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Overview

The gold price rose for the tenth consecutive year driven by a recovery in key sectors of demand and continued global economic uncertainty. Not only was gold's performance strong, but its volatility remained low, providing a foundation for a well diversified portfolio.

Price trends

The price of gold rose 29% in 2010 to US\$1,405.50/oz by December-end, on the London PM fix. Gold returns were higher in euro and pound sterling terms, as ripples from the European debt crisis continued to be felt. Gold outperformed versus equities, treasuries and commodity indices while gold's price volatility fell to 16% during 2010, in line with its long-term average. **Read more...**

Investment trends

Investors bought 361 tonnes of gold in 2010 via ETFs, bringing total holdings to a new high of 2,167 tonnes, worth US\$98 billion. In the futures market, COMEX gold net long positions remained robust. Buy-side interest for OTC products in gold increased considerably during Q4 and full year 2010. Similarly, investment demand in bars and coins in North America, Europe, China, India and the Middle East remains high. **Read more...**

Market and economic influences

Gold benefitted from mixed economic news around the world as investors looked for alternatives to balance risk and performance in their portfolios. First, concerns over sovereign debt and expansions of quantitative easing pushed investors to hedge currency risks and find strategies to protect against tail risk. Second, strong economic growth in emerging markets has led to robust commodity demand as well as higher inflation. **Read more...**

Gold market trends

Preliminary reports suggest that key gold markets recovered in 2010 and that India is poised to have a strong rebound in 2010. In China, the gold market appears to have maintained its strong momentum. Gold use in technology continued to grow. European central bank sales remained negligible while the IMF completed its gold sales programme. Additionally, emerging market central banks continue to increase their gold reserves. **Read more...**

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Price trends

The price of gold rose for the tenth consecutive year in 2010, exhibiting a particularly strong performance during the second and fourth quarters of the year. This was partly due to investment activity as well as a recovery in sectors such as jewellery and technology. By 30 December, it had reached US\$1,405.50/oz, on the London PM fix, a 29.2% rise from year-earlier levels. Similarly, average prices during the year rose to US\$1,224.52/oz from US\$972.35/oz in 2009 (Chart 1).

During 2010, the price of gold rose to record levels on several occasions, trading as high as US\$1,420.00/oz on 7 December, on the London PM fix. Gold prices increased by 2.6%, 11.5%, 5.1% and 7.5% on Q1, Q2, Q3 and Q4 2010 respectively, on a quarter-on-quarter basis. The average gold price increased to US\$1,224.52/oz during 2010 from US\$972.32/oz the previous year. While the gold price has seen a modest pull back from its 2010 highs toward year-end and into January 2011, the move is by no means unprecedented or unusual. To put these movements into perspective, the price of gold fell by 3.7% between 7 December 2010, when gold reached its 2010 high on the London PM fix, and 14 January 2011, at the time of writing. This represents considerably less than a 1-standard deviation move for a given month, for which the average volatility has been 4.9% over the past 10 years.

Gold's long-term supply and demand dynamics and several macro-economic factors ensured gold remained a sought-after asset. First, concerns continued to be felt over the health of economic growth in developed countries, especially among European nations on the back of the sovereign debt crisis and possible contagions to other regions. As such, European investors have turned to gold as a hedge against currency risks. Second, extensions and expansions of quantitative easing measures by central banks in the US, UK and Japan continued to make gold an attractive investment. Moreover, pressure on the US dollar against various currencies coupled with higher inflation expectations in many countries, including India and China, pushed the price of gold up. Third, official sector activity continued to be supportive of the gold market as sales by European central banks remained negligible and the IMF

Chart 1: Gold price (US\$/oz), London PM fix

Source: The London Bullion Market Association

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concluded its limited gold sales programme, while in several emerging markets central banks continued to increase their gold reserves. Fourth, while data for Q4 2010 is still pending, jewellery consumption moved at a healthy pace during the first three quarters of the year. India, for example, is poised to reach tonnage levels seen prior to the global financial crisis. Similarly, Chinese consumption continued to grow at a considerable rate. Moreover, investment activity in those regions, driven partly by innovative new investment vehicles offering improved access to the gold market, continued to expand. Finally, gold usage in electronics and other technological applications remained a steady source of demand.

