OMNI ENERGY SERVICES CORP
Form S-1
October 19, 2005
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As filed with the Securities and Exchange Commission on October 19, 2005

Registration No. 333-______

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

OMNI ENERGY SERVICES CORP.

(Exact Name of Registrant as Specified in its Charter)

Louisiana	**1382**	**72-1395273**
(State of other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

4500 N.E. Evangeline Thruway

Carencro, Louisiana 70520

(337) 896-6664

(Address, including zip code and telephone number, including area code, of

Registrant s principal executive offices)

With a copy to:

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(Name, address, including zip code and telephone number, including area code,

of agent for service)

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common stock, par value $0.01 per share	9,613,670	$2.99	$28,744,873	$3,384

(1) The price of $2.99 per share, which was the average of the high and low prices of the Registrant s common stock on The Nasdaq National Market on October 17, 2005, is set forth solely for the purpose of calculating the registration fee in accordance with Rule 457(c) promulgated under the Securities Act of 1933.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Subject to completion, dated October 19, 2005

Prospectus

9,613,670 shares

OMNI ENERGY SERVICES CORP.

Common Stock

This prospectus relates to 9,613,670 shares of our common stock that are being sold by the selling stockholders named herein.

Pursuant to a Registration Rights Agreement, as amended, dated as of May 17, 2005, we have granted the selling stockholders certain registration rights with respect to the shares of our common stock to be issued (i) upon conversion of Series C 9% Convertible Preferred Stock granted to selling stockholders; (ii) upon the exercise of warrants granted to the selling stockholders; and (iii) upon conversion of the Series C 9% Convertible Preferred Stock issued as payments in kind of dividends due under the terms of the Series C 9% Convertible Preferred Stock.

The selling stockholders may from time to time offer all or a portion of these shares of common stock through public or private transactions on The Nasdaq National Market or such other securities exchange on which our common stock is traded at the time of the sale. The selling stockholders may sell these shares of common stock at prevailing market prices or at privately negotiated prices either directly or through agents, broker dealers or otherwise.

Each selling stockholder may be deemed to be an underwriter as such term is defined in the Securities Act of 1933, as amended (the Securities Act), and any commissions paid or discounts or concessions allowed to any such person and any profits received on resale of the securities offered hereby may be deemed to be underwriting compensation under the Securities Act.

The selling stockholders will receive all of the net proceeds from the sale of the shares of common stock offered by this prospectus. We are paying all of the expenses of registration incurred in connection with this offering, but the selling stockholders will pay all selling and other expenses.

Our common stock is traded on The Nasdaq National Market under the symbol OMNI. On October 18, 2005, the last reported sale price of our common stock on the Nasdaq National Market was $2.95 per share.

Investing in our common stock involves risks. See **Risk factors beginning on page 5.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is October__, 2005.

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Prospectus summary

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in shares of our common stock. You should read this entire prospectus carefully, including Risk factors beginning on page 5 and our consolidated financial statements and the related notes thereto beginning on page F-1, before making an investment decision. Except as otherwise noted, we present all financial and operational data on a fiscal year and fiscal quarter basis. Our fiscal year ends on December 31 of each year. Our fiscal quarters end March 31, June 30, September 30 and December 31 of each year.

OMNI Energy Services Corp.

OMNI Energy Services Corp. is an integrated oilfield service company specializing in providing a range of (i) onshore seismic drilling, operational support, permitting, survey and helicopter support services to geophysical companies operating in logistically difficult and environmentally sensitive terrain and (ii) dock-side, onshore and offshore non-hazardous, oilfield waste management and environmental cleaning services, including tank and vessel cleaning and safe vessel entry, for oil and gas companies operating in the Gulf of Mexico. Refer to the Company s web site at www.omnienergy.com for more information and recent events.

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

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

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

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

The Private Placement

On May 17, 2005, we entered into a Securities Purchase Agreement (the Securities Purchase Agreement) with the selling stockholders. Pursuant to the terms of the Securities Purchase Agreement, we agreed to issue to the selling stockholders (i) an aggregate of up to 5,000 shares of Series C 9% Convertible Preferred Stock, no par value, and (ii) warrants representing the right to purchase up to an aggregate of 6,550,000 shares of common stock, for the exercise prices described therein.

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The transactions contemplated by the Securities Purchase Agreement closed in two tranches. On May 17, 2005, the closing date of the first tranche, we issued an aggregate of 3,500 shares of Series C 9% Convertible Preferred Stock and warrants to acquire up to 4,585,000 shares of common stock, in exchange for an aggregate of $3,500,000. On August 29, 2005, the closing date of the second tranche, we issued an aggregate of 1,500 shares of Series C 9% Convertible Preferred Stock and warrants to acquire up to 1,965,000 shares of common stock, in exchange for an aggregate of $1,500,000.

This prospectus relates to 9,613,670 shares of our common stock, of which (i) 2,564,103 shares are to be issued to the selling stockholders upon the conversion of Series C 9% Convertible Preferred Stock sold to the selling stockholders in the first tranche and second tranche; (ii) 6,550,000 shares are to be issued to the selling stockholders upon the exercise of warrants sold to the selling stockholders in the first tranche and second tranche; and (iii) 499,567 shares are to be issued to the selling stockholders upon the conversion of the Series C 9% Convertible Preferred Stock issued as payment in kind of dividends due under the Series C 9% Convertible Preferred Stock over the initial two years that the Series C 9% Convertible Preferred Stock is outstanding.

Pursuant to a Registration Rights Agreement dated as of May 17, 2005, as amended by Amendment No. 1 to Registration Rights Agreement dated effective as of July 16, 2005, and Amendment No. 2 to the Registration Rights Agreement dated effective as of September 14, 2005, we have granted the selling stockholders certain registration rights with respect to the shares of our common stock issued upon conversion of the Series C 9% Convertible Preferred Stock, exercise of the warrants granted to the selling stockholders and conversion of the Series C 9% Preferred stock issued as dividend payments in kind. The Registration Rights Agreement, as amended by Amendment No.1 to Registration Rights Agreement, requires that this registration statement be filed no later than one hundred seventy five days from May 17, 2005. The sole effect of Amendment No. 1 and Amendment No. 2 was to extend the filing deadline of the registration statement. In the event that this registration statement is not declared effective by the Securities and Exchange Commission within 90 days following the date of its filing, we may be required to pay as liquidated damages to the selling stockholders an amount equal to 2% of the purchase price of the registrable securities then held by the selling stockholders and the amount by which the warrants are in the money, for each thirty day period (prorated for partial periods) until this registration statement is declared effective by the Securities and Exchange Commission.

Recent Events

On May 18, 2005, we completed a $50 million equipment term financing facility (Term A Loan) and increased our working capital revolving line of credit we have with a bank (the Line) to $15 million from its previous level of $12 million (with the Term A Loan, collectively referred to herein as the Senior Credit Facility). Under the terms of the Term A Loan, funding will be limited to the lesser of $50 million and the sum of (i) 85% of the orderly liquidation value of our aviation fleet; (ii) 75% of the orderly liquidation value of our seismic drilling and environmental equipment; and (iii) 50% of the fair market value of certain real estate. Proceeds from the Term A Loan were used to re-finance certain long-term debt, provide working capital and establish funding necessary to complete various strategic transactions under consideration. The Term A Loan matures in May 2010 and will be repaid quarterly in equal payments up to a 50% balloon at maturity date, with interest, paid in arrears and accruing at the initial annual interest rate of 30-day LIBOR plus 6.5%.

In connection with completion of the Senior Credit Facility, we entered into settlement agreements (Debenture Settlement Agreements) with each of the Debenture Holders in exchange for our dismissal of the lawsuit we filed against the Debenture Holders on January 25, 2005. On that date, we filed suit in the United States District Court, Western District of Louisiana (the 16(b) litigation) against the Debenture Holders and other third parties. The suit alleged violations by the Debenture Holders pursuant to Section 16(b) of the Securities Exchange Act of 1934. On February 25, 2005, one of the Debenture Holders, Portside Growth and Opportunity Fund (Portside), notified us of certain alleged events of default under the 6.5% Subordinated Convertible Debentures issued to Portside (the Portside Debentures). Portside demanded that we redeem all of the Portside Debentures held by it, in the aggregate principal amount of $2,765,625, on March 2, 2005. Portside also notified us of its intention to commence a civil action against us to obtain a judgment with respect to all amounts owed to it under the Portside Debentures.

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Under the terms of the Debenture Settlement Agreements, we agreed to (i) pay the Debenture Holders approximately $4.0 million cash; (ii) immediately issue the Debenture Holders 2.0 million shares of our common stock at an agreed upon value of $3.4 million; and (iii) issue the Debenture Holders approximately $4.3 million of unsecured, subordinated promissory notes (Subordinated Debenture Notes). The Company recorded a gain of $200,000 upon closing of these transactions. The Subordinated Debenture Notes will be paid quarterly, with interest in arrears, over 36 months in equal payments with interest accruing at the rate of 8% per annum. Execution of the Debenture Settlement Agreements extinguished the terms of the original Debentures and released all parties from any future claims.

On May 18, 2005, we entered into early debt extinguishment agreements (Debt Extinguishment Agreements) on $2.0 million of the Stockholder Notes and $1.0 million of the Earnout Note more fully described in Note 4 of our financial statements contained herein. Under the terms of the Debt Extinguishment Agreements, in full and complete satisfaction of $2.0 million of the Stockholder Notes and $1.0 million of the Earnout Note, we agreed to (i) immediately issue 0.2 million shares of our common stock; and, (ii) pay certain holders of the Stockholder Notes $1.0 million on or before August 16, 2005, in full and complete satisfaction of $2.0 million of the Stockholder Notes and $1.0 million of the Earnout Note. The Company recognized a gain on debt extinguishment of $0.3 million upon closing this transaction.

On May 17, 2005, we entered into a Securities Purchase Agreement with certain affiliates and executive officers to issue up to $5.0 million of Series C 9% Convertible Preferred Stock. Our Series C 9% Convertible Preferred Stock is convertible into our common stock at a conversion price of $1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between $1.95 and $3.50 per share.

On June 30, 2005, we executed a definitive agreement to sell the equipment and related assets of the Aviation Transportation Services segment. On July 29, 2005, the sale of the Aviation Transportation Services segment was finalized and the proceeds from the cash sale ($11.0 million) were used to repay advances under the Company s Senior Credit Facility and for additional working capital. As a result of the sale and in order to enhance comparability among the periods, the financial statements contained in our selected consolidated financial data tables presented on page 12 and 13, for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 and for the six months ended June 30, 2004 have been restated to reflect the operations of the Aviation Transportation Services segment as a discontinued operation.

On August 29, 2005, we closed the second tranche of the transactions contemplated by the Securities Purchase Agreement, at which time we issued an aggregate of 1,500 shares of Series C 9% Convertible Preferred Stock and warrants to acquire up to 1,965,000 shares of common stock, in exchange for an aggregate of $1,500,000.

On August 29, 2005, we completed a $25 million multiple draw term credit facility (Term B Loan). Under the terms of the Term B Loan, borrowings will be made through advances at our request in minimum amounts of $2 million. Quarterly payments in the amount of $0.175 million, plus interest, will begin on April 1, 2008. The Term B Loan matures in August 2010 and accrues interest at the rate of LIBOR plus 8%. The proceeds from the Term B Loan were and/or will be used to (i) reduce the current outstanding balance under the Company s Term A senior term debt by $3.4 million; (ii) retire approximately $3.3 million of Subordinated Debenture Notes with a payment of $1.5 million cash and the issuance of 750,000 shares of our common stock; (iii) retire $2 million of certain subordinated debt with a payment of $1 million cash and the issuance of 200,000 shares of common stock; and (iv) provide working capital and funds necessary for potential strategic transactions.

