BASIC ENERGY SERVICES INC
Form 10-Q
November 09, 2007

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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 September 30, 2007

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 no. 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.)*
400 W. Illinois, Suite 800 Midland, Texas	**79701**
(Address of principal executive offices)	*(Zip code)*

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Act). (Check one)

Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o

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

40,895,967 shares of the registrant s Common Stock were outstanding as of November 7, 2007.

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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 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, 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, industry publications and surveys. Industry surveys, 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)

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 57,339	$ 51,365
Trade accounts receivable, net of allowance of $6,224 and $3,963, respectively	151,520	129,381
Accounts receivable related parties	88	94
Federal income tax receivable	2,212	
Inventories	11,078	8,409
Prepaid expenses	7,672	8,873
Other current assets	4,201	3,210
Deferred tax assets	10,455	8,432
Total current assets	244,565	209,764
Property and equipment, net	655,928	475,431
Deferred debt costs, net of amortization	6,345	6,536
Goodwill	217,076	101,579
Other assets	5,115	2,950
	$ 1,129,029	$ 796,260
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 20,953	$ 20,335
Accrued expenses	70,064	43,719
Income taxes payable		12,301
Current portion of long-term debt	16,085	12,001
Other current liabilities	1,338	1,430
Total current liabilities	108,440	89,786
Long-term debt	405,324	250,742
Deferred tax liabilities	104,925	73,413
Other long-term liabilities	5,808	3,069

Commitments and contingencies				
Stockholders equity:				
Preferred stock; $.01 par value; 5,000,000 shares authorized; none designated at September 30, 2007 and December 31, 2006, respectively				
Common stock; $.01 par value; 80,000,000 shares authorized; 40,925,530 issued; 40,895,967 shares outstanding at September 30, 2007 and 38,297,605 issued; 38,297,605 shares outstanding at December 31, 2006, respectively		409		383
Additional paid-in capital		313,957		256,527
Retained earnings		190,166		122,340
Treasury stock, 29,563 shares at September 30, 2007, at cost				
Total stockholders equity		504,532		379,250
	$	1,129,029	$	796,260

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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Revenues:				
Well servicing	$ 99,274	$ 88,221	$ 284,214	$ 242,840
Fluid services	52,696	50,742	156,441	142,724
Completion and remedial services	66,304	42,109	176,177	110,503
Well site construction services	10,958	13,483	34,586	36,627
Total revenues	229,232	194,555	651,418	532,694
Expenses:				
Well servicing	59,319	48,399	170,495	135,530
Fluid services	33,299	31,231	97,943	86,879
Completion and remedial services	34,731	20,522	91,240	53,556
Well site construction services	7,603	9,414	23,440	25,877
General and administrative, including stock-based compensation of $1,073 and $842 in three months ended in 2007 and 2006, and $3,228 and $2,475 in nine months ended in 2007 and 2006, respectively	25,472	20,907	73,713	59,056
Depreciation and amortization	23,582	16,706	66,814	44,665
(Gain) loss on disposal of assets	58	(420)	233	307
Total expenses	184,064	146,759	523,878	405,870
Operating income	45,168	47,796	127,540	126,824
Other income (expense):				
Interest expense	(7,375)	(4,732)	(20,159)	(12,519)
Interest income	830	603	1,713	1,517
Loss on early extinguishment of debt			(230)	(2,705)
Other income	23	75	124	130
Income from continuing operations before income taxes	38,646	43,742	108,988	113,247
Income tax expense	(14,220)	(16,414)	(40,797)	(41,751)
Net income	$ 24,426	$ 27,328	$ 68,191	$ 71,496

Earnings per share of common stock:				
Basic	$ 0.60	$ 0.81	$ 1.71	$ 2.14
Diluted	$ 0.59	$ 0.71	$ 1.66	$ 1.86
Comprehensive Income:				
Net income	$ 24,426	$ 27,328	$ 68,191	$ 71,496
Unrealized gains (losses) on hedging activities				(236)
Comprehensive Income:	$ 24,426	$ 27,328	$ 68,191	$ 71,260

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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 (Deficit)	Total Stockholders Equity
Balance December 31, 2006	38,297,605	$ 383	$ 256,527	$	$ 122,340	$ 379,250
Issuances of restricted stock	229,100	2	(2)			
Amortization of share based compensation			3,137			3,137
Stock issued as compensation to Chairman of the Board	4,000		91			91
Stock issued in JetStar Consolidated Holdings, Inc. acquisition	1,794,759	18	41,011			41,029
Stock issued in Sledge Drilling Holding Corp acquisition	430,191	4	10,161			10,165
Purchase of treasury stock				(462)		(462)
Exercise of stock options	169,875	2	3,032	462	(365)	3,131
Net income					68,191	68,191
Balance September 30, 2007 (unaudited)	40,925,530	$ 409	$ 313,957	$	$ 190,166	$ 504,532

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2007	2006
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 68,191	$ 71,496
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,814	44,665
Accretion on asset retirement obligation	85	69
Change in allowance for doubtful accounts	2,261	992
Amortization of deferred financing costs	717	589
Non-cash compensation	3,228	2,475
Loss on early extinguishment of debt	230	2,705
(Gain) loss on disposal of assets	233	307
Deferred income taxes	11,551	2,943
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(8,777)	(30,611)
Inventories	(657)	(199)
Prepaid expenses and other current assets	4,497	(6,549)
Other assets	(768)	(219)
Accounts payable	(2,450)	3,808
Excess tax benefits from exercise of employee stock options	(2,164)	(3,626)
Income tax payable	(12,349)	3,105
Other liabilities	(901)	1,659
Accrued expenses	14,214	14,738
Net cash provided by operating activities	143,955	108,347
Cash flows from investing activities:		
Purchase of property and equipment	(82,113)	(75,557)
Proceeds from sale of assets	3,082	3,548
Payments for other long-term assets	(4,973)	(6,006)
Payments for businesses, net of cash acquired	(194,430)	(132,853)
Net cash used in investing activities	(278,434)	(210,868)
Cash flows from financing activities:		

Proceeds from debt		150,000		305,081
Payments of debt		(11,461)		(201,678)
Purchase of treasury stock		(462)		(227)
Offering costs related to initial public offering				(3,218)
Excess tax benefits from exercise of employee stock options		2,164		398
Exercise of employee stock options		968		3,626
Deferred loan costs and other financing activities		(756)		(5,086)
Net cash provided by financing activities		140,453		98,896
Net increase (decrease) in cash and equivalents		5,974		(3,625)
Cash and cash equivalents beginning of period		51,365		32,845
Cash and cash equivalents end of period	$	57,339	$	29,220

See accompanying notes to consolidated financial statements.

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BASIC ENERGY SERVICES, INC.
Notes to Consolidated Financial Statements
September 30, 2007 (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 Energy Services, Inc. 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 well site construction services. These services are primarily provided by 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 and 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 interest in any other organization, entity, partnership, or contract that could require any evaluation under FASB Interpretation No. 46R or Accounting Research Bulletin No. 51. All intercompany transactions and balances have been eliminated.

Revenue Recognition

Well Servicing Well servicing consists primarily of maintenance services, workover services, drilling services, completion services and plugging and abandonment 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 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. 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 (formerly *Drilling and Completion 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 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.

Well Site Construction 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 well site construction services by the hour, day, or project depending on the type of service performed.

Impairments

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment at a minimum 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.

Goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value.

Basic had no impairment expense in the nine months ended September 30, 2007 and 2006.

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 being amortized to interest expense using the effective interest method.

Deferred debt costs of approximately $7.6 million at September 30, 2007 and $7.1 million at December 31, 2006, represent debt issuance costs and are recorded net of accumulated amortization of $1.2 million and $523,000 at September 30, 2007 and December 31, 2006, respectively. Amortization of deferred debt costs totaled approximately $245,000 and $40,000 for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, amortization of deferred debt costs totaled approximately $717,000 and $589,000, respectively.

Goodwill

Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142) eliminates the amortization of goodwill and other intangible assets with indefinite lives. Intangible assets with lives restricted by contractual, legal, or other means will continue to be amortized over their useful lives. 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. SFAS No. 142 requires a two-step process 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. Basic completed its assessment of goodwill impairment as of the date of adoption and completed a subsequent annual impairment assessment as of December 31 each year thereafter. The assessments did not result in any indications of goodwill impairment.

Basic has identified its reporting units to be well servicing, fluid services, completion and remedial services and well site construction services. The goodwill allocated to such reporting units as of September 30, 2007 is $47.1 million, $39.3 million, $127.0 million and $3.7 million, respectively. The change in the carrying amount of goodwill for the nine months ended September 30, 2007 of $115.5 million relates to goodwill from acquisitions and payments pursuant to contingent earn-out agreements, with approximately $25.0 million, $1.0 million and $89.5 million of goodwill additions relating to the well servicing, fluid services and completion and remedial units, respectively.

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Stock-Based Compensation

On January 1, 2006, Basic adopted Statement of Financial Accounting Standards No. 123 (revised 2004) *Share-Based Payment* (SFAS No. 123R). Prior to January 1, 2006, the Company accounted for share-based payments under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock issued to Employees* (APB No. 25) which was permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123).

Basic adopted SFAS No. 123R using both the modified prospective method and the prospective method as applicable to the specific awards granted. The modified prospective method was applied to awards granted subsequent to the Company becoming a public company. Awards granted prior to the Company becoming public and which were accounted for under APB No. 25 were adopted by using the prospective method. The results of prior periods have not been restated. Compensation expense cost of the unvested portion of awards granted as a private company and outstanding as of January 1, 2006 will continue to be based upon the intrinsic value method calculated under APB No. 25.

