

ALEXCO RESOURCE CORP  
Form SC 13G/A  
July 10, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934  
(Amendment No.2)\*

Alexco Resource Corp.

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(Name of Issuer)

COMMON SHARES

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(Title of Class of Securities)

01535P106

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(CUSIP Number)

June 20, 2014

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(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule 13d-1(b)  
 Rule 13d-1(c)  
 Rule 13d-1(d)

\*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).



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CUSIP No. 01535P106

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1. Names of Reporting Persons  
 I.R.S. Identification Nos. of above persons (entities only)  
 Van Eck Associates Corporation  
 335 Madison Ave. - 19th Floor, New York, New York 10017

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2. Check the Appropriate Box if a Member of a Group (See Instructions)  
 (a) N/A  
 (b)

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3 SEC Use Only

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4. Citizenship or Place of Organization: Delaware

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Number of Shares Beneficially Owned by Each Reporting Person With	5.	Sole Voting Power	0 common shares
	6.	Shared Voting Power	None
	7.	Sole Dispositive Power	0 common shares
	8.	Shared Dispositive Power	None

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9. Aggregate Amount Beneficially Owned by Each Reporting Person 0 Common Shares are held within mutual funds and other client accounts managed by Van Eck Associates Corporation, none of which individually owns more than 5% of the outstanding shares.

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10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) N/A

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11. Percent of Class Represented by Amount in Row (9) 0%

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12. Type of Reporting Person (See Instructions) IA



Item 1. Name of Issuer

(a) Alexco Resource Corp.

Item 1. Address of Issuer's Principal Executive Offices

(b) 200 Granville St, Suite 1150, Vancouver A1 V6C 1S4

Item 2. Name of Person Filing

(a) Van Eck Associates Corporation

Item 2. Address of Principal Business Office or, if none, Residence

(b) 335 Madison Ave. - 19th Floor, New York, New York 10017

Item 2. Citizenship or Place of Organization:

(c) Delaware

Item 2. Title of Class of Securities

(d) Common Shares

Item 2. CUSIP Number

(e) Not Applicable

Item 3. If this statement is filed pursuant to Rule 13d-1(b) or 13d-2(b) or (c), check whether the person filing is a:

- (a)  Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).
- (b)  Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).
- (c)  Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).
- (d)  Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C 80a-8).
- (e)  An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);
- (f)  An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);
- (g)  A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);
- (h)  A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i)  A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j)  Group, in accordance with Rule 13d-1(b)(1)(ii)(J).

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Item 4. Ownership.

(a) Amount beneficially owned: 0 Common Shares

(b) Percent of class: 0%

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote 0  
Common Shares

(ii) Shared power to vote or to direct the vote None

(iii) Sole power to dispose or to direct the disposition  
of 0 Common Shares

(iv) Shared power to dispose or to direct the disposition  
of None

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following  
[x ]

Item 6. Ownership of More than Five Percent on Behalf of Another Person.  
Not Applicable

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By  
the Parent Holding Company  
Not applicable.

Item 8. Identification and Classification of Members of the Group  
Not applicable

Item 9. Notice of Dissolution of Group  
Not applicable.

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.





SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

July 10, 2014

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Date

/S/ John J. Crimmins

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Signature

John J. Crimmins, Vice President

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Name/Title

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath this signature.

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VALIGN="bottom" ALIGN="right">32,025 31,250 65,380 58,822

Impairment of fixed assets

73 73

Operating income (loss)

503 196 2,052 (531)

Interest expense

(618) (1,092) (1,577) (2,248)

Other income (expense), net

(8) 3 (2) 23

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Income (loss) before (provision) benefit for income taxes

(123) (893) 473 (2,756)

(Provision) benefit for income taxes

(205) (182) (989) 772

Net loss

(328) (1,075) (516) (1,984)

Dividends on preferred stock

(121) (121) (241) (241)

Net loss available to common stockholders

\$(449) \$(1,196) \$(757) \$(2,225)

Basic loss per share:

Net loss available to common stockholders

\$(0.02) \$(0.05) \$(0.04) \$(0.10)

Diluted loss per share:

Net loss available to common stockholders

\$(0.02) \$(0.05) \$(0.04) \$(0.10)

Weighted average common shares outstanding:

Basic

20,712 21,821 20,653 21,420

Diluted

20,712 21,821 20,653 21,420

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

**Table of Contents****OMNI ENERGY SERVICES CORP.****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****FOR THE SIX MONTHS ENDED JUNE 30, 2010****(unaudited)**

	Preferred Stock Shares	Preferred Stock Amount (in thousands, except share amounts)	Common Stock Shares	Common Stock Amount
BALANCE, December 31, 2009	5,425	\$ 1,074	20,980,202	\$ 209
Stock based compensation				
Restricted stock awards			95,000	1
Stock options and warrants exercised for cash and other			1,376,746	14
Common stock issued for note modifications			330,943	3
Preferred stock dividends declared				
Preferred stock and dividends cancelled	(29)	(29)		
Net loss				
BALANCE, June 30, 2010	5,396	\$ 1,045	22,782,891	\$ 227

	Preferred Stock Dividends Declared	Additional Paid-In Capital	Accumulated Deficit (in thousands)	Total
BALANCE, December 31, 2009	\$ 3	\$ 100,887	\$ (50,738)	\$ 51,435
Stock based compensation		483		483
Restricted stock awards		(1)		
Stock options and warrants exercised for cash and other		201		215
Common stock issued for note modifications		124		127
Preferred stock dividends declared			(241)	(241)
Preferred stock and dividends cancelled	(3)	32		
Net loss			(1,984)	(1,984)
BALANCE, June 30, 2010	\$	\$ 101,726	\$ (52,963)	\$ 50,035

