OMNI ENERGY SERVICES CORP
Form 10-Q
August 07, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly period ended June 30, 2009

or

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

COMMISSION FILE NUMBER 0-23383

OMNI ENERGY SERVICES CORP.

(Exact name of registrant as specified in its charter)

LOUISIANA	**72-1395273**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

4500 N.E. EVANGELINE THRUWAY

CARENCRO, LOUISIANA	**70520**
(Address of principal executive offices)	**(Zip Code)**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

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

As of August 4, 2009, there were 20,980,202 shares of the Registrant s common stock, $0.01 par value per share, outstanding.

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FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OMNI ENERGY SERVICES CORP.

CONSOLIDATED BALANCE SHEETS

	December 31, 2008	June 30, 2009
	(Dollars in thousands, except share amounts)	
		(unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,043	$ 1,869
Restricted cash	942	350
Trade receivables, net	33,848	22,067
Other receivables	682	456
Parts and supplies inventory	7,897	6,577
Prepaid expenses and other current assets	5,789	3,153
Deferred tax assets	384	
Due from related party	204	131
Assets held for sale	900	900
Total current assets	52,689	35,503
PROPERTY, PLANT AND EQUIPMENT, net	80,654	75,383
OTHER ASSETS:		
Goodwill	8,614	8,614
Customer intangible assets, net	2,726	2,489
Licenses, permits and other intangible assets, net	13,626	13,153
Loan closing costs, net	4,963	4,385
Other assets	250	257
Total other assets	30,179	28,898
TOTAL ASSETS	$ 163,522	$ 139,784
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 12,005	$ 5,701
Accrued expenses	7,599	6,179
Line of credit	9,801	3,260
Current maturities of long-term debt	17,564	19,063
Insurance notes payable	1,710	
Total current liabilities	48,679	34,203
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	45,710	35,763
Other long-term liabilities	527	353
Deferred tax liabilities	17,597	16,245

Total long-term liabilities		63,834		52,361
Total liabilities		112,513		86,564
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS EQUITY:				
Convertible Preferred stock, no par value, 5,000,000 shares authorized; 29 shares of Series B issued and outstanding at December 31, 2008 and June 30, 2009 and 5,396 shares of Series C issued and outstanding at December 31, 2008 and June 30, 2009, respectively, liquidation preference of $1,000 per share		1,074		1,074
Common stock, $0.01 par value, 45,000,000 shares authorized; 20,647,496 and 20,980,202 issued and outstanding at December 31, 2008 and June 30, 2009, respectively		206		209
Preferred stock dividends declared		3		3
Additional paid-in capital		99,045		100,329
Accumulated deficit		(49,319)		(48,395)
Total stockholders equity		51,009		53,220
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	163,522	$	139,784

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

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
	(in thousands, except per share amounts)			
Operating revenue				
Services	$ 38,230	$ 27,102	$ 70,820	$ 53,083
Rentals	10,690	5,499	19,061	14,422
Total operating revenue	48,920	32,601	89,881	67,505
Operating expenses:				
Direct costs (exclusive of depreciation and amortization shown separately below)				
Services	26,692	18,308	51,764	36,496
Rentals	5,432	3,118	9,752	7,577
Depreciation and amortization	3,342	3,443	6,156	6,780
General and administrative expenses	7,357	6,527	16,135	12,699
Total operating expenses	42,823	31,396	83,807	63,552
Impairment of fixed assets		73		73
Operating income	6,097	1,132	6,074	3,880
Interest expense	(1,723)	(683)	(3,713)	(1,723)
Other income (expense), net	46	(8)	93	(2)
Income before provision for income taxes	4,420	441	2,454	2,155
Provision for income taxes	(1,678)	(205)	(1,116)	(990)
Net income	2,742	236	1,338	1,165
Dividends on preferred stock	(121)	(121)	(244)	(241)
Net income available to common stockholders	$ 2,621	$ 115	$ 1,094	$ 924
Basic income per share:				
Net income available to common stockholders	$ 0.14	$ 0.01	$ 0.06	$ 0.04
Diluted income per share:				
Net income available to common stockholders	$ 0.10	$ 0.01	$ 0.05	$ 0.04
Weighted average common shares outstanding:				
Basic	19,384	20,712	19,227	20,653
Diluted	27,544	20,785	22,521	20,717

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

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2009

(unaudited)

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
	(in thousands, except share amounts)			
BALANCE, December 31, 2008	5,425	$ 1,074	20,647,496	$ 206
Stock based compensation				
Restricted stock awards, net of forfeitures			16,500	
Common stock issued in legal settlement			82,873	1
Common stock issued in debt extinguishment			233,333	2
Preferred stock dividends declared				
Net income				
BALANCE, June 30, 2009	5,425	$ 1,074	20,980,202	$ 209

	Preferred Stock Dividends Declared	Additional Paid-In Capital	Accumulated Deficit	Total
	(in thousands)			
BALANCE, December 31, 2008	$ 3	$ 99,045	$ (49,319)	$ 51,009
Stock based compensation		825		825
Restricted stock awards, net of forfeitures				
Common stock issued in legal settlement		111		112
Common stock issued in debt extinguishment		348		350
Preferred stock dividends declared			(241)	(241)
Net income			1,165	1,165
BALANCE, June 30, 2009	$ 3	$ 100,329	$ (48,395)	$ 53,220

