BASIC ENERGY SERVICES INC
Form 10-Q
July 30, 2010

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

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 001-32693
Basic Energy Services, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**54-2091194**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
500 W. Illinois, Suite 100 Midland, Texas	**79701**
(Address of principal executive offices)	*(Zip code)*

(432) 620-5500
(Registrant s telephone number, including area code)

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 þ No o

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 o No o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ

41,267,671 shares of the registrant s Common Stock were outstanding as of July 23, 2010.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains certain statements that are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, among other things, the risk factors discussed in this quarterly report and in our most recent annual report on Form 10-K and other factors, most of which are beyond our control.

The words believe, may, estimate, continue, anticipate, intend, plan, expect and similar expressions identify forward-looking statements. All statements other than statements of current or historical fact contained in this quarterly report are forward-looking statements. Although we believe that the forward-looking statements contained in this quarterly report are based upon reasonable assumptions, the forward-looking events and circumstances discussed in this quarterly report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Important factors that may affect our expectations, estimates or projections include:

- a decline in, or substantial volatility of, oil and gas prices, and any related changes in expenditures by our customers;
- the effects of future acquisitions on our business;
- changes in customer requirements in markets or industries we serve;
- competition within our industry;
- general economic and market conditions;
- our access to current or future financing arrangements;
- our ability to replace or add workers at economic rates; and
- environmental and other governmental regulations.

Our forward-looking statements speak only as of the date of this quarterly report. Unless otherwise required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This quarterly report includes market share and industry data and forecasts that we obtained from internal company surveys (including estimates based on our knowledge and experience in the industry in which we operate), market research, consultant surveys, publicly available information, and industry publications and surveys. Industry surveys and publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. Although we believe such information is accurate and reliable, we have not independently verified any of the data from third party sources cited or used for our management s industry estimates, nor have we ascertained the underlying economic assumptions relied upon therein. For example, the number of onshore well servicing rigs in the U.S. could be lower than our estimate to the extent our two larger competitors have continued to report as stacked rigs equipment that is not actually complete or subject to refurbishment. Statements as to our position relative to our competitors or as to market share refer to the most recent available data.

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PART I FINANCIAL INFORMATION
ITEM 1. ***FINANCIAL STATEMENTS***

Basic Energy Services, Inc.
Consolidated Balance Sheets
(in thousands, except share data)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 73,775	$ 125,357
Restricted cash	15,247	14,123
Trade accounts receivable, net of allowance of $3,804 and $4,757, respectively	117,941	85,945
Accounts receivable related parties	57	65
Income tax receivable	76,886	61,786
Inventories	20,320	10,962
Prepaid expenses	4,717	6,158
Other current assets	7,768	9,831
Deferred tax assets	8,770	8,941
Total current assets	325,481	323,168
Property and equipment, net	633,965	666,642
Deferred debt costs, net of amortization	7,287	8,041
Goodwill	2,023	2,806
Other intangible assets, net of amortization	36,911	35,807
Other assets	6,058	3,077
Total assets	$ 1,011,725	$ 1,039,541
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 26,229	$ 22,850
Accrued expenses	48,396	42,196
Current portion of long-term debt	24,707	25,967
Other current liabilities	1,580	504
Total current liabilities	100,912	91,517
Long-term debt, less unamortized discount on senior secured notes of $10,426 and $11,363, respectively	470,928	475,845
Deferred tax liabilities	119,743	122,221
Other long-term liabilities	10,286	9,809
Commitments and contingencies		

Stockholders equity:		
Preferred stock; $.01 par value; 5,000,000 shares authorized; none designated or issued at June 30, 2010 and December 31, 2009, respectively		
Common stock; $.01 par value; 80,000,000 shares authorized; 42,394,809 shares issued, and 41,268,210 shares outstanding at June 30, 2010; 42,394,809 shares issued, and 40,663,979 shares outstanding at December 31, 2009.	424	424
Additional paid-in capital	332,782	330,553
Retained earnings (deficit)	(15,656)	23,135
Treasury stock, at cost, 1,126,599 and 1,730,830 shares at June 30, 2010 and December 31, 2009, respectively	(7,694)	(13,963)
Total stockholders equity	309,856	340,149
Total liabilities and stockholders equity	$ 1,011,725	$ 1,039,541

See accompanying notes to consolidated financial statements.

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Basic Energy Services, Inc.
Consolidated Statements of Operations and Comprehensive Income
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
Revenues:				
Well servicing	$ 49,529	$ 36,399	$ 91,325	$ 85,213
Fluid services	58,801	49,088	110,948	114,065
Completion and remedial services	61,533	29,373	106,767	66,632
Contract drilling	5,269	3,988	9,058	7,626
Total revenues	175,132	118,848	318,098	273,536
Expenses:				
Well servicing	36,734	27,825	68,834	64,742
Fluid services	43,425	35,381	84,365	79,968
Completion and remedial services	37,660	21,484	67,383	47,378
Contract drilling	3,725	3,338	6,995	6,607
General and administrative, including stock-based compensation of $1,439 and $1,290 in three months ended June 30, 2010 and 2009, and $2,589 and $2,665 in the six months ended June 30, 2010 and 2009, respectively	26,820	27,424	51,897	56,503
Depreciation and amortization	34,250	32,413	67,348	65,150
Loss on disposal of assets	463	474	1,174	1,339
Goodwill impairment		(82)		204,014
Total expenses	183,077	148,257	347,996	525,701
Operating loss	(7,945)	(29,409)	(29,898)	(252,165)
Other income (expense):				
Interest expense	(11,778)	(5,974)	(23,442)	(11,710)
Interest income	24	173	50	393
Gain on bargain purchase	1,772		1,772	
Other income (expense)	111	118	192	252
Loss from continuing operations before income taxes	(17,816)	(35,092)	(51,326)	(263,230)
Income tax benefit	7,144	13,856	19,063	59,169

Net loss	$ (10,672)	$ (21,236)	$ (32,263)	$ (204,061)
Earnings per share of common stock:				
Basic	$ (0.27)	$ (0.54)	$ (0.81)	$ (5.13)
Diluted	$ (0.27)	$ (0.54)	$ (0.81)	$ (5.13)

See accompanying notes to consolidated financial statements.

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Basic Energy Services, Inc.
Consolidated Statements of Stockholders Equity
(in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total Stockholders Equity
Balance December 31, 2009	42,394,809	$ 424	$ 330,553	$ (13,963)	$ 23,135	$ 340,149
Issuances of restricted stock				6,501	(6,501)	
Amortization of share-based compensation			2,589			2,589
Purchase of treasury stock				(316)		(316)
Exercise of stock options / vesting of restricted stock			(360)	84	(27)	(303)
Net loss					(32,263)	(32,263)
Balance June 30, 2010 (unaudited)	42,394,809	$ 424	$ 332,782	$ (7,694)	$ (15,656)	$ 309,856

See accompanying notes to consolidated financial statements.

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Basic Energy Services, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$ (32,263)	$ (204,061)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67,348	65,150
Gain on bargain purchase	(1,772)	
Goodwill impairment		204,014
Accretion on asset retirement obligation	81	73
Change in allowance for doubtful accounts	(953)	558
Amortization of deferred financing costs	762	630
Amortization of discount on senior secured notes	937	
Non-cash compensation	2,589	2,665
(Gain) loss on disposal of assets	1,174	1,339
Deferred income taxes	(3,311)	(31,507)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(30,886)	73,385
Inventories	(1,439)	658
Prepaid expenses and other current assets	3,747	3,380
Other assets	(2,981)	(219)
Accounts payable	3,379	(10,507)
Excess tax expense (benefit) from exercise of employee stock options / vesting of restricted stock	360	317
Income tax payable	(15,460)	(24,213)
Other liabilities	1,587	(243)
Accrued expenses	5,505	(8,370)
Net cash provided by (used in) operating activities	(1,596)	73,049
Cash flows from investing activities:		
Purchase of property and equipment	(25,555)	(25,187)
Proceeds from sale of assets	1,787	1,912
Change in restricted cash	(1,124)	
Payments for other long-term assets	(350)	(995)
Payments for businesses, net of cash acquired	(10,312)	(1,190)
Net cash used in investing activities	(35,554)	(25,460)

Cash flows from financing activities:		
Payments of debt	(13,805)	(15,475)
Purchase of treasury stock	(316)	(6,104)
Excess tax (expense) benefit from exercise of employee stock options / vesting of restricted stock	(360)	(317)
Tax withholding from exercise of stock options	(8)	(5)
Exercise of employee stock options	65	37
Deferred loan costs and other financing activities	(8)	(2,556)
Net cash used in financing activities	(14,432)	(24,420)
Net increase (decrease) in cash and equivalents	(51,582)	23,169
Cash and cash equivalents beginning of period	125,357	111,135
Cash and cash equivalents end of period	$ 73,775	$ 134,304

See accompanying notes to consolidated financial statements.

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BASIC ENERGY SERVICES, INC.
Notes to Consolidated Financial Statements
June 30, 2010 (unaudited)

1. Basis of Presentation and Nature of Operations

Basis of Presentation

The accompanying unaudited consolidated financial statements of Basic Energy Services, Inc. and subsidiaries (Basic or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been made in the accompanying unaudited financial statements.

Nature of Operations

Basic provides a range of well site services to oil and gas drilling and producing companies, including well servicing, fluid services, completion and remedial services, and contract drilling. These services are primarily provided using Basic s fleet of equipment. Basic s operations are concentrated in the major United States onshore oil and gas producing regions in Texas, New Mexico, Oklahoma, Arkansas, Kansas, Louisiana, and the Rocky Mountain states.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Basic and its wholly-owned subsidiaries. Basic has no variable interest in any other organization, entity, partnership, or contract. All intercompany transactions and balances have been eliminated.

Estimates and Uncertainties

Preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas where critical accounting estimates are made by management include:

Depreciation and amortization of property and equipment and intangible assets

Impairment of property and equipment, goodwill and intangible assets

Allowance for doubtful accounts

Litigation and self-insured risk reserves

Fair value of assets acquired and liabilities assumed

Stock-based compensation

Income taxes

Asset retirement obligations

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Revenue Recognition

Well Servicing Well servicing consists primarily of maintenance services, workover services, completion services, plugging and abandonment services and rig manufacturing and servicing. Basic recognizes revenue when services are performed, collection of the relevant receivables is probable, persuasive evidence of an arrangement exists and the price is fixed or determinable. Basic prices well servicing by the hour or by the day of service performed.

Fluid Services Fluid services consists primarily of the sale, transportation, storage and disposal of fluids used in drilling, production and maintenance of oil and natural gas wells, and well site construction and maintenance services. Basic recognizes revenue when services are performed, collection of the relevant receivables is probable, persuasive evidence of an arrangement exists and the price is fixed or determinable. Basic prices fluid services by the job, by the hour or by the quantities sold, disposed of or hauled.

Completion and Remedial Services Completion and remedial services consists primarily of pressure pumping services, focused on cementing, acidizing and fracturing, nitrogen units, coiled tubing units, snubbing units, and rental and fishing tools. Basic recognizes revenue when services are performed, collection of the relevant receivables is probable, persuasive evidence of an arrangement exists and the price is fixed or determinable. Basic prices completion and remedial services by the hour, day, or project depending on the type of service performed. When Basic provides multiple services to a customer, revenue is allocated to the services performed based on the fair values of the services.

Contract Drilling Contract drilling consists primarily of drilling wells to a specified depth using shallow and medium depth rigs. Basic recognizes revenues based on either a daywork contract, in which an agreed upon rate per day is charged to the customer, or a footage contract, in which an agreed upon rate is charged per the number of feet drilled.

Taxes assessed on sales transactions are presented on a net basis and are not included in revenue.

Inventories

For Rental and Fishing Tools, inventories consisting mainly of grapples and drill bits are stated at the lower of cost or market, with cost being determined on the average cost method. Other inventories, consisting mainly of manufacturing raw materials, rig components, repair parts, drilling and completion materials and gravel, are held for use in the operations of Basic and are stated at the lower of cost or market, with cost being determined on the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost or at estimated fair value at acquisition date if acquired in a business combination. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of the assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation and amortization are removed from the related accounts and any gain or loss is reflected in operations. All property and equipment are depreciated or amortized (to the extent of estimated salvage values) on the straight-line method. The components of a well servicing rig generally require replacement or refurbishment during the well servicing rig s life and are depreciated over their estimated useful lives, which ranges from 3 to 15 years. The costs of the original components of a purchased or acquired well servicing rig are not maintained separately from the base rig.

Impairments

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment at least annually, or whenever, in management s judgment, events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of such assets to estimated undiscounted future cash flows expected to be generated by the assets. Expected future cash flows and carrying values are aggregated at their lowest identifiable level. If the carrying amount of such assets exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of such assets exceeds the fair value of the assets. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities, if material, of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet. These assets are normally sold within a short period of time through a third party auctioneer.

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Basic s goodwill and trade name intangibles are considered to have an indefinite useful economic life and are not amortized. Basic assesses impairment of its goodwill and trade name intangibles annually as of December 31 or on an interim basis if events or circumstances indicate that the fair value of the assets have decreased below their carrying value. A two-step process is required for testing impairment of goodwill. First, the fair value of each reporting unit is compared to its carrying value to determine whether an indication of impairment exists. If impairment is indicated, then the fair value of the reporting unit s goodwill is determined by allocating the unit s fair value to its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill is measured as the excess of its carrying value over its fair value.