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

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

	Six Months Ended June 30,	
	2009	2010
	(in thousands)	
	(Restated)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (516)	\$ (1,984)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,780	6,843
Amortization of deferred loan issuance costs	578	707
Loss (gain) on fixed asset dispositions	217	(73)
Provision for doubtful accounts	1,279	(4)
Stock based compensation expense	825	483
Stock issued in legal settlement	112	
Accretion of discount on convertible notes and other	25	7
Deferred income taxes	974	(733)
Changes in operating assets and liabilities:		
Trade receivables	10,503	(8,069)
Other receivables	299	514
Parts and supplies inventory	1,320	(531)
Prepaid expenses and other current assets	2,131	2,059
Other assets	(38)	(2)
Accounts payable and accrued expenses	(7,358)	4,482
Other long term liabilities	(200)	(180)
Net cash provided by operating activities	16,931	3,519
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(1,292)	(1,549)
Proceeds from disposal of property, plant and equipment	307	479
Investment in restricted cash	(350)	
Return of restricted cash	942	
Net cash used in investing activities	(393)	(1,070)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt and insurance notes	(9,808)	(5,354)
Principal payments on line of credit	(70,102)	(23,879)
Borrowings on line of credit	63,561	25,620
Loan amendment costs		(65)
Preferred stock dividends paid in cash	(363)	(241)
Proceeds from exercise of stock options and warrants		215
Net cash used in financing activities	(16,712)	(3,704)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(174)</b>	<b>(1,255)</b>
Cash and cash equivalents, at beginning of period	2,043	1,931

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Cash and cash equivalents, at end of period	\$ 1,869	\$ 676
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest	\$ 1,286	\$ 1,411
Cash paid for taxes	\$ 798	\$
NON-CASH TRANSACTIONS:		
Stock issued in satisfaction of note payable	\$ 350	\$
Common stock issued in exchange for note modifications	\$	\$ 127
Payables issued to former owners for the acquisition of Keeton Services, Inc. and Griswold Management, Inc.	\$	\$ 3,500
Preferred stock and dividends cancelled	\$	\$ 32
Equipment financed through capital lease	\$	\$ 924

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/A, for the year ended December 31, 2009 filed with the SEC on August 26, 2010.

**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 Accounting Standards Codification ( ASC ) 360, *Property, Plant and Equipment* ( ASC 360 ). 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. There was no impairment recognized during the three or six months ended June 30, 2010 or 2009.

**CASH AND CASH EQUIVALENTS**

We consider highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

**STOCK BASED COMPENSATION**

We follow the provisions of ASC 718, *Compensation - Stock Compensation* ( ASC 718 ), 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).

**AUTHORITATIVE LITERATURE NOT YET ADOPTED**

On March 30, 2010, the President of the United States signed the Health Care and Education Reconciliation Act of 2010, which is a reconciliation bill that amends the Patient Protection and Affordable Care Act that was signed by the President on March 23, 2010. We are currently awaiting guidance from the FASB and SEC related to the implications of this new legislation on accounting and disclosure requirements. We expect that this legislation will have an impact on our financial position, results of operations and cash flows, but we cannot determine the extent of the impact at this time.

**Table of Contents****OMNI ENERGY SERVICES CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

As discussed in our Annual Report on Form 10-K/A, filed on August 26, 2010, the financials as of and for the three and six month periods ended June 30, 2009 have been restated to reflect certain contingent obligations associated with certain subordinated promissory notes recorded as compensation for services in accordance with Emerging Issues Task Force No. 95-8 *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination* ( EITF 95-8 ) rather than purchase price consideration, as originally presented. Accordingly, goodwill and other intangibles initially recorded were likewise revised as a result of the reduction in purchase price that was replaced by compensation for services recorded during the period of the required contingent employment of the shareholders of the acquired entities. The effect on the previously filed financial statements is included below:

	<b>Three months ended June 30, 2009</b>		
	<b>As Previously Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
	<b>(In thousands, except per share amounts)</b>		
<b>Operating expenses</b>			
General and administrative expense (exclusive of depreciation and amortization shown separately above)	\$ 6,527	\$ 629	\$ 7,156
Operating income (loss)	1,132	(629)	503
Interest expense	(683)	65	(618)
Income (loss) before taxes	441	(564)	(123)
Income tax expense	(205)		(205)
Net income (loss)	236	(564)	(328)
Net income (loss) available to common stockholders	\$ 115	\$ (564)	\$ (449)
<b>Basic income (loss) per common share:</b>			
Net income (loss) available to common stockholders	\$ 0.01	\$ (0.03)	\$ (0.02)
<b>Diluted income (loss) per common share:</b>			
Net income (loss) available to common stockholders	\$ 0.01	\$ (0.03)	\$ (0.02)
	<b>Six months ended June 30, 2009</b>		
	<b>As Previously Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
	<b>(In thousands, except per share amounts)</b>		
<b>Operating expenses</b>			
General and administrative expense (exclusive of depreciation and amortization shown separately above)	\$ 12,699	\$ 1,828	\$ 14,527
Operating income (loss)	3,880	(1,828)	2,052
Interest expense	(1,723)	146	(1,577)
Income (loss) before taxes	2,155	(1,682)	473
Income tax expense	(990)	1	(989)
Net income (loss)	1,165	(1,681)	(516)
Net income (loss) available to common stockholders	\$ 924	\$ (1,681)	\$ (757)
<b>Basic income (loss) per common share:</b>			
Net income (loss) available to common stockholders	\$ 0.04	\$ (0.08)	\$ (0.04)
<b>Diluted income (loss) per common share:</b>			
Net income (loss) available to common stockholders	\$ 0.04	\$ (0.08)	\$ (0.04)
<b>Number of weighted average shares:</b>			
Basic	20,653		20,653

Diluted	20,717	(64)	20,653
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**Table of Contents****OMNI ENERGY SERVICES CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 3. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, net, consists of the following at December 31, 2009 and June 30, 2010, respectively:

	December 31, 2009	June 30, 2010
	(In thousands)	
Land	\$ 493	\$ 472
Building and improvements	8,874	8,709
Drilling, field and support equipment	108,393	110,969
Shop equipment	742	854
Office equipment	2,389	2,419
Vehicles	4,404	4,450
Construction in progress	1,202	1,261
	126,497	129,134
Less: accumulated depreciation	(54,353)	(60,044)
Total property, plant and equipment, net	\$ 72,144	\$ 69,090

**NOTE 4. LONG-TERM DEBT AND LINE OF CREDIT**

At December 31, 2009 and June 30, 2010, long-term debt consists of the following:

	December 31, 2009	June 30, 2010
	(In thousands)	
Notes payable to a bank with interest payable at prime plus 1.50% (4.75% at December 31, 2009 and June 30, 2010) maturing July 31, 2023, secured by real estate	\$ 1,183	\$ 1,152
Promissory notes payable to certain former owners of acquired companies with interest at 5%, maturing at various dates through April 2013	2,000	474
Promissory note payable to certain former owners of acquired companies with interest at 6%, maturing June 2013		1,750
Convertible promissory notes payable to certain former stockholders of acquired companies with interest at 5%, maturing at various dates through April 2013	4,133	5,404
Promissory notes payable to finance companies secured by vehicles and equipment	329	252
Capital leases payable to finance companies secured by equipment	1,967	2,378
Term Loan payable to a bank, variable interest rate at 30-day LIBOR with 1% floor plus 4.50% (5.50% at December 31, 2009 and June 30, 2010), secured by various equipment, maturing April 23, 2013	36,000	33,860
Total	45,612	\$ 45,270
Less: current maturities	(11,881)	(13,937)
Long-term debt, less current maturities	\$ 33,731	\$ 31,333

**SENIOR CREDIT FACILITY**

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Our Senior Credit Facility consists of a \$50.0 million term loan (the Term Loan ) and a \$20.0 million working capital revolving line of credit (the Revolver ). Availability under the Revolver is the lower of: (i) \$20.0 million or (ii) the sum of eligible accounts receivable and inventory, as defined under the agreement governing the Revolver. The Revolver accrued interest at the 30-day LIBOR rate with a 1% floor plus 4.0% (5.0% at December 31, 2009 and June 30, 2010), and matures in April 2013. The Revolver is collateralized by accounts receivable and inventory. As of December 31, 2009 and June 30, 2010, we had \$0.0 million and \$1.7 million outstanding under the Revolver, respectively. Due to the lock-box arrangement and the subjective acceleration clause in the agreements governing the Revolver, the debt under the Revolver has been classified as a current liability as of December 31, 2009 and June 30, 2010, as required by ASC 470-10-45 (formerly Emerging Issues Task Force ( EITF ) No. 95-22), Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-box Arrangement.

Under the 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. Interest is due monthly in arrears and accrues at the 30-day LIBOR rate with a 1% floor plus 4.5% (5.50% at December 31, 2009 and June 30, 2010). The Term Loan contains customary financial covenants and limitations on capital expenditures. As of December 31, 2009 and June 30, 2010, we had \$36.0 million and \$34.0 million outstanding under the Term Loan, respectively.

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**OMNI ENERGY SERVICES CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During March 2010, we entered into an amendment and waiver to the Senior Credit Facility. The waiver provided relief from violations related to the timely filing of certain reports with the lender. Additionally, the amendment adjusted the required covenants related to our leverage ratio for the remainder of the term of the loan. At June 30, 2010, we are in compliance with all covenants under the Senior Credit Facility.

**CAPITAL LEASES**

We have several pieces of equipment which were acquired under capital lease. In 2009 and thus far in 2010, we acquired several pieces of equipment for the Seismic Services and Environmental and Other Services segments under capital leases. These leases have maturity dates ranging from February 2011 to July 2014. The balance of all capital leases payable as of December 31, 2009 and June 30, 2010 was \$2.0 million and \$2.4 million, respectively.

The cost and related accumulated depreciation of assets held under capital lease was \$2.3 million and \$0.1 million and \$3.3 million and \$0.4 million, respectively, at December 31, 2009 and June 30, 2010, respectively.

Depreciation expense for the three and six months ended June 30, 2009 and 2010 was approximately \$0.0 million and \$0.1 million, and \$0.2 million and \$0.3 million, respectively, for all assets held under capital lease.

**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 ) which included an employment contingency for \$3.3 million of this obligation. This portion of the obligation is being recognized as compensation expense ratably over the three-year contingency period. The remaining \$1.7 million of the obligation was recorded as a liability as no contingent employment was required. 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, 2009 and June 30, 2010, the Holston Notes had a balance of \$2.0 and \$1.7 million, respectively.

During February 2010, each of the holders of the Holston Notes signed note modification agreements ( Holston Note Modifications ) whereby the payment terms of the Holston Notes were modified to thirty-five monthly payments of principal and interest of \$0.06 million beginning February 28, 2010 and one payment for the balance on January 28, 2013. This modification included the removal of all associated employment contingencies. As a result, the portion of the outstanding obligation in the amount of \$0.08 million not previously recorded due to the contingency was included in compensation expense in the first quarter of 2010. At the time of the Holston Note Modifications, we issued an aggregate of 107,334 shares of our unregistered restricted common stock to the holders of the Holston Notes. The restrictions on the shares will lapse at various times prior to the maturity of the Holston Notes and we may, at our option, pay the Holston Note balances prior to the new maturity date without penalty. If payment of the Holston Notes is made prior to the lapse of the periodic restrictions, the remaining restricted shares will be forfeited to us and cancelled. As the shares vest, the expense is recognized as a current period charge to interest expense.

**CYPRESS NOTE**

In connection with the acquisition of certain assets of Cypress Consulting Services, Inc. d/b/a Cypress Energy Services ( Cypress ) effective in February 2007, we issued \$3.0 million in a 5% promissory note payable to a certain Cypress stockholder ( Cypress Note ). The Cypress Note was 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 Cypress Note, we paid the \$1.0 million due in February 2009 in exchange for a discounted payment by \$0.1 million. At December 31, 2009 and June 30, 2010, the Cypress Note had a balance of \$1.0 million and \$0.0 million, respectively.

**BAILEY NOTE**

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In connection with the acquisition 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, 2009 and June 30, 2010, the Bailey Note had a balance of \$0.5 million.

In January 2010, the holder of the Bailey Note executed a note modification agreement ( Bailey Note Modification ) whereby the payment terms of the Bailey Note were modified to thirty-five monthly payments of principal and interest of \$0.015 million beginning May 30, 2010 and one payment for the balance on April 30, 2013. At the time of the Bailey Note Modification, we became obligated to issue an aggregate of 26,832 shares of our unregistered restricted common stock to the holder of the Bailey Note. The restrictions

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**OMNI ENERGY SERVICES CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

on the shares will lapse at various times prior to the maturity of the Bailey Note and we may, at our option, pay the Bailey Note balance prior to the new maturity date without penalty. If payment of the Bailey Note is made prior to the lapse of the periodic restrictions, the remaining restricted shares will be forfeited to us and cancelled. The allocation between current and long-term debt was adjusted in the 2009 financial statements to reflect this modification. The charge related to these shares will be recognized as the restrictions are lifted. As the shares vest, the expense is recognized as a current period charge to interest expense.