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

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended June 30,	
	2008	2009
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,338	$ 1,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,156	6,780
Amortization of deferred loan issuance costs	556	578
Loss on fixed asset dispositions	294	217
Provision for doubtful accounts	136	1,279
Stock based compensation expense	541	825
Stock issued in legal settlement		112
Accretion of discount on convertible notes and other	77	25
Deferred income taxes	922	974
Changes in operating assets and liabilities:		
Trade receivables	(128)	10,503
Other receivables	62	299
Parts and supplies inventory	(410)	1,320
Prepaid expenses and other current assets	3,893	2,131
Other assets	42	(38)
Accounts payable and accrued expenses	1,528	(9,039)
Other long term liabilities		(200)
Net cash provided by operating activities	15,007	16,931
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(6,606)	(1,292)
Proceeds from disposal of property, plant and equipment	369	307
Acquisitions, net of cash received	(20,836)	
Investment in restricted cash	(641)	(350)
Return of restricted cash		942
Net cash used in investing activities	(27,714)	(393)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of long-term debt	19,232	
Proceeds from exercise of stock options	13	
Preferred stock dividends paid in cash	(248)	(363)
Principal payments on long-term debt	(10,994)	(9,808)
Loan closing costs	(1,859)	
Principal payments on line of credit	(134,228)	(70,102)
Borrowings on line of credit	129,280	63,561
Net cash provided by (used in) financing activities	1,196	(16,712)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,511)	(174)
Cash and cash equivalents, at beginning of period	13,431	2,043

Cash and cash equivalents, at end of period	$ 1,920	$ 1,869

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(unaudited)

	Six Months Ended June 30,	
	2008	2009
	(in thousands)	
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest	$ 2,880	$ 1,335
Cash paid for taxes	$ 205	$ 798
NON-CASH TRANSACTIONS:		
Application of restricted cash to capital lease payable and other	$ 625	$
Stock issued in satisfaction of note payable	$	$ 350
Conversion of preferred stock to common	$ 88	$
Notes payable issued to former owners of acquired entities	$ 8,000	$
Equipment transferred in satisfaction of settlement of accrued liability	$ 750	$

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

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OMNI ENERGY SERVICES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements included herein, which have not been audited pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods on a basis consistent with the annual audited statements. All such adjustments are of a normal recurring nature. The results of operations for interim periods are not necessarily indicative of the results that may be expected for any other interim period of a full year. Certain information, accounting policies and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K, for the year ended December 31, 2008 filed with the SEC on March 13, 2009.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 *Accounting for the Impairment and Disposal of Long-Lived Assets*. If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated undiscounted net cash flow, before interest, we will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value. During the quarter ended June 30, 2009, we incurred additional costs of $0.1 million related to the aircraft currently classified as held for sale. Because we feel that the aircraft is currently adjusted to realizable value, these costs were expensed and are reflected as an impairment of fixed assets in the financial statements.

CASH AND CASH EQUIVALENTS

We consider highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The $0.9 million included in restricted cash at December 31, 2008 represents cash deposited into an irrevocable trust as part of a legal settlement which was paid to the trust beneficiary in January 2009.

During the quarter ended June 30, 2009, an additional $0.4 million in cash was deposited into an irrevocable trust as partial security against the future payment of a shareholder note associated with the acquisition of Industrial Lift Truck and Equipment Co., Inc. in April 2008.

STOCK BASED COMPENSATION

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

ACCOUNTING PRONOUNCEMENTS RECENTLY ADOPTED

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events,* (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires disclosure of the date through which an entity has evaluated subsequent events. We adopted SFAS 165 in the second quarter of 2009 and the adoption of SFAS 165 did not materially impact our consolidated financial statements. We evaluated all events or transactions that occurred after June 30, 2009 up through August 7, 2009, the date we issued these financial statements. During this period we did not have any material subsequent events that impacted our consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly*, (FSP No. FAS 157-4). FSP No. FAS 157-4 provides

additional guidance for estimating fair value under FAS No. 157 when the volume and level of market activity for an asset or liability have significantly decreased when compared with normal market activity for the asset or liability. If there is a significant decrease in the volume and activity for the asset or liability, transactions or quoted prices may not be determinative of fair value in an orderly transaction and further analysis and adjustment of the transactions or quoted prices may be necessary. FSP No. FAS 157-4 is effective for the quarter ended June 30, 2009 and we did not have any significant adjustments to our estimates of fair value for assets and liabilities measured at fair value upon adoption.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* (FSP No. FAS 107-1 and APB 28-1). FSP No. FAS 107-1 and APB 28-1 amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* to require disclosures about the fair value of financial instruments for interim reporting periods. FSP No. FAS 107-1 and APB 28-1 is effective for the quarter ended June 30, 2009 and this staff position did not have a significant effect on our consolidated financial statements.

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ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles* . SFAS No. 162 was replaced by SFAS No. 168 as described below.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS No. 168). SFAS No. 168 provides for the FASB Accounting Standards Codification (the Codification) to become the single official source of authoritative, nongovernmental GAAP. The Codification did not change GAAP but reorganizes the literature. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (SFAS No. 166). SFAS No. 166 eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor s interest in transferred financial assets. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009. We are currently assessing the potential impacts, if any, on our consolidated financial statements.