The Company performed an assessment of goodwill as of March 31, 2009. A triggering event requiring this assessment was deemed to have occurred because the oil and gas services industry continued to decline in the first quarter of 2009 and the Company s common stock price declined by 50% from December 31, 2008 to March 31, 2009. For Step One of the impairment testing, the Company tested three reporting units for goodwill impairment: well servicing, fluid services, and completion and remedial services. The Company s contract drilling reporting unit did not carry any goodwill, and was not subject to the test.

To estimate the fair value of the reporting units, the Company used a weighting of the discounted cash flow method and the public company guideline method of determining fair value of a business unit. The Company weighted the discounted cash flow method 85% and public company guideline method 15%, due to differences between the Company s reporting units and the peer companies size, profitability and diversity of operations. In order to validate the reasonableness of the estimated fair values obtained for the reporting units, a reconciliation of fair value to market capitalization was performed for each unit on a stand-alone basis. A control premium, derived from market transaction data, was used in this reconciliation to ensure that fair values were reasonably stated in conjunction with the Company s capitalization. The measurement date for the Company s common stock price and market capitalization was the closing price on March 31, 2009.

Based on the results of Step One of the impairment test, impairment was indicated in all three of the assessed reporting units. As such, the Company was required to perform Step Two assessment on all three of the reporting units. Step Two requires the allocation of the estimated fair value to the tangible and intangible assets and liabilities of the respective unit. This assessment indicated that $204.1 million was considered impaired as of March 31, 2009. This non-cash charge eliminated all of the Company s goodwill as of March 31, 2009.

Additionally, the Company performed an assessment of the Company s long-lived assets for impairment. This assessment is performed as a comparison of the undiscounted future cash flows of each reporting unit to the carrying value of the assets in each unit. No impairment was indicated by this test.

Deferred Debt Costs

Basic capitalizes certain costs in connection with obtaining its borrowings, such as lender s fees and related attorney s fees. These costs are amortized to interest expense using the effective interest method.

Deferred debt costs were approximately $10.4 million net of accumulated amortization of $3.1 million and $10.4 million net of accumulated amortization of $2.3 million at June 30, 2010 and December 31, 2009, respectively. Amortization of deferred debt costs totaled approximately $380,000 and $391,000 for the three months ended June 30, 2010 and 2009, respectively. Amortization of deferred debt costs totaled approximately $762,000 and $630,000 for the six months ended June 30, 2010 and 2009, respectively

The Company recorded a charge of $3.5 million during the third quarter of 2009 related to the write-down of debt costs associated with the Company s revolving credit facility. The revolving credit facility was terminated on July 31, 2009. Additionally, the Company incurred $5.2 million of deferred debt costs associated with the issuance of the Company s Senior Secured Notes on July 31, 2009.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets not subject to amortization are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Basic completes its assessment of goodwill and trade name intangible impairment December 31 of each year.

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Basic had trade names of $1.6 million and $0 as of June 30, 2010 and December 31, 2009, respectively. Trade names have an indefinite life and are tested for impairment annually.

The changes in the carrying amount of goodwill for the six months ended June 30, 2010, are as follows (in thousands):

	Well Servicing	Fluid Services	Completion and Remedial Services	Contract Drilling	Total
Balance as of December 31, 2009	$	$ 89	$ 2,717	$	$ 2,806
Goodwill adjustments		218	(1,001)		(783)
Balance as of June 30, 2010	$	$ 307	$ 1,716	$	$ 2,023

Basic s intangible assets subject to amortization consist of customer relationships, non-compete agreements and rig engineering plans. The gross carrying amount of customer relationships subject to amortization was $38.3 million as of June 30, 2010 and $37.9 million as of December 31, 2009, respectively. The gross carrying amount of non-compete agreements subject to amortization totaled approximately $4.3 million and $4.4 million at June 30, 2010 and December 31, 2009, respectively. The gross carrying amount of rig engineering plans subject to amortization was $746,000 and $0 as of June 30,2010 and December 31,2009, respectively. Accumulated amortization related to these intangible assets totaled approximately $8.0 million and $6.5 million at June 30, 2010 and December 31, 2009, respectively. Amortization expense for the three months ended June 30, 2010 and 2009 was approximately $844,000 and $803,000, respectively. Amortization expense for the six months ended June 30, 2010 and 2009 was approximately $1.7 million and $1.6 million, respectively. Other intangibles net of accumulated amortization allocated to reporting units as of June 30, 2010 were $1.4 million, $2.8 million, $25.8 million and $5.3 million for well servicing, fluid services, completion and remedial services, and contract drilling, respectively. No adjustments were made to prior periods to reflect subsequent adjustments to acquisitions due to immateriality.

Customer relationships are amortized over a 15-year life, non-compete agreements are amortized over a five-year life, and rig engineering plans are amortized over a 15-year life.

Stock-Based Compensation

Basic s stock-based awards consist of stock options and restricted stock. Stock options issued are valued on the grant date using the Black-Scholes-Merton option-pricing model, and restricted stock issued is valued based on the fair value of Basic s common stock at grant date. All stock-based awards are adjusted for an expected forfeiture rate and amortized over the vesting period.

Income Taxes

Basic recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in the period that includes the statutory enactment date. A valuation allowance for deferred tax assets is recognized when it is more likely than not that the benefit of deferred tax assets will not be realized.

Interest charges are recorded in interest expense and penalties are recorded in income tax expense.

Concentrations of Credit Risk

Financial instruments, which potentially subject Basic to concentration of credit risk, consist primarily of temporary cash investments and trade receivables. Basic restricts investment of temporary cash investments to financial institutions with high credit standing. Basic s customer base consists primarily of multi-national and independent oil and natural gas producers. Basic performs ongoing credit evaluations of its customers but generally does not require collateral on its trade receivables. Credit risk is considered by management to be limited due to the large number of customers comprising its customer base. Basic maintains an allowance for potential credit losses on

its trade receivables, and such losses have been within management s expectations.

Basic did not have any one customer which represented 10% or more of consolidated revenue during the three months ended June 30, 2010 or 2009.

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Asset Retirement Obligations

Basic records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets and capitalizes an equal amount as a cost of the asset depreciating it over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each quarter to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, acquisition or construction of assets, and settlements of obligations.

Environmental

Basic is subject to extensive federal, state and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require Basic to remove or mitigate the adverse environmental effects of disposal or release of petroleum, chemical and other substances at various sites. Environmental expenditures are expensed or capitalized depending on the future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable and the costs can be reasonably estimated.

Litigation and Self-Insured Risk Reserves

Basic estimates its reserves related to litigation and self-insured risks based on the facts and circumstances specific to the litigation and self-insured claims, its past experience with similar claims and the likelihood of the future event occurring. Basic maintains accruals in the consolidated balance sheets to cover self-insurance retentions (See note 6).

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06). ASU No. 2010-06 requires the disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements. It also requires that Level 3 fair value measurements present information about purchases, sales, issuances and settlements. Fair value disclosures should also disclose valuation techniques and inputs used to measure both recurring and nonrecurring fair value measurements. This update became effective for the Company on January 1, 2010 except for the disclosures about purchases, sales, issuances, and settlements in the roll forward in activity in Level 3 fair value measurements, which become effective January 1, 2011. This update will not change the techniques the Company uses to measure fair values and is not expected to have a material impact on the Company s consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events* (ASU No. 2010-09). ASU No. 2010-09 removes the requirement that SEC filers disclose the date through which subsequent events have been evaluated. This update became effective January 1, 2010. The Company will no longer disclose the date through which subsequent events have been evaluated.

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3. Acquisitions

In the first six months of 2010 and for the year ended December 31, 2009, Basic acquired either substantially all of the assets or all of the outstanding capital stock of each of the following businesses, each of which was accounted for using the purchase method of accounting. The following table summarizes the provisional values at the date of acquisition (in thousands):

	Closing Date	Total Cash Paid (net of cash acquired)
Team Snubbing Services, Inc.	December 28, 2009	$ 7,010
Total 2009		$ 7,010
Rocky Mountain Cementers, Inc.	March 1, 2010	$ 687
New Tech Systems, Inc	April 20, 2010	$ 900
Taylor Rig, LLC	May 3, 2010	$ 8,699
Total 2010		$ 10,286

The operations of each of the acquisitions listed above are included in Basic s statement of operations as of each respective closing date. Basic does not believe the pro forma effect of any of the acquisitions completed in 2009 or 2010 are material, either individually or when aggregated, to the reported results of operations.

In conjunction with the Taylor Rig, LLC acquisition, Basic acquired assets and liablilities worth approximately $10.5 million. The excess of the fair value of the assets and liabilities acquired over the purchase price was recorded as a bargain purchase gain on acquisition, in accordance with accounting standards.

Contingent Earn-out Arrangements and Purchase Price Allocations

Contingent earn-out arrangements are generally arrangements entered into on certain acquisitions to encourage the owner/manager to continue operating and building the business after the purchase transaction. The contingent earn-out arrangements of the related acquisitions are generally linked to certain financial measures and performance of the assets acquired in the various acquisitions. For acquisitions that occurred prior to January 1, 2009, all amounts paid or reasonably accrued for related to the contingent earn-out payments are reflected as increases to the goodwill associated with the acquisition or compensation expense depending on the terms and conditions of the earn-out arrangement. For any acquisition that occurred after December 31, 2008, the contingent earn-out is measured at fair value at the date of acquisition and any adjustments to that fair value are recorded through the statement of operations.

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4. Property and Equipment

Property and equipment consisted of the following (in thousands):

	June 30, 2010	December 31, 2009
Land	$ 6,921	$ 5,992
Buildings and improvements	38,498	34,694
Well service units and equipment	390,811	384,195
Fluid services equipment	138,141	135,246
Brine and fresh water stations	10,705	10,606
Frac/test tanks	135,814	132,057
Pressure pumping equipment	161,574	163,869
Construction equipment	26,229	25,641
Contract drilling equipment	61,138	60,133
Disposal facilities	62,788	57,457
Vehicles	37,159	38,383
Rental equipment	40,737	38,660
Aircraft	4,251	4,251
Software	22,230	20,057
Other	7,415	9,712
	1,144,411	1,120,953
Less accumulated depreciation and amortization	510,446	454,311
Property and equipment, net	$ 633,965	$ 666,642

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Basic is obligated under various capital leases for certain vehicles and equipment that expire at various dates during the next five years. The gross amount of property and equipment and related accumulated amortization recorded under capital leases and included above consisted of the following (in thousands):

	June 30, 2010	December 31, 2009
Light vehicles	$ 24,984	$ 25,019
Well service units and equipment	2,418	2,100
Fluid services equipment	69,437	64,734
Pressure pumping equipment	17,754	17,440
Construction equipment	1,510	1,034
Software	15,548	10,231
Other	244	
	131,895	120,558
Less accumulated amortization	55,669	45,603
	$ 76,226	$ 74,955

Amortization of assets held under capital leases of approximately $5.9 million and $5.1 million for the three months ended June 30, 2010 and 2009 and $10.9 million and $10.1 million for the six months ended June 30, 2010 and 2009, respectively, is included in depreciation and amortization expense in the consolidated statements of operations.

5. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	June 30, 2010	December 31, 2009
7.125% Senior Notes	$ 225,000	$ 225,000
11.625% Senior Secured Notes	225,000	225,000
Unamortized discount	(10,426)	(11,363)
Capital leases and other notes	56,061	63,175
	495,635	501,812
Less current portion	24,707	25,967
	$ 470,928	$ 475,845

Senior Notes

On April 12, 2006, Basic issued $225.0 million of 7.125% Senior Notes due April 2016 (the Senior Notes) in a private placement. Proceeds from the sale of the Senior Notes were used to retire the outstanding balance on Basic s $90.0 million Term B Loan and to pay down approximately $96.0 million under Basic s previous revolving credit facility. The Senior Notes are unsecured. Under the terms of the sale of the Senior Notes, Basic was required to take appropriate steps to offer to exchange other Senior Notes with the same terms that have been registered with the Securities and Exchange Commission for the private placement Senior Notes. Basic completed the exchange offer for all of the Senior Notes on October 16, 2006.

Basic issued the Senior Notes pursuant to an indenture, dated as of April 12, 2006, by and among Basic, the guarantor parties thereto and The Bank of New York Trust Company, N.A., as trustee (the Senior Notes Indenture). Interest on the Senior Notes accrues at a rate of 7.125% per year. Interest payments on the Senior Notes are due semi-annually, on April 15 and October 15.

The Senior Notes are redeemable at the option of Basic on or after April 15, 2011 at the specified redemption price as described in the indenture governing the Senior Notes (the Senior Notes Indenture). Prior to April 15, 2011, Basic may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed plus the Applicable Premium as defined in the Senior Notes Indenture.

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Following a change of control, as defined in the Senior Notes Indenture, Basic will be required to make an offer to repurchase all or any portion of the Senior Notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest to the date of repurchase.