On September 21, 2005, the Company entered into a non-binding letter of intent for the acquisition of Preheat, Inc. (Preheat). Preheat is a leading Gulf Coast lessor of oilfield equipment and provider of specialized oilfield and environmental services. Subject to the terms and conditions of the letter of intent, the Company will purchase 100% of the issued and outstanding capital stock of Preheat for a purchase price of $22.5 million plus certain assumed long-term debt more specifically described as a combination of $16.0 million of cash, $2.5 million of our common stock, $4.0 million of promissory notes and the assumption of approximately $1.5 million of long-term debt. Completion of the acquisition is subject to finalization of due diligence satisfactory to the Company, negotiation of a definitive purchase agreement with terms acceptable to both parties, and approval of the transaction by the Company s lenders and Board of Directors. Closing is expected during the fourth quarter of 2005. As a further condition to closing, Preheat is required to have on hand at closing a minimum of $4.5 million of excess working capital.

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The Offering

Common stock offered by the selling stockholders	9,613,670 shares
Shares outstanding immediately prior to the offering	14,943,121 shares
Shares to be outstanding after the offering	24,556,791 shares
Use of proceeds	We will not receive any proceeds from the sale of shares by the selling stockholders. We will receive as the exercise price of the 6,550,000 warrants described above up to $14.2 million, if the selling stockholders exercise all their warrants and assuming that none of the warrants are exercised on a cashless basis. We expect to use the proceeds from the exercise of the warrants to reduce long-term debt and for working capital purposes. Pending such use, we will invest any proceeds in short term, investment grade, interest bearing securities.
Dividend policy	We have never paid cash dividends on our common stock. We intend to retain future earnings, if any, to meet our working capital requirements and to finance future operations of our business. Therefore, we do not plan to declare or pay cash dividends to holders of our common stock in the foreseeable future. In addition, certain of our credit arrangements contain provisions that limit our ability to pay cash dividends on our common stock.
The Nasdaq National Market symbol	OMNI
Risk factors	You should carefully consider the information set forth under Risk factors and all other information set forth in this prospectus before deciding to invest in shares of our common stock.

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Risk factors

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

Industry volatility may adversely affect our results of operations.

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

- oil and gas prices and industry perceptions of future price levels;
- the cost of exploring for, producing and delivering oil and gas;
- the ability of oil and gas companies to generate capital;
- the sale and expiration dates of leases in the United States;
- the availability of current geophysical data;
- the discovery rate of new oil and gas reserves; and
- local and international political and economic conditions.

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

Our growth and growth strategy involves risks.

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

- the lack of sufficient executive-level personnel;
- the successful integration of the operations of Trussco, Inc. including the integration of a management team with no history of working together;
- increased levels of debt and administrative burdens; and
- increased logistical problems of large, expansive operations.

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

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We have incurred losses in previous years.

While some of our past history reflects annual net income, our recent financial history, including the year ended December 31, 2004 and the six month period ended June 30, 2005, reflects net losses. While we hope to generate increased revenues and return to profitability, any such increase may not be sustainable or indicative of future results of operations. We do intend to continue investing in internal expansion, infrastructure, integration of acquired companies and into our operations and our marketing and sales efforts.

The accompanying consolidated financial statements have been prepared assuming we will continue on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company suffered a significant loss from operations during the year ended December 31, 2004, had a working capital deficit, was in default on certain of its debt instruments, and will require capital funding from sources other than operations to meet its current debt obligations. In the past two years, we have been required to raise additional capital by the issuance of both equity and debt instruments.

The dangers inherent in our operations and the potential limits on insurance coverage for certain risks could expose us to potentially significant liability costs.

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

We operate in a highly competitive industry.

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

- changes in competitive prices;
- fluctuations in the level of activity and major markets;
- general economic conditions; and
- governmental regulation.

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

Seasonality and adverse weather conditions in the regions in which we operate may adversely affect our operations.

Our operations are directly affected by the weather conditions in the Gulf of Mexico. Due to seasonal differences in weather patterns, we may operate more days in the spring, summer and fall periods and less in the winter months. The seasonality of oil and gas industry activity in the Gulf Coast region also affects our operations. Due to exposure to weather, we generally experience higher drilling activity in the spring, summer and fall months with the lowest activity in winter months, especially with respect to our operations in the mountainous regions of

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the western United States. The rainy weather, hurricanes and other storms prevalent in the Gulf of Mexico and along the Gulf Coast throughout the year may also affect our operations. As a result, full-year results are not likely to be a direct multiple of any particular quarter or combination of quarters.

We are dependent on key personnel.

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

We may incur additional expenditures to comply with governmental regulations.

Our seismic operations are subject to extensive governmental regulation, violations of which may result in civil and criminal penalties, injunctions and cease and desist orders. These laws and regulations govern, among other things, operations in wetlands and the handling of explosives. Although our cost of compliance with such laws has to date been immaterial, such laws are changed frequently. Accordingly, it is impossible to predict the cost or impact of such laws on our future operations. We are also required by various governmental agencies to obtain certain permits, licenses and certificates. To date, we believe that we possess all permits, licenses and certificates material to the operation of our business. The loss by us of any of the licenses required for our operation could have a material adverse effect on our operations.

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

One stockholder has substantial control over our affairs.

Dennis R. Sciotto beneficially owns approximately 35.6% of our outstanding common stock. Mr. Sciotto represents and controls The Dennis R. Sciotto Family Trust and was appointed to the Board of Directors by the holders of the Series C Preferred Stock on June 13, 2005 pursuant to the Securities Purchase Agreement dated May 17, 2005. As a result, Mr. Sciotto has the ability to substantially influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger, consolidation or sale of substantially all of our assets. This may have the effect of delaying, deferring or preventing a change in control, or impeding a merger or consolidation.

Future technological advances could impair operating assets or require substantial unbudgeted capital expenditures.

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

Our seismic drilling operations depend on a few significant customers.

We derive a significant amount of our seismic drilling revenue from a small number of geophysical companies. Our inability to continue to perform services for a number of our large existing customers, if not offset by sales to new or other existing customers, could have a material adverse effect on our business and operations. For example, our largest customers (those which individually accounted for more than 10% of revenue in a given

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year, listed alphabetically) collectively accounted for 84% (Veritas DGC and Western Geophysical), 71% (Quantum Geophysical, Seismic Exchange, and Veritas DGC) and 50% (PGS, Quantum Geophysical, Seismic Exchange, and Veritas DGC) of revenue for fiscal 2002, 2003, and 2004, respectively.

Unfavorable results of litigation could have a material adverse impact on our financial statements.

We are subject to a variety of claims and lawsuits. Adverse outcomes in some or all of the pending cases may result in significant monetary damages or injunctive relief against us. We are also subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. While management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on our financial position or results of operations, the litigation and other claims noted above are subject to inherent uncertainties and management s view of these matters may change in the future. There exists the possibility of a material adverse impact on our financial position and the results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

If we breach any of the material financial covenants under our various indebtedness, or if an event of default is declared with respect to any such indebtedness, our debt service obligations could be accelerated.

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

As of December 31, 2004, we had a material weakness in our internal controls, and our internal control over financial reporting was not effective as of that date. If we fail to maintain an effective system of internal controls, we may not be able to provide timely and accurate financial statements.

As more fully described in our Form 10-K filed on April 18, 2005, during the course of conducting the December 31, 2004 audit of the consolidated financial statements, several accounting adjustments were identified, some of which affected prior quarters and resulted in a restatement of the consolidated financial statement for each of the three quarters ended March 31, 2004, June 30, 2004 and September 30, 2004 and the year ended December 31, 2003. During managements evaluation of the effectiveness and sufficiency of our internal financial reporting function, we recognized the need to strengthen and expand the Company s public reporting function with the employment of additional financial and accounting staff experienced with generally accepted accounting principles, reporting to the Securities and Exchange Commission, internal controls and the Sarbanes-Oxley Act of 2002. Management believes certain identified weaknesses arose because of inadequate staffing in the Company s current accounting and financial reporting function.

The Public Company Accounting Oversight Board has defined a material weakness as a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim statements will not be prevented or detected. Accordingly, a material weakness increases the risk that the financial information we report contains material errors. As more fully described in our quarterly reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005, these deficiencies have not yet been remedied but additional internal control initiatives have been implemented to our controls over financial reporting. We believe the aforementioned staffing void resulted from the December 2004 departure of our Chief Accounting Officer. Until a suitable replacement is identified, our Executive Vice President, who is our former Chief Financial Officer, has resumed an active role in the daily oversight of all accounting matters. Further, the company utilizes the consulting services of third party accounting and financial experts to (i) review and provide guidance upon the propriety of the recording of various accounting transactions and (ii) review and provide guidance upon our financial statements. Further, we use these third party accounting and financial experts to assist us with technical research regarding significant accounting transactions, disclosures and financial reporting.

We believe these interim steps compensate for the existing vacancy at the Chief Accounting Officer level. Our internal assessment of our internal control over financial reporting does not reveal any other weaknesses that we believe would require further attention or discussion at this time. However, there can be no assurance that the steps we have taken and are taking to address the material weakness will be effective. Any failure to effectively address a material weakness or other control deficiency or implement required new or improved controls, or difficulties encountered in their implementation, could limit our ability to obtain financing, harm our reputation, disrupt our ability to process key components of our result of operations and financial condition timely and accurately and cause us to fail to meet our reporting obligations under rules of the SEC and our various debt arrangements. Any failure to remediate the material weakness identified in our evaluation of our internal controls could preclude our management from determining our internal control over financial reporting is effective.

Forward-looking statements

Certain statements included in this prospectus that are not historical facts are intended to be forward-looking statements. Forward-looking statements in this prospectus are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include statements that relate to:

- our business plans or strategies, and projected or anticipated benefits or other consequences of such plans or strategies;
- our objectives;
- projected and anticipated benefits from future or past acquisitions; and
- projections involving anticipated capital expenditures or revenues, earnings or other aspects of capital projects or operating results.

Forward-looking statements generally can be identified by the use of words such as may, will, expect, intend, estimate, anticipate or bel similar language.

Forward-looking statements are not guarantees of future performance and all phases of our operations are subject to a number of uncertainties, risks and other influences, many of which are beyond our control. Any one of such influences, or a combination, could materially affect the results of our operations and the accuracy of the forward-looking statements that we make.

You are cautioned that all forward-looking statements involve risks associated with OMNI s dependence on activity in the oil and gas industry, labor shortages, international expansion, dependence on significant customers, seasonality and weather risks, competition, technological evolution and other risks detailed in our filings with the Securities and Exchange Commission. Additional important factors that could cause actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements are discussed under the caption Risk factors above. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date that they are made. We undertake no obligation to publicly update our forward-looking statements.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. Offers to sell and offers to buy shares of our common stock are being made only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this

prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

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Use of proceeds

All of the shares of common stock offered hereby are being offered by the selling stockholders, who will receive all proceeds from such sales. We will not receive any proceeds from the sale of shares of common stock offered by the selling stockholders. We will receive as the exercise price of the warrants described above up to $14.2 million if the selling stockholders exercise all of their warrants and assuming that none of the warrants are exercised on a cashless basis. We cannot be certain that any or all of the warrants will be exercised. Any proceeds from the exercise of the warrants are not proceeds from this offering. We expect to use any proceeds from the exercise of the warrants to reduce long-term and for working capital purposes. Pending such uses, we will invest any proceeds in short term, investment grade, interest bearing securities.