**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 were payable over three years with \$1.3 million maturing in January 2009, \$1.3 million maturing in January 2010 and \$1.4 million maturing in January 2011 and are convertible into shares of our common stock at a rate of \$3.70 per share under certain circumstances. Based upon the stock valuation at the time of the issuance, no beneficial conversion feature exists. At December 31, 2009 and June 30, 2010, the BEG Notes had a balance of \$2.7 million and \$2.2 million, respectively.

In January 2010, each of the holders of the BEG Notes executed note modification agreements ( **BEG Note Modifications** ) whereby the payment terms of the BEG Notes were modified to thirty-five monthly payments of principal and interest of \$0.08 million beginning January 18, 2010 and one payment for the balance on December 18, 2013. At the time of the BEG Note Modifications, we issued an aggregate of 143,112 shares of our unregistered restricted common stock to the holders of the BEG Notes. The restrictions on the shares will lapse at various times prior to the maturity of the BEG Notes and we may, at our option, pay the note balance prior to the new maturity date without penalty. If payment of the BEG Notes are made prior to the lapse of the periodic restrictions, the remaining restricted shares will be forfeited to us and cancelled. The allocation between current and long-term debt was adjusted in the 2009 financial statements to reflect these modifications. The charge related to these shares will be recognized as the restrictions are lifted. As the shares vest, the expense is recognized as a current period charge to interest expense.

**INDUSTRIAL LIFT NOTES**

In connection with the acquisition of Industrial Lift Truck and Equipment Co., Inc. ( **Industrial Lift** ) in April 2008, we issued \$4.0 million of promissory notes payable to the shareholders of Industrial Lift (the **ILT Notes** ). The ILT Notes are payable over three years with \$2.0 million maturing in April 2009, \$1.0 million maturing in April 2010 and \$0.5 million maturing in April 2011. An employment contingency was included in the ILT Notes requiring the continued employment of one of the former owners of Industrial Lift requiring these notes to be recognized as compensation expense ratably over the three-year contingency period. As a result of the employment contingency, the ILT Notes were not included as a portion of the purchase price of Industrial Lift. The ILT Notes bear interest at a rate of 5% per annum payable in arrears and are convertible into shares of our common stock at a rate of \$10.50 per share under certain circumstances. Based upon the stock valuation at the time of the issuance, no beneficial conversion feature exists. An additional note in the amount of \$0.5 million, which is non-convertible and non-interest bearing, matures in April 2011. In April 2009, an agreement was reached with the former shareholder of Industrial Lift 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 unregistered restricted shares of our common stock valued at \$0.3 million. Additionally, \$0.4 million was deposited into an irrevocable trust which was released prior to December 31, 2009. In January 2010, a cash payment in the amount of \$0.8 million was made to the holder of the ILT Notes. At December 31, 2009 and June 30, 2010, the ILT Notes had a balance of \$2.8 million and \$1.4 million, respectively.

In March 2010, each of the holders of the ILT Notes signed a note modification agreement ( **ILT Note Modification** ) whereby the payment terms of \$1.0 million of the ILT Notes were modified to thirty-five monthly payments of principal and interest of \$0.03 million beginning April 23, 2010 and one payment for the balance on March 23, 2013. This modification included the removal of the associated employment contingencies. As a result, this portion of the outstanding obligation not previously recorded in the amount of \$0.3 million was recorded as compensation expense in the first quarter of 2010. This payable is included in the monthly payments of principal and interest of \$0.03 million. At the time of the ILT Note Modification, we issued an aggregate of 53,665 shares of our unregistered restricted common stock to the holders of the ILT Notes. The restrictions on the shares will lapse at various times prior to the maturity of the notes and we may, at our option, pay the ILT Note balance prior to the new maturity date without penalty. If payment of the ILT Notes is made prior to the lapse of the periodic restrictions, the remaining restricted shares will be forfeited to us and cancelled. The charge related to these shares will be recognized as the restrictions are lifted. The

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terms and maturity on the \$1.0 million of ILT Notes originally maturing in April 2011 remain unchanged. As the shares vest, the expense is recognized as a current period charge to interest expense.

### **KEETON NOTE**

Effective June 30, 2010, we acquired all of the outstanding common stock of Keeton Services, Inc. and Griswold Management, Inc. (collectively Keeton ). In connection with the acquisition of Keeton, we issued a \$1.8 million 6% promissory note payable to the shareholders of Keeton (the Keeton Note ). The Keeton Note matures on June 15, 2013 and is payable in 36 monthly installments of \$0.05 million. At June 30, 2010, the Keeton Note had a balance of \$1.8 million.

**Table of Contents****OMNI ENERGY SERVICES CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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 2010 and accrued interest at 5.16%. The policies serviced by insurance notes were renewed effective July 1, 2010.

**NOTE 5. ACQUISITIONS****KEETON SERVICES, INC. AND GRISWOLD MANAGEMENT, INC.**

Effective June 30, 2010, we acquired Keeton pursuant to a Purchase and Sale Agreement under which we purchased 100% of the common stock of both entities for the total consideration of approximately \$3.5 million, including \$1.75 million in cash and \$1.75 million in a 6% promissory note payable to the former owners, that matures on June 15, 2013 and is payable in thirty-six (36) monthly installments of \$0.05 million. The acquisition was accounted for in accordance with ASC 805, *Business Combinations*. Keeton provides completion fluids to various customers including E&P companies in the Texas markets in which it operates. We feel this service will complement our fluid service offerings in the markets we serve. Pro-Forma disclosures have not been included as they are not material. The results of Keeton's operations will be included in our consolidated financial statements from the effective date of the acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The property and equipment are amortized over periods ranging from three to ten years with no residual value. The amortizable customer list intangible will be amortized over ten years. The allocation of the purchase price will be adjusted as required as asset and liability values are finalized and working capital adjustment provisions are resolved (in thousands):

Accounts receivable	\$ 735
Inventory and other current assets	644
Property and equipment	937
Customer list	2,151
Deferred income tax liability	(347)
Current liabilities	(620)
Purchase price	 \$ 3,500