RECLASSIFICATIONS

We have reclassified our reporting of gains and losses from the disposal of fixed assets from other income and expense to income from operations for all periods presented. The reclassifications that have been made in prior period financial statements to conform to current period presentation have not resulted in any changes to previously reported net income for any periods.

NOTE 2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net, consists of the following at December 31, 2008 and June 30, 2009, respectively:

	December 31, 2008	June 30, 2009
	(In thousands)	
Land	$ 493	$ 493
Building and improvements	9,103	8,918
Drilling, field and support equipment	105,894	107,085
Shop equipment	721	742
Office equipment	2,387	2,389
Vehicles	4,991	4,725
Construction in progress	751	331
	124,340	124,683
Less: accumulated depreciation	(43,686)	(49,300)
Total property, plant and equipment, net	$ 80,654	$ 75,383

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NOTE 3. LONG-TERM DEBT AND LINE OF CREDIT

At December 31, 2008 and June 30, 2009, long-term debt consists of the following:

	December 31, 2008	June 30, 2009
	(In thousands)	
Notes payable to a bank with interest payable at prime plus 1.50% (6.50% at December 31, 2008 and 4.75 % at June 30, 2009) maturing July 31, 2023, secured by real estate	$ 1,243	$ 1,214
Promissory notes payable to certain former owners of acquired companies with interest at 5%, maturing at various dates through April 2011	6,000	5,850
Convertible promissory notes payable to certain former stockholders of acquired companies with interest at 5%, maturing at various dates through April 2011	11,500	7,317
Promissory notes payable to finance companies secured by vehicles and equipment	492	411
Capital leases payable to finance companies secured by an aircraft and equipment	39	34
Term Loan payable to a bank, variable interest rate at 30-day LIBOR plus 3.00% (3.71% at December 31, 2008 and 3.31% at June 30, 2009), secured by various equipment, maturing April 23, 2013	44,000	40,000
Total	63,274	$ 54,826
Less: current maturities	(17,564)	(19,063)
Long-term debt, less current maturities	$ 45,710	$ 35,763

SENIOR CREDIT FACILITY

Effective April 24, 2008, we increased our credit facility to $90.0 million (Senior Credit Facility), including a $50.0 million term loan (the Term Loan), a $25.0 million working capital revolving line of credit (the Revolver), and a $15.0 million delayed draw term loan available to fund future acquisitions. The Revolver replaced our previous line of credit (the Line). Availability under the Revolver is the lower of: (i) $25.0 million or (ii) the sum of eligible accounts receivable and inventory, as defined under the agreement governing the Revolver. The Revolver accrues interest at the 30-day LIBOR plus 2.50% (3.22% at December 31, 2008 and 2.81% at June 30, 2009) and matures in April 2013. The Revolver is collateralized by accounts receivable and inventory. As of December 31, 2008 and June 30, 2009 we had $9.8 million and $3.3 million, respectively, outstanding under the Revolver, with approximately $12.0 million and $11.3 million, respectively, available for future borrowings. Due to the lock-box arrangement and the subjective acceleration clause in the agreement governing the Revolver, the debt under the Revolver has been classified as a current liability as of December 31, 2008 and June 30, 2009, as required by Emerging Issues Task Force (EITF) No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-box Arrangement.*

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

Under the terms of the Term Loan, the funding limits are limited to the lesser of $50.0 million and 80% of the orderly liquidation value of our equipment. In addition, the Term Loan matures in April 2013 and will be repaid quarterly in equal payments of $2.0 million, with interest paid monthly in arrears and accrues interest at the 30-day LIBOR plus 3.00% (3.71% at December 31, 2008 and 3.31% at June 30, 2009). The Term Loan contains customary financial covenants and limitations on capital expenditures. As of December 31, 2008 and June 30, 2009, we were in compliance with these covenants. With the proceeds from the Senior Credit Facility, we (i) repaid approximately $28.7 million of outstanding principal balance under our previous term loan; (ii) repaid approximately $2.1 million of outstanding principal balance under our previous capital expenditure loan; (iii) repaid the balance on the Line; and (iv) closed the acquisition of Industrial Lift Truck and Equipment Co., Inc. (Industrial Lift). The balance of the proceeds available under the Senior Credit Facility was used to pay fees and expenses of the aforementioned transaction and to provide additional working capital. As of December 31, 2008 and June 30, 2009, we had $44.0 million and $40.0 million, respectively, outstanding under the Term Loan.

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CAPITAL LEASES

In March 2007, we acquired equipment under a capital lease maturing in 2012. The cost and related accumulated depreciation of assets held under capital lease were nominal at December 31, 2008 and June 30, 2009.

Depreciation expense for the three and six months ended June 30, 2008 and 2009 was nominal for all assets held under capital lease.