Market price of and dividends on the registrant s common equity and related stockholder matters

Market information and price range of common stock

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

	HIGH	LOW
2005		
First quarter	$ 2.84	$ 1.21
Second quarter	$ 2.66	$ 1.43
Third quarter	$ 5.35	$ 2.01
Fourth quarter (through October 17, 2005)	$ 4.22	$ 2.85
2004		
First quarter	$ 9.00	$ 4.76
Second quarter	$ 7.80	$ 4.22
Third quarter	$ 5.35	$ 2.95
Fourth quarter	$ 4.94	$ 1.65
2003		
First quarter	$ 1.14	$ 0.75
Second quarter	$ 1.98	$ 0.81
Third quarter	$ 2.80	$ 1.49
Fourth quarter	$ 7.48	$ 2.19

On October 17, 2005, the reported last sale price of our common stock was $3.07. As of October 12, 2005 there were approximately 6,600 holders of record of our common stock.

Holders

Prior to this offering, 14,943,121 shares of our common stock were outstanding, all of which are freely tradable. Upon completion of this offering, 24,556,791 shares of our common stock will be outstanding.

Dividend policy

We have never paid cash dividends on our common stock. We intend to retain future earnings, if any, to meet our working capital requirements and to finance future operations of our business. Therefore, we do not plan to

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declare or pay cash dividends to holders of our common stock in the foreseeable future. In addition, certain of our credit arrangements contain provisions that limit our ability to pay cash dividends on our common stock.

Selected consolidated financial data

The selected financial data as of and for the five years ended December 31, 2004 are derived from our audited consolidated financial statements. The following information should be read in conjunction with Management s discussion and analysis of financial condition and results of operations and the consolidated financial statements and notes thereto included elsewhere in this prospectus. Our selected historical results are not necessarily indicative of results to be expected in future periods. The per share data gives retroactive effect to the one for three reverse stock split effective July 3, 2002. The selected financial data as of and for the six months ended June 30, 2005 and 2004 are derived from our unaudited consolidated financial statements reported within our quarterly report on Form 10-Q as of June 30, 2005 and should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K, for the year ended December 31, 2004, filed with the Securities and Exchange Commission on April 18, 2005, as amended.

The financial statements for the years ended December 31, 2000 and through 2001 were audited by Arthur Andersen LLP, who has ceased operations.

We sold our Aviation Transportation Services segment on June 30, 2005 (see MD&A Recent Events for a discussion of the sale). In order to enhance the comparability of the amounts from year to year, the financial information related to the results of operations for the years ended December 31, 2000 through December 31, 2004 and the six month period ended June 30, 2004 have been restated to present the activities of the Aviation Transportation Services segment as discontinued operations.

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	Year ended December 31,					Six months ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
						(unaudited)	
	(In thousands, except per share data)						
Income statement data:							
Operating revenue	$ 10,255	$ 19,839	$ 24,592	$ 31,555	$ 39,064	$ 16,655	$ 22,578
Operating expenses:							
Direct costs	10,054	15,005	17,178	21,586	28,510	12,773	14,284
Depreciation and amortization	4,042	3,328	3,270	3,355	4,282	1,695	2,487
General and administrative expense	4,757	2,436	3,186	3,718	9,464	3,762	4,009
Total operating expenses	18,853	20,769	23,634	28,659	42,256	18,230	20,780
Asset impairment and other charges	11,284	632					
Operating income (loss)	(19,882)	(1,562)	958	2,896	(3,192)	(1,575)	1,798
Interest expense	2,930	1,223	799	943	3,288	769	1,278
(Gain) loss on debenture conversion inducement and debt extinguishment					729		(484)
Other expense (income), net	1,846	(7,929)	(115)	(114)	290	147	(29)
Income (loss) from continuing operations before income taxes	(24,658)	5,144	274	2,067	(7,499)	(2,491)	1,033
Income tax benefit (expense)	(1)		400	1,092			
Income (loss) before minority interest	(24,659)	5,144	674	3,159	(7,499)	(2,491)	1,033
Minority interest and income (loss) of Subsidiaries	(17)						
Net income (loss) from continuing operations	(24,642)	5,144	674	3,159	(7,499)	(2,491)	1,033
Income (loss) from discontinued operations, net of taxes	(1,131)	520	534	324	(6,756)	1,694	(2,862)
Loss on disposal of discontinued operations assets, net of taxes							(2,271)
Net income (loss)	(25,773)	5,664	1,208	3,483	(14,255)	(797)	(4,100)
Dividends and accretion of preferred stock		(726)	(484)	(484)	(490)	(490)	(55)
Non-cash charge attributable to beneficial conversion features of preferred stock							(649)
Net income (loss) available to common stockholders	$ (25,773)	$ 4,938	$ 724	$ 2,999	$ (14,745)	$ (1,287)	$ (4,804)
Basic Income (loss) per common share:							
Income (loss) from continuing operations	$ (4.24)	$ 0.49	$ 0.02	$ 0.30	$ (0.73)	$ (0.28)	$ 0.03
Income (loss) from discontinued operations	(0.19)	0.06	0.06	0.04	(0.62)	0.16	(0.24)
Loss on disposal of discontinued operations assets							(0.19)
Net Income (loss) applicable to common and common equivalent shares	$ (4.43)	$ 0.55	$ 0.08	$ 0.34	$ (1.35)	$ (0.12)	$ (0.40)
Diluted Income (loss) per common share:							
Income (loss) from continuing operations	$ (4.24)	$ 0.45	$ 0.02	$ 0.28	$ (0.73)	$ (0.28)	$ 0.03
Income (loss) from discontinued operations	(0.19)	0.05	0.06	0.03	(0.62)	0.16	(0.24)

Loss on disposal of discontinued operations assets							(0.19)
Net Income (loss) applicable to common and common equivalent shares	$ (4.43)	$ 0.50	$ 0.08	$ 0.31	$ (1.35)	$ (0.12)	$ (0.40)
Number of Weighted Average Shares:							
Basic	5,819	9,015	8,739	8,772	10,884	10,502	11,964
Diluted	5,819	9,844	8,745	11,362	10,884	10,502	11,996

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	December 31,					June 30,	
	2000	2001	2002	2003	2004	2004	2005
						(unaudited)	
Balance sheet data:							
Total assets	$ 34,624	$ 38,448	$ 41,325	$ 50,289	$ 65,913	$ 69,160	$ 53,125
Long-term debt, less current maturities:	8,500	9,289	8,340	9,624	12,952	16,711	23,397
Preferred Stock	7,500	11,616	12,100	12,100	29	29	678
Total Equity	8,018	18,560	19,781	24,386	4,864	17,089	7,679

	Year ended December 31,					Six Months Ended June 30,	
	2000	2001	2002	2003	2004	2004	2005
						(unaudited)	
Statement of cash flow data:							
Net cash provided by (used in) operating activities	$ (5,615)	$ 6,355	$ 5,015	$ 5,664	$ 8,121	$ 3,413	$ 1,949
Net cash provided by (used in) investing activities	942	(155)	(1,901)	(4,158)	(13,037)	(10,321)	406
Net cash provided by (used in) financing activities	4,890	(5,284)	(3,643)	(1,638)	7,568	7,017	(3,328)

Management s discussion and analysis of financial condition and results of operations

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

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

Recent Events

On May 18, 2005, we completed the Term A Loan and increased the Line to $15 million from its previous level of $12 million. Under the terms of the Term A Loan, funding will be limited to the lesser of $50 million and the sum of (i) 85% of the orderly liquidation value of our aviation fleet; (ii) 75% of the orderly liquidation value of our seismic drilling and environmental equipment; and (iii) 50% of the fair market value of certain real estate. Proceeds from the Term A Loan were used to re-finance certain long-term debt, provide working capital and establish funding necessary to complete various strategic transactions under consideration. The Term A Loan matures in May 2010 and will be repaid quarterly in equal payments up to a 50% balloon at maturity date, with interest, paid in arrears and accruing at the initial annual interest rate of 30-day LIBOR plus 6.5% (9.61% at June 30, 2005). Upon the completion of the sale of the aviation transportation services segment, the total borrowing base under the Term A Loan was reduced to $30 million. Additionally, a portion of the proceeds from the Term B Loan were used to reduce the balance of the Term A Loan to $5.0 million.

In connection with completion of the Senior Credit Facility, we entered into the Debenture Settlement Agreements with each of the Debenture Holders in exchange for our dismissal of the lawsuit we filed against the Debenture Holders on January 25, 2005. On that date, we filed suit in the United States District Court, Western District of Louisiana against the Debenture Holders and other third parties. The suit alleged violations by the Debenture Holders pursuant to Section 16(b) of the Securities Exchange Act of 1934. On February 25, 2005, one of the Debenture Holders, Portside, notified us of certain alleged events of default under the Portside Debentures. Portside demanded that we redeem all of the Portside Debentures held by it, in the aggregate principal amount of $2,765,625, on March 2, 2005. Portside also notified us of its intention to commence a civil action against us to obtain a judgment with respect to all amounts owed to it under the Portside Debentures.

Under the terms of the Debenture Settlement Agreements, we agreed to (i) pay the Debenture Holders approximately $4.0 million cash; (ii) immediately issue the Debenture Holders 2.0 million shares of our common stock at an agreed upon value of $3.4 million; and (iii) issue the Debenture Holders approximately $4.3 million of Subordinated Debenture Notes. The Company recorded a gain of $200,000 upon closing of these transactions. The Subordinated Debenture Notes will be paid quarterly, with interest in arrears, over 36 months in equal payments with interest accruing at the rate of 8% per annum. Execution of the Debenture Settlement Agreements extinguished the terms of the original Debentures and released all parties from any future claims.

On May 18, 2005, we entered into early Debt Extinguishment Agreements on $2.0 million of the Stockholder Notes and $1.0 million of the Earnout Note more fully described in Note 4 of our financial statements contained herein. Under the terms of the Debt Extinguishment Agreements, in full and complete satisfaction of $2.0 million of the Stockholder Notes and $1.0 million of the Earnout Note, we agreed to (i) immediately issue 0.2 million shares of our common stock; and, (ii) pay certain holders of the Stockholder Notes $1.0 million on or before August 16, 2005, in full and complete satisfaction of $2.0 million of the Stockholder Notes and $1.0 million of the Earnout Note. The Company recognized a gain on debt extinguishment of $0.3 million upon closing this transaction.

On May 17, 2005, we entered into a Securities Purchase Agreement with certain affiliates and executive officers to issue up to $5.0 million of Series C 9% Convertible Preferred Stock. Our Series C 9% Convertible Preferred Stock is convertible into our common stock at a conversion price of $1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between $1.95 and $3.50 per share.

On June 30, 2005, we executed a definitive agreement to sell the equipment and related assets of the Aviation Transportation Services segment. On July 29, 2005, the sale of the Aviation Transportation Services segment was finalized and the proceeds from the cash sale ($11.0 million) were used to repay advances under the Company s Senior Credit Facility and for additional working capital. As a result of the sale and in order to enhance comparability among the periods, the financial statements contained in our selected consolidated financial data tables on page 12 and 13 for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 and for the six months ended June 30, 2004 have been restated to reflect the operations of the Aviation Transportation Services segment as discontinued operations.