**NOTE 6. 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, 2009 and June 30, 2010, we have recorded \$0.8 million and \$1.0 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 (the Federal Suit ) 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 Federal Suit 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. The Federal Suit has been dismissed. Subsequent to this dismissal, the former owners of Preheat filed a lawsuit in the 16<sup>th</sup> Judicial District Court, Parish of Iberia, situated in New Iberia,



**Table of Contents****OMNI ENERGY SERVICES CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Louisiana. This lawsuit sought essentially the same relief as requested in the Federal Suit, named many of the same defendants as the Federal Suit, and contained many of the same allegations as the Federal Suit. We, together with the other defendants, filed a motion to dismiss the suit based upon the fact that it was filed in the wrong venue. A ruling was issued dismissing the case on that basis, and a judgment reflecting that ruling has been submitted to the trial judge for signature. At this point, we are unable to assess the ultimate impact of this litigation on our financial position, results of operations or cash flows. We, together with the other defendants, have filed a motion to dismiss the lawsuit and that motion remains pending with the court. We believe the claims against us are without merit and are vigorously contesting the legal action.

On June 3, 2010, we entered into an Agreement and Plan of Merger (the *Merger Agreement*) with Wellspring OMNI Holdings Corporation, a Delaware Corporation ( *Parent* ), and Wellspring OMNI Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of Parent ( *Acquisition* ), providing for the Merger of Acquisition with and into the Company, with the Company surviving the merger (the *Merger*) as a subsidiary of Parent. Six purported class action lawsuits have been filed in connection with the Merger in state courts in Lafayette Parish, Louisiana, and two purported class actions were filed in connection with the Merger in the federal district court for the Western District of Louisiana. Each court action named the Company and its directors as defendants, and the state court actions also named Wellspring, Parent and Acquisition. One of the federal actions filed named Parent and Acquisition as defendants. The state court complaints allege, among other things, that the director defendants have breached their fiduciary duties to shareholders of the Company by entering into the Merger Agreement, failing to disclose certain information with respect to the Company and failing to maximize shareholder value. The Wellspring entities are claimed to have aided and abetted the alleged fiduciary duty breaches by the directors of the Company. The federal court complaints make substantially the same claims as the state court complaints, but also allege violations of federal law relating to the Company's proxy statement disclosures. One or more of the complaints seek injunctions against the Merger, rescission of the Merger if it is consummated, imposition of a constructive trust, damages, attorneys' fees, expenses and other relief. The complaints request class action certification and rulings that the named complainants are representatives of the class. No class has been certified at present. Plaintiffs in certain of the state actions and both federal actions have moved for expedited discovery. The defendants have filed the appropriate motions in the state proceedings to consolidate them into a single proceeding and further to stay such state actions pending the federal court's consideration of the federal suit. A hearing is set for August 30, 2010, as to the motions filed in state court. Moreover, the defendants are contesting discovery requests made by some of the state plaintiffs. The defendants have also filed a motion in the federal court requesting consolidation of the federal actions, a state of all proceedings until lead plaintiffs and plaintiffs' counsel are appointed and defendants' motion to dismiss is resolved, and requesting that outstanding discovery requests be quashed. No hearing date has yet been set regarding this motion. The Company believes that all of the lawsuits that have been filed and the allegations contained therein are without merit, and it, along with the directors of the Company, intends to vigorously defend the lawsuits.

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

**NOTE 7. STOCKHOLDERS' EQUITY**

On June 3, 2010, we entered into the Merger Agreement with Parent, and Acquisition, providing for the merger of Acquisition with and into the Company, with the Company surviving the merger as a subsidiary of Parent. Parent and Acquisition are affiliates of Wellspring Capital Management LLC ( *Wellspring Capital* ), a middle market private equity firm. Each outstanding share of common stock of the Company (other than treasury shares, shares held by Parent and Acquisition and any of their subsidiaries, shares with respect to which dissenters' rights are properly exercised and shares held by our Chief Executive Officer, Chairman of the Board and one other director on our Board of Directors) will be cancelled and converted into the right to receive \$2.75 per share in cash (the *Merger Consideration*). Completion of the Merger is subject to (i) approval of the Merger by the shareholders of the Company, (ii) applicable regulatory approvals, including the termination or expiration of the applicable waiting period (and any extensions thereof) under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the *HSR Act*), and (iii) other customary closing conditions. On August 2, 2010, the Federal Trade Commission granted early termination of the waiting period under the HSR Act.

**Table of Contents****OMNI ENERGY SERVICES CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****PREFERRED STOCK**

At December 31, 2009 and June 30, 2010, 29 and 0 shares, respectively, of Series B Preferred remain outstanding and are convertible into 7,733 shares of our common stock. The previously remaining shares of Series B Preferred Stock were cancelled in accordance with a settlement agreement between the Company and the holders of the stock executed in the first quarter of 2010.

At December 31, 2009 and June 30, 2010, 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, officers, directors, advisors and consultants to the Company. 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 total shares of our common stock available for issuance under the 1999 Plan are 100,000 shares.

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

There was \$0.4 million and \$0.8 million, and \$0.2 million and \$0.5 million of compensation cost related to non-qualified stock options recognized in operating results (included in general and administrative expenses) for the three and six months ended June 30, 2009 and June 30, 2010, respectively.

Historically, the fair value of each option award was estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility was 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 was based on the U.S. treasury yield curve in effect at the time of grant.

The weighted average fair value at date of grant for options granted during the six months ended June 30, 2009 and 2010 was \$1.27 and \$1.16 per option, respectively.

	<b>Six Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2010</b>
Expected volatility	80.61%	54.39%
Expected annual dividend yield	0.00%	0.00%
Risk free rate of return	3.26%	3.46%
Expected option term (years)	6.50	6.50

During the three months ended March 31, 2010, 800,000 options were granted to senior management at an exercise price \$1.26 per share. Because the vesting of the options is based on several variable criteria (financial performance of the Company and the Company's stock price as it relates to its peer group), the fair value of these options was estimated using the Monte Carlo valuation method. The shares will vest over a four year period. As the financial performance targets are met, compensation expense will be recognized. For the options based upon share price performance, the compensation is expensed ratably over the vesting period. For the three and six months ended June 30, 2010, the amount of expense related to this award was de minimus.