PREHEAT NOTES

In connection with the purchase of all of the issued and outstanding stock of Preheat, Inc. in February 2006, we issued $4.0 million in 5% promissory notes payable to certain Preheat stockholders (Preheat Notes). The Preheat Notes consisted of three separate notes with $2.7 million maturing in February 2008 and $1.3 million maturing in February 2009. One of the Preheat Notes maturing in February 2009 in the amount of $0.8 million (Preheat Retention Note) was tied to the retention of certain employees who joined the Company at the time of the acquisition of Preheat. Upon the maturity of the Preheat Retention Note, $0.15 million was paid to employees who had completed three years of uninterrupted service with the Company in accordance with an agreement executed in connection with the Preheat Retention Note. At December 31, 2008 and June 30, 2009, the Preheat Notes had a balance of $4.0 million and $3.85 million, respectively. In February 2008, we terminated the employment of one of the Preheat stockholders for cause, and the other Preheat stockholder subsequently resigned. The terms of the Preheat Notes provide that a termination for cause or resignation of either of the Preheat stockholders employment results in the cancellation of the Preheat Notes, other than those payments due to certain employees under the Preheat Retention Note. The Preheat stockholders are contesting our assertion and have filed a lawsuit against the Company pursuant to which state law claims may still be brought (See Note 4). Consequently, the Preheat Notes remain recorded as a liability in the financial statements pending resolution of the matter.

CHARLES HOLSTON NOTES

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

CYPRESS NOTES

In connection with the acquisition of certain assets of Cypress Consulting Services, Inc. d/b/a Cypress energy Services (Cypress) in February 2007, we issued $3.0 million in a 5% promissory note payable to a certain Cypress stockholder (Cypress Note). The Cypress Note is payable over three years with $1.0 million maturing in February 2008, $1.0 million maturing in February 2009 and $1.0 million maturing in February 2010. In November 2008, as an accommodation to the holder of the note, we paid the $1.0 million due in February 2009 in exchange for a discounted payment by $0.1 million. This discount was reflected as a gain on early extinguishment of debt in the financial statements in 2008. At December 31, 2008 and June 30, 2009, the Cypress Note had a balance of $1.0 million.

BAILEY NOTE

In connection with the acquisition of certain assets of Bailey Operating, Inc. (BOI) in June 2007, we issued $0.5 million in a 5% promissory note payable to BOI (Bailey Note). The Bailey Note is payable on or before May 31, 2010. At December 31, 2008 and June 30, 2009, the Bailey Note had a balance of $0.5 million.

BEG NOTES

In connection with the acquisition of certain assets of B.E.G. Liquid Mud Services, Inc. (BEG) in January 2008, we issued $4.0 million of 5% promissory notes payable to certain shareholders of BEG (BEG Notes). The BEG Notes are payable over three years with $1.3 million maturing in January 2009, $1.3 million maturing in January 2010 and $1.4 million maturing in January 2011 and are convertible into shares of our common stock at a price of $3.70 per share under certain circumstances. Based upon the stock valuation at the time of the issuance, no beneficial conversion feature exists. At December 31, 2008 and June 30, 2009, the BEG Notes had a balance of $4.0 million and $2.7 million, respectively.

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ILT NOTES

In connection with the acquisition of Industrial Lift in April 2008, we issued $4.0 million of promissory notes payable to the shareholders of Industrial Lift (ILT Notes). $3.5 million of the ILT Notes are payable over three years and interest at 5% per annum, payable in arrears with $2.0 million maturing in April 2009, $1.0 million maturing in April 2010 and $0.5 million maturing in April 2011. This $3.5 million of the ILT Notes are convertible into shares of our common stock at a price of $10.50 per share under certain circumstances. Based upon the stock valuation at the time of the issuance, no beneficial conversion feature exists. The remaining $0.5 million in ILT Notes are non-convertible, non-interest bearing and mature in April 2011. In April 2009, an agreement was reached with the former shareholder of ILT whereby $0.5 million of the scheduled principal payment due in April 2009 was paid in cash and $0.3 million of the obligation was satisfied through the issuance of 233,333 shares of our common stock valued at $0.3 million. Additionally, $0.4 million was deposited into an irrevocable trust with a maturity date in April 2010. At December 31, 2008 and June 30, 2009, the ILT Notes had a balance of $4.0 million and $3.2 million, respectively.

INSURANCE NOTES PAYABLE

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

NOTE 4. COMMITMENTS AND CONTINGENCIES

INSURANCE RESERVES

We maintain reserves for workers compensation and general liability on our balance sheet based on our judgment and best estimates based on claims incurred. Estimated workers compensation and general liability claims are determined by an outside adjuster on a case-by-case basis. We maintain insurance policies for workers compensation and general liability claims. These insurance policies carry retention limits or deductibles on a per occurrence basis. The retention limits or deductibles are accounted for in our process for all workers compensation and general liability claims. As of December 31, 2008 and June 30, 2009, we have recorded $0.05 million and $0.5 million, respectively, of insurance reserves related to workers compensation and general liability claims. We feel that the liabilities we have recorded are appropriate based on the known facts and circumstances and do not expect further losses materially in excess of the amounts already accrued for existing claims.

EMPLOYMENT AGREEMENTS

We have employment agreements with our executive officers and some former shareholders of companies we acquired. These agreements generally last two to four years and have renewal provisions at our option.