Under SFAS No. 123R, entities using the minimum value method and the prospective application are not permitted to provide the pro forma disclosures (as was required under SFAS No. 123) subsequent to adoption of SFAS No. 123R since they do not have the fair value information required by SFAS No. 123R. Therefore, in accordance with SFAS No. 123R, Basic will no longer include pro forma disclosures that were required by SFAS No. 123.

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. It 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 nine months ended September 30, 2007 or 2006.

Asset Retirement Obligations

As of January 1, 2003, Basic adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligation* (SFAS No. 143). SFAS No. 143 requires Basic to record 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 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 settlements of obligations.

Basic owns and operates 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. The following table reflects the changes in the liability during the nine months ended September 30, 2007 (in thousands):

Balance, December 31, 2006	$ 1,336
Additional asset retirement obligations recognized through acquisitions	101
Accretion expense	85
Balance, September 30, 2007	$ 1,522

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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 and its past experience with similar claims in accordance with Statement of Financial Accounting Standard No. 5 Accounting for Contingencies. Basic maintains accruals in the consolidated balance sheets to cover self-insurance retentions (See note 6).

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken, in a tax return. Our adoption in January 2007 of FIN 48 did not result in any change to retained earnings or any additional unrecognized tax benefit. Interest will be recorded in interest expense and penalties will be recorded in income tax expense. We had no interest or penalties related to an uncertain tax position during the nine months ended September 30, 2007. The company files federal income tax returns and state income tax returns in Texas and other state tax jurisdictions. In general, the company s tax returns for fiscal years after 2002 currently remain subject to examination by appropriate taxing authorities. None of the company s income tax returns are under examination at this time.

In September 2006, the FASB issued *SFAS No. 157, Fair value Measurements (SFAS 157)*, which will become effective for the company on January 1, 2008. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but would apply to assets and liabilities that are required to be recorded at fair value under other accounting standards. The impact, if any, to the company from the adoption of SFAS 157 in 2008 will depend on the company s assets and liabilities at that time that are required to be measured at fair value.

In February 2007, the FASB issued *SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159),* which becomes effective for the company on January 1, 2008. This standard permits companies to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in earnings. Such accounting is optional and is generally to be applied instrument by instrument. The Company does not anticipate that the adoption of SFAS 159 will have a material effect on its results of operations or consolidated financial position.

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3. Acquisitions

In 2007 and 2006, Basic acquired either substantially all of the assets or all of the outstanding capital stock of each of the following businesses, each of which were accounted for using the purchase method of accounting (in thousands):

	Closing Date		Total Cash Paid (net of cash acquired)
LeBus Oil Field Services Co.	January 31, 2006	$	24,618
G&L Tool, Ltd.	February 28, 2006		58,514
Arkla Cementing, Inc.	March 27, 2006		5,012
Globe Well Service, Inc.	May 30, 2006		11,674
Hydro-Static Tubing Testers, Inc.	July 6, 2006		1,143
Hennessey Rental Tools, Inc.	August 1, 2006		8,205
Stimulation Services, LLC	August 1, 2006		4,500
Chaparral Service, Inc.	August 15, 2006		17,605
Reddline Services, LLC	August 24, 2006		1,900
Rebel Testers, Ltd.	September 14, 2006		2,397
Total 2006		$	135,568
Parker Drilling Offshore USA, LLC	January 3, 2007		20,500
Davis Tool Company, Inc.	January 17, 2007		4,026
JetStar Consolidated Holdings, Inc.	March 6, 2007		79,828
Sledge Drilling Holding Corp.	April 2, 2007		50,433
Eagle Frac Tank Rentals, LP	May 30, 2007		3,800
Wildhorse Services, Inc.	June 1, 2007		17,405
Bilco Machine, Inc.	June 21, 2007		491
Steve Carter Inc. and Hughes Services Inc.	September 26, 2007		17,947
Total through September 30, 2007		$	194,430

The operations of each of the acquisitions listed above are included in Basic s statement of operations as of each respective closing date. The acquisitions of G&L Tool, Ltd. in 2006 and JetStar Consolidated Holdings, Inc. and Sledge Drilling Holding Corp. in 2007 have been deemed material and are discussed below in further detail.

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. 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.

G&L Tool, Ltd.

On February 28, 2006, Basic acquired substantially all of the assets of G&L Tool, Ltd. (G&L) for $58.5 million plus a contingent earn-out payment not to exceed $21.0 million. The contingent earn-out payment will be equal to fifty percent of the amount by which the annual EBITDA (as defined in the purchase agreement) earned by the G&L

assets exceeds an annual targeted EBITDA. There is no guarantee or assurance that the targeted EBITDA will be reached. This acquisition provided a platform to expand into the rental and fishing tool market. The cost of the G&L acquisition was allocated $40.8 million to property and equipment, $5.2 million to inventory, $12.5 million to goodwill, all of which is expected to be deductible for tax purposes, and $51,000 to non-compete agreements.

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JetStar Consolidated Holdings, Inc.

On March 6, 2007, Basic acquired all of the capital stock of JetStar Consolidated Holdings, Inc. (JetStar). The results of JetStar s operations have been included in the financial statements since that date. The aggregate purchase price was approximately $121.2 million, including $80.2 million in cash which included the retirement of JetStar s outstanding debt. Basic issued 1,794,759 shares of common stock, at a fair value of $22.86 per share for a total fair value of approximately $41 million. The value of the 1,794,759 shares issued was determined based on the average market price of Basic s common shares over the 2-day period before and after the date the number of shares were determined. This acquisition allowed us to enter into the Kansas market and increased our presence in North Texas. JetStar will operate in Basic s completion and remedial segment. The purchase price will be adjusted and finalized when the Company completes its analysis of identifiable intangible assets. The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition for JetStar (in thousands):

Current Assets	$ 11,639
Property and Equipment	60,283
Goodwill (1)	73,078
Total Assets Acquired	145,000
Current Liabilities	(10,538)
Deferred Income Taxes	(13,270)
Current and Long Term Debt (2)	(37,563)
Total Liabilities Assumed	(61,371)
Net Assets Acquired	83,629

(1) Approximately $24 million is expected to be deductible for tax purposes

(2) Total balance was paid by Basic on the closing date

Sledge Drilling Holding Corp.

On April 2, 2007, Basic acquired all of the capital stock of Sledge Drilling Holding Corp. (Sledge). The results of Sledge s operations have been included in the financial statements since that date. The aggregate purchase price was approximately $61.8 million, including $51.6 million in cash which included the retirement of Sledge s outstanding debt. Basic issued 430,191 shares of common stock at a fair value of $23.63 per share for a total fair value of approximately $10.2 million. The value of the 430,191 shares issued was determined based on the average market

price of Basic s common shares over the 2-day period before and after the date the number shares were determined. This acquisition allowed Basic to expand its drilling operations in the Permian Basin. The purchase price will be adjusted and finalized when Basic receives an appraisal of fair value of property and equipment received and completes its analysis of identifiable intangible assets. The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition for Sledge (in thousands):

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Current Assets	$ 6,029
Property and Equipment	36,681
Long Term Assets	20
Goodwill (1)	23,164
Total Assets Acquired	65,894
Current Liabilities	(285)
Deferred Income Taxes	(3,866)
Current and Long Term Debt (2)	(19,093)
Total Liabilities Assumed	(23,244)
Net Assets Acquired	42,650

(1) None of which is expected to be deducted for tax purposes

(2) Total balance was paid by Basic on the closing date

Revisions to the fair values, which may be significant, will be recorded by the Company as further adjustments to the purchase price allocations.

The following unaudited pro-forma results of operations have been prepared as though the JetStar, Sledge, and G&L acquisitions had been completed on January 1, 2006. Pro forma amounts are based on the purchase price allocations of the significant acquisitions and are not necessarily indicative of the results that may be reported in the future (in thousands, except per share data).

	Nine Months Ended September 30,	
	2007	**2006**
Revenues	$ 673,977	$ 608,272
Net income	$ 73,597	$ 85,710
Earnings per common share basic	$ 1.85	$ 2.57
Earnings per common share diluted	$ 1.80	$ 2.23

Basic does not believe the pro-forma effect of the remainder of the acquisitions completed in 2006 or 2007 are material, either individually or when aggregated, to the reported results of operations.

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4. Property and Equipment

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

	September 30, 2007	December 31, 2006
Land	$ 4,391	$ 2,913
Buildings and improvements	20,476	13,293
Well service units and equipment	389,399	283,084
Fluid services equipment	92,372	87,139
Brine and fresh water stations	8,728	8,710
Frac/test tanks	84,992	49,582
Pressure pumping equipment	135,814	67,540
Construction equipment	28,243	27,342
Disposal facilities	27,059	25,913
Vehicles	37,097	32,215
Rental equipment	34,584	32,548
Aircraft	4,119	4,119
Other	13,421	8,807
	880,695	643,205
Less accumulated depreciation and amortization	224,767	167,774
Property and equipment, net	$ 655,928	$ 475,431

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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 consists of the following (in thousands):

	September 30, 2007	December 31, 2006
Light vehicles	$ 25,179	$ 23,843
Well service units and equipment	1,099	808
Fluid services equipment	32,606	26,460
Pressure pumping equipment	3,622	1,820
Construction equipment	3,559	3,559
Software	5,612	
	71,677	56,490
Less accumulated amortization	19,868	13,785
	$ 51,809	$ 42,705

Amortization of assets held under capital leases of approximately $6,083,000 and $3,808,000 for the nine months ended September 30, 2007 and 2006 and $2,263,000 and $1,432,000 for the three months ended September 30, 2007 and 2006 respectively, is included in depreciation and amortization expense in the consolidated statements of operations.