**Table of Contents****OMNI ENERGY SERVICES CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes information about stock option activity for the three and six months ended June 30, 2010 (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, 2009	1,646,841	\$ 2.21		
Granted	800,000	1.26		
Exercised				
Lapsed or canceled	(27,084)	2.26		
Outstanding at March 31, 2010	2,419,757	\$ 1.90	7.5	\$ 73
Granted	28,000	2.05		
Exercised	(9,030)	2.26		
Lapsed or canceled	(12,115)	2.14		
Outstanding at June 30, 2010	2,426,612	\$ 1.90	7.4	\$ 1,868
Exercisable at June 30, 2010	1,234,404	\$ 2.20	7.0	\$ 580

At June 30, 2010, \$1.3 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, 2010 and changes during the three and six months then ended are presented below:

	WEIGHTED AVERAGE EXERCISE PRICE	WARRANTS
Balance at December 31, 2009	\$ 2.10	4,594,000
Granted		
Exercised		
Forfeited		
Balance at March 31, 2010	\$ 2.10	4,594,000
Granted		
Exercised	1.95	(3,997,550)
Forfeited	3.38	(355,250)
Balance at June 30, 2010	\$ 2.76	241,200
Exercisable	\$ 2.76	241,200

**RESTRICTED STOCK**

The following table summarizes activity of unvested restricted stock awards for the three and six months ended June 30, 2010:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE	AGGREGATE INTRINSIC VALUE (in thousands)
Unvested at December 31, 2009	37,419	\$ 3.81	
Granted	95,000	\$ 1.27	
Vested	(29,479)	\$ 1.92	
Unvested at March 31, 2010	102,940	\$ 2.01	\$ 199
Granted		\$	
Vested	(13,979)	\$ 3.70	
Unvested at June 30, 2010	88,961	\$ 1.92	\$ 238

**Table of Contents****OMNI ENERGY SERVICES CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At June 30, 2010, \$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 2.75 years.

During the first quarter of 2010, certain of our subordinated notes payable were modified resulting in adjustment to the maturity dates and payment schedules of the notes. As an incentive to modify the notes, the Company authorized the issuance of an aggregate of 330,943 unregistered, restricted shares of our common stock in amounts dependent upon the balances modified. The restrictions on the shares will lapse at various times prior to the maturity of the notes and we may, at our option, pay the note balances prior to the new maturity dates. If payment of the notes is made prior to the lapse of the periodic restriction on the stock, the remaining restricted shares will be forfeited to us and cancelled. As of June 30, 2010, all 330,943 of the shares have been issued.

The following table summarizes activity of restricted stock awards related to the modified subordinated notes for the three and six months ended June 30, 2010:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE	AGGREGATE INTRINSIC VALUE (in thousands)
Unvested at December 31, 2009			
Granted	250,446	\$ 1.52	
Vested	(62,616)	\$ 1.52	
Unvested at March 31, 2010	187,830	\$ 1.52	\$ 363
Granted	80,497	\$ 1.58	
Vested	(20,125)	\$ 1.58	
Unvested at June 30, 2010	248,202	\$ 1.54	\$ 663

**EARNINGS PER SHARE**

Basic earnings per share (EPS) is determined by dividing income (loss) 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, 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.

For the three and six months ended June 30, 2010, we had 444,077 and 1,890,126 options and restricted shares, respectively, and 2,225,775 and 3,403,345 warrants, respectively, that were excluded from the calculation of Diluted EPS as they were antidilutive. In addition, Holston Notes convertible into 199,047 and 205,669 shares of common stock, BEG Notes convertible into 636,667 and 664,955 shares of common stock and ILT Notes convertible into 139,725 and 152,227 shares of common stock were excluded from the calculation for the three and six months ended June 30, 2010, respectively. Also, preferred stock convertible into 2,767,179 and 2,770,384 shares, respectively, of common stock were excluded from the calculation of Diluted EPS for the three months and six months ended June 30, 2010, respectively, because they were antidilutive.

**NOTE 8. SEGMENT INFORMATION**

ASC 280, *Segment Reporting* ( ASC 280 ), requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. We revised our reportable business segments during the fourth quarter of 2009. The new operating segments are Seismic Services, Environmental and Other Services and Equipment Leasing. Financial results for the three and six months ended June 30, 2009 have been restated to reflect the change in operating segments. We revised our segments to align with changes in management's resource allocation and performance assessment in making decisions regarding our operations. Our saltwater transportation and disposal, solids removal and hauling and liquid mud services, and boat tank and pit cleaning services are now included within our Environmental and Other Services segment. These changes reflect our current operating focus. All of our assets and operations are exclusively in North America. The segment classified as Corporate includes operating activities that support the executive offices, capital structure and costs of being a public registrant. These costs are not allocated to the operating segments when determining segment profit or loss. Certain of the June 30, 2009 information below has also been restated for the impact of the restatement discussed in Note 2.

**Table of Contents****OMNI ENERGY SERVICES CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table shows segment information (net of intercompany transactions) for the three and six months ended June 30, 2010 and 2009 (in thousands):

Three Months Ended June 30,	SEISMIC SERVICES	ENVIRONMENTAL AND OTHER SERVICES	EQUIPMENT LEASING (In thousands)	CORPORATE	TOTAL
<b>2010</b>					
Operating revenues	\$ 7,100	\$ 16,705	\$ 7,641	\$	\$ 31,446
Operating income (loss)	384	1,540	1,373	(3,101)	196
Interest (income) expense	(1)	115	19	959	1,092
Depreciation and amortization	243	1,542	1,574	72	3,431
Identifiable assets	17,887	50,904	50,761	11,169	130,721
Capital expenditures	463	541	144	14	1,162
<b>2009</b>					
Operating revenues	\$ 12,293	\$ 14,808	\$ 5,500	\$	\$ 32,601
Operating income (loss) (Restated)	2,222	1,673	(1,408)	(1,984)	503
Interest expense (Restated)	17	65	27	509	618
Depreciation and amortization	232	1,523	1,612	76	3,443
Identifiable assets (Restated)	19,997	46,057	56,524	13,206	135,784
Capital expenditures	222	123		12	357
Six Months Ended June 30,	SEISMIC SERVICES	ENVIRONMENTAL AND OTHER SERVICES	EQUIPMENT LEASING (In thousands)	CORPORATE	TOTAL
<b>2010</b>					
Operating revenues	\$ 11,730	\$ 32,205	\$ 14,356	\$	\$ 58,291
Operating income (loss)	(46)	2,430	1,854	(4,769)	(531)
Interest expense	23	226	42	1,957	2,248
Depreciation and amortization	457	3,091	3,152	143	6,843
Identifiable assets	17,887	50,904	50,761	11,169	130,721
Capital expenditures	785	605	144	15	1,549
<b>2009</b>					
Operating revenues	\$ 22,023	\$ 31,060	\$ 14,422	\$	\$ 67,505
Operating income (loss) (Restated)	3,482	3,838	(1,419)	(3,849)	2,052
Interest expense (Restated)	32	147	52	1,346	1,577
Depreciation and amortization	466	2,956	3,206	152	6,780
Identifiable assets (Restated)	19,997	46,057	56,524	13,206	135,784
Capital expenditures	232	511	537	12	1,292