Developed markets

The price of gold reached new highs in most developed market currencies during 2010, the notable exception being the Australian dollar as shown in Table 1. However, gold's performance was the strongest in US dollar, euro and pound sterling terms during the year in general and Q4 2010 in particular. As the European debt crisis continued to unfold, investors in Europe used gold as a currency hedge. Similarly, a weak US labour market and monetary policies implemented by the Federal Reserve made gold an asset of choice for many investors, locally and externally. For example, during 2010, gold prices rose by 39.7%, 34.9% and 29.2% in euro, pound sterling, and US dollar terms respectively. On the other hand, currency appreciation in Switzerland, Japan, Australia and, to some extent, Canada made gold gains appear more modest, rising by about 15.0% in most cases. Moreover, as the Australian economy recovered strongly during 2010 and its currency appreciated against the US dollar, gold prices during 2010 did not surpass the record level of AU\$1,535.24/oz seen on 20 February 2009.

During 2010, markets in many developed countries experienced risk aversion and negative investor sentiment due to concerns about the prospects for weak economic growth. Consequently, while many financial assets exhibited a positive performance during the year, equities in the US and Europe showed only moderate gains. For example, the S&P 500 rose by 12.8% while MSCI World ex US Index (which is heavily weighted towards European equities) increased by 6.2%, in US dollar terms. Similarly, the performance of US Treasuries, as represented by the Barclays US Treasuries aggregate index was measured and rose only by 5.9% over the year. On the other hand, during 2010, the S&P Goldman Sachs Commodities Index (S&P GSCI) rose by 20.4%, as industrial demand started to improve in Germany and China. This was also evidenced by upward pressure on the price of oil which increased by 22.2% to US\$94.30/bbl by the end of December 2010 from US\$77.20/bbl the previous year.

On a risk-adjusted basis, gold had a stellar performance during 2010 relative to most assets that investors might hold in a portfolio (Chart 2). It considerably outperformed not only equity and commodity markets, but also assets such as US Treasuries which tend to have much lower volatilities. Beyond its strong price performance, gold's relatively low volatility and lack of correlation to many assets makes it an ideal candidate for portfolio diversification and risk management strategies.

Table 1: Gold performance – developed markets

	Last price			%	%	%
	31 Dec 2010	2010 max	2010 min	QoQ	YoY	Vol*
US\$/oz	1,405.50	1,421.00	1,058.00	7.5	29.2	16.1
GBP/oz	913.02	913.02	671.91	9.9	34.9	16.8
EUR/oz	1,059.71	1,070.97	758.42	10.4	39.7	17.3
CHF/oz	1,316.81	1,432.15	1,127.03	2.7	16.8	15.6
JPY/oz	114,885.57	118,243.40	94,489.98	5.3	14.4	18.1
CAD/oz	1,407.33	1,432.50	1,116.61	4.6	22.7	17.0
AUD/oz	1,388.29	1,509.94	1,196.30	2.6	14.2	17.4

* Annualised volatility based on daily returns.

Source: London Bullion Market Association, Bloomberg, WGC

Chart 2: Annualised return versus annualised daily return volatility for various assets; 12/31/09 – 12/31/10

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Note: For comparison purposes, gold performance was computed using 5pm EST prices.

Source: Bloomberg, Barclays Capital

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Many emerging market currencies gained ground on the US dollar during 2010, including the fourth quarter. Emerging market equities as measured by the MSCI Emerging Market equity index were up by 16.4% in US dollar terms, the best performance among international equity markets, largely driven by a healthier economic rebound in those economies.