5. Long-Term Debt

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

	September 30, 2007	December 31, 2006
Credit Facilities:		
Revolver	$ 150,000	$
7.125% Senior Notes	225,000	225,000
Capital leases and other notes	46,409	37,743
	421,409	262,743
Less current portion	16,085	12,001
	$ 405,324	$ 250,742

Senior Notes

On April 12, 2006, the Company issued $225.0 million of 7.125% Senior Notes due April 2016 in a private placement. Proceeds from the sale of the Senior Notes were used to retire the outstanding balance on the $90.0 million Term B Loan and to pay down approximately $96.0 million under the revolving credit facility, which amounts may be reborrowed to fund future acquisitions or for general corporate purposes. Interest payments on the Senior Notes are due semi-annually, on April 15 and October 15, which began on October 15, 2006. The Senior Notes are unsecured. Under the terms of the sale of the Senior Notes, the Company 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. The Company completed the exchange offer for all of the Senior Notes on October 16, 2006.

The Senior Notes are redeemable at the option of the Company on or after April 15, 2011 at the specified redemption price as described in the Indenture. Prior to April 15, 2011, the Company may redeem, 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 Indenture. Prior to April 15, 2009, the Company may redeem up to 35% of the Senior Notes with the proceeds of certain equity offerings at a redemption price equal to 107.125% of the principal amount

of the 7.125% Senior Notes, plus accrued and unpaid interest to the date of redemption. This redemption must occur less than 90 days after the date of the closing of any such equity offering.

Following a change of control, as defined in the Indenture, the Company will be required to make an offer to repurchase all or any portion of the 7.125% 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 Indenture, the Company is subject to covenants that limit the ability of the Company 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 Indenture. The Company was in compliance with the restrictive covenants at September 30, 2007.

As part of the issuance of the above-mentioned Senior Notes, the Company 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 the Company and all of its restricted subsidiaries. Basic Energy Services, Inc., the ultimate parent company, does not have any independent operating assets or operations. Subsidiaries other than the restricted subsidiaries that are guarantors are minor.

2007 Credit Facility

On February 6, 2007, Basic entered into a $225 million Fourth Amended and Restated Credit Agreement with a syndicate of lenders (the 2007 Credit Facility), which refinanced all of the existing credit facilities. Under the 2007 Credit Facility, Basic Energy Services, Inc. is the sole borrower and each of our subsidiaries is a subsidiary guarantor. The 2007 Credit Facility provides for a $225 million revolving line of credit (Revolver). The 2007 Credit Facility includes provisions allowing us to request an increase in commitments of up to $100.0 million aggregate principal amount at any time. Additionally, the 2007 Credit Facility permits us to make greater expenditures for acquisitions, capital expenditures and capital leases and to incur greater purchase money obligations, acquisition indebtedness and general unsecured indebtedness. The commitment under the Revolver provides for (1) the borrowing of funds, (2) the issuance of up to $30 million of letters of credit and (3) $2.5 million of swing-line loans. All of the outstanding amounts under the Revolver are due and payable on December 15, 2010. The 2007 Credit Facility is secured by substantially all of our tangible and intangible assets. Basic incurred approximately $0.7 million in debt issuance costs in connection with the 2007 Credit Facility.

At Basic s option, borrowings under the Revolver bears interest at either (1) the Alternative Base Rate (i.e., the higher of the bank s prime rate or the federal funds rate plus .50% per year) plus a margin ranging from 0.25% to 0.5% or (2) an Adjusted LIBOR Rate (equal to (a) the London Interbank Offered Rate (the LIBOR rate) as determined by the Administrative Agent in effect for such interest period divided by (b) one minus the Statutory Reserves, if any, for such borrowing for such interest period) plus a margin ranging from 1.25% to 1.5%. The margins vary depending on our leverage ratio. Fees on the letters of credit are due quarterly on the outstanding amount of the letters of credit at a rate ranging from 1.25% to 1.5% for participation fees and 0.125% for fronting fees. A commitment fee is due quarterly on the available borrowings under the Revolver at a rate of 0.375%.

At September 30, 2007, Basic, under its Revolver, had outstanding $150.0 million of borrowings and $15.5 million of letters of credit and no amounts outstanding in swing-line loans. At September 30, 2007, Basic had availability under its Revolver of $59.5 million.

Pursuant to the 2007 Credit Facility, Basic must apply proceeds from certain specified events to reduce principal outstanding borrowings under the Revolver, from (a) assets sales greater than $2.0 million individually or $7.5 million in the aggregate on an annual basis, (b) 100% of the net cash proceeds from any debt issuance, including certain permitted unsecured senior or senior subordinated debt, but excluding certain other permitted debt issuances

and (c) 50% of the net cash proceeds from any equity issuance (including equity issued upon the exercise of any warrant or option).

The 2007 Credit Facility contains various restrictive covenants and compliance requirements, which include (a) limitations on the incurrence of additional indebtedness, (b) restrictions on mergers, sales or transfer of assets without the lenders consent (c) limitations on dividends and distributions and (d) various financial covenants, including (1) a maximum leverage ratio of 3.50 to 1.00, reducing to 3.25 to 1.00 on April 1, 2007, and (2) a minimum interest coverage ratio of 3.00 to 1.00. At September 30, 2007, Basic was in compliance with its covenants.

2005 Credit Facility

On December 15, 2005, Basic entered into a $240 million Third Amended and Restated Credit Agreement with a syndicate of lenders (2005 Credit Facility), which refinanced all of its then existing credit facilities. The 2005 Credit Facility, as amended effective March 28, 2006, provided for a $90 million Term B Loan (2005 Term B Loan) and a $150 million revolving line of credit (Revolver). The commitment under the Revolver allowed for (a) the borrowing of funds (b) issuance of up to $30 million of letters of credit and (c) $2.5 million of swing-line loans (next day borrowing). The amounts outstanding under the 2005 Term B Loan required quarterly amortization at various amounts during each quarter with all amounts outstanding on December 15, 2011 being due and payable in full. All the outstanding amounts under the Revolver were due and payable on December 15, 2010. The 2005 Credit Facility was secured by substantially all of Basic s tangible and intangible assets. Basic incurred approximately $1.8 million in debt issuance costs in obtaining the 2005 Credit Facility.

At Basic s option, borrowings under the 2005 Term B Loan bore interest at either the (a) Alternative Base Rate (i.e. the higher of the bank s prime rate or the federal funds rate plus .5% per annum) plus 1% or (b) the LIBOR rate plus 2.0%. At December 31, 2006, Basic had paid outstanding borrowings under the Term B Loan in full; therefore, a Term B Loan weighted average interest rate was not calculated. However, at December 31, 2005, Basic s weighted average interest rate on its Term B Loan was 6.4%.

At Basic s option, borrowings under the 2005 Revolver bore interest at either the (a) Alternative Base Rate (i.e. the higher of the bank s prime rate or the federal funds rate plus .5% per annum) plus a margin ranging from .50% to 1.25% or (b) the LIBOR rate plus a margin ranging from 1.5% to 2.25%. The margins vary depending on Basic s leverage ratio. At December 31, 2006, Basic s margin on Alternative Base Rates and LIBOR tranches was .75% and 1.75%, respectively. Fees on the letters of credit are due quarterly on the outstanding amount of the letters of credit at a rate ranging from 1.5% to 2.25% for participation fees and .125% for fronting fees. A commitment fee was due quarterly on the available borrowings under the Revolver at rates ranging from .375% to .5%.

At December 31, 2006, Basic, under its Revolver, had no outstanding borrowings and $10.6 million of letters of credit and no amounts outstanding in swing-line loans. At December 31, 2006, Basic had availability under its Revolver of $139.4 million. On February 6, 2007, Basic amended and restated its 2005 Credit Facility by entering into its 2007 Credit Facility, as described above.

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.

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

	Nine Months Ended September 30,	
	2007	**2006**
Interest expense on outstanding debt	$ 17,446	$ 10,674
Interest expense on capital leases	1,186	1,123
Commitment and other fees	492	566
Amortization of debt issuance costs	717	589
Gain on hedging activity		(433)
Other	318	

	$ 20,159	$ 12,519

Losses on Extinguishment of Debt

In February 2007 and April 2006, Basic recognized a loss on the early extinguishment of debt. In February 2007, Basic wrote off unamortized debt issuance costs of approximately $230,000, which related to the 2005 Credit Facility. In April 2006, Basic wrote off unamortized debt issuance costs of approximately $2.7 million, which related to the prepayment of the Term B loan.

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 the disposition 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 $250,000 and $175,000, 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 September 30, 2007 and December 31, 2006, self-insured risk accruals totaled approximately $15.8 million and $12.6 million, net of a $652,000 receivable for medical and dental coverage, respectively.

7. Stockholders Equity

Common Stock

In February 2004, Basic granted certain officers and directors 837,500 restricted shares of common stock. The shares vest 25% per year for four years from the award date and are subject to other vesting and forfeiture provisions. The estimated fair value of the restricted shares was $5.8 million at the date of the grant and was recorded as deferred compensation, a component of stockholders equity. This amount is being charged to expense over the respective vesting period and totaled approximately $278,000 and $272,000 for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, the amount charged to expense over the respective vesting period totaled approximately $955,000 and $966,000, respectively.

In December 2005, Basic issued 5,000,000 shares of common stock during the Company s initial public offering to a group of investors for $100 million or $20 per share. After deducting fees, this resulted in net proceeds to Basic totaling approximately $91.5 million.

On October 5, 2006, all outstanding common stock warrants issued to a group of related investors in 2002 were exercised to purchase an aggregate of 4,350,000 shares of Basic s common stock. In connection with the exercise of the warrants, Basic received an aggregate of $17.4 million from the warrant holders in satisfaction of the exercise price of the warrants (representing an exercise price of $4.00 per share of Basic s common stock acquired).

During year ended 2006, Basic issued 293,350 shares of common stock from treasury stock for the exercise of stock options. Also, Basic issued 15,670 shares of newly-issued common stock for the exercise of stock options.