**NOTE 9. INCOME TAXES**

We account for income taxes under the provisions of ASC 740, *Income Taxes* (ASC 740), 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, ASC 740 requires that all negative and positive evidence be considered (with more weight given to evidence that is objective and verifiable) in making the determination. Because we do not believe that a reliable estimate of taxable income for 2010 can be made as of June 30, 2010, we used the actual effective tax rate for the six months ended June 30, 2010 to determine our tax benefit for the period. We recorded income tax expense of \$0.2 million and \$0.2 million for the three months ended June 30, 2009 and 2010, respectively. We recorded income tax expense of \$1.0 million for the six months ended June 30, 2009 and income tax



benefit of \$0.8 million for the six months ended June 30, 2010.

On January 1, 2007, we adopted and implemented ASC 740 as it related to uncertainties in income taxes. As a result of the implementation, 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 10. 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

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**OMNI ENERGY SERVICES CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 was 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 \$0.4 million, and \$0.1 million and \$0.2 million for the three and six month periods ended June 30, 2009 and 2010, respectively.

**NOTE 11. SUBSEQUENT EVENTS**

On August 24, 2010, a holder of the Series C Preferred exercised 115,200 warrants with an exercise price of \$1.95 on a cashless basis. As a result of the cashless exercise, the Company issued 32,307 shares of common stock.

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

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

This discussion should be read in conjunction with the financial statements and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K/A, for the year ended December 31, 2009 filed with the Securities and Exchange Commission on August 26, 2010.

**FORWARD-LOOKING STATEMENTS**

Certain of the statements contained in all parts of this document (including the portion, if any, to which this Form 10-Q is attached), including, but not limited to, those relating to the Merger Agreement and Merger, the effect of changes in strategy and business discipline, future tax matters, future general and administrative expenses, future growth and expansion, expansion of our operations, review of acquisitions, expansion and improvement of our capabilities, integration of new technology into operations, credit facilities, redetermination of our borrowing base, attraction of new members to the management team, future compensation programs, new alliances, future capital expenditures (or funding thereof) and working capital, sufficiency of future working capital, borrowings and capital resources and liquidity, projected rates of return, timely conversion of backlog into revenue, retained earnings and dividend policies, projected cash flows from operations, future, outcome, effects or timing of any legal proceedings or contingencies, the impact of any change in accounting policies on our financial statements, realization of post-closing price adjustments with respect to the recent acquisitions, management's assessment of internal control over financial reporting, the identification of material weaknesses in internal control over financial reporting and any other statements regarding future operations, financial results, opportunities, growth, business plans and strategy and other statements that are not historical facts are forward looking statements. These forward-looking statements reflect our current view of future events and financial performance. When used in this document, the words budgeted, anticipate, estimate, expect, may, project, believe, intend, plan, potential, forecast, similar expressions are intended to be among the statements that identify forward-looking statements. These forward-looking statements speak only as of their dates and should not be unduly relied upon. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise. Such statements involve risks and uncertainties, including, but not limited to, those set forth under ITEM 1A. RISK FACTORS and other factors detailed in our Form 10-K/A for the year ended December 31, 2009 filed on August 26, 2010 and our other filings with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by reference to these risks and uncertainties.

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### **GENERAL**

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

We are 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; drilling fluid transportation and disposal services; other specialized services such as metal stress relieving, environmental pit cleaning, wellhead preheating and wellhead installation and (iii) oilfield equipment rental, for oil and gas companies operating in the Gulf of Mexico, the Rocky Mountain region and prolific shale regions in the South Central United States and the Appalachian Region. At June 30, 2010, we operated in three business segments Seismic Services, Environmental and Other Services, and Equipment Leasing. For information about the revenues, operating income (loss) and other financial information relating to the segments, see Note 8 to our Consolidated Financial Statements.

### **EXECUTIVE OVERVIEW**

Our business is driven by the supply and demand of hydrocarbon commodities in the United States and, to a certain extent, the international markets. Virtually all of our customers are involved in the exploration and/or production of oil and natural gas in the continental United States and the coastal waters of the Gulf of Mexico. Not surprisingly, a higher demand for oil and gas results in a higher demand for our equipment and services. We experienced a reduction in Seismic Services in the first and second quarter of 2010 related to weather and permitting issues and a general slow down in the exploration activity in the market areas in which we operate. As the economy has shown signs of recovery and the land-based rig count has increased, we have seen an increase in opportunities in the shale plays in the areas in which we operate. Increased activity in the Haynesville Shale area has led to increased demand for items in our equipment rental fleet. Additionally, the increase in rig count has expanded our opportunities in the environmental services sector of our business.

In the past, we have been very active in acquiring companies which we believe are well aligned with our Company philosophy. We plan to expand our presence in the environmental services industry in the markets in which we serve through organic growth and through additional acquisitions as such opportunities arise that we believe fit into our overall business strategy.

We continue to maintain a large and visible presence along the coast of Louisiana to service our customers in the offshore exploration and production markets. While the offshore rig counts in the Gulf of Mexico have fallen in recent years and remain stagnant halfway into 2010, we feel that there is still adequate activity in the area to allow us to remain profitable in that region.

Our acquisitions have allowed us to expand our operations into what currently appear to be more prolific areas of activity, such as the Rocky Mountains and prolific shale regions in the South Central United States. Additionally, we have expanded organically into the Marcellus Shale area in the northeast United States with our seismic services and equipment leasing operations.