While emerging equity markets experienced heavy capital inflows during the year, some developing economies currencies fared better than others. On the one hand, gold prices rose higher in Turkish lira and Russian rouble terms, by 30.4% and 33.1% respectively, as a combination of extreme weather events and their trading links with Europe had a negative impact on those currencies versus the US dollar (Table 2).

On the other hand, as the South African rand and, more modestly, the Indian rupee and Chinese yuan appreciated against the US dollar, gold prices in these currencies were up by 16.6%, 23.9% and 25.0% respectively. Indeed, similar to the Australian dollar, gold prices in South African rand terms during 2010 did not breach the record high of R.10,011.00/oz set in early 2009. This was due, in part, to currency appreciation in these countries, which are large commodity producers, on the back of strong global commodity demand. In India, gold prices averaged Rs. 1,741.50/g (approx. Rs. 56,000.00/oz) during the year and Rs. 1,908.25/g (Rs. 61,350.00/oz) during Q4 2010. In China, a moderate 3.2% appreciation of the yuan versus the US dollar during the year meant that Chinese consumers did not see the gold price climb as much as their US counterparts. Overall, currency appreciation coupled with consistent economic growth in India and China, has sustained demand for gold not only in the jewellery sector, but also as an investment vehicle especially as inflation creeps up.

Table 2: Gold performance emerging markets

	Last price			%	%	%
	31 Dec 2010	2010 max	2010 min	QoQ	YoY	Vol*
RUB/oz	42,966.14	44,204.60	32,323.29	7.4	30.4	16.5
TRY/oz	2,184.43	2,196.72	1,609.55	15.4	33.1	17.2
CNY/oz	9,277.42	9,441.12	7,223.07	6.1	25.0	15.8
INR/oz	63,022.62	63,608.41	49,435.05	7.2	23.9	15.5
ZAR/oz	9,367.52	9,811.51	8,033.58	2.7	16.6	17.0

* Annualised volatility based on daily returns.

Source: LBMA, Bloomberg, WGC

Commodity performance

As sentiment improved among consumers and investors in developing economies and certain developed markets, demand for commodities rose during 2010. Consequently, commodity prices increased, in most cases posting double-digit returns during the year. Notably, low inventory levels and ever increasing demand from China, which contributes a 40% share of total demand for a number of industrial metals, had a positive effect on price. The fourth quarter was no exception and commodity prices followed a similar trend as was seen during the first three quarters of the year.

During 2010, palladium and silver were the best performing commodities, rising by an impressive 96.6% and 80.3% respectively. Other metals with a high degree of exposure to industrial demand rose significantly: tin, nickel and copper rose by 61.2%, 35.0%, and 32.6% respectively, from year-earlier levels. Only zinc dropped 5.3% during the year. Gains in precious metals such as gold (29.5%) and platinum (20.9%) were robust. Extreme periods of drought and flood, lower than expected crop yields and sustained high Chinese consumption kept agricultural commodities well bid, and the S&P Goldman Sachs Agricultural Index increased by 34.2%. Livestock prices, as measured by the S&P Goldman Sachs Livestock Index, rose by a modest 10.5% during the year. See Table 3.

Table 3: Commodities returns and volatility

% QoQ **% YoY** **% Vol***

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Gold London PM fix (US\$/oz)	7.5	29.2	16.1
Silver London fix (US\$/oz)	38.8	80.3	32.9
Palladium (US\$/oz)	41.7	96.6	35.6
Platinum (US\$/oz)	6.8	20.8	19.8
Aluminum (US\$/t)	6.3	11.4	26.3
Copper (US\$/t)	20.9	32.6	27.4
Lead (US\$/t)	14.4	8.0	38.2
Nickel (US\$/t)	6.7	35.0	35.9
Tin (US\$/t)	9.4	61.2	30.0
Zinc (US\$/t)	11.8	-5.3	35.6
Brent crude oil (US\$/bbl)	15.8	22.2	28.4
S&P GS Commodity Index	15.7	20.4	20.8
S&P GS Agriculture Index	25.0	34.2	24.1
S&P GS Livestock Index	2.6	10.5	12.7
DJ UBS Commodity Index	15.8	16.8	17.0
R/J CRB Commodity Index	16.1	17.6	16.8

* Annualised volatility based on daily returns.