Pursuant to the Senior Notes Indenture, Basic is subject to covenants that limit the ability of Basic and its restricted subsidiaries to, among other things: incur additional indebtedness; pay dividends or repurchase or redeem capital stock; make certain investments; incur liens; enter into certain types of transactions with affiliates; limit dividends or other payments by restricted subsidiaries; and sell assets or consolidate or merge with or into other companies. These limitations are subject to a number of important qualifications and exceptions set forth in the Senior Notes Indenture. Basic was in compliance with the restrictive covenants at June 30, 2010.

As part of the issuance of the above-mentioned Senior Notes, Basic incurred debt issuance costs of approximately $4.6 million, which are being amortized to interest expense using the effective interest method over the term of the Senior Notes.

The Senior Notes are jointly and severally guaranteed by Basic and each of its current subsidiaries, other than two immaterial subsidiaries. As of June 30, 2010, these two subsidiaries held no assets and performed no operations. Basic Energy Services, Inc., the ultimate parent company, does not have any independent operating assets or operations.

Senior Secured Notes

On July 31, 2009, Basic issued $225.0 million aggregate principal amount of 11.625% Senior Secured Notes due 2014 (the Senior Secured Notes) in a private placement. The Senior Secured Notes are jointly and severally, and unconditionally, guaranteed on a senior secured basis initially by all of Basic s current subsidiaries other than two immaterial subsidiaries. As of June 30, 2010, these two subsidiaries held no assets and performed no operations. Under the terms of the sale of the Senior Secured Notes, Basic was required to take appropriate steps to offer to exchange other Senior Secured Notes with the same terms that have been registered with the Securities and Exchange Commission for the private placement Senior Secured Notes. Basic completed the exchange offer for all of the Senior Secured Notes on November 25, 2009.

The net proceeds from the issuance of the Senior Secured Notes were $207.7 million after discounts of $12.1 million and offering expenses of $5.2 million. Basic used the net proceeds from the offering, along with other funds, to repay all outstanding indebtedness under its revolving credit facility, which Basic terminated in connection with the offering.

The Senior Secured Notes and the related guarantees were issued pursuant to an indenture dated as of July 31, 2009 (the Senior Secured Notes Indenture), by and among Basic, the guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., a national banking association, as trustee. The obligations under the Senior Secured Notes Indenture are secured as set forth in the Senior Secured Notes Indenture and in the Security Agreement (as defined below), in favor of the trustee, by a first-priority lien (other than Permitted Collateral Liens, as defined in the Senior Secured Notes Indenture) in favor of the trustee, on the Collateral (as defined below) described in the Security Agreement.

Interest on the Senior Secured Notes accrues at a rate of 11.625% per year. Interest on the Senior Secured Notes is payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 2010. The Senior Secured Notes mature on August 1, 2014.

The Senior Secured Notes Indenture contains covenants that, among other things, limit Basic s ability and the ability of certain of its subsidiaries to: incur additional indebtedness; pay dividends or repurchase or redeem capital stock; make certain investments; incur liens; enter into certain types of transactions with its affiliates; limit dividends or other payments by its restricted subsidiaries to Basic; and sell assets (including Collateral under the Security Agreement), or consolidate or merge with or into other companies. These limitations are subject to a number of important exceptions and qualifications. Basic was in compliance with the restrictive covenants at June 30, 2010.

If Basic or its restricted subsidiaries sell, transfer or otherwise dispose of assets or other rights or property that constitute Collateral (including the same or the issuance of equity interests in a restricted subsidiary that owns Collateral such that it thereafter is no longer a restricted subsidiary, a Collateral Disposition), Basic is required to deposit any cash or cash equivalent proceeds constituting net available proceeds into a segregated account under the sole control of the trustee that includes only proceeds from the Collateral

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Disposition and interest earned thereon (an Asset Sale Proceeds Account). The Asset Sale Proceeds Account will be subject to a first-priority lien in favor of the trustee, and the proceeds are subject to release from the account for specified uses. These permitted uses include: acquiring additional assets of a type constituting Collateral (Additional Assets), provided the trustee has or is immediately granted a perfected first-priority security interest (subject only to Permitted Collateral Liens) in such Additional Assets; and repurchasing or redeeming the Senior Secured Notes.

Upon an Event of Default (as defined in the Senior Secured Notes Indenture), the trustee or the holders of at least 25% in aggregate principal amount of the Senior Secured Notes then outstanding may declare the entire principal of all the Senior Secured Notes to be due and payable immediately.

Basic may, at its option, redeem all or part of the Senior Secured Notes, at any time on or after February 1, 2012, at a redemption price equal to 100% of the principal amount thereof, plus a premium declining ratably to par and accrued and unpaid interest to the date of redemption. Basic may redeem some or all of the Senior Secured Notes before February 1, 2012, at a redemption price equal to 100% of the principal amount of the Senior Secured Notes to be redeemed, plus the Applicable Premium (as defined in the Senior Secured Notes Indenture) and accrued and unpaid interest to the date of redemption.

In addition, at any time before February 1, 2012, Basic, at its option, may redeem up to 35% of the aggregate principal amount of the Senior Secured Notes issued under the Senior Secured Notes Indenture with the net cash proceeds of one or more qualified equity offerings at a redemption price of 111.625% of the principal amount of the Senior Secured Notes to be redeemed, plus accrued and unpaid interest to the date of redemption, as long as at least 65% of the aggregate principal amount of the Senior Secured Notes issued under the Senior Secured Notes Indenture remains outstanding immediately after the occurrence of such redemption, and such redemption occurs within 90 days of the date of the closing of any such qualified equity offering.

Following a change of control, as defined in the Senior Secured Notes Indenture, holders of the Senior Secured Notes will be entitled to require Basic to purchase all or a portion of the Senior Secured Notes at 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase.

On July 31, 2009, Basic and each of the guarantors party to the Senior Secured Notes Indenture (the Grantors) entered into a Security Agreement (the Security Agreement) in favor of The Bank of New York Mellon Trust Company, N.A., a national banking association, as trustee under the Senior Secured Notes Indenture, to secure payment of the Senior Secured Notes and related guarantees. The Liens (as defined in the Security Agreement) granted by each of the Grantors under the Security Agreement consist of a security interest in all of the following personal property now owned or at any time thereafter acquired by such Grantor or in which such Grantor now has or at any time in the future may acquire any right, title or interest and whether existing as of the date of the Security Agreement or thereafter coming into existence (together with the Aircraft Collateral (as defined in the Security Agreement), the Collateral), as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the obligations of the Grantors under the Senior Secured Notes Indenture, the related Senior Secured Notes and the security documents:

(i) all Commercial Tort Claims;

(ii) all Contracts (as defined in the Security Agreement);

(iii) all Documents;

(iv) all Equipment (other than the Aircraft Collateral);

(v) all General Intangibles (excluding Payment Intangibles except to the extent included pursuant to clause (xv) below);

(vi)all Goods (as defined in the Security Agreement);

(vii) all Intellectual Property (as defined in the Security Agreement);

(viii) all Investment Property;

(ix) all Letter-of-Credit Rights (whether or not the letter of credit is evidenced by a writing);

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(x) all Supporting Obligations;

(xi) each Asset Sale Proceeds Account (as defined in the Security Agreement) and all deposits, Securities and Financial Assets (as defined in the Security Agreement) therein and interest or other income thereon and investments thereof, and all property of every type and description in which any proceeds of any Collateral Disposition or other disposition of Collateral are invested or upon which the trustee is at any time granted, or required to be granted, a Lien to secure the Obligations (as defined in the Security Agreement) as set forth in Section 4.12 of the Senior Secured Notes Indenture and all proceeds and products of the Collateral described in this clause (xi);

(xii) all other personal property (other than Excluded Property), whether tangible or intangible, not otherwise described above;

(xiii) whatever is received (whether voluntary or involuntary, whether cash or non cash, including proceeds of insurance and condemnation awards, rental or lease payments, accounts, chattel paper, instruments, documents, contract rights, general intangibles, equipment and/or inventory) upon the lease, sale, charter, exchange, transfer, or other disposition of any of the Collateral described in clauses (i) through (xii) above;

(xiv) all books and records pertaining to the Collateral; and

(xv) to the extent not otherwise included, all Proceeds, Supporting Obligations and products (including, without limitation, any Accounts, Chattel Paper, Instruments or Payment Intangibles constituting Proceeds, Supporting Obligations or products) of any and all of the foregoing and all collateral security and guarantees given by any Person with respect to any of the foregoing; provided, that notwithstanding the foregoing provisions, Collateral shall not include Excluded Property.

Excluded Property means the following, whether now owned or at any time hereafter acquired by any Grantor or in which such Grantor now has or at any time in the future may acquire any right, title or interest and whether now existing or hereafter coming into existence: Maritime Assets (as defined in the Security Agreement), cash and cash equivalents (as such terms are defined by GAAP) other than those maintained in an Asset Sales Proceeds Account, Securities Accounts containing only cash and cash equivalents other than any Asset Sale Proceeds Account and Security Entitlements relating to any such Securities Account, equity interests in any subsidiary of any Grantor, Inventory, trucks, trailers and other motor vehicles covered by a certificate of title law of any state, property and/or transactions to which Article 9 of the UCC does not apply pursuant to Section 9-109 thereof, certain computer software and Equipment acquired prior to the date thereof and subject to a lien securing purchase money indebtedness as of the date thereof if (but only to the extent that) the applicable documentation relating to such lien prohibits the granting of a lien on such Equipment, Equipment leased by any Grantor, other than pursuant to a capitalized lease, if (but only to the extent that) the lien securing the Equipment prohibits the granting of a lien on such Equipment, certain General Intangibles, governmental approvals or other rights arising under any contracts, instruments, permits, licenses or other documents if the granting of a security interest therein would cause a breach of a restriction on the granting of a security interest therein or the assignment thereof in favor of a third party, subject to exceptions as set forth in the Security Agreement, and Accounts, Chattel Paper, Instruments and Payment Intangibles to the extent they are not Proceeds, Supporting Obligations or products of the Collateral.

The following capitalized terms used above are as defined in the Uniform Commercial Code (UCC) of the State of New York, or such other jurisdiction as may be applicable under the terms of the Security Agreement) on the date of the Security Agreement: Accounts, Chattel Paper, Commercial Tort Claims, Deposit Account, Documents, Electronic Chattel Paper, Equipment, Financial Assets, General Intangibles, Instruments, Inventory, Investment Property, Letter-of-Credit Rights, Payment Intangibles, Proceeds, Securities, Securities Accounts, Security Entitlements, Supporting Obligations, and Tangible Chattel Paper.

Under the Security Agreement, each Grantor must maintain a perfected security interest in favor of the trustee and take all steps necessary from time to time in order to maintain the trustee s first-priority security interest (other than Permitted Collateral Liens). If an event of default were to occur under the Senior Secured Notes Indenture, the Senior Secured Notes, the guarantees relating to the Senior Secured Notes, the Security Agreement or any other agreement, instrument or certificate that is entered into to secure payment or performance of the Senior Secured Notes, the trustee would be empowered to exercise all rights and remedies of a secured party under the UCC, in addition to all other rights and remedies under the applicable agreements.

Other Debt

Basic has a variety of other capital leases and notes payable outstanding that are generally customary in its business. None of these debt instruments are individually material.

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Basic s interest expense consisted of the following (in thousands):

	Six Months Ended June 30,	
	2010	2009
Cash payments for interest	$ 21,802	$ 12,263
Commitment and other fees paid	9	157
Amortization of debt issuance costs and discount on senior secured notes	1,699	630
Change in accrued interest	(73)	(1,345)
Other	5	5
	$ 23,442	$ 11,710

6. Commitments and Contingencies

Environmental

Basic is subject to various federal, state and local environmental laws and regulations that establish standards and requirements for protection of the environment. Basic cannot predict the future impact of such standards and requirements which are subject to change and can have retroactive effectiveness. Basic continues to monitor the status of these laws and regulations. Management believes that the likelihood of any of these items resulting in a material adverse impact to Basic s financial position, liquidity, capital resources or future results of operations is remote.

Currently, Basic has not been fined, cited or notified of any environmental violations that would have a material adverse effect upon its financial position, liquidity or capital resources. However, management does recognize that by the very nature of its business, material costs could be incurred in the near term to bring Basic into total compliance. The amount of such future expenditures is not determinable due to several factors including the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions which may be required, the determination of Basic s liability in proportion to other responsible parties and the extent to which such expenditures are recoverable from insurance or indemnification.

Litigation

From time to time, Basic is a party to litigation or other legal proceedings that Basic considers to be a part of the ordinary course of business. Basic is not currently involved in any legal proceedings that it considers probable or reasonably possible, individually or in the aggregate, to result in a material adverse effect on its financial condition, results of operations or liquidity.

Self-Insured Risk Accruals

Basic is self-insured up to retention limits as it relates to workers compensation and medical and dental coverage of its employees. Basic generally maintains no physical property damage coverage on its workover rig fleet, with the exception of certain of its 24-hour workover rigs and newly manufactured rigs. Basic has deductibles per occurrence for workers compensation and medical and dental coverage of $500,000 and $250,000, respectively. Basic has lower deductibles per occurrence for automobile liability and general liability. Basic maintains accruals in the accompanying consolidated balance sheets related to self-insurance retentions by using third-party data and claims history.

