss) before income taxes	(7,499)	1,468	15,010
Income tax benefit		508	6,805
Net income (loss) from continuing operations	(7,499)	1,976	21,815
Loss from discontinued operations, net of taxes	(6,756)	(3,978)	
Loss on disposal of discontinued operations assets, net of taxes		(2,271)	
Net income (loss)	(14,255)	(4,273)	21,815
Dividends on preferred stock	(490)	(249)	(488)
Non-cash charge attributable to beneficial conversion feature of preferred stock		(745)	(458)
Net income (loss) available to common stockholders	\$ (14,745)	\$ (5,267)	\$ 20,869
Basic income (loss) per common share:			
Income (loss) from continuing operations	\$ (0.73)	\$ 0.07	\$ 1.29
Loss from discontinued operations	(0.62)	(0.30)	
Loss on disposal of discontinued operations assets, net of taxes		(0.17)	
Net income available to common stockholders	\$ (1.35)	\$ (0.40)	\$ 1.29
Diluted income (loss) per common share:			
Income (loss) from continuing operations	\$ (0.73)	\$ 0.07	\$ 0.89
Loss from discontinued operations	(0.62)	(0.29)	
Loss on disposal of discontinued operations assets, net of taxes		(0.16)	
Net income (loss) available to common stockholders	\$ (1.35)	\$ (0.38)	\$ 0.89
Number of weighted average shares:			
Basic	10,884	13,251	16,190
Diluted	10,884	13,683	24,459

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



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## OMNI ENERGY SERVICES CORP.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	PREFERRED		COMMON		TREASURY
	STOCK SHARES	AMOUNT	STOCK SHARES	AMOUNT	STOCK AMOUNT
	(Dollars in thousands)				
BALANCE, December 31, 2003	12,100	\$ 12,100	9,569,729	\$ 96	\$ (706)
Issuance of common stock for services			69,930	1	
Issuance of common stock warrants for services					
Convertible debenture warrants recorded as debt discount					
Debenture conversion inducement			200,000	2	
Stock based compensation					
Stock option and warrant exercised for cash			1,839,906	18	
Preferred stock dividends declared					
Preferred stock dividends paid					
Redemption of preferred stock	(12,071)	(12,071)			
Issuance of treasury shares for stock based compensation					177
Comprehensive income:					
Net loss					
Foreign currency translation adjustments					
Total comprehensive loss					
BALANCE, December 31, 2004	29	29	11,679,565	117	(529)
Issuance of common stock for services			284,000	3	
Stock based compensation			30,000		
Stock options and warrants exercised for cash			283,556	3	
Preferred stock dividends declared					
Preferred stock dividends paid	128	128			
Issuance of preferred stock and warrants, net of offering costs	5,000	649			
Beneficial conversion feature associated with preferred stock					
Issuance of treasury shares for stock based compensation					265
Issuance of common stock in payment of debt			995,000	10	
Issuance of common stock in payment of convertible debentures			2,000,000	20	
Net loss					
BALANCE, December 31, 2005	5,157	806	15,272,121	153	(264)
Stock based compensation					
Stock based compensation forfeited			(24,000)		
Stock options and warrants exercised for cash and other			761,828	7	
Preferred stock dividends declared					
Preferred stock dividends paid	479	479			
Common stock issued in acquisition			900,000	9	
Beneficial conversion feature associated with preferred stock					
Issuance of treasury shares for stock based compensation					264
Beneficial conversion feature associated with convertible notes issued in acquisition, net of accretion					
Net income					
BALANCE, December 31, 2006	5,636	\$ 1,285	16,909,949	\$ 169	\$



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## OMNI ENERGY SERVICES CORP.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Continued)

	PREFERRED		ACCUMULATIVE			TOTAL
	STOCK	ADDITIONAL	OTHER			
	DIVIDEND	PAID-IN	COMPREHENSIVE	ACCUMULATED		
	DECLARED	CAPITAL	LOSS	DEFICIT		
			(Dollars in thousands)			
BALANCE, December 31, 2003	\$ 484	\$ 57,882	\$ (12)	\$ (45,458)		\$ 24,386
Issuance of common stock for services		340				341
Issuance of common stock warrants for services		157				157
Convertible debenture warrants recorded as debt discount		1,110				1,110
Debenture conversion inducement		939				941
Stock based compensation		795				795
Stock options and warrants exercised for cash		3,930				3,948
Preferred stock dividends declared	490			(490)		
Preferred stock dividends paid	(972)					(972)
Redemption of preferred stock						(12,071)
Issuance of treasury shares for stock based compensation		295				472
Comprehensive income:						
Net loss				(14,255)		(14,255)
Foreign currency translation adjustments			12			12
						14,243
BALANCE, December 31, 2004	2	65,448		(60,203)		4,864
Issuance of common stock for services		267				270
Stock based compensation		9				9
Stock options and warrants exercised for cash		526				529
Preferred stock dividends declared	249			(249)		
Preferred stock dividends paid	(128)					
Issuance of preferred stock and warrants, net of offering costs		3,788				4,437
Beneficial conversion feature associated with preferred stock		745		(745)		
Issuance of treasury shares for stock based compensation		(265)				
Issuance of common stock in payment of debt		2,089				2,099
Issuance of common stock in payment of convertible debentures		3,180				3,200
Net loss				(4,273)		(4,273)
BALANCE, December 31, 2005	123	75,787		(65,470)		11,135
Stock based compensation		617				617
Stock based compensation forfeited		3				3
Stock options and warrants exercised for cash and other		2,127				2,134
Preferred stock dividends declared	488			(488)		
Preferred stock dividends paid	(479)					
Common stock issued in acquisition		3,033				3,042
		458		(458)		