OTHER CONTINGENCIES

On May 1, 2008, the former owners of Preheat, Inc., which we acquired in February 2006, filed a lawsuit in federal court in the United States District Court for the Western District of Louisiana in Lafayette, Louisiana, against us, our directors, our current Chief Executive Officer, our current Senior Vice President/Chief Financial Officer, one of our investment advisors, and a principal of the investment advisor. The lawsuit sought, among other things, (i) a declaratory judgment that the Preheat purchase agreement executed in December 2005 is null because of alleged inducement to enter into the purchase agreement by criminal or fraudulent conduct, securities fraud and bad faith breach of the purchase agreement and that one of the former owner s ERISA rights be clarified, (ii) injunctive relief to halt alleged securities disclosure violations by us and to remove three board members, and (iii) damages resulting from the nullification of the Preheat purchase agreement. On June 23, 2009, a judgment in our favor was received which dismissed, with prejudice, all federal law claims alleging securities law violations against us and other named parties and dismissed, without prejudice, all state law claims. The possibility remains that some of the state law claims will be brought again in state court. At this point, we are unable to assess the ultimate impact of the state court litigation on our financial position, results of operations or cash flows. We believe the claims against us are without merit and we will continue to vigorously contest the legal action.

On May 11, 2009, we entered into a Settlement Agreement, Mutual Release and Indemnity Agreement (the Settlement Agreement) with Advantage Capital Corporation, et. al (collectively ACP) to settle claims filed by ACP in the Civil District Court in the Parish of Orleans, State of Louisiana, against us and certain of our executive officers at the time. Under the terms of the Settlement Agreement, we agreed to pay ACP $0.75 million in cash and 82,872 shares of our common stock valued at $0.15 million as of the May 12, 2009 closing price of $1.81 per share. Additionally, we agreed to instruct Eagle Geophysical, Inc. to issue to ACP 17,220 shares of Eagle Geophysical, Inc. common stock valued at $0.12 million as of its last known trade.

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

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NOTE 5. STOCKHOLDERS EQUITY

PREFERRED STOCK

At December 31, 2008 and June 30, 2009, 29 shares of Series B Preferred remain outstanding and are convertible into 7,733 shares of our common 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 (Series C Preferred) in conjunction with the completion of a senior credit facility at the time. Our Series C Preferred is convertible into shares of our common stock at a conversion price of $1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between $1.95 and $3.50 per share. The conversion prices of our Series C Preferred and the warrant exercise prices were supported by a fairness opinion issued by a third party. The transactions contemplated by the Securities Purchase Agreement closed in two tranches. On May 17, 2005, 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 $3.3 million, net of offering costs of $0.2 million. The proceeds of the issuance were allocated to the warrants and preferred stock based on the relative fair value of each instrument. The value attributed to the warrants was $2.9 million ($2.7 million net of offering costs) and was recorded as additional paid in capital while $0.6 million was the remaining allocated value to the preferred stock. In addition, the conversion terms of the preferred stock result in a beneficial conversion feature valued at approximately $0.7 million. As a result of the terms of conversion, we recorded a one time charge to retained earnings for this amount representing a deemed dividend to the preferred stockholders with the offset recorded in additional paid in capital.

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

The prior term loan agreement and the senior credit facility restricted the payment of cash dividends. Consequently, the 9% dividend obligation related to the Series C Preferred had 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 year ended December 31, 2007, 256 shares of Series C Preferred were issued as PIK dividends. In addition, the conversion terms of the preferred stock issued as PIK dividends resulted in a beneficial conversion feature resulting in a one time charge to retained earnings representing a dividend to the preferred stockholders with the offset recorded in additional paid in capital.

Effective April 29, 2007, the loan and security agreement governing our previous term loan was amended to remove the restriction on cash dividend payments on the preferred equity shares, provided we had sufficient availability under our Revolver and were in compliance with all other loan covenants. Consequently, the accrued dividends since April 2007 have been paid in cash, $0.1 million and $0.2 million, and $0.2 million and $0.4 million for the three and six month periods ended June 30, 2008 and 2009, respectively.

During 2007, a total of 379 shares of our Series C Preferred were converted into 194,359 shares of our common stock. Additionally, a total of 618,000 warrants were exercised during 2007 resulting in proceeds to the Company of approximately $1.4 million. During 2008, a total of 88 shares of our Series C Preferred were converted into 44,615 shares of our common stock. Additionally, a total of 1,050,000 warrants were exercised during 2008 resulting in proceeds to the Company of approximately $2.6 million.

At December 31, 2008 and June 30, 2009, 5,396 shares of Series C Preferred remain outstanding and are convertible into 2,767,179 shares of our common stock at a conversion rate of $1.95 per share.

STOCK BASED COMPENSATION

We have two stock-based compensation plans available to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted units and restricted stock to key employees. The Eighth Amended and Restated OMNI Energy Services Corp. Stock Incentive Plan (Stock Plan), provides for 5,750,000 shares of our common stock. The principal awards outstanding under our stock-based compensation plans include non-qualified stock options. In addition, we have the 1999 Stock Option Plan (the 1999 Plan) which became effective on November 11, 1999 and was not approved by the stockholders. The 1999 Plan provides for 100,000 shares of our Common Stock.