During the first nine months of 2007, Basic issued 169,875 shares of newly-issued common stock and 21,550 shares of treasury stock for the exercise of stock options.

In March and April 2007, Basic issued 1,794,759 and 430,191 shares of common stock in connection with the acquisitions of JetStar Consolidated Holdings, Inc. and Sledge Drilling Holding Corp., respectively. (See note 3).

In March 2007, Basic granted various employees 217,100 unvested shares of common stock which vest over a five year period. Also, in March 2007, Basic granted the Chairman of the Board 4,000 shares of common stock. In July 2007, Basic granted a vice president 12,000 shares of unvested shares of common stock which vest over a four year period.

Preferred Stock

At September 30, 2007 and December 31, 2006, Basic had 5,000,000 shares of $.01 par value preferred stock authorized, of which none is designated.

8. Incentive Plan

In May 2003, Basic s board of directors and stockholders approved the Basic 2003 Incentive Plan (as amended effective April 22, 2005) (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 successors that were awarded and remained outstanding prior to adoption of the Plan. The Plan provides for the issuance of 5,000,000 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.

On March 15, 2006, the board of directors granted various employees and directors options to purchase 418,000 shares of common stock of Basic at an exercise price of $26.84 per share. All of the 418,000 options granted in 2006 vest over a five-year period and expire 10 years from the date they were granted. These option awards were granted with an exercise price equal to the market price of the Company s stock at the date of grant. On March 15, 2007, the board of directors granted various employees options to purchase 92,000 shares of common stock of Basic at an exercise price of $22.66 per share. All of the 92,000 options granted in 2007 vest over a five-year period and expire 10 years from the date they were granted. These option awards were granted with an exercise price equal to the market price of the Company s stock at the date of grant.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model that uses the subjective assumptions noted in the following table. Since the Company has only been public since December 2005, expected volatility for options granted during 2006 is an implied volatility based upon a peer group. Expected volatility for options granted during 2007 is a combination of the Company s historical data

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and implied volatility based upon a peer group. The expected term of options granted represents the period of time that options granted are expected to be outstanding. For options granted in 2007 and 2006, the Company used the simplified method to calculate the expected term. For options granted in 2007 and 2006, the risk-free rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of grant. The estimates involve inherent uncertainties and the application of management judgment. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest. During the three months ended September 30, 2007 and 2006 compensation expense related to share-based arrangements was approximately $1.1 million and $842,000, respectively. For compensation expense recognized during the three months ended September 30, 2007 and 2006, Basic recognized a tax benefit of approximately $395,000 and $316,000 respectively. During the nine months ended September 30, 2007 and 2006, compensation expense related to share-based arrangements was approximately $3.2 million and $2.5 million, respectively. For compensation expense recognized during the nine months ended September 30, 2007 and 2006, Basic recognized a tax benefit of approximately $1.2 million and $912,000, respectively.

The fair value of each option award accounted for under SFAS No. 123R is estimated on the date of grant using the Black-Scholes-Merton option-pricing model that uses the assumptions noted in the following table:

	Nine Months Ended September 30, 2007	**Nine Months Ended September 30, 2006**
Risk-free interest rate	4.5%	4.7%
Expected term	6.65	6.65
Expected volatility	45.3%	47.0%
Expected dividend yield		

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 September 30, 2007 and the changes during the nine 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	2,457,780	$ 9.05		
Options granted	92,000	$ 22.66		
Options forfeited	(90,125)	$ 16.87		
Options exercised	(191,425)	$ 5.14		
Options expired		$		
Outstanding, end of period	2,268,230	$ 9.60	6.55	$ 28,116
Exercisable, end of period	1,233,272	$ 4.69	5.35	$ 20,137
Vested or expected to vest, end of period	2,263,630	$ 9.57	6.54	$ 28,116

The weighted-average grant date fair value of share options granted during the nine months ended September 30, 2007 and 2006 was $11.85 and $14.47, respectively. The total intrinsic value of share options exercised during the nine months ended September 30, 2007 and 2006 was approximately $3.6 million and $5.8 million, respectively.

A summary of the status of the Company s non-vested share grants at September 30, 2007 and changes during the nine months ended September 30, 2007 is presented in the following table:

Nonvested Shares	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested at beginning of period	361,250	$ 6.98
Granted during period	229,100	22.70
Vested during period	(180,625)	6.98
Forfeited during period	(30,725)	15.96
Nonvested at end of period	379,000	$ 15.75

As of September 30, 2007, there was approximately $11.5 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 2.68 years. The total fair value of share-based awards vested during the nine months ended September 30, 2007 and 2006 was approximately $10.8 million and $11.6 million, respectively.

Cash received from share option exercises under the incentive plan was approximately $983,000 and $398,000 for the nine months ended September 30, 2007 and 2006, respectively. The actual tax benefit realized for the tax deductions from options exercised was $2.2 million and $3.6 million, respectively, for the nine months ended September 30, 2007 and 2006, respectively.

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

9. Related Party Transactions

Basic had receivables from employees of approximately $88,000 and $94,000 as of September 30, 2007 and December 31, 2006, 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 presents earnings per share information in accordance with the provisions of Statement of Financial Accounting Standards No. 128, *Earnings per Share* (SFAS No. 128). Under SFAS No. 128, 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 year. 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):

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(in thousands, except share data):	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
	(Unaudited)		(Unaudited)	
Numerator (both basic and diluted):				
Net income	$ 24,426	$ 27,328	$ 68,191	$ 71,496
Denominator:				
Denominator for basic earnings per share	40,515,934	33,537,355	39,843,159	33,394,202
Stock options	791,290	990,044	857,971	1,050,764
Unvested restricted stock	283,504	211,800	259,560	225,660
Common stock warrants		3,703,160		3,727,237
Denominator for diluted earnings per share	41,590,728	38,442,359	40,960,690	38,397,863
Basic earnings per common share:	$ 0.60	$ 0.81	$ 1.71	$ 2.14
Diluted earnings per common share:	$ 0.59	$ 0.71	$ 1.66	$ 1.86

11. Business Segment Information

Basic s reportable business segments are well servicing, fluid services, completion and remedial services and well site construction services. The following is a description of the segments:

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. Basic well servicing equipment and capabilities are essential to facilitate most other services performed on a well. Also included in this segment is our contract drilling segment which provides shallow and medium-depth drilling rigs to customers on a contract basis.

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

Completion and Remedial Services: This segment utilizes a fleet of pressure pumping 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.

Well Site Construction Services: This segment utilizes a fleet of power units, dozers, trenchers, motor graders, backhoes and other heavy equipment. Basic employs these assets to provide services for the construction and maintenance of oil and gas production infrastructure, such as preparing and maintaining access roads and well locations, installation of small diameter gathering lines and pipelines and construction of temporary foundations to support drilling rigs.

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	Well Site Construction Services	Corporate and Other	Total
Three Months Ended September 30, 2007 (Unaudited)						
Operating revenues	$ 99,274	$ 52,696	$ 66,304	$ 10,958		$ 229,232
Direct operating costs	(59,319)	(33,299)	(34,731)	(7,603)		(134,952)
Segment profits	$ 39,955	$ 19,397	$ 31,573	$ 3,355	$	$ 94,280
Depreciation and amortization	$ 11,092	$ 5,212	$ 5,305	$ 1,022	$ 951	$ 23,582
Capital expenditures, (excluding acquisitions)	$ 13,763	$ 6,466	$ 6,582	$ 1,268	$ 1,180	$ 29,259
Three Months Ended September 30, 2006 (Unaudited)						
Operating revenues	$ 88,221	$ 50,742	$ 42,109	$ 13,483	$	$ 194,555
Direct operating costs	(48,399)	(31,231)	(20,522)	(9,414)		(109,566)
Segment profits	$ 39,822	$ 19,511	$ 21,587	$ 4,069	$	$ 84,989
Depreciation and amortization	$ 7,539	$ 4,335	$ 3,246	$ 1,013	$ 573	$ 16,706
Capital expenditures, (excluding acquisitions)	$ 12,063	$ 6,936	$ 5,193	$ 1,621	$ 917	$ 26,730
Nine Months Ended September 30, 2007 (Unaudited)						
Operating revenues	$ 284,214	$ 156,441	$ 176,177	$ 34,586	$	$ 651,418
Direct operating costs	(170,495)	(97,943)	(91,240)	(23,440)		(383,118)
Segment profits	$ 113,719	$ 58,498	$ 84,937	$ 11,146	$	$ 268,300

Depreciation and amortization	$ 31,427	$ 14,766	$ 15,030	$ 2,896	$ 2,695	$ 66,814
Capital expenditures, (excluding acquisitions)	$ 38,624	$ 18,147	$ 18,471	$ 3,559	$ 3,312	$ 82,113
Identifiable assets	$ 355,599	$ 184,274	$ 284,275	$ 33,480	$ 271,401	$ 1,129,029
Nine Months Ended September 30, 2006 (Unaudited)						
Operating revenues	$ 242,840	$ 142,724	$ 110,503	$ 36,627	$	$ 532,694
Direct operating costs	(135,530)	(86,879)	(53,556)	(25,877)		(301,842)
Segment profits	$ 107,310	$ 55,845	$ 56,947	$ 10,750	$	$ 230,852
Depreciation and amortization	$ 20,157	$ 11,590	$ 8,677	$ 2,709	$ 1,532	$ 44,665
Capital expenditures, (excluding acquisitions)	$ 34,099	$ 19,607	$ 14,679	$ 4,581	$ 2,591	$ 75,557
Identifiable assets	$ 229,026	$ 158,015	$ 127,502	$ 32,640	$ 202,448	$ 749,631

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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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Segment profits	$ 94,280	$ 84,989	$ 268,300	$ 230,852
General and administrative expenses	(25,472)	(20,907)	(73,713)	(59,056)
Depreciation and amortization	(23,582)	(16,706)	(66,814)	(44,665)
Gain (loss) on disposal of assets	(58)	420	(233)	(307)
Operating income	$ 45,168	$ 47,796	$ 127,540	$ 126,824

12. Supplemental Schedule of Cash Flow Information

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

	Nine Months Ended September 30,	
	2007	2006
	(In thousands)	
Capital leases issued for equipment	$ 20,127	$ 19,286
Value of Shares that may be issued	$ 2,194	$
Contingent earnout accrual	$ 1,214	$ 1,449
Asset retirement obligation additions	$ 101	$ 744
Value of common stock issued in business combinations	$ 51,193	$

Basic paid income taxes of approximately $37.8 million and $33.5 million during the nine months ended September 30, 2007 and 2006, respectively. Basic paid interest of approximately $13.6 million and $3.6 million during the nine months ended September 20, 2007 and 2006, respectively.