At June 30, 2010 and December 31, 2009, self-insured risk accruals totaled approximately $13.1 million net of a $402,000 receivable for medical and dental coverage and $12.9 million net of a $75,000 receivable for medical and dental coverage, respectively.

7. Stockholders Equity

Common Stock

At June 30, 2010 and December 31, 2009, Basic had 80,000,000 shares of common stock, par value $.01 per share, authorized.

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During the year ended 2009, Basic issued 5,000 shares of common stock from treasury stock for the exercise of stock options.

In March 2009, Basic granted various employees 571,824 unvested shares of common stock which vest over a five-year period. Also, in March 2009, Basic granted the Chairman of the Board 4,000 shares of common stock which vested immediately in lieu of annual cash director fees.

In March 2009, the Compensation Committee of Basic s Board of Directors approved grants of performance-based stock awards to certain members of management. In March 2010, it was determined that 79,500 shares, or 30% of the target number of shares, were earned based on the Company s achievement of certain earnings per share growth and return on capital employed performance over the performance period from January 1, 2007 through December 31, 2009, as compared to other members of a defined peer group. These shares remain subject to vesting over a three-year period, with the first shares vesting on March 15, 2011.

In March 2010, Basic granted various employees 588,600 unvested shares of common stock which vest over a five-year period.

During the six months ended June 30, 2010, Basic issued 8,250 shares of common stock from treasury stock for the exercise of stock options.

Treasury Stock

On October 13, 2008, Basic announced that its Board of Directors authorized the repurchase of up to $50.0 million of Basic s shares of common stock from time to time in open market or private transactions, at Basic s discretion. The number of shares purchased and the timing of purchases are based on several factors, including the price of the common stock, general market conditions, available cash and alternative investment opportunities. During the year ended December 31, 2009, Basic repurchased 809,093 shares at a total price of $6.0 million (an average of $7.41 per share), inclusive of commissions and fees. The stock repurchase program was suspended by the Board of Directors during the first quarter of 2009.

Basic also acquired treasury shares through net share settlements for payment of payroll taxes upon the vesting of restricted stock. Basic acquired a total of 20,327 shares through net share settlements during 2009 and 35,718 shares through net share settlements during the first six months of 2010.

Preferred Stock

At June 30, 2010 and December 31, 2009, Basic had 5,000,000 shares of preferred stock, par value $.01 per share, authorized, of which none was designated, issued or outstanding.

8. Incentive Plan

In May 2003, Basic s board of directors and stockholders approved the Basic 2003 Incentive Plan (as amended effective May 26, 2009) (the Plan), which provides for granting of incentive awards in the form of stock options, restricted stock, performance awards, bonus shares, phantom shares, cash awards and other stock-based awards to officers, employees, directors and consultants of Basic. The Plan assumed awards of the plans of Basic s predecessors that were awarded and remained outstanding prior to adoption of the Plan. The Plan provides for the issuance of 7,100,000 shares. The Plan is administered by the Plan committee, and in the absence of a Plan committee, by the Board of Directors, which determines the awards and the associated terms of the awards and interprets its provisions and adopts policies for implementing the Plan. The number of shares authorized under the Plan and the number of shares subject to an award under the Plan will be adjusted for stock splits, stock dividends, recapitalizations, mergers and other changes affecting the capital stock of Basic.

During the three months ended June 30, 2010 and 2009, compensation expense related to share-based arrangements was approximately $1.4 million and $1.3 million, respectively. For compensation expense recognized during the three months ended June 30, 2010 and 2009, Basic recognized a tax benefit of approximately $577,000 and $509,000, respectively. During the six months ended June 30, 2010 and 2009, compensation expense related to share-based arrangements was approximately $2.6 million and $2.7 million, respectively. For compensation expense recognized during the six months ended June 30, 2010 and 2009, Basic recognized a tax benefit of approximately $962,000 and $992,000, respectively.

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As of June 30, 2010, there was approximately $14.4 million of total unrecognized compensation related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.49 years. The total fair value of share-based awards vested during the six months ended June 30, 2010 and 2009 was approximately $3.8 million and $3.9 million, respectively. The actual tax benefit realized for the tax deduction from vested share-based awards was $578,000 and $149,000 for the six months ended June 30, 2010 and 2009, respectively.

Stock Option Awards

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. Basic is required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest. Options granted under the Plan expire 10 years from the date they are granted, and generally vest over a three- to five-year service period.

The following table reflects the summary of stock options outstanding at June 30, 2010 and the changes during the six months then ended:

	Number of Options Granted	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Instrinsic Value (000 s)
Non-statutory stock options:				
Outstanding, beginning of period	1,480,925	$ 11.37		
Options granted				
Options forfeited	(2,000)	$ 26.84		
Options exercised	(8,250)	$ 6.98		
Options expired	(6,500)	$ 26.84		
Outstanding, end of period	1,464,175	$ 11.31	4.32	$ 2,259
Exercisable, end of period	1,344,175	$ 10.06	4.16	$ 2,259
Vested or expected to vest, end of period	1,441,675	$ 11.08	4.30	$ 2,259

The total intrinsic value of share options exercised during the six months ended June 30, 2010 and 2009 was approximately $24,000 and $15,000, respectively.

Cash received from share option exercises under the Plan was approximately $58,000 and $35,000 for the six months ended June 30, 2010 and 2009, respectively. The actual tax benefit realized for the tax deductions from options exercised was $9,000 and $6,000 for the six months ended June 30, 2010 and 2009, respectively.

The Company has a history of issuing treasury and newly-issued shares to satisfy share option exercises.

Restricted Stock Awards

On March 9, 2010, the Compensation Committee of Basic s Board of Directors approved grants of performance-based stock awards to certain members of management. The performance-based awards are tied to the Company s achievement of total shareholder return over the performance period from January 1, 2010 through December 31, 2010, as compared to other members of a defined peer group. The number of shares to be issued will range from 0% to 150% of the target number of shares of 190,185 depending on the performance noted above. Any

shares earned at the end of the performance period will then remain subject to vesting over a three-year period, with the first shares vesting March 15, 2012. As of June 30, 2010, it was estimated that 133% of the target number of performance-based awards will be earned.

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A summary of the status of the Company s non-vested share grants at June 30, 2010 and changes during the six months ended June 30, 2010 is presented in the following table:

Nonvested Shares	Number of Shares	Grant Date Fair Value Per Share
Nonvested at beginning of period	1,144,133	$ 13.02
Granted during period	849,546	9.92
Vested during period	(164,159)	19.78
Forfeited during period	(44,390)	10.44
Nonvested at end of period	1,785,130	$ 10.97

9. Related Party Transactions

Basic had receivables from employees of approximately $57,000 and $65,000 as of June 30, 2010 and December 31, 2009, respectively. During 2006, Basic entered into a lease agreement with Darle Vuelta Cattle Co., LLC, an affiliate of the Chief Executive Officer, for approximately $69,000. The term of the lease is five years and will continue on a year-to-year basis unless terminated by either party.

10. Earnings Per Share

Basic s basic earnings per common share are determined by dividing net earnings applicable to common stock by the weighted average number of common shares actually outstanding during the period. Diluted earnings per common share is based on the increased number of shares that would be outstanding assuming conversion of dilutive outstanding securities using the as if converted method. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
Numerator (both basic and diluted):				
Net loss	$ (10,672)	$ (21,236)	$ (32,263)	$ (204,061)
Denominator:				
Denominator for basic earnings per share	39,724,030	39,574,561	39,672,891	39,773,857
Stock options				
Unvested restricted stock				
Denominator for diluted earnings per share	39,724,030	39,574,561	39,672,891	39,773,857
Basic earnings per common share:	$ (0.27)	$ (0.54)	$ (0.81)	$ (5.13)
Diluted earnings per common share:	$ (0.27)	$ (0.54)	$ (0.81)	$ (5.13)

Stock options and unvested restricted stock shares of approximately 524,000 and 409,000 were excluded in the computation of diluted earnings per share for the three months ended June 30, 2010 and June 30, 2009, respectively, as the effect would have been anti-dilutive due to the net loss in each of these periods. Stock options and unvested restricted stock shares of approximately 859,000 and 443,000 were excluded in the computation of diluted earnings per share for the six months ended June 30, 2010 and June 30, 2009, respectively, as the effect would have been anti-dilutive due to the net loss in each of these periods.

11. Business Segment Information

Basic s reportable business segments are Well Servicing, Fluid Services, Completion and Remedial Services, and Contract Drilling. The following is a description of the segments:

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Well Servicing: This business segment encompasses a full range of services performed with a mobile well servicing rig, including the installation and removal of downhole equipment and elimination of obstructions in the well bore to facilitate the flow of oil and gas. These services are performed to establish, maintain and improve production throughout the productive life of an oil and gas well and to plug and abandon a well at the end of its productive life. Well servicing equipment and capabilities such as Basic s are essential to facilitate most other services performed on a well. The segment also includes the manufacturing, refurbishment and servicing of mobile well servicing rigs and associated equipment.

Fluid Services: This segment utilizes a fleet of trucks and related assets, including specialized tank trucks, storage tanks, water wells, disposal facilities, construction and other related equipment. Basic employs these assets to provide, transport, store and dispose of a variety of fluids, as well as provide well site construction and maintenance services. These services are required in most workover, completion and remedial projects and are routinely used in daily producing well operations.

Completion and Remedial Services: This segment utilizes a fleet of pressure pumping units, coiled tubing units, air compressor packages specially configured for underbalanced drilling operations, cased-hole wireline units and an array of specialized rental equipment and fishing tools. The largest portion of this business consists of pressure pumping services focused on cementing, acidizing and fracturing services in niche markets.

Contract Drilling: This segment utilizes shallow and medium depth rigs and associated equipment for drilling wells to a specified depth for customers on a contract basis.

Basic s management evaluates the performance of its operating segments based on operating revenues and segment profits. Corporate expenses include general corporate expenses associated with managing all reportable operating segments. Corporate assets consist principally of working capital and debt financing costs.

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The following table sets forth certain financial information with respect to Basic s reportable segments (in thousands):

	Well Servicing	Fluid Services	Completion and Remedial Services	Contract Drilling	Corporate and Other	Total
Three Months Ended June 30, 2010 (Unaudited)						
Operating revenues	$ 49,529	$ 58,801	$ 61,533	$ 5,269	$	$ 175,132
Direct operating costs	(36,734)	(43,425)	(37,660)	(3,725)		$ (121,544)
Segment profits	$ 12,795	$ 15,376	$ 23,873	$ 1,544	$	$ 53,588
Depreciation and amortization	$ 12,562	$ 9,478	$ 8,121	$ 1,882	$ 2,207	$ 34,250
Capital expenditures, (excluding acquisitions)	$ 5,305	$ 4,013	$ 3,429	$ 795	$ 921	$ 14,463
Three Months Ended June 30, 2009 (Unaudited)						
Operating revenues	$ 36,399	$ 49,088	$ 29,373	$ 3,988	$	$ 118,848
Direct operating costs	(27,825)	(35,381)	(21,484)	(3,338)		(88,028)
Segment profits	$ 8,574	$ 13,707	$ 7,889	$ 650	$	$ 30,820
Depreciation and amortization	$ 12,127	$ 9,131	$ 7,653	$ 1,803	$ 1,699	$ 32,413
Capital expenditures, (excluding acquisitions)	$ 4,266	$ 3,212	$ 2,693	$ 634	$ 598	$ 11,403
Six Months Ended June 30, 2010 (Unaudited)						
Operating revenues	$ 91,325	$ 110,948	$ 106,767	$ 9,058	$	$ 318,098
Direct operating costs	(68,834)	(84,365)	(67,383)	(6,995)		$ (227,577)
Segment profits	$ 22,491	$ 26,583	$ 39,384	$ 2,063	$	$ 90,521
Depreciation and amortization	$ 24,703	$ 18,895	$ 15,952	$ 3,716	$ 4,082	$ 67,348
Capital expenditures, (excluding acquisitions)	$ 9,373	$ 7,170	$ 6,053	$ 1,410	$ 1,549	$ 25,555

Identifiable assets	$ 245,041	$ 183,971	$ 185,854	$ 39,624	$ 357,235	$ 1,011,725
Six Months Ended June 30, 2009 (Unaudited)						
Operating revenues	$ 85,213	$ 114,065	$ 66,632	$ 7,626	$	$ 273,536
Direct operating costs	(64,742)	(79,968)	(47,378)	(6,607)		(198,695)
Segment profits	$ 20,471	$ 34,097	$ 19,254	$ 1,019	$	$ 74,841
Depreciation and amortization	$ 24,375	$ 18,353	$ 15,383	$ 3,624	$ 3,415	$ 65,150
Capital expenditures, (excluding acquisitions)	$ 9,423	$ 7,095	$ 5,947	$ 1,401	$ 1,321	$ 25,187
Identifiable assets	$ 268,207	$ 205,577	$ 202,563	$ 44,544	$ 347,502	$ 1,068,393

The following table reconciles the segment profits reported above to the operating income as reported in the consolidated statements of operations (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
Segment profits	$ 53,588	$ 30,820	$ 90,521	$ 74,841
General and administrative expenses	(26,820)	(27,424)	(51,897)	(56,503)
Depreciation and amortization	(34,250)	(32,413)	(67,348)	(65,150)
Loss on disposal of assets	(463)	(474)	(1,174)	(1,339)
Goodwill impairment		82		(204,014)
Operating loss	$ (7,945)	$ (29,409)	$ (29,898)	$ (252,165)

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12. Supplemental Schedule of Cash Flow Information

The following table reflects non-cash financing and investing activity during the following periods:

	Six Months Ended June 30,	
	2010	2009
	(In thousands)	
Capital leases issued for equipment	$6,691	$15,426
Contingent earnout accrual	$	$ 909
Asset retirement obligation additions	$ 12	$ 12

Basic paid no income taxes during the six months ended June 30, 2010 or for the same period in 2009. Basic paid interest of approximately $21.8 million and $12.3 million during the six months ended June 30, 2010 and 2009, respectively.