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

There was $0.3 million and $0.5 million, and $0.4 million and $0.8 million of compensation cost related to non-qualified stock options recognized in operating results (included in general and administrative expenses) for the three and six months ended June 30, 2008 and June 30, 2009, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility is based on implied volatilities from historical trading of our stock. We used the simplified method to derive an expected term. The expected term represents an estimate of the time that options are expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. treasury yield curve in effect at the time of grant. The following table sets forth the assumptions used to determine compensation cost for our non-qualified stock options consistent with the requirements of SFAS No. 123R.

On April 13, 2009, the Compensation Committee of the Board of Directors of the Company approved a resolution whereby the exercise price of options held by certain officers, directors and employees of the Company would be changed to a price equal to the closing price of the Company s stock on May 29, 2009. The closing price on May 29, 2009 was $2.28. This decision was approved by an advisory vote of the Company s stockholders at the annual shareholder s meeting on May 27, 2009. The total number of options subject to the repricing was 1,487,477. The repriced options had original exercise prices ranging from $2.32 to $10.14, which prices reflected the then current market prices of the Company s stock on the dates of the original grant. The other terms of the options, including the vesting schedules, remained unchanged as a result of the repricing. As a result of the sharp reduction in the Company s stock price, the Compensation Committee and Board of Directors believed that such options no longer would properly incentivize the option holders to work in the best interests of the Company and its stockholders. Moreover, the Board of Directors believed that if these options were repriced, such options would provide better incentives to such employees, officers and directors. Under terms of the repricing plan, the number of options outstanding was reduced to 1,190,573 in order to have no impact on compensation expense.

The weighted average fair value at date of grant for options granted during the six months ended June 30, 2008 and 2009 was $2.68 and $1.27 per option, respectively.

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009
Expected volatility	52.97%	80.61%
Expected annual dividend yield	0.00%	0.00%
Risk free rate of return	3.39%	3.26%
Expected option term (years)	6.50	6.50

The following table summarizes information about stock option activity for the three and six months ended June 30, 2009 (in thousands, except option amounts):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2008	1,554,137	$ 5.59		
Granted				
Exercised				
Lapsed or canceled	(27,707)	5.96		
Outstanding at March 31, 2009	1,526,430	$ 5.59	8.0	$
Granted	33,000	1.75		
Replaced during repricing	(1,487,477)	5.62		
Issued under the repricing	1,190,573	2.28		
Exercised				

Lapsed or canceled	(20,646)		6.01		
Outstanding at June 30, 2009	1,241,880	$	2.27	7.9	$
Exercisable at June 30, 2009	838,999	$	2.28	7.5	$

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At June 30, 2009, $0.6 million of total unrecognized compensation costs related to the unvested portion of the option awards is expected to be recognized over a weighted average period of 1.6 years.

WARRANTS

A summary of our warrants as of June 30, 2009 and changes during the three and six months then ended are presented below:

	WEIGHTED AVERAGE EXERCISE PRICE	WARRANTS
Balance at December 31, 2008	$ 2.84	5,192,650
Granted		
Exercised		
Forfeited		
Balance at March 31, 2009	$ 2.84	5,192,650
Granted		
Exercised		
Forfeited		
Balance at June 30, 2009	$ 2.84	5,192,650
Exercisable	$ 2.84	5,192,650

RESTRICTED STOCK

The following table summarizes activity of unvested restricted stock awards for the three and six months ended June 30, 2009:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE	AGGREGATE INTRINSIC VALUE (in thousands)
Unvested at December 31, 2008	70,833	$ 4.53	
Granted	16,500	$ 1.16	
Vested	(24,477)	$ 4.45	
Unvested at March 31, 2009	62,856	$ 3.68	$ 82
Granted		$	
Vested	(13,979)	$ 3.70	
Unvested at June 30, 2009	48,877	$ 3.99	$ 90

At June 30, 2009, $0.2 million of total unrecognized compensation cost related to the unvested portion of the restricted stock awards is expected to be recognized over a remaining weighted average period of 3.5 years.

EARNINGS PER SHARE

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

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

For the three and six months ended June 30, 2009, we had 1,393,043 and 1,460,390 options and restricted shares, respectively, and 5,192,650 warrants that were excluded from the calculation of Diluted EPS as they were antidilutive. In addition, Holston Notes convertible into 216,450 and 287,006 shares of common stock, BEG Notes convertible into 720,721 and 756,558 shares of common stock and ILT Notes convertible into 310,623 and 321,915 shares of common stock were excluded from the calculation for the three and six months ended June 30, 2009, respectively. Also, preferred stock convertible into 2,774,913 shares of common stock were excluded from the calculation of Diluted EPS for the three months and six months ended June 30, 2009, respectively, because they were antidilutive.