On August 29, 2005, we closed the second tranche of the transactions contemplated by the Securities Purchase Agreement, at which time we issued an aggregate of 1,500 shares of Series C 9% Convertible Preferred Stock and warrants to acquire up to 1,965,000 shares of common stock, in exchange for an aggregate of $1,500,000.

On August 29, 2005, we completed the Term B Loan. Under the terms of the Term B Loan, borrowings will be made through advances at our request in minimum amounts of $2 million. Quarterly payments in the amount of $0.175 million, plus interest, will begin on April 1, 2008. The Term B Loan matures in August 2010 and accrues interest at the rate of LIBOR plus 8%. The proceeds from the Term B Loan were and/or will be used to (i) reduce the current outstanding balance under the Company s Term A senior term debt by $3.4 million; (ii) retire approximately $3.3 million of Subordinated Debenture Notes with a payment of $1.5 million cash and the issuance of 750,000 shares of our common stock; (iii) retire $2 million of certain subordinated debt with a payment of $1 million cash and the issuance of 200,000 shares of common stock; and (iv) provide working capital and funds necessary for potential strategic transactions.

On September 21, 2005, the Company entered into a non-binding letter of intent for the acquisition of Preheat, Inc. (Preheat). Preheat is a leading Gulf Coast lessor of oilfield equipment and provider of specialized oilfield

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and environmental services. Subject to the terms and conditions of the letter of intent, the Company will purchase 100% of the issued and outstanding capital stock of Preheat for a purchase price of $22.5 million plus certain assumed long-term debt more specifically described as a combination of $16.0 million of cash, $2.5 million of our common stock, $4.0 million of promissory notes and the assumption of approximately $1.5 million of long-term debt. Completion of the acquisition is subject to finalization of due diligence satisfactory to the Company, negotiation of a definitive purchase agreement with terms acceptable to both parties, and approval of the transaction by the Company s lenders and Board of Directors. Closing is expected during the fourth quarter of 2005. As a further condition to closing, Preheat is required to have on hand at closing a minimum of $4.5 million of excess working capital.

Restatement of financial statements

Due to the lock-box arrangement and the subjective acceleration clause associated with our Line, the balance sheet as of December 31, 2003 was restated to classify the Line as required by EITF 95-22, Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement.

On June 30, 2005, the Company signed a definitive agreement to sell its Aviation Transportation Services segment. The income statements for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 and the six months ended June 30, 2004 have been restated to properly present the comparative information related to the Aviation Transportation Services segment. For these periods, the activities of the Aviation Transportation Services segment has been presented as discontinued operations.

General

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

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

During 1999, with the reduction in the price of oil and gas, we began to experience a decrease in demand for our services, which continued through 2000 but, in 2001, the oil and gas industry experienced a rebound and has remained strong since then. Increased capital expenditure budgets by oil and gas companies generally result in increased demand for our services. For the years ended December 31, 2002, 2003 and 2004, our operating revenues were $24.6 million, $31.6 million, and $39.0 million, respectively, and for the six months ended June 30, 2005, they were $22.6 million.

Seasonality and weather risks. Our operations are subject to seasonal variations in weather conditions and daylight hours. Since our activities take place outdoors, on average, fewer hours are worked per day and fewer holes are generally drilled or surveyed per day in winter months than in summer months due to an increase in rainy, foggy, and cold conditions and a decrease in daylight hours.

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Results of operations

The following discussion provides information related to the results of our operations. As discussed earlier in -Recent Events and later in -Discontinued Operations, we sold the Aviation Transportation Services segment on June 30, 2005. In order to enhance the comparability of the amounts reflected for the periods below, the financial information has been restated to present the activities of the Aviation Transportation Services segment as discontinued operations.

Six months ended June 30, 2004 compared to six months ended June 30, 2005:

	Six Months Ended June 30,	
	2004	**2005**
	(in thousands)	
Operating revenue	$ 16,655	$ 22,578
Operating expenses:		
Direct costs	12,773	14,284
Depreciation and amortization	1,695	2,487
General and administrative expenses	3,762	4,009
Total operating expenses	18,230	20,780
Operating income (loss)	(1,575)	1,798
Interest expense	769	1,278
(Gain) loss on debt extinguishment		(484)
Other (income) expense	147	(29)
Income (loss) from continuing operations	(2,491)	1,033
Income (loss) from discontinued operations, net of taxes	1,694	(2,862)
Loss on sale of discontinued operations assets		(2,271)
Net loss	(797)	(4,100)
Dividends and accretion of preferred stock	(490)	(55)
Non-cash charge attributable to beneficial conversion features of preferred stock		(649)
Net loss available to common stockholders	$ (1,287)	$ (4,804)

Operating revenues increased 36%, or $5.9 million, from $16.7 million for the six months ended June 30, 2004 to $22.6 million for the six months ended June 30, 2005. This increase was due primarily to our acquisition of Trussco as of June 30, 2004, which contributed $8.5 million in revenue for the first and second quarter 2005, coupled with a decrease in activities from our drilling division which accounted for a decrease of $2.6 million. As discussed in Note 13 to the financial statements contained herein, we discontinued our Aviation Transportation Services segment in June 2005. The operations related to our Aviation Transportation Services segment are included in a single line item captioned income (loss) from discontinued operations, net of taxes. The comparative financial information for the six months ended June 30, 2004 has been restated to present the operations of the Aviation Transportation Services segment as income (loss) from discontinued operations in order to facilitate comparison of financial data among the periods presented.

Direct costs increased 12%, or $1.5 million, from $12.8 million for the six months ended June 30, 2004 to $14.3 million for the six months ended June 30, 2005. Payroll costs for the Trussco acquisition accounted for the $2.4 million increase in overall payroll costs while payroll costs in the drilling division decreased by $0.8 million resulting in an overall increase in payroll costs of $1.6 million. The average number of field personnel we employed increased from 299 for the six months ended June 30, 2004 to 345 for the six months ended June 30, 2005, principally as a result of our acquisition of Trussco. The acquisition of Trussco and additional aircraft contributed to an increase of $0.3 million in insurance costs from $0.1 million for the six months ended June 30, 2004 to $0.4 million for the six months ended June 30, 2005. As discussed in Note 13 to the financial statements contained herein, regarding our discontinued operations, aircraft operating expenses are included in income (loss) from discontinued operations.

Depreciation and amortization costs increased 47%, or $0.8 million, from $1.7 million for the six month period ended June 30, 2004 to $2.5 million for the same six month period of 2005. Depreciation expense increased $0.4 million due to an increase in revenue-producing assets, primarily from the acquisition of Trussco in June 2004. Additionally, amortization expense increased by $0.4 million resulting primarily from amortization of intangible assets related to the Trussco acquisition.

General and administrative costs increased $0.2 million from $3.8 million during the six month period ended June 30, 2004 to $4.0 million during the same six month period of 2005. Of this increase, $2.0 million was attributable to the June 2004 acquisition of Trussco, which was more than offset by a decrease in professional services of $1.7 million. As discussed in Note 13 regarding our discontinued operations, general and administrative expenses are included in income (loss) from discontinued operations.

Interest expense increased approximately $0.5 million from $0.8 million for the six month period ended June 30, 2004 to $1.3 million for the six month period ended June 30, 2005. The increase in interest expense was primarily attributable to increased interest rates between the periods. The portion of interest expense which is deemed attributable to the discontinued Aviation Transportation Services segment is included in income (loss) from discontinued operations.

As discussed earlier in -Recent Events and later in -Discontinued Operations, we sold the Aviation Transportation Services segment on June 30, 2005. Accordingly, we recorded a loss from discontinued operations totaling $2.9 million, net of income taxes as a component of the net loss for the six months ended June 30, 2005. Additionally, we recorded a loss of $2.3 million on the disposal of the Aviation Transportation Services segment assets. The income attributable to the Aviation Transportation Services segment for the six months ended June 30, 2004 was $1.7 million.

Year ended December 31, 2003 compared to the year ended December 31, 2004:

	Year ended December 31,	
	2003	**2004**
	(in thousands)	
Operating revenue	$ 31,555	$ 39,064
Operating expenses		
Direct costs	21,586	28,510
Depreciation and amortization	3,355	4,282
General and administrative expenses	3,718	9,464
Total operating expenses	28,659	42,256
Operating income (loss)	2,896	(3,192)
Interest expense	943	3,288
Loss on debenture conversion inducement and debt extinguishment		729
Other expense (income)	(114)	290

Income (loss) before taxes	2,067	(7,499)
Income tax benefit	1,092	
Net income (loss) from continuing operations	3,159	(7,499)
Income (loss) from discontinued operations, net of taxes	324	(6,756)
Net income (loss)	3,483	(14,255)
Accretion of preferred stock and preferred stock dividends	(484)	(490)
Net income (loss) available to common stockholders	$ 2,999	$ (14,745)

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Operating revenues increased 23%, or $7.4 million, from $31.6 million to $39.0 million for the years ended December 31, 2003 and 2004, respectively, of which $8.7 million of this increase was due to the June 30, 2004 acquisition of Trussco. Drilling revenues decreased slightly from $31.6 million for the year ended December 31, 2003 to $30.6 million for the year ended December 31, 2004 due to permitting and weather-related delays. Operating revenues are expected to increase in 2005, as the demand for, and range of, our services continue to improve and because we will include a full year of operations for Trussco.

Direct costs increased 32%, or $6.9 million, from $21.6 million in 2003 to $28.5 million in 2004. Operating payroll expense increased $2.3 million from $6.2 million to $8.5 million for the years ended December 31, 2003 and 2004, respectively. Payroll costs from the Trussco acquisition accounted for the $2.3 million increase. Repairs and maintenance expenses decreased $0.3 million from 2003 to 2004, with $0.5 million of the decrease related to the drilling division offset by $0.3 million related to Trussco. Explosives expense increased $1.7 million due to an increase in the cost of explosives and downhole costs on jobs performed in 2004. Contract services increased $0.8 million company-wide, of which our drilling division accounted for $1.3 million of the increase with an offsetting decrease of $0.6 million from our permitting division. In 2004, we contracted third parties exclusively to provide services for heliportable drilling in the Rocky Mountains where we no longer provide these specialized drilling services. In 2004, we also contracted third parties to provide airboat drilling services during a period when most of our available employees were working on other projects. Shop expenses increased $0.4 million from 2003 to 2004 as a result of the Trussco acquisition. Other direct costs increased $2.3 million, of which Trussco accounted for $1.0 million. While operating expenses are expected to continue to increase in 2005 as operating revenues increase, we expect these expenses to remain consistent as a percentage of revenues.

Depreciation and amortization costs increased 24%, or $0.9 million, from $3.4 million in 2003 to $4.3 million in 2004. Depreciation expense increased $0.4 million due to the increase in revenue-producing assets, primarily from the acquisitions of Trussco in June 2004. Additionally, amortization expense increased by $0.5 million resulting primarily from amortization of intangible assets related to the Trussco acquisition.

General and administrative expenses increased $5.7 million from $3.7 million for 2003 to $9.5 million for 2004. Of this increase, $2.2 million is attributable to the Trussco acquisition, $2.4 million is related to professional services and $0.4 million is related to payroll increases. Other general and administrative expense increased by $0.8 million. General and administrative expenses are expected to increase slightly in 2005 due to a full year s inclusion of expenses resulting from our acquisition of Trussco, however, we expect to take advantage of synergies relating to this acquisition as well as maintain stringent controls of these costs.