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

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 well site construction services. Our results of operations since the beginning of 2002 reflect the impact of our acquisition strategy as a leading consolidator in the domestic land-based well services industry during this period. Our acquisitions have increased our breadth of service offerings at the well site and expanded our market presence. In implementing this strategy, we have purchased businesses and assets in 53 separate acquisitions from January 1, 2001 to September 30, 2007. Our weighted average number of well servicing rigs has increased from 126 in 2001 to 383 in the third quarter of 2007, and our weighted average number of fluid service trucks has increased from 156 to 653 in the same period.

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

	Nine Months Ended September 30,			
	2007		2006	
Revenues:				
Well servicing	$284.2	44%	$242.9	46%
Fluid services	156.4	24%	142.7	27%
Completion and Remedial	176.2	27%	110.5	21%
Well site construction services	34.6	5%	36.6	6%
Total revenues	$651.4	100%	$532.7	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, could 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. In addition, the discovery rate of new oil and gas reserves in our market areas also may have an impact on our business, even in an environment of stronger oil and gas prices.

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 gas price environments, as ongoing maintenance spending is required to sustain production. As oil and gas prices reach higher levels, demand for all of our services generally increases as our customers engage in more well servicing activities relating to existing wells to maintain or increase oil and gas production from those wells. 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 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

Well Site Construction Services 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 intend to continue growing our business through selective acquisitions, continuing a newbuild program and/or upgrading our existing assets. Our capital investment decisions are determined by an analysis of the projected return on capital employed of 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. As discussed below in Liquidity and Capital Resources, we also must meet certain financial covenants in order to borrow money under our existing credit agreement to fund future acquisitions

Selected 2006 Acquisitions

During 2006, we made several acquisitions that complemented our existing lines of business and increased our presence in the rental tool business. These included, among others:

LeBus Oil Field Service Co.

On January 31, 2006, we acquired all of the outstanding capital stock of LeBus Oil Field Service Co. for an acquisition price of $26 million, subject to adjustments. This acquisition significantly expanded our fluid services line of business in the Ark-La-Tex region. The cash used to acquire LeBus was primarily from borrowings under our senior credit facility.

G&L Tool, Ltd.

On February 28, 2006, we acquired substantially all of the operating assets of G&L Tool, Ltd. for total cash consideration of $58.5 million. This acquisition provided an entry into the rental and fishing tool market and operates within our completion and remedial line of business. The purchase agreement also contained an earn-out agreement based on annual EBITDA targets. The cash used to acquire G&L was primarily from borrowings under our senior credit facility.

Chaparral Service, Inc.

On August 15, 2006, we acquired all of the outstanding capital stock and substantially all operating assets of the subsidiaries of Chaparral Service, Inc. for total cash consideration of $19 million, subject to adjustments. This acquisition expanded our well servicing and fluid services capabilities in the eastern New Mexico portion of the Permian Basin. The cash used to acquire Chaparral was primarily from operating cash.

Selected 2007 Acquisitions

During the first nine months of 2007, we made several acquisitions that complemented our existing lines of business and increased our presence in the rental tool business. These included, among others:

Parker Drilling Offshore USA, LLC

On January 3, 2007, we acquired two barge-mounted workover rigs and related equipment from Parker Drilling Offshore USA, LLC for total consideration of $20.5 million cash. The acquired rigs operate in the inland waters of Louisiana and Texas as a part of Basic Marine Services.

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JetStar Consolidated Holdings, Inc.

On March 6, 2007, we acquired all of the outstanding capital stock of JetStar Consolidated Holdings, Inc. (JetStar) for an aggregate purchase price of approximately $121.2 million, including $80.2 million in cash, of which approximately $37.6 million was used for the retirement of JetStar s outstanding debt. As part of the purchase price, we issued 1,794,759 shares of common stock, at a fair value of $22.86 per share for a total fair value of approximately $41 million. This acquisition operates in our completion and remedial line of business.

Sledge Drilling Holding Corp.

On April 2, 2007, we acquired all of the outstanding capital stock of Sledge Drilling Holding Corp. (Sledge) for an aggregate purchase price of approximately $61.8 million, including $51.6 million in cash, of which approximately $19 million was used for the repayment of Sledge s outstanding debt. As part of the purchase price, we issued 430,191 shares of common stock at a fair value of $23.63 per share for a total fair value of approximately $10.2 million. This acquisition allowed us to expand our drilling operations in the Permian Basin and operates in our well servicing line of business.

Segment Overview

Well Servicing

During the first nine months of 2007, our well servicing segment represented 44% of our revenues. Revenue in our well servicing segment is derived from maintenance, workover, completion, contract drilling and plugging and abandonment services. We provide maintenance-related services as part of the normal, periodic upkeep of producing oil and 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 has increased from a weighted average number of 353 rigs in the third quarter of 2006 to 392 in the third quarter of 2007 through a combination of new build purchases and the remainder through acquisitions and other individual equipment purchases.

The following is an analysis of our well servicing operations for each of the quarters ended December 31, 2006, and the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007 (dollars in thousands):

	Weighted Average Number of Rigs	Rig Hours	Rig Utilization Rate	Revenue Per Rig Hour	Segment Profits Per Rig Hour	Segment Profits %
2006:						
First Quarter	327	209,000	89.4%	$ 352	$152	43.4%
Second Quarter	341	221,800	91.0%	$ 366	$161	43.9%
Third Quarter	353	230,100	91.2%	$ 383	$173	45.1%
Fourth Quarter	362	218,900	84.6%	$ 401	$169	42.1%
Full Year	346	879,800	88.9%	$ 376	$164	43.6%
2007:						
First Quarter	367	215,000	81.9%	$ 412	$166	40.3%
Second Quarter	379	221,900	81.9%	$ 434	$172	39.5%
Third Quarter	392	229,000	81.9%	$ 434	$174	40.2%

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We gauge activity levels in our well servicing segment based on rig utilization rate, revenue per rig hour and segment profits per rig hour.

We have been able to increase our revenue per rig hour from $383 in the third quarter of 2006 to $434 in the third quarter of 2007 mainly as a result of the expansion of our well servicing fleet, which has contributed to our improved revenue. However, declining market conditions since 2006 combined with adverse weather conditions have reduced utilization for our services.

Fluid Services

During the first nine months of 2007, our fluid services segment represented 24% 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 gas wells. 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 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. 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.

The following is an analysis of our fluid services operations for each of the quarters ended December 31, 2006 and the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007 (dollars in thousands):

	Weighted Average Number of Fluid Service Trucks	Revenue Per Fluid Service Truck	Segment Profits Per Fluid Service Truck	Segment Profits %
2006:				
First Quarter	529	$ 82	$ 32	39.0%
Second Quarter	568	$ 86	$ 34	39.9%
Third Quarter	614	$ 83	$ 32	38.5%
Fourth Quarter	640	$ 81	$ 32	39.3%
Full Year	588	$ 332	$130	39.2%
2007:				
First Quarter	652	$ 79	$ 30	38.4%
Second Quarter	657	$ 79	$ 29	37.0%
Third Quarter	653	$ 81	$ 30	36.8%

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

We have increased our fluid services truck fleet through internal expansion, as well as the expansion of this segment with the acquisition of LeBus in 2006.

The decrease in revenue per fluid service truck from $83,000 in the third quarter of 2006 to $81,000 in the third quarter of 2007 is due primarily to an overall increase in the competition in the industry as well as a larger portion of the revenue of this segment being from truck services versus frac tank rentals and disposal fees.

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Completion and Remedial Services

During the first nine months of 2007, our completion and remedial services segment represented 27% of our revenues. Revenues from our completion and remedial services segment are generally derived from a variety of services designed to stimulate oil and 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 single truck, lower-horsepower cementing, acidizing and fracturing services in selected markets. We entered the market for pressure pumping in East Texas during late 2002, and we expanded our presence with the acquisition of New Force in January 2003. We entered this market in the Rocky Mountain states with the acquisition of FESCO, which had a small cementing business based in Gillette, Wyoming. In December 2003, we acquired the assets of Graham Acidizing and integrated these assets into our North Texas and East Texas operations. On March 6, 2007, we acquired all of the outstanding capital stock of JetStar Consolidated Holdings, Inc. This acquisition allowed us to enter into the Kansas market and increased our presence in North Texas. Our total hydraulic horsepower capacity for our pressure pumping operations was 121,000 at September 30, 2007 compared to 119,000 at June 30, 2007, and 60,000 at September 30, 2006.

We entered the wireline business in 2004 as part of our acquisition of AWS Wireline, a regional firm based in North Texas. We entered the underbalanced drilling services business in 2004 through our acquisition of Energy Air Drilling Services, a business operating in northwest New Mexico and the western slope of Colorado markets.

We entered the rental and fishing tool business through our acquisition of G&L in the first quarter of 2006. This acquisition added 16 stores in the North Texas, West Texas and Oklahoma markets.