Source: Bloomberg, WGC

1 The VIX Index is a popular measure of the implied volatility and is a weighted-average of prices for a range of options at different strike prices on the S&P 500 Index.

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Price volatility

In general, equity market volatility fell during the second half of 2010, following the highly volatile period experienced during Q2 2010 at the height of the European sovereign debt crisis. However, throughout the year, market participants did react strongly to economic and financial news including developments centred on the European sovereign debt crisis, inflation in emerging markets, and concerns over global economic growth. As a consequence, equity market risk by the end of 2010, as measured by the VIX index,¹ remained higher than levels seen at the beginning of the year as seen in Chart 3.

For the gold market, a measured price appreciation translated into lower realised volatility during the year. The annualised gold volatility in 2010 was 16.1% compared to 21.4% the previous year, similar to its historical trend of 15.8% over the past 20 years. However, in line with other commodities, gold prices saw a moderate increase in volatility during Q4 2010 to 17.8% from a multi-year low of 13.0% the previous quarter, on an annualised basis. In particular, volatility rose during October and November as the Federal Reserve announced its QE2 programme and the state of finances in Ireland and its potential spill-over to other European nations made headlines. By the end of December, however, activity had normalised and realised one-month (22-day) volatility had moved down to 13.8%. Gold is a unique asset among commodities for many reasons. In particular, gold remained, on average, one of the least volatile of the commodities that WGC monitors (Chart 4). Volatility on the S&P Goldman Sachs Commodity Index was 20.8% during the year, based on daily returns, compared to 16.1% for gold. Only livestock had lower realised volatility than gold at 12.7% during 2010. Zinc, palladium, nickel and lead were the most volatile commodities consistently during the year, all having average volatilities of more than 35.0%. Most other commodities had volatilities over 20.0%, including crude oil with an annualised volatility of 28.4%.

Chart 3: Gold and S&P GS Commodity Index annualised price volatility (22-day rolling, %) and the VIX Index (level)

Source: Bloomberg, WGC

Chart 4: Annualised daily volatility during 2010 for selected commodities

Source: IHS Global Insight, WGC

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Investment trends

Investors continued to access the gold market in multiple ways during 2010. Exchange traded funds (ETFs) were a popular choice among investors and they continue to flourish in various parts of the world. Coin and bar purchases remained high while the over-the-counter (OTC) market was very active and has seen an increase in demand for index-based and other innovative investment vehicles.

Exchange traded funds

Net inflows into gold via exchange traded funds (ETFs) and similar investment vehicles remained robust during 2010. The gold-backed ETFs that the World Gold Council (WGC) monitors saw net inflows of 361.0 tonnes during 2010, the second largest on record after the 617.0 tonnes of net inflows experienced during 2009 (Chart 5). This brought total holdings to a new high of 2,167.4 tonnes by 31 December 2010, worth US\$98 billion at the year-end gold price as investors saw in gold an invaluable asset for risk management and hedging purposes.

SPDR Gold Shares (GLD) listed on the NYSE and cross-listed in Mexico, Singapore, Tokyo and Hong Kong experienced net inflows of 147.1 tonnes in 2010, especially driven by strong buying during Q2. This brought its total assets under management to 1,280.7 tonnes of gold by year-end. It was followed by ETFS Physical Gold Shares, the second largest gold-backed ETF, which added a collective 56.6 tonnes across its listings in the US, London and Switzerland, bringing its total holdings to 165.1 tonnes. Similarly, ZKB Gold ETF, listed in Switzerland, and iShares Gold Trust (IAU), listed on the NYSE, added 42.5 and 37.8 tonnes of gold respectively, during the year. Only JSE-listed New Gold ETF experienced outflows larger than 1 tonne of gold during the year. This illustrates that ETFs have become a convenient and cost-effective route to access gold for investors in multiple markets.