During 2004, we recorded asset impairment charges of $4.2 million (See Note 1 to the accompanying December financial statements included herein) related to the revaluation of certain aviation equipment, prepaid repairs and assets held for sale resulting in a charge to expense of $0.6 million, $3.0 million and $0.6 million, respectively. There was no impairment charge required to be recorded in 2003. This 2004 impairment charge, which relates entirely to the Aviation Transportation Services Segment, is included in the loss from discontinued operations.

Interest expense was $3.3 million for the year ended December 31, 2004 compared to $0.9 million for the year ended December 31, 2003. The increase was partially attributable to increased levels of debt including the convertible debentures coupled with increased interest rates between the periods. Also, $1.3 million of the increase related to amortization of deferred loan costs and $0.7 million related to the amortization of debt discounts originally recorded in conjunction with the convertible debentures in early 2004. Interest expense allocated to loss from discontinued operations amounted to $1.9 million and $0.5 million for the year ended December 31, 2004 and 2003, respectively. We expect to manage our senior debt facility as we explore strategic business opportunities.

We recorded a $1.0 million accounting loss in connection with the inducement for early extinguishment of a portion of our convertible debentures during 2004. Of that loss, $0.3 million is included in loss from discontinued operations. There was no such charge in 2003.

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Other expense (income) decreased from income of $0.1 million to expense of $0.3 million. This increase in expense was due to costs incurred as a result of financing transactions that did not close.

In 2003, we reversed $1.6 million of the net operating loss carry-forwards previously reserved of which $0.5 million was allocated to discontinued operations. There were no taxes recorded in 2004 due to the significant net operating loss incurred. During 2004, the entire amount of the net operating loss carryforward generated was fully reserved as it was determined that more likely than not this increase in deferred tax asset would not be realized in the future.

As previously discussed, we sold our Aviation Transportation Services segment on June 30, 2005. In order to enhance the comparability of the amounts from year to year, the financial information related to the results of operations for the years ended December 31, 2003 and 2004 has been restated to present the activities of the Aviation Transportation Services segment as discontinued operations. The income, net of tax benefit, related to those discontinued operations was $0.3 million for the year ended December 31, 2003 and the loss related to the discontinued operations was $6.8 million for the year ended December 31, 2004. Included in the 2004 loss from discontinued operations is the asset impairment charge of $4.2 million mentioned above.

Accretion of preferred stock and preferred stock dividends remained constant at $0.5 million for the years ended December 31, 2003 and 2004.

Year ended December 31, 2002 compared to the year ended December 31, 2003:

	Year ended December 31,	
	2002	2003
	(in thousands)	
Operating revenue	$ 24,592	$ 31,555
Operating expenses		
Direct costs	17,178	21,586
Depreciation and amortization	3,270	3,355
General and administrative expenses	3,186	3,718
Total operating expenses	23,634	28,659
Operating income	958	2,896
Interest expense	799	943
Other (income) expense	(115)	(114)
Income before taxes	274	2,067
Income tax benefit	400	1,092
Net income from continuing operations	674	3,159
Income (loss) from discontinued operations, net of taxes	534	324
Net income	1,208	3,483
Accretion of preferred stock and preferred stock dividends	(484)	(484)

Net income applicable to common and common equivalent shares	$ 724	$ 2,999

Operating revenues increased 29%, or $7.0 million, from $24.6 million to $31.6 million for the years ended December 31, 2002 and 2003, respectively. This increase was due primarily to improved market conditions in the geophysical industry in 2003. The aviation operations have been reclassified into discontinued operations as a result of the sale of the Aviation Transportation Services segment in June 2005.

Direct costs increased 26%, or $4.4 million, from $17.2 million in 2002 to $21.6 million in 2003. Operating payroll expense increased $0.7 million from $5.5 million to $6.2 million for the years ended December 31, 2002 and 2003, respectively. Also, as a result of the increased activity levels in 2003 as compared to 2002, explosives expenses, repairs and maintenance expenses and fuel and oil expenses increased $1.6 million, $0.6 million and $0.4 million, respectively.

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Depreciation and amortization costs increased 6%, or $0.2 million, from $3.3 million in 2002 to $3.4 million in 2003. Depreciation expense increased $0.1 million due to the increase in revenue-producing assets between the periods ended December 31, 2002 and 2003, respectively.

General and administrative expenses increased $0.6 million from $3.2 million for 2002 to $3.7 million for 2003 due to realized savings in 2002 from renegotiated lease and vendor agreements and lower legal expenses offset by a $0.4 million commission received as a result of our agreement to facilitate the private placement of approximately 1,650,000 shares of our common stock owned by an affiliate and certain investors.

Interest expense was $0.9 million for the year ended December 31, 2003 compared to $0.8 million for the year ended December 31, 2002. Amortization expense increased by $0.2 million resulting from a one time amortization expense due to the refinancing of a more favorable senior credit facility, revolving line of credit and equipment term loan. Interest expense allocated to income (loss) from discontinued operations amounted to $0.5 million and $0.4 million for the year ended December 31, 2003 and 2002, respectively.

Other income remained consistent at $0.1 million for each of the years ended December 31, 2003 and 2002.

In 2003, we reversed $1.6 million of the net operating loss carry-forwards previously reserved compared to $0.4 million of this related reserve reversed in 2002. In 2003, $0.5 million of the tax benefit was allocated to discontinued operations. It was determined that recent profitability indicated that the full reserve on our deferred tax assets was not required as a portion was determined to be realizable in future periods.

As previously discussed, we sold our Aviation Transportation Services segment on June 30, 2005. In order to enhance the comparability of the amounts from year to year, the financial information related to the results of operations for the years ended December 31, 2002 and 2003 has been restated to present the activities of the Aviation Transportation Services segment as discontinued operations. The income related to those discontinued operations was $0.5 million and $0.3 million for the years ended December 31, 2002 and 2003, respectively.

Accretion of preferred stock and preferred stock dividends remained constant at $0.5 million for the years ended December 31, 2002 and 2003.

Liquidity and Capital Resources

At June 30, 2005, we had approximately $0.1 million in cash compared to $1.0 million at December 31, 2004, and working capital of $2.8 million at June 30, 2005, compared to a deficit of $22.1 million at December 31, 2004. The decrease in cash and increase in working capital from December 31, 2004 to June 30, 2005 are primarily a result of decreased accounts payable between the periods, reclassification of aviation assets to current assets held for sale and the finalizing of a new senior credit facility. Cash provided by operating activities was $1.9 million for the six months ended June 30, 2005 compared to $3.4 million for the same period in 2004.

Historically, our capital requirements have primarily related to the purchase or fabrication of new seismic drilling equipment and related support equipment, additions to our aviation fleet and new business acquisitions. In 2004, we acquired Trussco, approximately $6.4 million of aircraft accounted for as capital leases, and approximately $0.8 million of new vehicles accounted for as capital leases. Thus far in 2005, we have acquired approximately $0.1 million of new vehicles and approximately $0.1 million in aviation support equipment. For the remainder of 2005, we expect to continue renewing our rolling stock, upgrade Trussco s facilities and equipment to improve the efficiency of their operations and explore strategic business opportunities.

During the quarter ended March 31, 2005, we repaid approximately $3.3 million of our debt primarily related to our equipment notes, capital leases and real estate loans. Furthermore, we extinguished three capital leases totaling $2.9 million as a result of our disposition of three helicopters. Loan closing costs of $0.2 million was incurred during the three months ended June 30, 2005 due to preliminary negotiations and legal preparation of our $50 million term loan, which we also refer to as the Term A Loan.

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During the three month period ended June 30, 2005, we finalized the Term A Loan. The proceeds from the Term A Loan were used to re-finance certain long-term debt, provide working capital and establish funding necessary to complete various strategic transactions that are under consideration. At June 30, 2005, the balance owed on the Term A Loan was approximately $17.9 million. Subsequent to June 30, 2005, a portion ($9.35 million) of the $11.0 million proceeds from the sale of the Aviation Transportation Services segment were used to repay a portion of the Term A Loan, leaving the balance of the Term A Loan at approximately $8.6 million.

Long-term debt

At December 31, 2004 and June 30, 2005, long-term debt consisted of the following (in thousands):

	December 31, 2004	June 30, 2005
Notes payable to a finance company, variable interest rate at LIBOR plus 5.0% (7.42% at December 31, 2004 respectively) maturing July 31, 2006, secured by various property and equipment, repaid in full	$ 867	$
Notes payable to a bank with interest payable at Prime plus 1.75% (7.75% at June 30, 2005 and 6.75% at December 31, 2004) maturing July 31, 2023, secured by real estate	1,392	1,372
Notes payable to a finance company with interest at 10.24%, maturing May 18, 2008, secured by an aircraft, repaid in full	168	
Notes payable to a finance company with interest at 6.26%, maturing March 17, 2006, secured by various aircraft, repaid in full	1,697	
Notes payable to a bank with interest at 8.13%, maturing June 20, 2009, secured by aircraft (1a)	238	223
Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate	214	204
Notes payable to a bank with interest at 12% at December 31, 2004, maturing May 31, 2005, secured by various property and equipment, repaid in full	6,500	
Convertible promissory notes payable to certain former stockholders of Trussco with interest at 5%, maturing in June 2007	3,000	1,000
Convertible promissory notes payable to certain former stockholders of Trussco, non-interest bearing, maturing in August 2005 (2c)		1,000
Other debt	86	42
Capital lease payable to leasing companies secured by vehicles	1,198	939
Capital lease payable to finance companies secured by various aircraft	9,100	941
Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, maturing May 13, 2008, unsecured		1,073
Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, maturing May 13, 2008, unsecured (2b)		1,073
Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, maturing May 13, 2008, unsecured (2b)		2,146
Term A notes payable to a finance company, variable interest rate at LIBOR plus 6.5% (9.61% at June 30, 2005), maturing May 18, 2010, secured by various equipment (1b) (2a)		17,935
Total	24,460	27,948
Less: current maturities	(11,608)	(4,840)
Long-term debt, less current maturities	$ 12,852	$ 23,108

(1)

As a result of the disposition of the Aviation Transportation Services segment (see Note 9 to the accompanying June financial statements), certain debts were repaid with proceeds from the sale:

(a) the entire balance of this note was repaid with proceeds from the sale of the Aviation Transportation Services segment during July 2005.

(b) $9.35 million of this note was repaid with proceeds from the sale of the Aviation Transportation Services segment during July 2005.

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(2) As a result of the closing of the Term B Loan, certain debts were repaid with proceeds from the Loan as follows:

(a) $3.4 million of this note was repaid with proceeds from the Term B Loan in August 2005

(b) the entire balance of these loans were repaid with a combination of proceeds from the Term B Loan ($1.5 million) and 750,000 shares Common Stock of the Company

(c) the entire balance of this loan was repaid with proceeds from the Term B Loan in August 2005

Line of Credit

Availability under the Line is the lower of: (i) $15.0 million or (ii) the sum of eligible accounts receivable, as defined under the Line agreement, plus the lesser of: $2.0 million or 80% of the appraised orderly liquidation value of eligible inventory of parts and supplies. The Line accrues interest at the prime interest rate plus 1.5% (8.0% at June 30, 2005) and matures in May 2010. The Line is collateralized by accounts receivable and inventory. As of June 30, 2005, we had $7.2 million outstanding under the Line. Due to the lockbox arrangement and the subjective acceleration clause of the Line agreement, the debt under the Line is classified as a current liability as required by EITF 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-box Arrangement.*

Senior Secured Loan

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

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

Capital Leases

Prior to June 30, 2005, we had several capital leases for aircraft that generally have lease terms of 60 months at inception of the lease. Aircraft leases either contain a bargain purchase option at the end of the lease or a balloon amount due that can be refinanced over 36 months. We have historically acquired all of our aircraft that have been financed through capital leases. From time to time, we may acquire an aircraft through cash flows from operations or through the Line, which is then sold to a financing company and leased back to us. These sales and lease back transactions are recorded as a capital lease and gains and losses incurred on the sale are deferred and amortized over the life of the lease term or the asset, whichever is shorter. These leases were paid in full with proceeds from the Term A Loan (see Senior Credit Facility below). As mentioned in Recent Events, we executed a definitive agreement to sell the equipment and related assets of our Aviation Transportation Services segment for a cash price of $11.0 million on June 30, 2005. The aircraft, which were held under capital lease at December 31, 2004, were sold in that transaction.