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 December 31, 2006 and the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007 (dollars in thousands):

	Revenues	Segment Profits %
2006:		
First Quarter	$ 27,455	49.5%
Second Quarter	$ 40,939	53.1%
Third Quarter	$ 42,109	51.3%
Fourth Quarter	$ 43,909	51.2%
Full Year	$154,412	51.5%
2007:		
First Quarter	$ 46,137	49.9%
Second Quarter	$ 63,735	47.6%
Third Quarter	$ 66,304	47.6%

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

Well Site Construction Services

During the first nine months of 2007, our well site construction services segment represented 5% of our revenues. Revenues from our well site construction services segment 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 gas facilities. These services are independent of our other services and, while offered to some customers utilizing other services, are not offered on a bundled basis. We entered the well site construction services segment during the fourth quarter of 2003 in the Gulf Coast through the

acquisition of PWI and in the Rocky Mountain states through our acquisition of FESCO.

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Within this segment, we generally charge established hourly rates or competitive bid for projects depending on customer specifications and equipment and personnel requirements. This segment allows us to perform services to customers outside the oil and gas industry, since substantially all of our power units are general purpose construction equipment. However, the majority of our current business in this segment is with customers in the oil and gas industry. If our customer base has the demand for certain types of power units that we do not currently own, we generally purchase or lease them without significant delay.

The following is an analysis of our well site construction services segment for each of the quarters ended December 31, 2006 and the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007 (dollars in thousands):

	Revenues	Segment Profits %
2006:		
First Quarter	$10,265	25.5%
Second Quarter	$12,879	31.5%
Third Quarter	$13,483	30.2%
Fourth Quarter	$13,748	33.1%
Full Year	$50,375	30.5%
2007:		
First Quarter	$12,548	33.9%
Second Quarter	$11,080	31.9%
Third Quarter	$10,958	30.6%

We gauge the performance of our well site construction services segment based on the segment s operating revenues and segment profits. While we monitor our levels of idle equipment, we do not focus on revenues per piece of equipment.

Operating Cost Overview

Our operating costs are comprised primarily of labor, including workers compensation and health insurance, repair and maintenance, fuel and insurance. A majority of our employees are paid on an hourly basis. With a reduced pool of workers in the industry, it is possible that we will have to raise wage rates to attract workers from other fields and retain or expand our current work force. We believe we will be able to increase service rates to our customers to compensate for wage rate increases. 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 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 these policies is included in note 2 of the notes to our historical consolidated financial statements. The following is a discussion of our critical accounting policies and estimates.

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.

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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. We also review the capitalization of refurbishment of workover rigs as described in note 2 of the notes to our historical consolidated financial statements.

Impairments. We review our assets for impairment at a minimum 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 assets 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 $250,000 and $175,000 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 account for income taxes based upon Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS No. 109). Under SFAS No. 109, deferred tax assets and liabilities are recognized 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.

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. Our adoption of SFAS No. 142 on January 1, 2002 requires us to 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 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. On January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS No. 123R). Prior to January 1, 2006, we accounted for share-based payments under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for stock Issued to Employees* (APB No. 25) which was permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123).

We adopted SFAS No. 123R using both the modified prospective method and the prospective method as applicable to the specific awards granted. The modified prospective method was applied to awards granted subsequent to the Company becoming a public company. Awards granted prior to the Company becoming public and which were accounted for under APB No. 25 were adopted by using the prospective method. The results of prior periods have not been restated. Compensation expense of the unvested portion of awards granted as a private company and outstanding as of January 1, 2006 will continue to be based upon the intrinsic value method calculated under APB No. 25.

The fair value of common stock for options granted from July 1, 2004 through September 30, 2005 was estimated by management using an internal valuation methodology. We did not obtain contemporaneous valuations by an unrelated valuation specialist because we were focused on internal growth and acquisitions and because we had consistently used our internal valuation methodology for previous stock awards.

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. SFAS No. 143 requires us to record 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 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.

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Results of Operations

The results of operations between periods may not be comparable, primarily due to the significant number of acquisitions made and their relative timing in the year acquired. See note 3 of the notes to our historical consolidated financial statements for more detail.

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

Revenues. Revenues increased by 18% to $229.2 million during the third quarter of 2007 from $194.6 million during the same period in 2006. This increase was primarily due to the internal expansion of our business segments, particularly well servicing where we added 24 rigs throughout the period (excluding the Sledge acquisition) and fluid services where we added 43 trucks. In addition to internal expansion, total revenue also increased through acquisitions. The JetStar acquisition added revenues of approximately $18 million and the Sledge acquisition added revenues of approximately $8 million.

Well servicing revenues increased by 13% to $99.3 million during the third quarter of 2007 compared to $88.2 million during the same period in 2006. The increase was due mainly to our acquisition of Sledge which added approximately $8 million in revenues. Revenue also increased as a result of internal growth of this segment as we added 24 rigs throughout the period (excluding the Sledge acquisition) as well as an increase in our revenue per rig hour of approximately 13%, from $383 per hour to $434 per hour. The growth in the segment was partially offset by a decrease in utilization from 91.2% during the third quarter of 2006 to 81.9% in the same period in 2007. Wet weather conditions in Texas and Oklahoma, where the majority of our services are provided, negatively impacted our rig utilization rate. In addition, flattening or declining drilling activity in several of our markets and new equipment has balanced supply and current demand which also contributed to the decline in utilization from 2006.

Fluid services revenues increased by 4% to $52.7 million during the third quarter of 2007 compared to $50.7 million in the same period of 2006. This increase was primarily due to our modest price increases and our increase in equipment available during the period. Our weighted average number of fluid service trucks increased to 653 in the third quarter of 2007 compared to 614 in same period in 2006, an increase of approximately 6%.

Completion and remedial services revenues increased by 57% to $66.3 million during the third quarter of 2007 as compared to $42.1 million in the same period in 2006. The increase in revenue between these periods was primarily the result of the acquisition of JetStar in March 2007, which added approximately $18 million in revenues.

Well site construction services revenues decreased 19% to $11.0 million during the third quarter in 2007 as compared to $13.5 million in the same period in 2006.

Direct Operating Expenses. Direct operating expenses, which primarily consist of labor, including workers compensation and health insurance, and maintenance and repair costs, increased by 23% to $135.0 million during the third quarter of 2007 from $109.6 million in the same period in 2006 as a result of additional rigs and trucks, higher personnel related costs and higher repair and maintenance costs. The JetStar acquisition added approximately $10 million and the Sledge acquisition added approximately $4 million to direct operating expenses during the quarter.

Direct operating expenses for the well servicing segment increased by 23% to $59.3 million during the third quarter of 2007 as compared to $48.4 million for the same period in 2006 due primarily due to the internal growth of this segment. Segment profits decreased to 40% of revenues during the third quarter of 2007 compared to 45% for the same period in 2006, due primarily to decreased rig utilization from 91.2% during the third quarter of 2006 to 81.9% for the same period in 2007, higher personnel related costs and higher repair and maintenance costs. The Sledge acquisition added approximately $4 million of direct operating expenses during the quarter.

Direct operating expenses for the fluid services segment increased by 7% to $33.3 million during the third quarter of 2007 as compared to $31.2 million for the same period in 2006 due primarily to expansion of our fluid

services fleet. Segment profits decreased to 37% of revenues during the third quarter of 2007 compared to 39% for the same period in 2006, due primarily to higher personnel related costs and higher repair and maintenance costs.

Direct operating expenses for the completion and remedial services segment increased by 69% to $34.7 million during the third quarter of 2007 as compared to $20.5 million for the same period in 2006 due primarily to expansion of our services and equipment, including the JetStar acquisition. Our segment profits decreased to 48% of revenues during the third quarter of 2007 compared to 51% for the same period in 2006, due to higher personnel related costs and higher repair and maintenance costs. The JetStar acquisition added approximately $10 million of direct operating expenses during the quarter.

Direct operating expenses for the well-site construction services segment decreased by 19% to $7.6 million during the third quarter of 2007 as compared to $9.4 million for the same period in 2006. Segment profits for this segment increased to 31% of revenues during the third quarter of 2007 as compared to 30% for the same period in 2006.

General and Administrative Expenses. General and administrative expenses increased by 22% to $25.5 million during the third quarter of 2007 from $20.9 million for the same period in 2006, which included $1.1 million and $842,000 of stock-based compensation expense in 2007 and 2006, respectively. The increase primarily reflects higher salary and office expenses related to the expansion of our business.

Depreciation and Amortization Expenses. Depreciation and amortization expenses were $23.6 million during the third quarter of 2007 as compared to $16.7 million for the same period in 2006, reflecting the increase in the size of and investment in our asset base. We invested $18 million for acquisitions during the third quarter of 2007 and an additional $36.7 million for capital expenditures during the third quarter of 2007 (including capital leases).

Interest Expense. Interest expense increased by 57% to $7.4 million during the third quarter of 2007 compared to $4.7 million for the same period in 2006. The increase was due primarily to an increase in the amount of long-term debt outstanding during the period.

Income Tax Expense. Income tax expense was $14.2 million during the third quarter of 2007 as compared to $16.4 million for the same period in 2006. Our effective tax rate during the third quarter of 2007 and for the same period in 2006 was approximately 37% and 38%, respectively.

Net Income. Our net income was $24.4 million during the third quarter of 2007 compared to $27.3 million for the same period in 2006. Increases in revenues from Sledge and JetStar acquisitions were offset by higher expenses as discussed above.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Revenues. Revenues increased by 22% to $651.4 million during the first nine months of 2007 from $532.7 million during the same period in 2006. This increase was primarily due to the internal expansion of our business segments, particularly well servicing which added 30 rigs (excluding the Sledge acquisition) and fluid services which added 85 trucks, and in part due to the JetStar acquisition which added approximately $39.9 million in revenues and the Sledge acquisition which added approximately $18 million in revenues.