We anticipate that the Haynesville, Eagle Ford and Marcellus Shale regions will continue to be a very active area in terms of natural gas exploration. Additionally, the Rocky Mountains have shown increased activity and we are currently expanding our equipment leasing operations into the Bakken Shale region in North Dakota.

#### ***Seismic Services.***

The market for our Seismic Services segment is South Central United States as well as the Appalachian Region in the Northeast United States. Additionally, we believe we are a leading provider of seismic drilling support services in the marsh, swamp, shallow water and contiguous dry land areas along the Gulf of Mexico (the Transition Zone ), primarily in Louisiana and Texas.

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 March 2007, we acquired certain assets of Cypress Consulting Services, Inc. d/b/a Cypress Energy Services ( Cypress ), thereby expanding our fleet of seismic drilling equipment and allowing us to better serve the needs of our seismic drilling customers. The entirety of the operations related to the assets purchased from Cypress is included in our Seismic Services segment.



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### ***Environmental and Other Services.***

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. Our services include dock-side and offshore hazardous and non-hazardous oilfield waste management and environmental cleaning services, including drilling rig, tank and vessel cleaning (tank degassing and demolition and rig pit cleaning), safe vessel entry, naturally occurring radioactive material ( NORM ) decontamination and surveys, platform abandonment services, pipeline flushing, gas dehydration, hydro blasting, and offshore sandblasting and painting. We also assist production operators in the maintenance and replacement of anodes, mist extractors, valves, glycol systems, chemical electric units and fire tubes. Demand for environmental services is directly impacted by offshore drilling and production activity in the Gulf of Mexico. Our dock side services are dependent upon the movement of vessels from offshore production platforms or drilling rigs which operate non-stop throughout the year, and 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 waters of the Gulf of Mexico, as reflected by the drilling rig count. Much of the cleaning and waste treatment is from residual waste created in the drilling process.

In March 2007, we acquired BMJ Industrial Investments, L.L.C. and its wholly-owned subsidiary Charles Holston, Inc. (collectively Holston ). This acquisition provided us with additional opportunities to expand our Environmental and Other Services segment with corrosion proofing and offshore cleaning capabilities. Through Holston we also expanded our transportation services to include vacuum truck, winch truck, roll-off truck and flat bed services supporting both drilling and production. Holston also offers transportation of non-hazardous by-products, such as saltwater and spent drilling fluids. Holston originally operated two saltwater disposal wells for the disposal of non-hazardous by-products.

In June 2007, we acquired certain assets of Bailey Operating, Inc. ( BOI ), which geographically extended our core businesses into the Barnett Shale region in North Texas. These assets included an additional saltwater disposal well for the disposal of non-hazardous by-products. Not only did we acquire an exceptional facility for the disposal of non-hazardous oilfield waste by-products, the acquisition also established a platform for further geographic expansion of our core businesses. We have expanded our Environmental and Other Services and Equipment Leasing operations into the Barnett Shale region. We have also expanded our operations into the Haynesville Shale and Fayetteville Shale areas.

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

The acquisition of Preheat, Inc. ( Preheat ) in February 2006 allowed us to offer additional services, including wellhead installation services and metal stress relieving services, to our customers in the Gulf of Mexico and southern United States.

With our acquisitions of Preheat, Rig Tools, Holston, and Industrial Lift we have expanded the list of equipment and services that we offer to customers operating in the Gulf of Mexico and Rocky Mountain regions and the prolific Barnett, Haynesville, Fayetteville and Marcellus Shale regions. Our Equipment Leasing segment has customer lists including virtually all of the major and independent oil and gas companies operating in the Gulf of Mexico and the Rocky Mountains and the prolific shale plays in the United States.

Our June 30, 2010 acquisition of Keeton provides us with opportunities in markets where completion fluids are in demand and allows cross-selling opportunities with our liquid mud operations mentioned above.

### ***Equipment Leasing.***

Through our subsidiaries Preheat, Rig Tools and Holston, we provide rental equipment for various oilfield and commercial applications including pressure washers, steam cleaners, water, mud and disposal pumps; mud, fuel and frac tanks; air compressors; wireline units; generators; high pressure washers; light towers; tubing; and handling tools.

Rental equipment is charged on a daily 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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The April 2008 acquisition of Industrial Lift Truck and Equipment Co., Inc. ( Industrial Lift ) allowed us to further expand the line of products that we provide for lease into specialized lifting units such as industrial forklifts and manlifts. Industrial Lift has operating facilities in Broussard, Louisiana and Lincoln, Texas.

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

**Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and provide a basis for making judgments about the carrying value of assets and liabilities that are not readily available through open market quotes. Estimates and assumptions are reviewed periodically, and actual results may differ from those estimates under different assumptions or conditions. We must use our judgment related to uncertainties in order to make these estimates and assumptions.

For a description of our critical accounting policies and estimates as well as certain sensitivity disclosures related to those estimates, see our Annual Report on Form 10-K/A for the year ended December 31, 2009 filed with the Securities and Exchange Commission on August 26, 2010. Our critical accounting policies and estimates have not changed materially during the six months ended June 30, 2010.

**RESULTS OF OPERATIONS**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009 (Restated)	2010	2009 (Restated)	2010
	(in thousands, except per share amounts)			
Operating revenue				
Services	\$ 27,102	\$ 23,805	\$ 53,083	\$ 43,934
Rentals	5,499	7,641	14,422	14,357
Total operating revenue	32,601	31,446	67,505	58,291
Operating expenses:				
Direct costs (exclusive of depreciation and amortization shown separately below)				
Services	18,308	18,535	36,496	34,634
Rentals	3,118	3,692	7,577	7,130
Depreciation and amortization	3,443	3,431	6,780	6,843
General and administrative expenses	7,156	5,592	14,527	10,215
Total operating expenses	32,025	31,250	65,380	58,822
Impairment of fixed assets	73		73	
Operating income (loss)	503	196	2,052	(531)
Interest expense	(618)	(1,092)	(1,577)	(2,248)
Other income (expense), net	(8)	3	(2)	23
Income (loss) before (provision) benefit for income taxes	(123)	(893)	473	(2,756)
(Provision) benefit for income taxes	(205)	(182)	(989)	772