13. Fair Value Measurements

Fair value is the price that would be received to sell an asset or the amount paid to transfer a liability in an orderly transaction between market participants (an exit price) at the measurement date. Fair value is a market based measurement considered from the perspective of a market participant. The Company uses market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation. These inputs can be readily observable, market corroborated, or unobservable. If observable prices or inputs are not available, unobservable prices or inputs are used to estimate the current fair value, often using an internal valuation model. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the item being valued. The Company primarily applies a market approach for recurring fair value measurements using the best available information while utilizing valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

There is a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The Company classifies fair value balances based on the observability of those inputs. The three levels of the fair value hierarchy are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable. These inputs are either directly observable in the marketplace or indirectly observable through corroboration with market data for substantially the full contractual term of the asset or liability being measured.

Level 3 Inputs reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

In valuing certain assets and liabilities, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. For disclosure purposes, assets and liabilities are classified in their entirety in the fair value hierarchy level based on the lowest level of input that is significant to the overall fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels.

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The Company s asset retirement obligation related to its salt water disposal sites, brine water wells, gravel pits and land farm sites, each of which is subject to rules and regulations regarding usage and eventual closure, is measured using primarily Level 3 inputs. The significant unobservable inputs to this fair value measurement include estimates of plugging, abandonment and remediation costs, inflation rate and well life. The inputs are calculated based on historical data as well as current estimated costs. The fair value is calculated by taking the present value of the expected cash flow at the time of the closure of the site. The following table reflects the changes in the fair value of the liability during the six months ended June 30, 2010 (in thousands):

	Asset Retirement Obligation
Balance, December 31, 2009	$ 1,969
Additional asset retirement obligation	12
Accretion expense	81
Balance, June 30, 2010	$ 2,062

14. Subsequent Events

Management performed an evaluation of the Company s activity noting no subsequent events.

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

Management s Overview

We provide a wide range of well site services to oil and gas drilling and producing companies, including well servicing, fluid services, completion and remedial services and contract drilling. Our results of operations reflect the impact of our acquisition strategy as a leading consolidator in the domestic land-based well services industry. Our acquisitions have increased our breadth of service offerings at the well site and expanded our market presence. In implementing this strategy, we purchased businesses and assets in 35 separate acquisitions from January 1, 2005 to June 30, 2010. Our weighted average number of well servicing rigs increased from 305 in 2005 to 404 in the second quarter of 2010, and our weighted average number of fluid service trucks increased from 455 to 797 in the same period. These acquisitions make our revenues, expenses and income not directly comparable between periods.

Our operating revenues from each of our segments, and their relative percentages of our total revenues, consisted of the following (dollars in millions):

	Six Months Ended June 30,			
Revenues:	**2010**		**2009**	
Well servicing	$ 91.3	29%	$ 85.2	31%
Fluid services	$110.9	35%	114.1	42%
Completion and remedial services	$106.8	33%	66.6	24%
Contract drilling	$ 9.1	3%	7.6	3%
Total revenues	$318.1	100%	$273.5	100%

Our core businesses depend on our customers willingness to make expenditures to produce, develop and explore for oil and gas in the United States. Industry conditions are influenced by numerous factors, such as the supply of and demand for oil and gas, domestic and worldwide economic conditions, political instability in oil producing countries and merger and divestiture activity among oil and gas producers. The volatility of the oil and gas industry, and the

consequent impact on exploration and production activity, has adversely impacted, and could continue to adversely impact, the level of drilling and workover activity by some of our customers. This volatility affects the demand for our services and the price of our services.

During the first seven months of 2008, oil and natural gas prices reached historic highs. However, in the second half of 2008, oil and natural gas prices decreased substantially, which caused significantly lower utilization of our services in the fourth quarter of

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2008. In the first half of 2009, utilization and pricing for our services continued to decline from the fourth quarter of 2008. In the third quarter of 2009, oil prices began to increase and remained relatively stable through the second quarter of 2010. These trends in oil prices caused utilization and pricing for our services to stabilize in oil-based areas, as well as to show increased utilization during the first half of 2010 as these higher oil price trends have combined with increased natural gas drilling activities in shale plays notwithstanding continued lower natural gas prices.

We expect that our utilization levels across all of our business segments should show further improvements through 2010 as we reactivate and relocate equipment to meet demand, particularly in our established oil-oriented market areas. Despite current lower natural gas prices, discussions with customers indicate that demand in our gas-oriented markets should remain at least flat compared to current levels.

We derive a majority of our revenues from services supporting production from existing oil and gas operations. Demand for these production-related services, including well servicing and fluid services, tends to remain relatively stable, even in moderate oil and natural gas price environments, as ongoing maintenance spending is required to sustain production. As oil and natural gas prices fluctuate, demand for all of our services changes correspondingly as our customers must balance maintenance and capital expenditures against their available cash flows. Because our services are required to support drilling and workover activities, we are also subject to changes in capital spending by our customers as oil and natural gas prices increase or decrease.

We believe that the most important performance measures for our lines of business are as follows:

Well Servicing rig hours, rig utilization rate, revenue per rig hour and segment profits as a percent of revenues;

Fluid Services revenue per truck and segment profits as a percent of revenues;

Completion and Remedial Services segment profits as a percent of revenues; and

Contract Drilling rig operating days, revenue per drilling day and segment profits as a percent of revenues.

Segment profits are computed as segment operating revenues less direct operating costs. These measurements provide important information to us about the activity and profitability of our lines of business. For a detailed analysis of these indicators for our company, see below in Segment Overview.

We will continue to evaluate opportunities to expand our business through selective acquisitions and internal growth initiatives. Our capital investment decisions are determined by an analysis of the projected return on capital employed for each of those alternatives, which is substantially driven by the cost to acquire existing assets from a third party, the capital required to build new equipment and the point in the oil and gas commodity price cycle. Based on these factors, we make capital investment decisions that we believe will support our long-term growth strategy. While we believe our costs of integration for prior acquisitions have been reflected in our historical results of operations, integration of acquisitions may result in unforeseen operational difficulties or require a disproportionate amount of our management s attention.

Selected Acquisitions

During 2009, we made one acquisition that added to our existing lines of business, and during the first six months of 2010, we made three acquisitions that complemented our existing lines of business.

Taylor Rig, LLC

On May 3, 2010, we acquired substantially all of the operating assets of Taylor Rig, LLC for $8.7 million in cash. This acquisition has been included in our well servicing line of business.

Segment Overview

Well Servicing

During the first six months of 2010, our well servicing segment represented 29% of our revenues. Revenue in our well servicing segment is derived from maintenance, workover, completion, manufacturing and plugging and abandonment services. We provide

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maintenance-related services as part of the normal, periodic upkeep of producing oil and natural gas wells. Maintenance-related services represent a relatively consistent component of our business. Workover and completion services generate more revenue per hour than maintenance work, due to the use of auxiliary equipment, but demand for workover and completion services fluctuates more with the overall activity level in the industry.

We typically charge our customers for services on an hourly basis at rates that are determined by the type of service and equipment required, market conditions in the region in which the rig operates, the ancillary equipment provided on the rig and the necessary personnel. Depending on the type of job, we may also charge by the project or by the day. We measure our activity levels by the total number of hours worked by all of the rigs in our fleet. We monitor our fleet utilization levels, with full utilization deemed to be 55 hours per week per rig. Our fleet decreased from a weighted average number of 414 rigs in the first quarter of 2009 to 404 in the second quarter of 2010, due to the retirement of older, less efficient rigs.

The following is an analysis of our well servicing operations for each of the quarters in 2009, the full year ended December 31, 2009 and the quarters ended March 31, 2010 and June 30, 2010:

	Weighted Average Number of Rigs	Rig Hours	Rig Utilization Rate	Revenue Per Rig Hour	Profits Per Rig Hour	Segment Profits%
2009:						
First Quarter	414	132,300	44.7%	$ 369	$90	24%
Second Quarter	414	110,500	37.3%	$ 329	$78	24%
Third Quarter	414	122,900	41.5%	$ 313	$76	24%
Fourth Quarter	410	119,500	40.8%	$ 309	$77	25%
Full Year	413	485,200	41.1%	$ 331	$80	24%
2010:						
First Quarter	405	135,700	46.9%	$ 308	$71	23%
Second Quarter	404	153,900	53.3%	$ 316	$83	26%

We gauge activity levels in our well servicing segment based on rig utilization rate, revenue per rig hour and segment profits per rig hour. Revenue per rig hour calculations do not include revenues from rig manufacturing and maintenance.

Rig utilization increased to 53% in the second quarter of 2010, compared to 47% in the first quarter of 2010. The increase was caused by improving economic conditions and oil prices stabilizing and remaining at levels that allowed our customers to increase spending. Our segment profit percentage increased to 26% during the second quarter of 2010 from 23% during the first quarter of 2010. This increase was primarily due to improved utilization and pricing as indicated by the increase in revenue per rig hour to $316 in the second quarter of 2010 from $308 in the first quarter of 2010.

Fluid Services

During the first six months of 2010, our fluid services segment represented 35% of our revenues. Revenues in our fluid services segment are earned from the sale, transportation, storage and disposal of fluids used in the drilling, production and maintenance of oil and natural gas wells, and well site construction and maintenance services. The fluid services segment has a base level of business consisting of transporting and disposing of salt water produced as a by-product of the production of oil and natural gas. These services are necessary for our customers and generally have a stable demand but typically produce lower relative segment profits than other parts of our fluid services segment. Fluid services for completion and workover projects typically require fresh or brine water for making drilling mud, circulating fluids or frac fluids used during a job, and all of these fluids require storage tanks and hauling and disposal. Because we can provide a full complement of fluid sales, trucking, storage and disposal required on most drilling and workover projects, the add-on services associated with drilling and workover activity enable us to generate higher segment profits contributions. Revenues from our well site construction services are derived primarily from preparing

and maintaining access roads and well locations, installing small diameter gathering lines and pipelines, constructing foundations to support drilling rigs and providing maintenance services for oil and natural gas facilities. The higher segment profits are due to the relatively small incremental labor costs associated with providing these services in addition to our base fluid services segment. We typically price fluid services by the job, by the hour or by the quantities sold, disposed of or hauled.

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The following is an analysis of our fluid services operations for each of the quarters in 2009, the full year ended December 31, 2009 and the quarters ended March 31, 2010 and June 30, 2010 (dollars in thousands):

	Weighted Average Number of Fluid Service Trucks	Revenue Per Fluid Service Truck	Segment Profits Per Fluid Service Truck	Segment Profits%
2009:				
First Quarter	814	$ 80	$ 25	31%
Second Quarter	808	$ 61	$ 17	28%
Third Quarter	805	$ 62	$ 14	23%
Fourth Quarter	794	$ 64	$ 13	20%
Full Year	805	$ 267	$ 69	26%
2010:				
First Quarter	791	$ 66	$ 14	22%
Second Quarter	797	$ 74	$ 19	26%

We gauge activity levels in our fluid services segment based on revenue and segment profits per fluid service truck.

Revenue per fluid service truck increased by 12% to $74,000 in the second quarter of 2010 compared to $66,000 in the first quarter of 2010. Segment profit percentage increased to 26% in the second quarter of 2010 from 22% in the first quarter of 2010 due primarily to increases in rates and demand for our services.

Completion and Remedial Services

During the first six months of 2010, our completion and remedial services segment represented 33% of our revenues. Revenues from our completion and remedial services segment are generally derived from a variety of services designed to stimulate oil and natural gas production or place cement slurry within the wellbores. Our completion and remedial services segment includes pressure pumping, cased-hole wireline services, underbalanced drilling and rental and fishing tool operations.

Our pressure pumping operations concentrate on providing lower-horsepower cementing, acidizing and fracturing services in selected markets. Our total hydraulic horsepower capacity for our pressure pumping operations was 142,000 and 139,000 at June 30, 2010 and June 30, 2009, respectively.

In this segment, we generally derive our revenues on a project-by-project basis in a competitive bidding process. Our bids are generally based on the amount and type of equipment and personnel required, with the materials consumed billed separately. During periods of decreased spending by oil and gas companies, we may be required to discount our rates to remain competitive, which would cause lower segment profits.

The following is an analysis of our completion and remedial services segment for each of the quarters in 2009, the full year ended December 31, 2009 and the quarters ended March 31, 2010 and June 30, 2010 (dollars in thousands):

	Revenues	Segment Profits%
2009:		
First Quarter	$ 37,259	31%
Second Quarter	$ 29,373	27%
Third Quarter	$ 32,592	29%
Fourth Quarter	$ 35,594	30%
Full Year	$134,818	29%
2010:		

First Quarter	$ 45,234	34%
Second Quarter	$ 61,533	39%

We gauge the performance of our completion and remedial services segment based on the segment s operating revenues and segment profits.