Well servicing revenues increased by 17% to $284.2 million during the first nine months of 2007 compared to $242.8 million during the same period in 2006. The increase was due mainly to our internal growth of this segment as well as an increase in our revenue per rig hour of approximately 16%, from $367 per hour to $427 per hour. Our weighted average number of rigs increased to 379 in the first nine months of 2007 compared to 340 in the same period in 2006, an increase of approximately 12%. Revenues attributable to the Sledge acquisition were approximately $18 million. Rig utilization averaged 81.9% during the first nine months of 2007 compared to 90.5% in same period in 2006. Adverse weather conditions in Texas and Oklahoma during the first nine months of 2007, where the majority of our services are provided, negatively impacted our rig utilization rate. In addition, flattening or declining drilling activity in several of our markets and new equipment has balanced supply and current demand which also contributed to the decline in utilization from 2006.

Fluid services revenues increased by 10% to $156.4 million during the first nine months of 2007 compared to $142.7 million in the same period of 2006. This increase was primarily due to our internal growth. Our weighted average number of fluid service trucks increased to 654 in the first nine months of 2007 compared to 570 in same period in 2006, an increase of approximately 15%.

Completion and remedial services revenues increased by 59% to $176.2 million during the first nine months of 2007 as compared to $110.5 million in the same period in 2006. The increase in revenue between these periods was primarily the result of the acquisition of JetStar in March 2007, which added approximately $39.9 million in revenues, and the improved pricing and demand for our services.

Well site construction services revenues decreased 6% to $34.6 million during the first nine months of 2007 as compared to $36.6 million in the same period in 2006.

Direct Operating Expenses. Direct operating expenses, which primarily consist of labor, including workers compensation and health insurance, and maintenance and repair costs, increased by 27% to $383.1 million during the first nine months of 2007 from $301.8 million in the same period in 2006 as a result of additional rigs and trucks, higher personnel related costs and higher repair and maintenance costs. The JetStar acquisition added approximately $20.8 million and the Sledge acquisition added approximately $8.0 million of direct operating expenses during the first nine months of 2007.

Direct operating expenses for the well servicing segment increased by 26% to $170.5 million during first nine months of 2007 as compared to $135.5 million for the same period in 2006 due primarily due to the internal growth of this segment. Segment profits decreased to 40% of revenues during the first nine months of 2007 compared to 44% for the same period in 2006, due to decreased rig utilization, higher personnel related costs and higher repair and maintenance costs. The Sledge acquisition added approximately $8.0 million of direct operating expenses during the first nine months of 2007.

Direct operating expenses for the fluid services segment increased by 13% to $97.9 million during the first nine months of 2007 as compared to $86.9 million for the same period in 2006 due primarily to expansion of our fluid services fleet. Segment profits decreased to 37% of revenues during the first nine months of 2007 compared to 39% for the same period in 2006, due to higher personnel related costs and higher repair and maintenance costs.

Direct operating expenses for the completion and remedial services segment increased by 70% to $91.2 million during first nine months of 2007 as compared to $53.6 million for the same period in 2006 due primarily to expansion of our services and equipment, including the JetStar acquisition. Our segment profits decreased to 48% of revenues during the first nine months of 2007 from 52% for the same period in 2006, due to higher personnel related costs and higher repair and maintenance costs. The JetStar acquisition added approximately $20.8 million of direct operating expenses during the first nine months of 2007.

Direct operating expenses for the well-site construction services segment decreased by 9% to $23.4 million during the first nine months of 2007 as compared to $25.9 million for the same period in 2006. Segment profits for this segment increased to 32% of revenues during the first nine months of 2007 as compared to 29% for the same period in 2006.

General and Administrative Expenses. General and administrative expenses increased by 25% to $73.7 million during the first nine months of 2007 from $59.1 million for the same period in 2006, which included $3.2 million and $2.5 million of stock-based compensation expense in 2007 and 2006, respectively. The increase primarily reflects higher salary and office expenses related to the expansion of our business as well as additional staffing and other costs to enhance internal controls as a public company.

Depreciation and Amortization Expenses. Depreciation and amortization expenses were $66.8 million during the first nine months of 2007 as compared to $44.7 million for the same period in 2006, reflecting the increase in the size of and investment in our asset base. We invested $194.4 million for acquisitions during the first nine months of

2007 and an additional $103.3 million for capital expenditures during the first nine months of 2007 (including capital leases).

Interest Expense. Interest expense increased by 61% to $20.2 million during the first nine months of 2007 as compared to $12.5 million for the same period in 2006. The increase was due primarily to an increase in the amount of long-term debt outstanding during the period. During the first nine months of 2007, we increased the amount outstanding under the revolver to $150.0 million.

Income Tax Expense. Income tax expense was $40.8 million during the first nine months of 2007 as compared to $41.8 million for the same period in 2006. Our effective tax rate during the first nine months of 2007 and for the same period in 2006 was approximately 37%.

Net Income. Our net income decreased for the first nine months of 2007 to $68.2 as compared to $71.5 million for the same period in 2006. This was due primarily to the factors described above, including our increased asset base and related revenues offset by the increase in cost for qualified personnel and maintenance as well as a decrease in utilization due to weather stoppages.

Liquidity and Capital Resources

Currently, our primary capital resources are net cash flows from our operations, utilization of capital leases as allowed under our 2007 Credit Facility and availability under our 2007 Credit Facility, of which approximately $59.5 million was available at September 30, 2007. As of September 30, 2007, we had cash and cash equivalents of $57.3 million compared to $51.4 million as of December 31, 2006. We have utilized, and expect to utilize in the future, bank and capital lease financing and sales of equity to obtain capital resources. 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 flow from operating activities was $144.0 million for the nine months ended September 30, 2007 as compared to $108.3 million during the same period in 2006. The increase in operating cash flows for the first nine months in 2007 compared to the same period in 2006 was primarily due to expansion of our fleet, acquisitions completed and improvements in the segment profits and utilization of our equipment.

Capital Expenditures

Capital expenditures are the main component of our investing activities. Cash capital expenditures (including for acquisitions) during the first nine months of 2007 were $276.5 million as compared to $208.4 million in the same period of 2006. Cash capital expenditures (excluding for acquisitions) during the first nine months of 2007 were $82.1 million.

For 2007, we currently have planned approximately $93 million in cash capital expenditures and $22 million through capital leases, none of which is planned for acquisitions. We do not budget acquisitions in the normal course of business, but we believe that we may continue to spend a significant amount for acquisitions in 2007. The $115 million of capital expenditures planned for property and equipment is primarily for (1) purchase of additional equipment to expand our services, (2) continued refurbishment of our well servicing rigs and (3) replacement of existing equipment. We regularly engage in discussions related to potential acquisitions related to the well services industry.

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Capital Resources and Financing

Our current primary capital resources are cash flow from our operations, the ability to enter into capital leases of up to an additional $90.4 million at September 30, 2007, the availability under our credit facility of $59.5 million at September 30, 2007 and a cash balance of $57.3 million at September 30, 2007. During the first nine months of 2007, we financed activities in excess of cash flow from operations primarily through the use of bank debt and capital leases.

At September 30, 2007, of the $225.0 million in financial commitments under the revolving line of credit under our senior credit facility, there was only $59.5 million of available capacity due to the outstanding balance of $150.0 million and the $15.5 million of outstanding standby letters of credit. The 2007 Credit Facility includes provisions allowing us to request an increase in commitments of up to $100.0 million aggregate principal amount at any time. Additionally, the 2007 Credit Facility permits us to make greater expenditures for acquisitions, capital expenditures and capital leases and to incur greater purchase money obligations, acquisition indebtedness and general unsecured indebtedness.

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.

Senior Notes

In April 2006, we completed a private offering for $225,000,000 aggregate principal amount of 7.125% Senior Notes due April 15, 2016. The Senior Notes are jointly and severally guaranteed by each of our subsidiaries. The net proceeds from the offering were used to retire the outstanding Term B Loan balance and to pay down the outstanding balance under the revolving credit facility. Remaining proceeds were used for general corporate purposes, including acquisitions.

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.

Interest on the Senior Notes accrues from and including April 12, 2006 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, commencing on October 15, 2006. 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, including our senior secured credit facilities, to the extent of the value of the assets securing such obligations.

The indenture contains covenants that limit the ability of us and 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 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.

At any time or from time to time prior to April 15, 2009, we, at our option, may redeem up to 35% of the outstanding Senior Notes with money that we raise in one or more equity offerings at a redemption price of 107.125% of the principal amount of the Senior Notes redeemed, plus accrued and unpaid interest, as long as:

- at least 65% of the aggregate principal amount of Senior Notes issued under the indenture remains outstanding immediately after giving effect to any such redemption; and
- we redeem the Senior Notes not more than 90 days after the closing date of any such equity offering.

If we experience certain kinds of changes of control, holders of the Senior Notes will be entitled to require us to purchase all or a portion of the Senior Notes at 101% of their principal amount, plus accrued and unpaid interest.

Credit Facilities

2007 Credit Facility

On February 6, 2007, we amended and restated our existing credit agreement by entering into a Fourth Amended and Restated Credit Agreement with a syndicate of lenders (the 2007 Credit Facility). The amendments contained in the 2007 Credit Facility included:

- eliminating the $90 million class of Term B Loans;
- creating a new class of Revolving Loans, which increased the lender s total revolving commitments from $150 million to $225 million
- increasing the Incremental Revolving Commitments under the 2007 Credit Facility from $75.0 million to an aggregate principal amount of $100 million;
- changing the applicable margins for Alternative Base Rate or Eurodollar revolving loans;
- amending our negative covenants relating to our ability to incur indebtedness and liens, to add tests based on a percentage of our consolidated tangible assets in addition to fixed dollar amounts, or to increase applicable dollar limits on baskets or other tests for permitted indebtedness or liens;
- amending our negative covenants relating to our ability to pay dividends, or repurchase or redeem our capital stock, in order to conform more closely with permitted payments under our senior notes; and
- Eliminating certain restrictions on our ability to create or incur certain lease obligations.