We also lease several vehicles used in our seismic drilling operations under 40-month capital leases.

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Total cost and accumulated depreciation of aircraft and vehicles held under capital leases is as follows (in thousands):

	December 31, 2004	June 30, 2005
Aircraft	$ 10,009	$
Vehicles	2,117	2,101
	12,126	2,101
Less: Accumulated depreciation	(1,154)	(963)
Capitalized cost, net	$ 10,972	$ 1,138

Depreciation expense for the years ended December 31, 2002, 2003 and 2004 was approximately $0.1 million, $0.3 million and $0.7 million, respectively, for all assets held under capital lease. Depreciation expense for the six months ended June 30, 2005 and 2004 was approximately $0.1 million and $0.3 million, respectively, for all assets held under capital lease.

See Recent Events for a discussion of the sale of our Aviation Transportation Services segment.

Convertible Debentures

Pursuant to a Securities Purchase Agreement dated February 12, 2004, we issued (i) $10,000,000 in principal amount of 3-year, 6.5% fixed rate, Convertible Debentures (the Initial Debentures) that are convertible into shares of common stock at an initial conversion price of $7.15 per share, (ii) 1-year common stock Series A Warrants to purchase an aggregate of 700,000 shares of Common Stock at an initial exercise price of $7.15 per share and (iii) 5-year Common Stock Series B Warrants to purchase an aggregate of 390,000 shares of Common Stock at an initial exercise price of $8.50 per share. The warrants are not exercisable for a period of six months and one day after the issue date of such warrants and in no event will the exercise prices of such warrants be less than $6.15 per share. In accordance with APB Opinion No. 14, the warrants were valued at a fair market value of $0.9 million using the Black Scholes model. The value of these warrants were recorded as debt discount with a corresponding amount recorded to paid in capital at the date of issuance. The issuance of the Initial Debentures was made pursuant to a private placement in reliance on Section 4(2) of the Securities Act of 1933.

On April 15, 2004, in accordance with the Securities Purchase Agreement, we issued (i) $5,050,000 in principal amount of 3-year, 6.5% fixed rate, Convertible Debentures (collectively with the Initial Debentures, hereinafter referred to as the Debentures) that are convertible into shares of common stock at an initial conversion price of $7.20 per share, and (ii) 5-year Common Stock Series A Warrants to purchase an aggregate of 151,500 shares of common stock at an initial exercise price of $9.00 per share. The warrants are not exercisable for a period of six months and one day after the issue date of such warrants and in no event will the exercise prices of such warrants be less than $7.11 per share. In accordance with APB Opinion No. 14, the warrants were valued at a fair market value of $0.2 million using the Black Scholes model. The value of the warrants and beneficial conversion feature were recorded as a debt discount with a corresponding amount recorded to paid in capital at the date of issuance. The issuance of the Debentures was made pursuant to a private placement in reliance on Section 4(2) of the Securities Act of 1933.

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

The debt discounts for the February 12, 2004 and April 15, 2004 debentures were $0.9 million and $0.2 million, respectively. The debt discounts are being amortized to interest expense using the effective interest method over

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the period in which the debentures can be put to us. A total of $0.9 million is included in interest expense and $0.2 million loss on extinguished debt related to the amortization of the debt discounts for the year ended December 31, 2004. The debt discounts have been fully expensed as of December 31, 2004, thus there is no amortization of debt discounted for the six months ended June 30, 2005.

Prior to maturity of the Debentures, the holders of the Debentures have the right to require the repayment or conversion of up to an aggregate of $13.17 million of the Debentures (the Put Option). We registered 5,012,237 shares, effective June 30, 2004, covering the common stock that may be issuable pursuant to the conversion of the Debentures and the exercise of the Put Option and all associated warrants, including additional shares that may be issuable due to adjustments for conversion price upon the Debenture conversion, payment of interest with shares and/or the exercise of warrants due to subdivision or combination of our common stock. Pursuant to the Debenture agreement, the registration of the related common stock triggered the ability of the Debentures holders to exercise the Put Option in ten consecutive non-cumulative and equal monthly installments equal to 8.75% of the face value of the Debentures ($1,316,875) beginning August 1, 2004. Accordingly, the Debentures, net of debt discount, were classified as a current liability in the Consolidated Balance Sheet at December 31, 2004. We received, and redeemed for cash, notices from the holders of the Debentures exercising their Put Option for August, September and October 2004. Upon receipt of the Debenture Holders intent to exercise a Put Option, we have the irrevocable option to deliver cash or, if certain conditions set forth in the Debentures are satisfied, shares of our common stock. If we elect to pay the Put Option with common stock, the underlying shares will be valued at a 12.5% discount to the average trading price of our common stock for the applicable pricing period, as defined in the Debenture agreement. The number of shares we would deliver is equal to the value of the Put Option installment due divided by the fair market value of our common stock for the applicable pricing period discounted at 12.5%.

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

On October 8, 2004, we entered into an Amendment and Conditional Waiver Agreement (the Amendment) with the holders of the Debentures. Under the terms of the Amendment, the Debenture holders granted us, among other things, the right to pre-pay in cash all, but not less than all, of the outstanding Debentures held by each holder on or prior to November 15, 2004. In exchange for such right, we agreed to allow the holders of the Debentures to convert $2,000 of the principal amount of the April 15, 2004 Debentures into 200,000 shares of common stock at a revised conversion price of $0.01 per share. As a result of this conversion and in accordance with the requirements of SFAS No 84, *Induced Conversions of Convertible Debt, an amendment to APB Opinion No. 26,* we recorded $0.9 million in debt conversion expense in 2004.

On January 25, 2005, we filed suit in United States District Court, Western District of Louisiana (the 16(b) litigation) against the holders of our 6.5% Subordinated Convertible Debentures and other third parties (collectively, the Debenture Holders). The suit alleges violations by the Debenture Holders pursuant to Section 16(b) of the Securities Exchange Act of 1934. We believe the Debenture Holders acted together for the purpose of illegally acquiring, holding, voting or disposing our equity securities during relevant time periods and have exerted an adverse group influence on the Company and our equity securities. The suit sought the disgorgement of profits realized by the Debenture Holders from their purchases and sales of our common stock.

On February 25, 2005, one of the Debenture Holders, Portside Growth and Opportunity Fund (Portside) notified us of certain alleged events of default under the 6.5% Subordinated Convertible Debentures issued to Portside (the Portside Debentures). As a result of these alleged events of default, Portside demanded that we redeem all of the Portside Debentures held by it, in the aggregate principal amount of $2,765,625, on March 2, 2005. Portside also notified us of its intention to commence a civil action against us to obtain a judgment with respect to all amounts owed to it under the Portside Debentures.

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On May 18, 2005, we entered into settlement agreements (Debenture Settlement Agreements) with each of the Debenture Holders in exchange for our dismissal of the lawsuit filed against the Debenture Holders. Under the terms of the Debenture Settlement Agreements, we agreed to (i) pay the Debenture Holders approximately $4.0 million cash; (ii) immediately issue the Debenture Holders 2.0 million shares of our common stock at an agreed upon value of $3.4 million; and, (iii) issue the Debenture Holders approximately $4.3 million of unsecured, subordinated promissory notes (Subordinated Debenture Notes). The Company recorded a gain on debt extinguishment of approximately $200,000 upon closing these transactions. The Subordinated Debenture Notes will be paid quarterly, with interest in arrears, over 36 months in level payments with interest accruing at the rate of 8% per annum. Execution of the Debenture Settlement Agreements extinguishes the terms of the original Debentures and releases all parties from any claims related thereto.

On August 29, 2005, upon closing of the Term B Loan, approximately $3.3 million of the Subordinated Debenture Notes were repaid in full with $1.5 million cash and 750,000 shares of the Company s common stock.

Senior Credit Facility

On May 18, 2005, we completed a $50 million equipment term financing facility (Term A Loan) and increased our Line to $15 million from its previous level of $12 million. Under the terms of the Term A Loan, funding will be limited to the lesser of $50 million and the sum of (i) 85% of the orderly liquidation value of our aviation fleet; (ii) 75% of the orderly liquidation value of our seismic drilling and environmental equipment; and (iii) 50% of the fair market value of certain real estate. Proceeds from the Term A Loan were used to re-finance certain long-term debt, provide working capital and establish funding necessary to complete various strategic transactions under consideration. The Term A Loan matures in May 2010 and will be repaid in equal payments of up to a 50% balloon at maturity date, with interest, paid in arrears and accruing at the initial annual interest rate of 30-day LIBOR plus 6.5% (9.61% at June 30, 2005). Upon the completion of the sale of the aviation transportation services segment, the total borrowing base under the Term A Loan was reduced to $30.0 million. Proceeds from the sale of the Aviation Transportation Services segment were used to pay approximated $9.35 million on the Term A Loan during July 2005, leaving an outstanding balance of approximately $8.6 million. Additionally, a portion of the proceeds from the Term B Loan were used to reduce the balance of the Term A Loan to approximately $5.0 million in August 2005.

Junior Credit Facility

On August 29, 2005, we completed a $25 million multiple draw term credit facility. Under the terms of the Term B Loan, borrowings will be done through advances at the request of the Company in minimum amounts of $2 million. Quarterly payments in the amount of $0.175 million, plus interest, will begin on April 1, 2008 and the Loan matures in August 2010 and accrues interest at the rate of LIBOR plus 8%. The proceeds from the Term B Loan were used to (i) reduce the current outstanding balance under the Company s Term A senior debt by $3.4 million; (ii) retire approximately $3.3 million of 8% Subordinated Debenture Notes with a payment of $1.5 million cash and the issuance of 750,000 shares of our common stock; (iii) retire $2 million of certain Subordinated Notes with a payment of $1 million cash and the issuance of 200,000 shares of common stock; and (iv) provide working capital and funds necessary for potential strategic transactions.

Trussco Notes

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

On May 18, 2005, we entered into early debt extinguishment agreements (Debt Extinguishment Agreements) with respect to $2.0 million of the Stockholder Notes and $1.0 million of the Earnout Note more fully described in

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Note 4. Under the terms of the Debt Extinguishment Agreements, we (i) immediately issued 0.2 million shares of our common stock; and (ii) paid certain holders of the Stockholder Notes $1.0 million on or before August 16, 2005, in full and complete satisfaction of $2.0 million of the Stockholder Notes and $1.0 million of the contingent Earnout Note. The Company recognized a gain on debt extinguishment of $0.3 million upon closing the transaction.