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The following table reconciles net income available to common stockholders and common equivalent shares for the Basic EPS calculation to net income available to common stockholders and common equivalent shares for the Diluted EPS calculation for the three and six months ended June 30, 2008 and 2009, respectively:

	Three Months Ended June 30, 2008		Three Months Ended June 30, 2009	
	Dollars	Weighted Average Shares	Dollars	Weighted Average Shares
	(in thousands)			
Basic EPS net income available to common stockholders	$ 2,621	19,384	$ 115	20,712
Add:				
Stock Options		198		10
Warrants		3,307		
Contingently issuable shares		120		63
Preferred stock	121	2,775		
Shareholder notes	81	1,760		
Total dilutive effect	202	8,160		73
Diluted EPS net income available to common stockholders and common equivalent shares	$ 2,823	27,544	$ 115	20,785

	Six Months Ended June 30, 2008		Six Months Ended June 30, 2009	
	Dollars	Weighted Average Shares	Dollars	Weighted Average Shares
	(in thousands)			
Basic EPS net income available to common stockholders	$ 1,094	19,227	$ 924	20,653
Add:				
Stock Options		168		
Warrants		3,010		
Contingently issuable shares		116		64
Preferred stock				
Shareholder notes				
Total dilutive effect		3,294		64
Diluted EPS net income available to common stockholders and common equivalent shares	$ 1,094	22,521	$ 924	20,717

NOTE 6. SEGMENT INFORMATION

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

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

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The following table shows segment information (net of intercompany transactions) for the three months and six months ended June 30, 2009 and 2008 (in thousands):

Three Months Ended June 30, (in thousands)	Seismic Services	Fluid and Transportation Services (1)	Environmental Services	Equipment Leasing	Other Services	Corporate	Total
2009							
Operating revenues	$ 12,293	$ 5,847	$ 7,664	$ 5,500	$ 1,297	$	$ 32,601
Operating income (loss)	2,222	155	1,672	(894)	(39)	(1,984)	1,132
Interest expense	17	65	5	88		508	683
Depreciation and amortization	232	859	591	1,612	73	76	3,443
Identifiable assets	19,997	28,653	14,992	60,524	2,412	13,206	139,784
Goodwill	2,006		2,251	4,357			8,614
Capital expenditures	222	14	86		23	12	357
2008							
Operating revenues	$ 19,176	$ 8,783	$ 7,124	$ 10,690	$ 3,147	$	$ 48,920
Operating income (loss)	4,553	967	982	1,859	683	(2,947)	6,097
Interest expense	31	106	7	135		1,444	1,723
Depreciation and amortization	494	858	473	1,317	93	107	3,342
Identifiable assets	29,645	39,503	16,040	79,168	4,147	17,892	186,395
Goodwill	2,006	5,340	2,251	9,974			19,571
Capital expenditures	141	146	649	2,398	389	33	3,756

Six Months Ended June 30, (in thousands)	Seismic Services	Fluid and Transportation Services (1)	Environmental Services	Equipment Leasing (2)	Other Services	Corporate	Total
2009							
Operating revenues	$ 22,023	$ 12,917	$ 15,597	$ 14,422	$ 2,546	$	$ 67,505
Operating income (loss)	3,762	631	3,482	(219)	72	(3,848)	3,880
Interest expense	34	150	10	182		1,347	1,723
Depreciation and amortization	466	1,719	1,101	3,206	136	152	6,780
Identifiable assets	19,997	28,653	14,992	60,524	2,412	13,206	139,784
Goodwill	2,006		2,251	4,357			8,614
Capital expenditures	232	284	155	537	72	12	1,292
2008							
Operating revenues	$ 34,692	$ 16,258	$ 14,111	$ 19,061	$ 5,759	$	$ 89,881
Operating income (loss)	5,840	1,672	2,033	868	1,184	(5,523)	6,074
Interest expense	70	205	14	964	5	2,455	3,713
Depreciation and amortization	1,026	1,584	935	2,194	198	219	6,156
Identifiable assets	29,645	39,503	16,040	79,168	4,147	17,892	186,395
Goodwill	2,006	5,340	2,251	9,974			19,571
Capital expenditures	147	1,441	1,010	3,565	397	46	6,606

(1) The fluid services began with the acquisition of BEG in January 2008.

(2) The Equipment Leasing segment includes the provision for the settlement of the Siemens litigation in the amount of $2.4 million in the first quarter of 2008. Additionally, interest expense in that segment includes approximately $0.7 million of judicial interest related to the Siemens litigation in the same period.

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NOTE 7. INCOME TAXES

We account for income taxes under the provisions of SFAS No. 109, which requires recognition of future tax benefits (temporary differences), subject to a valuation allowance based on a more-likely-than-not criteria that such asset will be realized. In determining whether it is more-likely-than-not that we will realize such tax asset, SFAS No. 109 requires that all negative and positive evidence be considered (with more weight given to evidence that is objective and verifiable) in making the determination. We recorded income tax expense of $1.0 million and $1.1 million for the six months ended June 30, 2009 and 2008, respectively.

On January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109,* or FIN 48. As a result of the implementation of FIN 48, management assessed its various income tax positions; this assessment resulted in no adjustment to the tax asset or liability. We will account for interest and penalties relating to uncertain tax positions in the current period income statement as part of the provision for income taxes, as necessary. The 2004, 2005, 2006, 2007 and 2008 tax years remain subject to examination by various federal, state and foreign tax jurisdictions.

NOTE 8. RELATED PARTY TRANSACTIONS

On May 17, 2005, we entered into a Securities Purchase Agreement with certain of our affiliates and executive officers to issue up to $5.0 million of Series C Preferred in conjunction with the completion of a term loan. 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, 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. On August 29, 2005, the remainder of the Series C Preferred and warrants were issued generating proceeds of $1.5 million and we granted the remaining 1,965,000 warrants.