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The increase in completion and remedial services revenue to $61.5 million in the second quarter of 2010 from $45.2 million in the first quarter of 2010 was caused by higher activity in the drilling and completion of new wells. There was also an increase in segment profit percentage to 39% in the second quarter of 2010 from 34% in the first quarter of 2010 due to the increased activity as well as improved pricing for our services.

Contract Drilling

During the first six months of 2010, our contract drilling segment represented 3% of our revenues. Revenues from our contract drilling segment are derived primarily from the drilling of new wells.

Within this segment, we typically charge our drilling rig customers at a daywork daily rate, or footage at an established rate per number of feet drilled. We measure the activity level of our drilling rigs on a weekly basis by calculating a rig utilization rate which is based on a seven day work week per rig. Our contract drilling rig fleet had a weighted average of nine rigs during the four quarters of 2009 and the first and second quarters of 2010.

The following is an analysis of our contract drilling segment for each of the quarters in 2009, the full year ended December 31, 2009 and the quarters ended March 31, 2010 and June 30, 2010:

	Weighted Average Number of Rigs	Rig Operating Days	Revenue Per Day	Profits Per Day	Segment Profits%
2009:					
First Quarter	9	248	$14,700	$1,500	10%
Second Quarter	9	314	$12,700	$2,100	16%
Third Quarter	9	391	$10,600	$2,200	20%
Fourth Quarter	9	417	$11,000	$2,200	20%
Full Year	9	1,370	$12,000	$2,000	17%
2010:					
First Quarter	9	420	$ 9,000	$1,200	14%
Second Quarter	9	527	$10,000	$2,900	29%

We gauge activity levels in our drilling operations based on rig operating days, revenue per day and profits per drilling day.

The increase in segment profits percentage to 29% in the second quarter of 2010 from 14% in the first quarter of 2010 was due primarily to increased activity and improved pricing.

Operating Cost Overview

Our operating costs are comprised primarily of labor, including workers compensation and health insurance, repair and maintenance, fuel and insurance. The majority of our employees are paid on an hourly basis. We also incur costs to employ personnel to sell and supervise our services and perform maintenance on our fleet. These costs are not directly tied to our level of business activity. Compensation for our administrative personnel in local operating yards and in our corporate office is accounted for as general and administrative expenses. Repair and maintenance is performed by our crews, company maintenance personnel and outside service providers. Insurance is generally a fixed cost regardless of utilization and relates to the number of rigs, trucks and other equipment in our fleet, employee payroll and safety record.

Critical Accounting Policies and Estimates

Our unaudited consolidated financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. A complete summary of our critical accounting policies is included in note 2 of the notes to our historical audited consolidated financial statements in our most recent annual report on Form 10-K. The following is a discussion of our critical accounting policies and estimates.

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Critical Accounting Policies

We have identified below accounting policies that are of particular importance in the presentation of our financial position, results of operations and cash flows and which require the application of significant judgment by management.

Property and Equipment. Property and equipment are stated at cost or at estimated fair value at acquisition date if acquired in a business combination. Expenditures for repairs and maintenance are charged to expenses as incurred. We also review the capitalization of refurbishment of workover rigs as described in note 2 of the notes to our unaudited consolidated financial statements.

Impairments. We review our assets for impairment at least annually, or whenever, in management s judgment, events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recovered over its remaining service life. Provisions for asset impairment are charged to income when the sum of the estimated future cash flows, on an undiscounted basis, is less than the asset s carrying amount. When impairment is indicated, an impairment charge is recorded based on an estimate of future cash flows on a discounted basis.

Self-Insured Risk Accruals. We are self-insured up to retention limits with regard to workers compensation and medical and dental coverage of our employees. We generally maintain no physical property damage coverage on our workover rig fleet, with the exception of certain of our 24-hour workover rigs and newly manufactured rigs. We have deductibles per occurrence for workers compensation and medical and dental coverage of $500,000 and $250,000 respectively. We have lower deductibles per occurrence for automobile liability and general liability. We maintain accruals in our consolidated balance sheets related to self-insurance retentions by using third-party actuarial data and historical claims history.

Revenue Recognition. We recognize revenues when the services are performed, collection of the relevant receivables is probable, persuasive evidence of the arrangement exists and the price is fixed and determinable.

Income Taxes. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in the period that includes the statutory enactment date. A valuation allowance for deferred tax assets is recognized when it is more likely than not that the benefit of deferred tax assets will not be realized.

Critical Accounting Estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the amounts of revenues and expenses recognized during the reporting period. We analyze our estimates based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. However, actual results could differ from such estimates. The following is a discussion of our critical accounting estimates.

Depreciation and Amortization. In order to depreciate and amortize our property and equipment and our intangible assets with finite lives, we estimate the useful lives and salvage values of these items. Our estimates may be affected by such factors as changing market conditions, technological advances in industry or changes in regulations governing the industry.

Impairment of Property and Equipment. Our impairment of property and equipment requires us to estimate undiscounted future cash flows. Actual impairment charges are recorded using an estimate of discounted future cash flows. The determination of future cash flows requires us to estimate rates and utilization in future periods and such estimates can change based on market conditions, technological advances in industry or changes in regulations governing the industry.

Impairment of Goodwill. Our goodwill is considered to have an indefinite useful economic life and is not amortized. We assess impairment of our goodwill annually as of December 31 or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value. A two-step process is

required for testing impairment. First, the fair value of each reporting unit is compared to its carrying value to determine whether an indication of impairment exists. If impairment is indicated, then the fair value of the reporting unit s goodwill is determined by allocating the unit s fair value to its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill is measured as the excess of its carrying value over its fair value.

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Allowance for Doubtful Accounts. We estimate our allowance for doubtful accounts based on an analysis of historical collection activity and specific identification of overdue accounts. Factors that may affect this estimate include (1) changes in the financial positions of significant customers and (2) a decline in commodity prices that could affect the entire customer base.

Litigation and Self-Insured Risk Reserves. We estimate our reserves related to litigation and self-insured risk based on the facts and circumstances specific to the litigation and self-insured risk claims and our past experience with similar claims. The actual outcome of litigated and insured claims could differ significantly from estimated amounts. As discussed in Self-Insured Risk Accruals above with respect to our critical accounting policies, we maintain accruals on our balance sheet to cover self-insured retentions. These accruals are based on certain assumptions developed using third-party data and historical data to project future losses. Loss estimates in the calculation of these accruals are adjusted based upon actual claim settlements and reported claims.

Fair Value of Assets Acquired and Liabilities Assumed. We estimate the fair value of assets acquired and liabilities assumed in business combinations, which involves the use of various assumptions. These estimates may be affected by such factors as changing market conditions, technological advances in industry or changes in regulations governing the industry. The most significant assumptions, and the ones requiring the most judgment, involve the estimated fair value of property and equipment, intangible assets and the resulting amount of goodwill, if any. We test annually for impairment the goodwill and intangible assets with indefinite useful lives recorded in business combinations. This requires us to estimate the fair values of our own assets and liabilities at the reporting unit level. Therefore, considerable judgment, similar to that described above in connection with our estimation of the fair value of an acquired company, is required to assess goodwill and certain intangible assets for impairment.

Cash Flow Estimates. Our estimates of future cash flows are based on the most recent available market and operating data for the applicable asset or reporting unit at the time the estimate is made. Our cash flow estimates are used for asset impairment analyses.

Stock-Based Compensation. Our stock-based awards consist of stock options and restricted stock. Stock options issued are valued on the grant date using the Black-Scholes-Merton option-pricing model and restricted stock issued is valued based on the fair value of our common stock at grant date. All stock-based awards are adjusted for an expected forfeiture rate and amortized over the vesting period.

Income Taxes. The amount and availability of our loss carryforwards (and certain other tax attributes) are subject to a variety of interpretations and restrictive tests. The utilization of such carryforwards could be limited or lost upon certain changes in ownership and the passage of time. Accordingly, although we believe substantial loss carryforwards are available to us, no assurance can be given concerning the realization of such loss carryforwards, or whether or not such loss carryforwards will be available in the future.

Asset Retirement Obligations. We record the fair value of an asset retirement obligation as a liability in the period in which we incur a legal obligation associated with the retirement of tangible long-lived assets and to capitalize an equal amount as a cost of the asset, depreciating it over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each quarter to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, acquisition or construction of assets, and settlement of obligations.

Results of Operations

The following is a comparison of our results of operations for the three months and six months ended June 30, 2010 compared to the three months and six months ended June 30, 2009, respectively. For additional segment-related information and trends, please read Segment Overview above.

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Revenues. Revenues increased by 47% to $175.1 million during the second quarter of 2010 from $118.8 million during the same period in 2009. This increase was primarily due to increased demand by our customers for our services, which resulted from higher commodity prices and drilling activity among our customers.

Well servicing revenues increased by 36% to $49.5 million during the second quarter of 2010 compared to $36.4 million during the same period in 2009. The higher revenues were due mainly to the 39% increase in rig hours to 153,900 during the second quarter of 2010 from 110,500 during the second quarter of 2009. The revenue increase

from higher rig hours was partially offset by the decrease in revenue per rig hour to $316 during the second quarter of 2010 from $329 during the second quarter of 2009. Our average number of well servicing rigs decreased to 404 during the second quarter of 2010 compared to 414 in the same period in 2009.

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Fluid services revenues increased by 20% to $58.8 million during the second quarter of 2010 compared to $49.1 million in the same period in 2009. Our revenue per fluid service truck increased 21% to $74,000 in the second quarter of 2010 compared to $61,000 in the same period in 2009, which reflects increases in both utilization and pricing for these services. Our weighted average number of fluid service trucks decreased to 797 during the second quarter of 2010 from 808 in the same period in 2009.

Completion and remedial services revenues increased by 109% to $61.5 million during the second quarter of 2010 compared to $29.4 million in the same period in 2009. The increase in revenue between these periods was due to improved utilization of equipment, resulting from higher drilling and completion activity, as well as improved pricing for our services. Total hydraulic horsepower increased to 142,000 at June 30, 2010 from 139,000 at June 30, 2009.

Contract drilling revenues increased by 32% to $5.3 million during the second quarter of 2010 compared to $4.0 million in the same period in 2009. The number of rig operating days increased 68% to 527 in the second quarter of 2010 compared to 314 in the second quarter of 2009. This increase was due to an increase in new well starts in the Permian Basin, a region in which all of our drilling rigs operate, offset by lower dayrates.

Direct Operating Expenses. Direct operating expenses, which primarily consist of labor, including workers compensation and health insurance, fuel and maintenance and repair costs, increased by 38% to $121.5 million during the second quarter of 2010 from $88.0 million in the same period in 2009. This increase was primarily due to increased activity in each of our four business segments.

Direct operating expenses for the well servicing segment increased by 32% to $36.7 million during the second quarter of 2010 as compared to $27.8 million for the same period in 2009, while rig hours increased 39% to 153,900 in the second quarter of 2010 from 110,500 for the same period in 2009. The smaller increase in direct operating expenses in comparison to rig hours is due to cost reduction and other efficiency measures we implemented in prior quarters. Segment profits were 2% higher at 26% of revenues during the second quarter of 2010 compared to 24% for the same period in 2009 due to these cost cutting measures.

Direct operating expenses for the fluid services segment increased by 23% to $43.4 million during the second quarter of 2010 as compared to $35.4 million for the same period in 2009. Segment profits were 26% of revenues during the second quarter of 2010 compared to 28% for the same period in 2009, mainly due to higher costs associated with increased activity levels.

Direct operating expenses for the completion and remedial services segment increased by 75% to $37.7 million during the second quarter of 2010 as compared to $21.5 million for the same period in 2009 due primarily to increased activity levels. Segment profits increased to 39% of revenues during the second quarter of 2010 compared to 27% for the same period in 2009, due to higher utilization of our services and improved pricing for our services.

Direct operating expenses for the contract drilling segment were $3.7 million during the second quarter of 2010 and $3.3 million for the same period in 2009. Segment profits for this segment were 29% of revenues during the second quarter of 2010 compared to 16% for the same period in 2009, due to cost reduction measures.

General and Administrative Expenses. General and administrative expenses decreased by 2% to $26.8 million during the second quarter of 2010 from $27.4 million for the same period in 2009, which included $1.4 million and $1.3 million in stock-based compensation expense during the second quarter of 2010 and 2009, respectively. The decrease was primarily due to cost reduction initiatives and lower bad debt expense and cash incentive compensation.

Depreciation and Amortization Expenses. Depreciation and amortization expenses were $34.3 million during the second quarter of 2010 as compared to $32.4 million for the same period in 2009, reflecting the increase in the size of and investment in our asset base.

Interest Expense. Interest expense increased by 97% to $11.8 million during the second quarter of 2010 compared to $6.0 million for the same period in 2009. The increase was due to the issuance of$225.0 million of 11.625% Senior Secured Notes due 2014 in July 2009.