At June 30, 2005, the Company has $1.0 million of Stockholder Notes outstanding bearing interest at 5% and maturing in June 2007 and $1.0 million of non-interest bearing notes, which was paid by August 16, 2005. At June 30, 2005, the Company also has outstanding a $2.0 million contingent Earnout Note payable. See Trussco Earnout below.

Going concern

The accompanying consolidated financial statements have been prepared assuming we will continue on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have suffered a significant loss from operations during the current year, has a working capital deficit, is currently in default on certain of its debt instruments, and will require capital funding from sources other than operations to meet its current debt obligations. In the past two years, we have been required to raise additional capital by the issuance of both equity and debt instruments. There are no commitments from funding sources, debt or equity, in the event that cash flows are not sufficient to fund ongoing operations or other cash commitments as they come due. These factors raise substantial doubt about our ability to continue as a going concern. Management will be required to raise additional capital in the near term through offerings of equity or debt securities to fund our debt service obligations and operations. No assurance can be given that such financing will be available or, if available, that it will be on commercially favorable terms. Moreover, available financing may be dilutive to current investors.

As more fully described herein, we have secured additional capital from institutional investors and certain stockholders and key managers. Management believes this capital, used in conjunction with cash flows from operations, will be adequate to fund our current debt service obligations and serve to mitigate the factors that have raised doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should we be unable to continue as a going concern.

Related party transactions

During the years ended December 31, 1999, 2000 and 2001, we privately placed with an affiliate subordinated debentures totaling $7.5 million, $3.4 million and $1.5 million, respectively. The debentures matured five years from their date of issue and accrued interest at various rates ranging from a fixed rate of 12% per annum to a variable rate of interest starting at 12% per annum and escalating to 20% per annum. In October 2000, we agreed to convert $4.6 million of the subordinated debentures into our Series A Preferred Stock. In May 2001, we agreed to pay the affiliate $3.0 million cash plus issue to the affiliate $4.6 million of our Series B Preferred Stock in satisfaction of all of the remaining outstanding subordinated debentures, including accrued interest of $1.8 million. This transaction resulted in the affiliate agreeing to forgive $1.0 million of indebtedness, which was reflected as a capital contribution from the affiliate (See Note 5 to the accompanying June financial statements included herein for the accounting for preferred stock). In February 2004 and April 2004, we issued $10 million and $5.05 million, respectively, of 6.5% Subordinated Convertible Debentures (See Note 3 to the accompanying June financial statements included herein). The proceeds were used to redeem $8.2 million of the Series A Preferred Stock outstanding, including accrued dividends. The remaining 25 shares of Series A Preferred Stock were redeemed in April 2004 for $0.03 million. At December 31, 2004 there were no shares of Series A Preferred Stock outstanding. During the first quarter of 2004, we redeemed 2,286 shares of the Series B Preferred Stock for $2.4 million, including accrued dividends. In April 2004, we redeemed 2,285 shares of the total of 2,314 shares of the Series B Preferred Stock outstanding for $2.5 million, including accrued dividends. At June 30, 2005, 29 shares of Series B Preferred Stock remain outstanding.

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

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

During 2003, in order to facilitate a settlement of ongoing litigation between certain of our affiliates, we agreed to re-price and extend the maturity dates of certain warrants owned by the defendant affiliates but transferred in settlement of the litigation to the plaintiff affiliates. The exercise prices of the transferred warrants ranged from $2.25 - $6.00 per share. The maturity dates of the transferred warrants ranged from November 1, 2004 to July 1, 2005. The transferred warrants were re-priced at $1.54 per share and the maturity dates were extended to November 1, 2006. Our statement of operations includes a non-recurring charge of approximately $0.1 million representing the differences in the fair market value of the originally issued warrants and the re-priced warrants. In 2004, all re-priced warrants were exercised.

On May 17, 2005, we entered into a Securities Purchase Agreement with certain of the Company s affiliates and executive officers to issue up to $5.0 million of Series C 9% Convertible Preferred Stock in conjunction with the completion of the Senior Credit Facility more fully described above. Our Series C 9% Convertible Preferred Stock is convertible into our common stock at a conversion price of $1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between $1.95 and $3.50 per share. The transactions contemplated by the Securities Purchase Agreement closed in two tranches. On May 17, 2005, the closing date of the first tranche, the Company issued an aggregate of 3,500 shares of Series C Preferred Stock and warrants to acquire 4,585,000 shares of the Company s common stock, in exchange for $3,500,000. The second tranche closed on August 29, 2005, at which time the remainder of the Series C Preferred Stock and warrants were issued generating proceeds of $1.5 million and we granted the remaining 1,965,000 warrants.

During the three month periods ended March 31, 2005 and December 31, 2004, two of our executives deferred receipt of salary totaling $120,000 and $37,000 respectively. Beginning in the quarter ended June 30, 2005, the Company paid $120,000 toward this liability. At June 30, 2005 and December 31, 2004, the total amount owed to these two executives was $37,000 at the end of each period.

CRITICAL ACCOUNTING POLICIES

Use of Estimates

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

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

We extend credit to customers and other parties in the normal course of business. We regularly review outstanding receivables, and provide for estimated losses through an allowance for doubtful accounts. In

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evaluating the level of established reserves, we make judgments regarding the parties ability to make required payments, economic events and other factors. As the financial condition of these parties change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful account may be required. Due to the nature of our industry, we may periodically have concentration of credit risks. As a result, adjustments to the allowance for doubtful accounts may be significant.

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

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

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

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

Stock Based Compensation

We account for employee stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, *Accounting for Stock Issued to Employees* (Opinion No. 25). Accordingly, the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation,* permits the continued use of the method prescribed by Opinion No. 25, but requires additional disclosures, including pro forma calculations of earnings and net earnings per share as if the fair value method of accounting prescribed by SFAS No. 123 had been applied. As required by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure,* which amended SFAS No. 123, a table illustrating the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation is presented in Note 1 of the accompanying financial statements included herein.

Discontinued Operations

In accordance with Accounting for the Impairment and Disposal of Long-Lived Assets (SFAS No. 144), we are accounting for the Brazoria market as a separate unit within AHI and have accounted for our exit from this market as discontinued operations in 2004. On June 30, 2005, the Company executed a definitive agreement to sell the equipment and related assets of our Aviation Transportation Services segment for a cash price of $11.0 million. The transaction was finalized on July 29, 2005. The proceeds were used to repay advances under the Company s Term A Loan and for additional working capital. See Note 9 of the accompanying June financial statements included herein.

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In order to facilitate comparability between the periods, the revenues and expenses of the Aviation Transportation Services segment have been reclassified to income (loss) on discontinued operations in the accompanying financial information for the years ended December 31, 2000 through 2004 and for the six month period ended June 30, 2004. There was no effect on net income (loss) as a result of the reclassifications.

Impairment Of Long-Lived Assets And Assets Held For Sale

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

Assets held for sale are recorded at the lower of their net book value or their net realizable value, which is determined based upon an estimate of their fair market value less the cost of selling the assets. An impairment is recorded to the extent that the amount that was carried on the books is in excess of the net realizable value. Assets held for sale at June 30, 2005 are comprised of eight marsh buggies and two navigation systems. In addition, at June 30, 2005, the assets of the discontinued Aviation Transportation Services segment are included in assets held for sale in the amount of $11.0 million. See Note 9 of the accompanying June financial statements included herein for additional information. Three helicopters held for sale at December 31, 2004 totaling $3.5 million were disposed of during the three months ended March 31, 2005 generating proceeds of $573,000 and the extinguishment of lease obligations of approximately $2.9 million. An impairment loss of $0.6 million related to these helicopters was recognized during the year ended December 31, 2004 and there was no gain or loss recorded upon their disposition.

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

COMMITMENTS AND OBLIGATIONS

Trussco Earnout

In connection with the acquisition of Trussco, we issued to certain former stockholders of Trussco a promissory note (Earnout Note) that will earn interest at a rate of 5% per annum of the amount owed. Under the terms of the Earnout Note, we agree to pay these stockholders on or before June 30, 2007, the lesser of (i) the amount of $3 million, or (ii) the sum of the product of 3.12 times Trussco s average annual EBITDA (earnings before interest, taxes, depreciation and amortization) for the 36-month period ending December 31, 2006, less the sum of $9 million, plus the long-term and former stockholder debt existing as of June 30, 2004 of Trussco that we assumed, which totaled $1.5 million. At June 30, 2005, no amounts have been accrued under the terms of the Earnout Note as no amounts are owed.

On May 18, 2005, we entered into early Debt Extinguishment Agreements on $2.0 million of the Stockholder Notes and $1.0 million of the Earnout Note more fully described in Note 4 of our financial statements. Under the terms of the Debt Extinguishment Agreements, in full and complete satisfaction of $2.0 million of the Stockholder Notes and $1.0 million of the Earnout Note, we agreed to (i) immediately issue 0.2 million shares of our common stock; and, (ii) pay certain holders of the Stockholder Notes $1.0 million on or before August 16, 2005, in full and complete satisfaction of $2.0 million of the Stockholder Notes and $1.0 million of the Earnout Note. At June 30 2005, the Company has a $2.0 million contingent Earnout Note payable.

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Contractual Debt Obligations

We have the following contractual debt obligations as of June 30, 2005:

	Payments due by period			
	Total	Less than 1 Year	1-3 Years	After 3 Years
Long-term debt (1a) (1b) (2a)	$ 19,776	$ 1,923	$ 5,728	$ 12,125
Capital lease obligations	1,880	596	921	363
Line of credit (2d)	7,222	7,222		
Subordinated notes (2b)	4,292	1,321	2,971	
Subordinated notes former stockholders (2c)	2,000	1,000	1,000	
Insurance notes	1,043	1,043		
	$ 36,213	$ 13,105	$ 10,620	$ 12,488

(1) As a result of the disposition of the Aviation Transportation Services Segment, certain debts were repaid with proceeds from the sale:

(a) A note with a balance of $0.2 million which is included in this amount at June 30, 2005 was repaid with proceeds from the sale of the Aviation Transportation Services Segment during July 2005.

(b) $9.35 million of the Term A Loan included in this amount at June 30, 2005 was repaid with proceeds from the sale of the Aviation Transportation Services Segment during July 2005.

(2) As a result of the closing of the Term B Loan, certain debts were repaid with proceeds from the loan as follows:

(a) $3.4 million of the Term A Loan included in this amount at June 30, 2005 was repaid with proceeds from the Term B Loan in August 2005.

(b) $3.3 million of notes included in the amount at June 30, 2005 were repaid with a combination of proceeds from the Term B Loan ($1.5 million) and 750,000 shares of common stock of the Company in August 2005.

(c) $1.0 million of these loans was repaid with proceeds from the Term B Loan in August 2005.

(d) $2.4 million of this loan was repaid with proceeds from the Term B Loan in August 2005.

We have the following operating lease commitments as of June 30, 2005:

	Payments due by period ended June 30,		
	2006	2007	2008
Operating leases	$ 242	$ 160	$ 119

We believe that cash flow generated from operations in 2005 will be sufficient to fund our working capital needs, satisfy our debt service requirements and contractual commitments, and fulfill our un-financed capital expenditure needs for at least the next 12 months.

Off balance sheet arrangements

We currently have no off balance sheet arrangements.