The prior term loan agreement, and senior credit facility restricted the payment of cash dividends. Consequently, a portion of the 9% dividend obligation related to the Series C Preferred were satisfied through the issuance of payment-in-kind (PIK) dividends. The PIK dividends were paid through the issuance of additional shares of Series C Preferred. These additional shares of preferred stock did not have warrants attached to them. During the year ended December 31, 2007, 256 shares of Series C Preferred were issued as PIK dividends at par. Effective April 29, 2007, the loan and security agreement governing the Term Loan was amended to remove the restriction on cash dividend payments on the preferred equity shares, provided we had sufficient availability under our Revolver and were in compliance with all other covenants. Consequently, the accrued dividends since April 2007 have been paid in cash, $0.1 million and $0.2 million, and $0.2 million and $0.4 million for the three and six month periods ended June 30, 2008 and 2009, respectively.

In connection with the purchase of Preheat in February 2006, we issued the Preheat Notes. The Preheat Notes consist of three separate notes with $2.7 million maturing in February 2008 and $1.3 million maturing in February 2009. The Preheat Retention Note was tied to the retention of certain employees who joined the Company at the time of the acquisition of Preheat. Upon the maturity of the Preheat Retention Note, $0.15 million was paid to employees who had completed three years of uninterrupted service with the Company in accordance with an agreement executed in connection with the Preheat Retention Note. At December 31, 2008 and June 30, 2009, the Preheat Notes had a balance of $4.0 million and $3.85 million, respectively. In February 2008, we terminated the employment of one of the Preheat stockholders for cause, and the other Preheat stockholder subsequently resigned. The terms of the Preheat Notes provide that a termination for cause or resignation of either of the Preheat stockholders employment results in the cancellation of the promissory notes, other than those payments due to certain employees under the Preheat Retention Note. The Preheat stockholders have contested our assertion and filed a lawsuit against the Company. As mentioned in Note 4, we received a favorable judgment in Federal court on June 23, 2009 dismissing the federal law claims related to securities transactions. The matter related to state law claims may still be brought again in state court. Consequently, the Preheat Notes remain recorded as a liability in the financial statements pending resolution of the matter.

In connection with the acquisition of Holston in March 2007, we issued the Holston Notes. The Holston Notes consist of three separate notes with $1.0 million maturing in February 2008, $2.0 million maturing in February 2009 and $2.0 million maturing in February 2010. The Holston Notes maturing in 2009 and 2010 are convertible into shares of our common stock at a price of $9.24 per share. Based upon the stock valuation at the time of issuance, no beneficial conversion feature existed. At December 31, 2008 and June 30, 2009, the Holston Notes had a balance of $4.0 million and $2.0 million, respectively. In conjunction with the acquisition of Holston, we acquired a receivable from an entity owned by the former shareholders of Holston who are now employees of the Company. This receivable had a balance at December 31, 2008 and June 30, 2009 in the amount of $0.2 million and $0.1 million, respectively.

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In connection with the acquisition of certain assets of Cypress in February 2007, we issued the $3.0 million Cypress Note to the former owner who is now our employee. The Cypress Note is payable over three years with $1.0 million maturing in February 2008, $1.0 million maturing in February 2009 and $1.0 million maturing in February 2010. In November 2008, as an accommodation to the holder of the note, we paid the $1.0 million due in February 2009 in exchange for a discounted payment by $0.1 million. This discount was reflected as a gain on early extinguishment of debt in the financial statements in 2008. At December 31, 2008 and June 30, 2009, the Cypress Note had a balance of $1.0 million.

In connection with the acquisition of certain assets of BOI in June 2007, we issued the Bailey Note to the former owner who is now our employee. The Bailey Note is payable on or before May 31, 2010. At December 31, 2008 and June 30, 2009, the Bailey Note had a balance of $0.5 million.

In connection with the acquisition of certain assets of BEG in January 2008, we issued the BEG Notes to certain shareholders of BEG, two of whom are now our employees. The BEG Notes are payable over three years with $1.3 million maturing in January 2009, $1.3 million maturing in January 2010 and $1.4 million maturing in January 2011 and are convertible into shares of our common stock at a price of $3.70 per share under certain circumstances. Based upon the stock valuation at the time of the issuance, no beneficial conversion feature exists. At December 31, 2008 and June 30, 2009, the BEG Notes had a balance of $4.0 million and $2.7 million, respectively.

In connection with the acquisition of Industrial Lift in April 2008, we issued the ILT Notes to a shareholder of Industrial Lift who is now our employee. The ILT Notes are payable over three years with $2.0 million maturing in April 2009, $1.0 million maturing in April 2010 and $0.5 million maturing in April 2011. The ILT Notes bear interest at a rate of 5% per annum payable in arrears and are convertible into shares of our common stock at a price of $10.50 per share under certain circumstances. Based upon the stock valuation at the time of the issuance, no beneficial conversion feature exists. An additional note in the amount of $0.5 million, which is non-convertible and non-interest bearing, matures in April 2011. An agreement was reached with the former shareholder of ILT whereby $0.5 million of the scheduled principal payment due in April 2009 was paid in cash and $0.3 million of the obligation was satisfied through the issuance of 233,333 shares of our common stock valued at $0.3 million. Additionally, $0.4 million was deposited into an irrevocable trust with a maturity date in April 2010. At December 31, 2008 and June 30, 2009,