Income Tax Expense. There was an income tax benefit of $7.1 million during the second quarter of 2010 as compared to an income tax benefit of $13.9 million for the same period in 2009. Our effective tax rate during the second quarter of 2010 and 2009 was approximately 40% and 39%, respectively.

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Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Revenues. Revenues increased by 16% to $318.1 million during the first six months of 2010 from $273.5 million during the same period in 2009. This increase was primarily due to increased expenditures by our customers for our services.

Well servicing revenues increased by 7% to $91.3 million during the first six months of 2010 compared to $85.2 million during the same period in 2009. This increase was due to the 19% increase in rig hours to 289,600 during the first six months of 2010 from 242,800 during the same period in 2009. This increase in rig hours was offset by a decrease of 11% in revenue per rig hour to $312 during the first six months of 2010 from $351 during the first six months of 2009, due to increased price competition and lower activity throughout 2009. Our average number of well servicing rigs decreased to 405 during the first six months of 2010 compared to 414 in the same period in 2009.

Fluid services revenues decreased by 3% to $110.9 million during the first six months of 2010 compared to $114.1 million in the same period in 2009. Our weighted average number of fluid service trucks decreased 2% to 794 during the first six months of 2010 from 811 in the same period in 2009, and our revenue per fluid service truck decreased to $140,000 in the first six months of 2010 compared to $141,000 in the same period in 2009, which reflects the slight decline in utilization for these services.

Completion and remedial services revenues increased by 60% to $106.8 million during the first six months of 2010 compared to $66.6 million in the same period in 2009. The increase in revenue between these periods was due to improved utilization of equipment, resulting from higher drilling and completion activity, as well as improved pricing for our services. Total hydraulic horsepower increased to 142,000 at June 30, 2010 from 139,000 at June 30, 2009.

Contract drilling revenues increased by 19% to $9.1 million during the first six months of 2010 compared to $7.6 million in the same period in 2009. The number of rig operating days increased to 947 in the first six months of 2010 compared to 562 in the first six months of 2009. This increase was due to an increase in new well starts in the Permian Basin, a region in which all of our drilling rigs operate, offset by lower dayrates.

Direct Operating Expenses. Direct operating expenses, which primarily consist of labor, including workers compensation and health insurance, fuel and maintenance and repair costs, increased by 15% to $227.6 million during the first six months of 2010 from $198.7 million in the same period in 2009. This increase was primarily due to the increased activity in each of our four business segments.

Direct operating expenses for the well servicing segment increased by 6% to $68.8 million during the first six months of 2010 as compared to $64.7 million for the same period in 2009, while rig hours increased 19% to 289,600 in the first six months of 2010 from 242,800 for the same period in 2009. The increase in direct operating expenses is primarily due to the increase in rig hours being offset by cost reduction and other efficiency measures we implemented throughout 2009 and 2010. Segment profits were slightly higher at 25% of revenues during the first six months of 2010 compared to 24% for the same period in 2009.

Direct operating expenses for the fluid services segment increased by 5% to $84.4 million during the first six months of 2010 as compared to $80.0 million for the same period in 2009. Segment profits were 24% of revenues during the first six months of 2010 compared to 30% for the same period in 2009, primarily due to higher costs associated with increased activity levels.

Direct operating expenses for the completion and remedial services segment increased by 42% to $67.4 million during the first six months of 2010 as compared to $47.4 million for the same period in 2009, due primarily to increased activity levels. Segment profits increased to 37% of revenues during the first six months of 2010 compared to 29% for the same period in 2009, due to higher utilization of our services and improved pricing for our services.

Direct operating expenses for the contract drilling segment increased by 6% to $7.0 million during the first six months of 2010 as compared to $6.6 million for the same period in 2009. Segment profits for this segment were 23% of revenues during the first six months of 2010 compared to 13% for the same period in 2009, mainly due to cost reduction measures.

General and Administrative Expenses. General and administrative expenses decreased by 8% to $51.9 million during the first six months of 2010 from $56.5 million for the same period in 2009, which included $2.6 million and $2.7 million in stock-based compensation expense during the first six months of 2010 and 2009, respectively. The decrease was primarily due to cost reduction initiatives and lower bad debt expense and cash incentive compensation.

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Depreciation and Amortization Expenses. Depreciation and amortization expenses were $67.3 million during the first six months of 2010 as compared to $65.2 million for the same period in 2009, reflecting the increase in the size of and investment in our asset base.

Goodwill Impairment. In the first quarter of 2009, we recorded a non-cash charge totaling $204.1 million for impairment of all of the goodwill associated with our well servicing, fluid services, and completion and remedial services segments as of March 31, 2009. There was no impairment in the first six months of 2010.

Interest Expense. Interest expense increased by 100% to $23.4 million during the first six months of 2010 compared to $11.7 million for the same period in 2009. The increase was due to the issuance of $225.0 million of 11.625% Senior Secured Notes due 2014 in July 2009.

Income Tax Expense. There was an income tax benefit of $19.1 million during the first six months of 2010 as compared to an income tax benefit of $59.2 million for the same period in 2009. Our effective tax rate during the first six months of 2010 and 2009 was approximately 37% and 22%, respectively. Our effective tax rate was lower in the first six months of 2009 due to the $204.0 million goodwill impairment, of which a portion was not deductible for tax purposes.

Liquidity and Capital Resources

As of June 30, 2010, our primary capital resources were net cash flows from our operations and utilization of capital leases. As of June 30, 2010, we had unrestricted cash and cash equivalents of $73.8 million compared to $125.4 million as of December 31, 2009. When appropriate, we will consider public or private debt and equity offerings and non-recourse transactions to meet our liquidity needs.

Net Cash Provided by Operating Activities

Cash used in operating activities was $1.6 million for the six months ended June 30, 2010 as compared to cash provided by operating activities of $73.0 million during the same period in 2009. Operating cash flow in the first six months of 2010 was lower mainly due to the increase in accounts receivable due to higher revenues.

Capital Expenditures

Capital expenditures are the main component of our investing activities. Cash capital expenditures (including acquisitions) during the first six months of 2010 were $35.9 million as compared to $26.4 million in the same period of 2009. We added $6.7 million of additional assets through our capital lease program during the first six months of 2010 compared to $15.4 million in the same period in 2009.

For 2010, we now plan to spend approximately $65 million for capital expenditures, of which $45 million will be paid for through operating cash flow and existing cash balances and the remainder through capital leases. Based on our view of short-term operating conditions, our capital expenditure program may be increased or decreased accordingly. We do not budget acquisitions in the normal course of business, and we regularly engage in discussions related to potential acquisitions related to the well services industry.

Capital Resources and Financing

We currently believe that our operating cash flows and cash on hand will be sufficient to fund our near term liquidity requirements.

Our ability to access additional sources of financing will be dependent on our operating cash flows and demand for our services, which could be negatively impacted due to the extreme volatility of commodity prices and declines in capital and debt markets.

Senior Notes

In April 2006, we completed a private offering of $225.0 million aggregate principal amount of 7.125% Senior Notes due April 15, 2016 (the Senior Notes). The Senior Notes are jointly and severally guaranteed by each of our current subsidiaries, other than two immaterial subsidiaries. As of June 30, 2010, these two subsidiaries held no assets and performed no operations. The net proceeds from the offering were used to retire our outstanding Term B Loan balance and to pay down the outstanding balance under our previous credit facility. Remaining proceeds were used for general corporate purposes, including acquisitions.

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We issued the Senior Notes pursuant to an indenture, dated as of April 12, 2006, by and among us, the guarantor parties thereto and The Bank of New York Trust Company, N.A., as trustee (the Senior Notes Indenture).

Interest on the Senior Notes accrues at a rate of 7.125% per year. Interest on the Senior Notes is payable in cash semi-annually in arrears on April 15 and October 15 of each year. The Senior Notes mature on April 15, 2016. The Senior Notes and the guarantees are unsecured and rank equally with all of our and the guarantors existing and future unsecured and unsubordinated obligations. The Senior Notes and the guarantees rank senior in right of payment to any of our and the guarantors existing and future obligations that are, by their terms, expressly subordinated in right of payment to the Senior Notes and the guarantees. The Senior Notes and the guarantees are effectively subordinated to our and the guarantors secured obligations to the extent of the value of the assets securing such obligations.

The Senior Notes Indenture contains covenants that limit our ability and the ability of certain of our subsidiaries to:

incur additional indebtedness;

pay dividends or repurchase or redeem capital stock;

make certain investments;

incur liens;

enter into certain types of transactions with affiliates;

limit dividends or other payments by restricted subsidiaries; and

sell assets or consolidate or merge with or into other companies.

These limitations are subject to a number of important qualifications and exceptions.

Upon an Event of Default (as defined in the Senior Notes Indenture), the trustee or the holders of at least 25% in aggregate principal amount of the Senior Notes then outstanding may declare all of the amounts outstanding under the Senior Notes to be due and payable immediately.

We may, at our option, redeem all or part of the Senior Notes, at any time on or after April 15, 2011 at a redemption price equal to 100% of the principal amount thereof, plus a premium declining ratably to par and accrued and unpaid interest, if any, to the date of redemption. Prior to April 15, 2011, we may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed, plus the Applicable Premium as defined in the Senior Notes Indenture.

Following a change of control, as defined in the Senior Notes Indenture, we will be required to make an offer to repurchase all or any portion of the Senior Notes at a purchase price of 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase.

Senior Secured Notes

On July 31, 2009, we issued $225.0 million aggregate principal amount of 11.625% Senior Secured Notes due 2014 (the Senior Secured Notes) in a private placement. The Senior Secured Notes are jointly and severally, and unconditionally, guaranteed on a senior secured basis initially by all of our current subsidiaries other than two immaterial subsidiaries. As of June 30, 2010, these two subsidiaries held no assets and performed no operations.

The net proceeds from the issuance of the Senior Secured Notes were $207.7 million after discounts of $12.1 million and offering expenses of $5.2 million. We used the net proceeds from the offering, along with other funds, to repay all outstanding indebtedness under our revolving credit facility, which we terminated in connection with the offering.

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The Senior Secured Notes and the related guarantees were issued pursuant to an indenture dated as of July 31, 2009 (the Senior Secured Notes Indenture), by and among us, the guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., a national banking association, as trustee. The obligations under the Senior Secured Notes Indenture are secured as set forth in the Senior Secured Notes Indenture and in the Security Agreement (as defined below), in favor of the trustee, by a first-priority lien (other than Permitted Collateral Liens, as defined in the Senior Secured Notes Indenture) in favor of the trustee, on the Collateral (as defined below) described in the Security Agreement.

Interest on the Senior Secured Notes accrues at a rate of 11.625% per year. Interest on the Senior Secured Notes is payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 2010. The Senior Secured Notes mature on August 1, 2014.

The Senior Secured Notes Indenture contains covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to:

- incur additional indebtedness;
- pay dividends or repurchase or redeem capital stock;
- make certain investments;
- incur liens;
- enter into certain types of transactions with our affiliates;
- limit dividends or other payments by our restricted subsidiaries to us; and
- sell assets (including Collateral under the Security Agreement), or consolidate or merge with or into other companies.

These limitations are subject to a number of important exceptions and qualifications.

If we or our restricted subsidiaries sell, transfer or otherwise dispose of assets or other rights or property that constitute Collateral (including the same or the issuance of equity interests in a restricted subsidiary that owns Collateral such that it thereafter is no longer a restricted subsidiary, a Collateral Disposition), we are required to deposit any cash or cash equivalent proceeds constituting net available proceeds into a segregated account under the sole control of the trustee that includes only proceeds from the Collateral Disposition and interest earned thereon (an Asset Sale Proceeds Account). The Asset Sale Proceeds Account will be subject to a first-priority lien in favor of the trustee, and the proceeds are subject to release from the account for specified uses. These permitted uses include:

- acquiring additional assets of a type constituting Collateral (Additional Assets), provided the trustee has or is immediately granted a perfected first-priority security interest (subject only to Permitted Collateral Liens) in such Additional Assets; and
- repurchasing or redeeming the Senior Secured Notes.

Upon an Event of Default (as defined in the Senior Secured Notes Indenture), the trustee or the holders of at least 25% in aggregate principal amount of the Senior Secured Notes then outstanding may declare the entire principal of all the Senior Secured Notes to be due and payable immediately.

We may, at our option, redeem all or part of the Senior Secured Notes, at any time on or after February 1, 2012, at a redemption price equal to 100% of the principal amount thereof, plus a premium declining ratably to par and accrued and unpaid interest to the date of redemption. We may redeem some or all of the Senior Secured Notes before February 1, 2012, at a redemption price equal to 100% of the principal amount of the Senior Secured Notes to be redeemed, plus the Applicable Premium (as defined in the Senior Secured Notes Indenture) and accrued and unpaid interest to the date of redemption.

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In addition, at any time before February 1, 2012, we may, at our option, redeem up to 35% of the aggregate principal amount of the Senior Secured Notes issued under the Senior Secured Notes Indenture with the net cash proceeds of one or more qualified equity offerings at a redemption price of 111.625% of the principal amount of the Senior Secured Notes to be redeemed, plus accrued and unpaid interest to the date of redemption, as long as:

- at least 65% of the aggregate principal amount of the Senior Secured Notes issued under the Senior Secured Notes Indenture remains outstanding immediately after the occurrence of such redemption; and
- such redemption occurs within 90 days of the date of the closing of any such qualified equity offering.