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Recently issued unimplemented accounting pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payment* (as amended, SFAS No. 123(R)). SFAS No. 123(R) will require companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. In addition, the adoption of SFAS No. 123(R) requires additional accounting and disclosure related to the income tax and cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective beginning as of the first interim reporting period for fiscal years beginning after December 15, 2005. We are in the process of determining the impact of the requirements of SFAS No. 123(R). We believe it is likely that the financial statement impact from the implementation of the requirements of SFAS No. 123(R) will significantly impact our future results of operations and we continue to evaluate it to determine the degree of significance.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29 Accounting for Nonmonetary Transactions* (SFAS No. 153). SFAS No. 153 is effective for fiscal years beginning after June 15, 2005. It addresses the measurement of exchange of nonmonetary assets and eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, and replaces it with an exception for exchanges that do not have commercial substance. The adoption of SFAS No. 153 is expected to have no impact on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 30* (SFAS No. 154). This statement changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Adoption of SFAS No. 154 is expected to have no effect on our consolidated financial statements.

Changes in and disagreements with accountants on accounting and financial disclosure

Our consolidated financial statements for the year ended December 31, 2002 were audited by Ernst & Young. On August 11, 2003, we dismissed Ernst & Young as our independent public accountants and on August 11, 2003 engaged Fitts Roberts & Co., P.C. (Fitts Roberts) as our independent public accountants for the fiscal year ending December 31, 2003. These actions were approved by our Board of Directors.

Our consolidated financial statements for the year ended December 31, 2003 were audited by Fitts Roberts. On July 12, 2004, we dismissed Fitts Roberts as our independent public accountants. On July 12, 2004, we engaged BDO Seidman, LLP (BDO) as our independent public accountants. These actions were approved by our Board of Directors.

BDO resigned on February 17, 2005, prior to commencement of work on the audit of our consolidated financial statements for the year ended December 31, 2004. On February 24, 2005, we engaged Pannell Kerr Forster of Texas, P.C. (PKF) as our independent accountants to audit our consolidated financial statements for the year ended December 31, 2004. The decision to engage PKF as our independent accountants was made by the Audit Committee of our Board of Directors.

BDO reviewed our consolidated financial statements during the quarters ended June 30, 2004 and September 30, 2004. BDO did not provide a report on our financial statements for either of the past two years nor did we consult with them on any matters.

During the period beginning July 12, 2004 through the date of their resignation, there were no disagreements with BDO on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or

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procedure, which disagreements, if not resolved to the satisfaction of BDO, would have caused it to make reference to the subject matter of the disagreements.

During the period beginning July 12, 2004 through the date of BDO s resignation, there were no reportable events as defined in Item 304 (a) (1) (v) of Regulation S-K requiring disclosure pursuant to Item 304(a)(1)(v) of Regulation S-K. As used herein, the term reportable event means any of the items listed in paragraphs (a) (1) (v) (A)-(D) of Item 304 of Regulation S-K.

During the two-year period ended December 31, 2004 and the subsequent interim period prior to PKF s engagement, neither we nor anyone on our behalf has consulted with PKF regarding: (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on our financial statements, and neither a written report was provided to us nor oral advice was provided that PKF concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement or a reportable event.

Quantitative and qualitative disclosures about market risk

Interest rate risk

We are exposed to interest rate risk due to changes in interest rates, primarily in the United States. Our policy is to manage interest rates through the use of a combination of fixed and floating rate debt. We currently do not use any derivative financial instruments to manage our exposure to interest rate risk. The table below provides information about the future maturities of principal for outstanding debt instruments at June 30, 2005. All instruments described are non-traded instruments and approximated fair value.

	June 30,				
	2006	2007	2008	2009	Thereafter
	(dollars in thousands)				
Long-term debt:					
Fixed Rate	$ 2,404	$ 2,493	$ 1,615	$ 60	$ 194
Average interest rate	6.80%	6.81%	8.02%	8.08%	8.05%
Variable Rate	$ 1,840	$ 1,843	$ 1,845	$ 1,848	$ 11,931
Average interest rate	9.55%	9.55%	9.55%	9.54%	9.38%
Short-term debt:					
Fixed Rate	$ 7,222				
Average interest rate	8.00%				
Variable Rate	$ 1,043				
Average interest rate	6.43%				

Interest rate exposure

Our exposure to changes in interest rates primarily results from our long-term debt with both fixed and floating interest rates. The debt on our consolidated financial statements with fixed interest rates totals $35.8. At December 31, 2004, 9% of our consolidated long-term debt was subject to variable interest rates. The detrimental effect of a hypothetical 100 basis point increase in interest rates would be to increase net loss before provision for income taxes by approximately $0.1 million for the year ended December 31, 2004.

Our exposure to changes in interest rates primarily results from our long-term debt with both fixed and floating interest rates. The debt on our consolidated financial statements with fixed interest rates totals $14.0 million. At June 30, 2005, 59% of our consolidated long-term debt was subject to variable interest rates. The detrimental effect of a hypothetical 100 basis point increase in interest rates would be to increase net loss before provision for

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income taxes by approximately $0.1 million for the six months ended June 30, 2005. For more information, please read the consolidated financial statements and notes thereto included herein.

Foreign currency risks

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

Business and properties

General

OMNI Energy Services Corp. is an integrated oilfield service company specializing in providing a range of (i) onshore seismic drilling, operational support, permitting, survey and helicopter support services to geophysical companies operating in logistically difficult and environmentally sensitive terrain and (ii) dock-side and offshore non-hazardous oilfield waste management and environmental cleaning services, including tank and vessel cleaning and safe vessel entry, for oil and gas companies operating in the Gulf of Mexico. See our website at www.omnienergy.com for more information about the Company and recent events.

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

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

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

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

Geophysical, L.L.C.

Industry overview

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

Oil and gas companies generally contract with independent geophysical companies to acquire seismic data. Once an area is chosen for seismic analysis, permits and landowner consents are obtained, either by us, by the geophysical company or by special permitting agents. The geophysical company then determines the layout of the source and receiving points. For 2-D data, the typical configuration of source and receiving points is a straight line with a source point and small groups of specialized sensors (geophones) or geophone stations placed evenly every few hundred feet along the line. For 3-D data, the configuration is generally a grid of perpendicular lines spaced a few hundred to a few thousand feet apart, with geophone stations spaced evenly every few hundred feet along one set of parallel lines, and source points spaced evenly every few hundred feet along the perpendicular lines. This configuration is designed by the geophysical company to provide the best imaging of the targeted geological structures while taking into account surface obstructions such as water wells, oil and gas wells, pipelines and areas where landowner consents cannot be obtained. A survey team then marks the source points and geophone locations, and the source points are drilled and loaded with dynamite.

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

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

Environmental Services. We provide specialized environmental cleaning and maintenance equipment and trained personnel to oil and gas companies operating in the Gulf Coast region of the United States. We also assist production operators in the maintenance and replacement of anodes, mist extractors, valves, glycol systems, chemical electric units and fire tubes. Our customer list includes more than 225 major and independent oil and gas companies operating in the Gulf of Mexico, but no single customer accounts for more than 10% of this business unit s revenues. The demand for our environmental services is directly impacted by offshore drilling and production activity in the Gulf of Mexico. Our dock side services are dependent upon the movement of vessels from offshore production platforms or drilling rigs which operate twenty-four hours a day, seven days a week, 365 days a year.

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

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Description of Operations

We provide an integrated range of services including (i) onshore seismic drilling, operational support, permitting, and surveying to geophysical companies operating in logistically difficult and environmentally sensitive terrain in the United States and (ii) dock-side and offshore non-hazardous oilfield waste management and environmental cleaning services, including tank and vessel cleaning and safe vessel entry for oil and gas companies operating in the Gulf of Mexico.

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

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

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

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

Permitting. We maintain a Geophysical Permit Acquisition Division. Our staff of contract permit agents first conducts research in public land title records to determine ownership of the lands located in the seismic projects.

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The permit agents then contact, negotiate and acquire permits and landowner consents for the survey, drilling and recording crews to conduct their operations. Throughout the seismic data acquisition process, the permit agents assist the crews in the field with landowner relations and permit restrictions in order to reduce field-crew downtime for noncompliance with landowner requests. Our permit services are enhanced with the assistance of a proprietary database software program specifically designed for efficient management of seismic projects.

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

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

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

Facilities and equipment

Facilities. Our corporate headquarters is located on 34 acres of land situated in Carencro, Louisiana. The building was constructed in 1998 and provides approximately 20,000 square feet of office space. It is located adjacent to our primary repair and maintenance facilities. Our environmental units operate from land and dock-side bases located along the Louisiana Gulf Coast.

Seismic drilling facilities. Our primary fabrication and maintenance facilities are situated in two buildings located adjacent to our corporate headquarters. The buildings, also constructed in 1998, provide approximately 32,000 square feet of covered maintenance and fabrication space.

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

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

Types of Equipment	Number of Units as of June 30, 2005
Highland Drilling Units (1)	75
Water Buggies	60
Aluminum Marsh ATV s	23
Stainless Steel Marsh ATV s (2)	8
Airboat-Drilling Units	40
Swamp ATV s	30
Pullboats	21
Pontoon Boats	15
Jack-Up Rigs	1
Skid-Mounted Drilling Units(3)	20
Heli-portable and Seismic Rock Drilling Equipment	20

(1) Sixteen of these drilling units are currently dedicated to seismic rock drilling operations outside of the Transition Zone.

(2) This equipment is currently held for sale (see Note 2 Property, Plant and Equipment to the accompanying June financial statements included herein).

(3) One of these drilling units is currently located outside of the Transition Zone.

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

Highland drilling units and water buggies. We currently own and operate 75 highland drilling units for seismic drilling in dry land areas, 16 of which are currently dedicated to our seismic rock drilling operations outside of the Transition Zone. These units generally consist of a tractor-like vehicle with a drilling unit mounted on the rear of the vehicle. This highland drilling unit can be driven over land from point to point and is accompanied by a unit referred to as a water buggy (of which we own 60) that carries water required for water pressure rotary drills. This type of vehicle is used around the world for this type of terrain.

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

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

We own and operate 31 marsh ATV s, of which eight are made of stainless steel and 23 are made of aluminum. All of the stainless steel marsh ATV s are currently held for sale. The aluminum ATV s are lighter than steel vehicles and are specifically designed for the environmentally sensitive areas typically found in marsh terrain. Landowner consents will often require the use of aluminum ATV s in an effort to reduce the environmental

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impact of seismic drilling. The aluminum marsh ATV is the most widely accepted marsh vehicle for drilling operations in all Louisiana s state and federal refuges. We fabricated our own aluminum marsh ATV s at our facilities in Carencro, Louisiana.

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

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

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

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

Skid-mounted drilling units. A skid-mounted drilling unit is a drilling unit mounted on I-beam supports, which allows the drilling unit to be moved easily between pullboats, pontoon boats, jack-up rigs and other equipment we operate based on customer needs. We manufacture our skid-mounted drilling units at our facilities in Carencro, Louisiana and we own 20 of these units, one of which is located outside of the Transition Zone.

Heli-portable and seismic rock drilling equipment. We have 20 heli-portable and man-portable drilling units dedicated to seismic rock drilling. We also have the ability to manufacture our own heli-portable and man-portable seismic rock-drilling units, and often export and provide servicing of heli-portable and man-portable drilling units.

Miscellaneous. We own and operate 88 single engine airboats and 21 outboard powered boats, which we use to ferry personnel and supplies to locations throughout the Transition Zone. We also maintain a fleet of five tractor-trailer trucks and numerous other trucks, trailers and vehicles to move our equipment and personnel to projects throughout the Transition Zone.

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