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Beneficial conversion feature associated with preferred stock					
Issuance of treasury shares for stock based compensation		(264)			
Beneficial conversion feature associated with convertible notes issued in acquisition, net of accretion		680			680
Net income				21,815	21,815
BALANCE, December 31, 2006	\$ 132	\$ 82,441	\$	\$ (44,601)	\$ 39,426

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

**Table of Contents****Index to Financial Statements****OMNI ENERGY SERVICES CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEAR ENDED		
	2004	DECEMBER 31, 2005 (In thousands)	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Income (loss) from continuing operations	\$ (7,499)	\$ 1,976	\$ 21,815
Loss from discontinued operations	(6,756)	(6,249)	
	(14,255)	(4,273)	21,815
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	4,282	4,627	5,660
Gain on property, plant and equipment disposals	(44)	(826)	(48)
Stock based compensation expense	1,268	8	620
Accretion of discount on convertible notes	672		100
Amortization of loan closing costs	1,099	417	850
Foreign currency translation adjustments	12		
(Gain) loss on debenture conversion inducement and extinguishment of debt	729	(758)	(15)
Common stock and common stock warrants issued for services		270	
Deferred taxes		(508)	(6,805)
Changes in operating assets and liabilities:			
Trade receivables	611	(270)	(448)
Other receivables	40	(782)	(314)
Parts and supplies inventory	(310)	306	(345)
Prepaid expenses and other current assets	2,029	2,685	2,239
Other assets	585	(301)	(1,191)
Accounts payable and accrued expenses	2,717	(3,589)	245
Other long term liabilities	(227)	(97)	
Net cash provided by operating activities of continuing operations	5,964	3,158	22,363
Net cash used in operating activities of discontinued operations	(414)	(264)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisitions, net of cash received	(7,768)		(23,976)
Increase in restricted cash			(1,114)
Proceeds from collection of other receivables			3,870
Proceeds from disposal of property, plant and equipment	450	685	224
Purchase of property, plant and equipment	(786)	(591)	(5,124)
Net cash provided by (used in) investing activities of continuing operations	(8,104)	94	(26,120)
Net cash provided by (used in) investing activities of discontinued operations	(4,543)	11,380	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of long-term debt	6,727	26,956	18,970
Principal payments on long-term debt	(5,894)	(27,254)	(10,835)

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Borrowings (payments) on line of credit, net	4,529	(4,411)	6,904
Proceeds from issuance of convertible debentures	14,159		
Proceeds from issuance of preferred stock and associated warrants		4,677	
Repayment of convertible debentures	(3,062)	(3,404)	
Redemption of preferred stock and dividends	(13,043)		
Loan closing costs	(1,230)	(3,229)	(1,011)
Deferred organizational costs		(240)	
Proceeds from issuance of common stock for exercise of stock options and warrants	3,948	529	2,134
Net cash provided by (used in) financing activities of continuing operations	6,134	(6,376)	16,162
Net cash provided by (used in) financing activities of discontinued operations	1,434	(8,861)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	471	(869)	12,405
CASH, at beginning of year	572	1,043	174
CASH, at end of year	\$ 1,043	\$ 174	\$ 12,576

**Table of Contents****Index to Financial Statements****OMNI ENERGY SERVICES CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

	YEAR ENDED		
	2004	DECEMBER 31, 2005	2006
	(In thousands)		
Supplemental cash flow disclosures:			
Cash paid for interest	\$ 2,101	\$ 3,589	\$ 3,954
Cash paid for taxes	\$	\$	\$
Supplemental non-cash disclosures:			
Equipment acquired under capital lease	\$ 3,750	\$ 56	\$
Premium financed with insurance carrier	\$ 3,302	\$ 2,405	\$ 4,196
Common stock and common stock warrants issued for services	\$ 498	\$	\$
Transfer of inventory and property and equipment to assets held for sale	\$ 3,942	\$ 51	\$
Convertible debenture warrants recorded as a debt discount	\$ 1,110	\$	\$
Transfer of discontinued operations assets to assets held for sale	\$	\$ 11,000	\$
Common stock issuance for extinguishment of convertible debentures	\$	\$ 3,200	\$
Issuance of long-term debt for extinguishment of convertible debentures	\$	\$ 4,293	\$
Common stock issuance for extinguishment of long-term debt	\$	\$ 2,099	\$
Issuance of short-term debt for extinguishment of long-term debt	\$	\$ 1,000	\$
Beneficial conversion feature associated with issuance of preferred stock	\$	\$ 745	\$ 458
Exchange of assets held for sale for extinguishment of capital leases	\$	\$ 2,891	\$
Transfer of inventory to prepaid aviation repairs	\$	\$ 328	\$
Dividends declared			