Following a change of control, as defined in the Senior Secured Notes Indenture, holders of the Senior Secured Notes will be entitled to require us to purchase all or a portion of the Senior Secured Notes at 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase.

On July 31, 2009, Basic and each of the guarantors party to the Senior Secured Notes Indenture (the Grantors) entered into a Security Agreement (the Security Agreement) in favor of The Bank of New York Mellon Trust Company, N.A., a national banking association, as trustee under the Senior Secured Notes Indenture, to secure payment of the Senior Secured Notes and related guarantees. The Liens (as defined in the Security Agreement) granted by each of the Grantors under the Security Agreement consist of a security interest in all of the following personal property now owned or at any time thereafter acquired by such Grantor or in which such Grantor now has or at any time in the future may acquire any right, title or interest and whether existing as of the date of the Security Agreement or thereafter coming into existence (together with the Aircraft Collateral (as defined in the Security Agreement), the Collateral), as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the obligations of the Grantors under the Senior Secured Notes Indenture, the related Senior Secured Notes and the security documents:

- all Commercial Tort Claims;
- all Contracts (as defined in the Security Agreement);
- all Documents;
- all Equipment (other than the Aircraft Collateral);
- all General Intangibles (excluding Payment Intangibles except to the extent included pursuant to the last bullet point below);
- all Goods (as defined in the Security Agreement);
- all Intellectual Property (as defined in the Security Agreement);
- all Investment Property;
- all Letter-of-Credit Rights (whether or not the letter of credit is evidenced by a writing);
- all Supporting Obligations;
- each Asset Sale Proceeds Account (as defined in the Security Agreement) and all deposits, Securities and Financial Assets (as defined in the Security Agreement) therein and interest or other income thereon and investments thereof, and all property of every type and description in which any proceeds of any Collateral Disposition (as defined) or other disposition of Collateral are invested or upon which the trustee is at any time granted, or required to be granted, a Lien to secure the Obligations (as defined in the Security Agreement) as set forth in Section 4.12 of the

Senior Secured Notes Indenture and all proceeds and products of the Collateral described in this bullet point;

all other personal property (other than Excluded Property), whether tangible or intangible, not otherwise described above;

whatever is received (whether voluntary or involuntary, whether cash or non cash, including proceeds of insurance and condemnation awards, rental or lease payments, accounts, chattel paper, instruments, documents, contract rights, general intangibles, equipment and/or inventory) upon the lease, sale, charter, exchange, transfer, or other disposition of any of the Collateral described in the bullet points above;

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all books and records pertaining to the Collateral; and

to the extent not otherwise included, all Proceeds, Supporting Obligations and products (including, without limitation, any Accounts, Chattel Paper, Instruments or Payment Intangibles constituting Proceeds, Supporting Obligations or products) of any and all of the foregoing and all collateral security and guarantees given by any Person with respect to any of the foregoing; provided, that notwithstanding the foregoing provisions, Collateral shall not include Excluded Property.

Excluded Property means the following, whether now owned or at any time hereafter acquired by any Grantor or in which such Grantor now has or at any time in the future may acquire any right, title or interest and whether now existing or hereafter coming into existence:

Maritime Assets (as defined in the Security Agreement);

cash and cash equivalents (as such terms are defined by GAAP) other than those maintained in an Asset Sales Proceeds Account;

Securities Accounts containing only cash and cash equivalents other than any Asset Sale Proceeds Account and Security Entitlements relating to any such Securities Account;

equity interests in any subsidiary of any Grantor;

Inventory;

trucks, trailers and other motor vehicles covered by a certificate of title law of any state;

property and/or transactions to which Article 9 of the UCC does not apply pursuant to Section 9-109 thereof;

certain computer software and Equipment acquired prior to the date thereof and subject to a lien securing purchase money indebtedness as of the date thereof if (but only to the extent that) the applicable documentation relating to such lien prohibits the granting of a lien on such Equipment;

Equipment leased by any Grantor, other than pursuant to a capitalized lease, if (but only to the extent that) the lien securing the Equipment prohibits the granting of a lien on such Equipment;

certain General Intangibles, governmental approvals or other rights arising under any contracts, instruments, permits, licenses or other documents if the granting of a security interest therein would cause a breach of a restriction on the granting of a security interest therein or the assignment thereof in favor of a third party, subject to exceptions as set forth in the Security Agreement; and

Accounts, Chattel Paper, Instruments and Payment Intangibles to the extent they are not Proceeds, Supporting Obligations or products of the Collateral.

The following capitalized terms used above are as defined in the Uniform Commercial Code (UCC) of the State of New York, or such other jurisdiction as may be applicable under the terms of the Security Agreement) on the date of the Security Agreement: Accounts, Chattel Paper, Commercial Tort Claims, Deposit Account, Documents, Electronic Chattel Paper, Equipment, Financial Assets, General Intangibles, Instruments, Inventory, Investment Property, Letter-of-Credit Rights, Payment Intangibles, Proceeds, Securities, Securities Accounts, Security Entitlements, Supporting Obligations, and Tangible Chattel Paper.

Under the Security Agreement, each Grantor must maintain a perfected security interest in favor of the trustee and take all steps necessary from time to time in order to maintain the trustee s first-priority security interest (other than Permitted Collateral Liens). If an event of default were to occur under the Senior Secured Notes Indenture, the Senior

Secured Notes, the guarantees relating to the Senior Secured Notes, the Security Agreement or any other agreement, instrument or certificate that is entered into to secure payment

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or performance of the Senior Secured Notes, the trustee would be empowered to exercise all rights and remedies of a secured party under the UCC, in addition to all other rights and remedies under the applicable agreements.

Other Debt

We have a variety of other capital leases and notes payable outstanding that is generally customary in our business. None of these debt instruments is material individually. As of June 30, 2010, we had total capital leases of approximately $56.1 million.

Credit Rating Agencies

Our Senior Notes are currently rated B- and Caa1 by Standard and Poor s and Moody s, respectively. Our Senior Secured Notes are currently rated B+ and Ba3 by Standard and Poor s and Moody s, respectively.

Preferred Stock

At June 30, 2010 and December 31, 2009, we had 5,000,000 shares of $.01 par value preferred stock authorized, of which none was designated, issued or outstanding.

Other Matters

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Net Operating Losses

As of June 30, 2010, we had approximately $2.3 million of net operating loss carryforwards related to the pre-acquisition period of a 2003 acquisition, which are subject to an annual limitation of approximately $900,000. The carryforwards begin to expire in 2017.

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06). ASU No. 2010-06 requires the disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements. It also requires that Level 3 fair value measurements present information about purchases, sales, issuances and settlements. Fair value disclosures should also disclose valuation techniques and inputs used to measure both recurring and nonrecurring fair value measurements. This update became effective for the Company on January 1, 2010 except for the disclosures about purchases, sales, issuances, and settlements in the roll forward in activity in Level 3 fair value measurements, which become effective January 1, 2011. This update will not change the techniques the Company uses to measure fair values and is not expected to have a material impact on the Company s consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events* (ASU No. 2010-09). ASU No. 2010-09 removes the requirement that SEC filers disclose the date through which subsequent events have been evaluated. This update became effective January 1, 2010. The Company will no longer disclose the date through which subsequent events have been evaluated.

Impact of Inflation on Operations

Management is of the opinion that inflation has not had a significant impact on our business.

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

As of June 30, 2010, we have no material changes to the disclosure on this matter made in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

Disclosure Controls and Procedures

Based on their evaluation as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and effective to ensure that information required to be disclosed in such reports is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. ***LEGAL PROCEEDINGS***

From time to time, Basic is a party to litigation or other legal proceedings that Basic considers to be a part of the ordinary course of business. Basic is not currently involved in any legal proceedings that it considers probable or reasonably possible, individually or in the aggregate, to result in a material adverse effect on its financial condition, results of operations or liquidity.

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

For information regarding risks that may affect our business, in addition to the risk factor below, see the risk factors included in our most recent annual report on Form 10-K under the heading Risk Factors.

The potential adoption of federal and state legislative and regulatory initiatives related to hydraulic fracturing could result in operating restrictions or delays in the completion of oil and gas wells. A decline in the drilling of new wells and related well servicing activities caused by these initiatives could adversely affect our financial position, results of operations and cash flows.

Basic provides hydraulic fracturing services to our customers. Hydraulic fracturing is a commonly used process that involves using water, sand, and certain chemicals to fracture the hydrocarbon-bearing rock formation to allow flow of hydrocarbons into the wellbore. The U.S. Congress is considering legislation that may require additional regulation affecting the hydraulic fracturing process. To determine if these chemicals could adversely affect drinking water supplies, the U.S. Environmental Protection Agency announced in the first quarter of 2010 its intention to conduct a comprehensive research study on the potential adverse effects that hydraulic fracturing may have on water quality and public health. The adoption of any federal or state laws or the implementation of regulations regarding hydraulic fracturing could potentially cause a decrease in the completion of new oil and gas wells and could adversely affect our financial position, results of operations and cash flows.

ITEM 2. ***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes stock repurchase activity for the three months ended June 30, 2010 (dollars in thousands, except average price paid per share):

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program

		(1)			
April 1	April 30	651	$	9.32	$
May 1	May 31		$		$
June 1	June 30	1,456	$	8.59	$
Total		2,107	$	8.82	$

(1) These shares were repurchased from various employees to provide such employees the cash amounts necessary to pay certain tax liabilities associated with the vesting of restricted shares owned by them. The shares were repurchased on various dates based on the closing price per share on the date of repurchase.

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ITEM 6. ***EXHIBITS***

Exhibit No.	Description
3.1*	Amended and Restated Certificate of Incorporation of the Company, dated September 22, 2005. (Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form S-1 (SEC File No. 333-127517), filed on September 28, 2005)
3.2*	Amended and Restated Bylaws of the Company, effective as of March 9, 2010. (Incorporated by reference to Exhibit 3.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on March 15, 2010)
4.1*	Specimen Stock Certificate representing common stock of the Company. (Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form S-1 (SEC File No. 333-127517), filed on November 4, 2005)
4.2*	Indenture dated April 12, 2006, among the Company, the guarantors party thereto, and The Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on April 13, 2006)
4.3*	Form of 7.125% Senior Note due 2016. (Included in the Indenture filed as Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on April 13, 2006)
4.4*	First Supplemental Indenture dated as of July 14, 2006 to Indenture dated as of April 12, 2006 among the Company, as Issuer, the Subsidiary Guarantors named therein and The Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on July 20, 2006)
4.5*	Second Supplemental Indenture dated as of April 26, 2007 and effective as of March 7, 2007 to Indenture dated as of April 12, 2006 among the Company as Issuer, the Subsidiary Guarantors named therein and the Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No 001-32693), filed on May 1, 2007)
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4.7*	Fourth Supplemental Indenture dated as of February 9, 2009 to Indenture dated as of April 12, 2006 among the Company as Issuer, the Subsidiary Guarantors named therein and the Bank of New York Mellon Trust Company, N.A., as Trustee. (Incorporated by reference to Exhibit 4.7 of the Company s Annual Report on Form 10-K (SEC File No. 001-32693), filed on March 9, 2009)
4.8*	Fifth Supplemental Indenture dated as of July 23, 2009 to Indenture dated as of April 12, 2006 among the Company as Issuer, the Subsidiary Guarantors named therein and the Bank of New York Mellon Trust Company, N.A., as Trustee. (Incorporated by reference to Exhibit 4.8 of the Company s Annual Report on Form 10-K (SEC File No. 001-32693), filed on March 1, 2010)
4.9*	

Indenture dated as of July 31, 2009, by and among Basic, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as Trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on August 4, 2009)

4.10* Form of 11.625% Senior Secured Note due 2014. (Included as Exhibit A to the Indenture filed as Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on August 4, 2009)

4.11* Security Agreement dated as of July 31, 2009, by and between Basic and each of the other Grantors party thereto in favor of The Bank of New York Mellon Trust Company, N.A., as Trustee. (Incorporated by reference to Exhibit 4.3 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on August 4, 2009)

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Exhibit No.	Description
31.1	Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
31.2	Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference

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SIGNATURES

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

BASIC ENERGY SERVICES, INC.

By: /s/ Kenneth V. Huseman
Name: Kenneth V. Huseman
Title: *President, Chief Executive Officer and Director*
(Principal Executive Officer)

By: /s/ Alan Krenek
Name: Alan Krenek
Title: *Senior Vice President, Chief Financial Officer,*
Treasurer and Secretary
(Principal Financial Officer and Principal Accounting Officer)

Date: July 30, 2010

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Exhibit Index

Exhibit No.	Description
3.1*	Amended and Restated Certificate of Incorporation of the Company, dated September 22, 2005. (Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form S-1 (SEC File No. 333-127517), filed on September 28, 2005)
3.2*	Amended and Restated Bylaws of the Company, effective as of March 9, 2010. (Incorporated by reference to Exhibit 3.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on March 15, 2010)
4.1*	Specimen Stock Certificate representing common stock of the Company. (Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form S-1 (SEC File No. 333-127517), filed on November 4, 2005)
4.2*	Indenture dated April 12, 2006, among the Company, the guarantors party thereto, and The Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on April 13, 2006)
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