Under the 2007 Credit Facility, Basic Energy Services, Inc. is the sole borrower and each of our subsidiaries is a subsidiary guarantor. The 2007 Credit Facility provides for a $225 million revolving line of credit (Revolver). The 2007 Credit Facility includes provisions allowing us to request an increase in commitments of up to $100.0 million aggregate principal amount at any time. Additionally, the 2007 Credit Facility permits us to make greater expenditures for acquisitions, capital expenditures and capital leases and to incur greater purchase money

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obligations, acquisition indebtedness and general unsecured indebtedness. The commitment under the Revolver provides for (1) the borrowing of funds, (2) the issuance of up to $30 million of letters of credit and (3) $2.5 million of swing-line loans. All of the outstanding amounts under the Revolver are due and payable on December 15, 2010. The 2007 Credit Facility is secured by substantially all of our tangible and intangible assets. We incurred approximately $0.7 million in debt issuance costs in connection with the 2007 Credit Facility.

At our option, borrowings under the Revolver bears interest at either (1) the Alternative Base Rate (i.e., the higher of the bank s prime rate or the federal funds rate plus .50% per year) plus a margin ranging from 0.25% to 0.5% or (2) an Adjusted LIBOR Rate (equal to (a) the London Interbank Offered Rate (the LIBOR rate) as determined by the Administrative Agent in effect for such interest period divided by (b) one minus the Statutory Reserves, if any, for such borrowing for such interest period) plus a margin ranging from 1.25% to 1.5%. The margins vary depending on our leverage ratio. Fees on the letters of credit are due quarterly on the outstanding amount of the letters of credit at a rate ranging from 1.25% to 1.5% for participation fees and 0.125% for fronting fees. A commitment fee is due quarterly on the available borrowings under the Revolver at a rate of 0.375%.

Pursuant to the 2007 Credit Facility, we must apply proceeds from certain specified events to reduce principal outstanding borrowings under the Revolver, including:

- assets sales greater than $2.0 million individually or $7.5 million in the aggregate on an annual basis;
- 100% of the net cash proceeds from any debt issuance, including certain permitted unsecured senior or senior subordinated debt, but excluding certain other permitted debt issuances; and
- 50% of the net cash proceeds from any equity issuance (including equity issued upon the exercise of any warrant or option).

The 2007 Credit Facility contains various restrictive covenants and compliance requirements, including the following:

- limitations on the incurrence of additional indebtedness;
- restrictions on mergers, sales or transfer of assets without the lenders consent;
- limitations on dividends and distributions; and
- various financial covenants, including:
- a maximum leverage ratio of 3.50 to 1.00, reducing to 3.25 to 1.00 on April 1, 2007, and
- a minimum interest coverage ratio of 3.00 to 1.00.

2005 Credit Facility

Under our Third Amended and Restated Credit Agreement with a syndicate of lenders (the 2005 Credit Facility), as amended effective March 28, 2006, Basic Energy Services, Inc. was the sole borrower and each of our subsidiaries was a subsidiary guarantor. The 2005 Credit Facility provided for a $90 million Term B Loan (Term B Loan), which outstanding balance was repaid in April 2006, and provided for a $150 million revolving line of credit (Revolver). The 2005 Credit Facility included provisions allowing us to request an increase in commitments of up to $75 million at any time. The commitment under the Revolver provides for (1) the borrowing of funds, (2) the issuance of up to $30 million of letters of credit and (3) $2.5 million of swing-line loans. The amounts outstanding under the Term B Loan required quarterly amortization at various amounts during each quarter with all amounts outstanding being due and payable in full on December 15, 2011. All the outstanding amounts under the Revolver were due and payable on December 15, 2010. The 2005 Credit Facility was secured by substantially all of our tangible and intangible assets.

The 2005 Credit Facility contained customary events of default, which are subject to customary grace periods and materiality standards, including, among others, events of default upon the occurrence of: (1) non-payment of any amounts payable under the 2005 Credit Facility when due; (2) any representation or warranty made in connection with the 2005 Credit Facility being incorrect in any material respect when made or deemed made; (3) default in the observance or performance of any covenant, condition or agreement contained in the 2005 Credit Facility or related loan documents and such default shall continue unremedied or shall not be waived for 30 days; (4) failure to make payments on other indebtedness involving in excess of $1.0 million; (5) voluntary or involuntary bankruptcy, insolvency or reorganization of us or any of our subsidiaries; (6) entry of fines or judgments against us for payment of an amount in excess of $2.5 million; (7) an ERISA event which could reasonably be expected to cause a material adverse effect or the imposition of a lien on any of our assets; (8) any security agreement or document under the 2005 Credit Facility ceases to create a lien on any assets securing the 2005 Credit Facility; (9) any guarantee ceases to be in full force and effect; (10) any material provision of the 2005 Credit Facility ceases to be valid and binding or enforceable; (11) a change of control as defined in the 2005 Credit Agreement; and (12) any determination, ruling, decision, decree or order of any governmental authority, which prohibits or restrains Basic and its subsidiaries from conducting business and that could reasonably be expected to cause a material adverse effect.

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 are material individually or in the aggregate. As of September 30, 2007, we had total capital leases of approximately $46.4 million.

Credit Rating Agencies

In April 2006, we received credit ratings of Baa3 from Moody s and B+ from Standard & Poor s for our 2005 Credit Facility. Also, we received ratings of B1 from Moody s and B from Standard & Poor s for our Senior Notes. None of our debt or other instruments is dependent upon our credit ratings. However, the credit ratings may affect our ability to obtain financing in the future. On February 6, 2007, we received credit ratings of Ba1 from Moody s and BB from Standard & Poor s for our 2007 Credit Facility.

Preferred Stock

At September 30, 2007 and December 31, 2006, we had 5,000,000 shares of $.01 par value preferred stock authorized, of which none was designated.

Other Matters

Net Operating Losses

We used all of our then-available net operating losses for federal income tax purposes when we completed a recapitalization in December 2000, which included a significant amount of debt forgiveness. In 2002, our profitability suffered and, when combined with a significant level of capital expenditures, we ended 2002 with a net operating loss, or NOL, of $30.4 million. In 2003, we returned to profitability, but we again made significant investments in existing equipment, additional equipment and acquisitions. Due to these events, we again reported a tax loss in 2003 and ended the year with a $50.7 million NOL, including $7.0 million that was included in the purchase of FESCO. As of December 31, 2006, we had approximately $4.0 million of NOL carryforwards related to the pre-acquisition period of FESCO, which is subject to an annual limitation of approximately $900,000. The carryforwards begin to expire in 2017.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement

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recognition and measurement of a tax position taken or expected to be taken, in a tax return. Our adoption in January 2007 of FIN 48 did not result in any change to retained earnings or any additional unrecognized tax benefit. Interest will be recorded in interest expense and penalties will be recorded in income tax expense. We had no interest or penalties related to an uncertain tax position during the nine months ended September 30, 2007. The company files federal income tax returns and state income tax returns in Texas and other state tax jurisdictions. In general, the company s tax returns for fiscal years after 2002 currently remain subject to examination by appropriate taxing authorities. None of the company s income tax returns are under examination at this time.

In September 2006, the FASB issued *SFAS No. 157, Fair value Measurements (SFAS 157)*, which will become effective for the company on January 1, 2008. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but would apply to assets and liabilities that are required to be recorded at fair value under other accounting standards. The impact, if any, to the company from the adoption of SFAS 157 in 2008 will depend on the company s assets and liabilities at that time that are required to be measured at fair value.

In February 2007, the FASB issued *SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159),* which becomes effective for the company on January 1, 2008. This standard permits companies to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in earnings. Such accounting is optional and is generally to be applied instrument by instrument. The company does not anticipate that election, if any, of this fair-value option will have a material effect on its results of operations or consolidated financial position.

Impact of Inflation on Operations

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

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

As of September 30, 2007, we had $150.0 million outstanding under the revolving portion of our credit facility subject to variable interest rate risk. The impact of a 1% increase in interest rates on this amount of debt would result in increased interest expense of approximately $1.5 million annually and a decrease in net income of approximately $939,000.

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 are 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, see the risk factors included in our most recent annual report on Form 10-K under the heading Risk Factors.

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ITEM 6. ***EXHIBITS***

Exhibit No.	Description
2.1*	Agreement and Plan of Merger, dated as of January 8, 2007, by and among Basic Energy Services, Inc. (the Company), JS Acquisition LLC and JetStar Consolidated Holdings, Inc. (Incorporated by reference to Exhibit 2.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on March 8, 2007)
2.2*	Amendment to Merger Agreement, dated as of March 5, 2007, by and among the Company, JS Acquisition LLC and JetStar Consolidated Holdings, Inc. (Incorporated by reference to Exhibit 2.2 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on March 8, 2007)
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, dated December 14, 2005. (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on December 14, 2005)
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. (Incorporated by reference to Exhibit 4.2 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)
4.6*	Third Supplemental Indenture dated as of April 26, 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 4.2 of the Company s Current Report on form 8-K (SEC File No 001-32693), filed on May 1, 2007)
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 Certification by Chief Executive Officer pursuant to 18 U.S.C.
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

Management contract or compensatory plan or arrangement

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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: November 9, 2007

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3.2*	Amended and Restated Bylaws of the Company, dated December 14, 2005. (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on December 14, 2005)
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. (Incorporated by reference to Exhibit 4.2 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)
4.6*	Third Supplemental Indenture dated as of April 26, 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 4.2 of the Company s Current Report on form 8-K (SEC File No 001-32693), filed on May 1, 2007)
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

Management contract or compensatory plan or arrangement