Notably, in India, gold ETFs (the majority of which are currently wholly backed by gold bullion, but can also contain a percentage of derivative contracts) also grew significantly during 2010 to approximately 15 tonnes by the end of December. Following a similar trend, a fund of funds investing in offshore ETFs was introduced in early January under the Qualified Domestic Institutional Investors (QDII) programme.

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Chart 5: Gold ETF holdings in tonnes and the gold price (US\$/oz)

Note: Gold holdings are as reported by the ETF/ETC issuers. Where data is unavailable, holdings have been calculated using reported AUM numbers.

Source: Respective ETF/ETC providers, Bloomberg, LBMA, WGC

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ETF options

While the ETF market has seen an increase in option trading as of late, adding depth to the ETF market, the majority of the volume is still being transacted on GLD. In turn, GLD options activity remained high throughout 2010, particularly rising during Q4 2010, partly as levered plays as well as hedging vehicles. Average daily volume in 2010 was 208,130 contracts approaching the previous record volume of 214,000 contracts seen in Q4 2009. By the fourth quarter of 2010, GLD daily option volume had risen to 257,600 contracts, especially driven by activity observed by the end of October and beginning of November, as markets prepared for the size and timing of QE2. Indeed, call option volume rose more than put volume during the fourth quarter as investors were quantifying the negative impact on the US dollar following QE2 and its subsequent positive effect on gold. Trading volume subsided by year-end, and went back to the daily 2010 average of 208,000 contracts in December. In line with its historical performance, open interest on call options accounted for the majority of traded contracts, at an average of 2.4 million contracts during the year, compared to 1.7 million put contracts; however, open interest in put options experienced the largest overall gain, as investors likely positioned to lock in gains as the gold price trended higher throughout 2010.

Realised 60-day GLD volatility followed the same pattern as gold-price volatility, reaching an all-time low of 10.2% by the end of Q3 2010 and rising again to 18.1% by the end of Q4. The 3-month ATM (at-the-money) implied GLD volatility, on the other hand, traded in a range between 17.1% and 25.8% during 2010. The spread of 3-month implied volatility had almost disappeared by the end of December, suggesting that demand in the options market for protection against volatility in the gold market had normalised from Q3 2010 levels.

Gold futures

COMEX total non-commercial and non-reportable net long positions, a measure of more speculative investment demand, remained robust during 2010. The net long hovered around 26.3 million ounces (818.1 tonnes) in 2010, very similar to the 26.0 million-ounce average seen throughout H2 2009 (Chart 6). In general, a healthy net long level supports the view that many investors continue to see value in the gold trade. Net long positions in the fourth quarter of 2010 increased by 6.9% relative to the third quarter, as long-only positions outnumbered their short-only counterparts. However, on a percentage basis, short-only positions increased the most, rising 17.3% on average during Q4 2010 relative to the previous quarter; long-only contracts had a more modest 8.9% increase during the same period as some investors sought to benefit from year-end profit taking on the gold market.

Over-the-counter market

According to research carried out by GFMS on behalf of the WGC, activity in the over-the-counter (OTC) market was robust throughout 2010, similar to the pattern observed in other sectors of investment demand. In particular, the OTC market surged in Q4 2010, with some substantial long positions being taken recently. However, some reports show investors switched from long to short positions when gold breached the US\$1,400.00/oz mark. Nevertheless, the overall net impact of the OTC flows is considered, on balance, to have had a positive influence on the physical market and contributed to gold's performance during the quarter and the year. GFMS analysis suggests that many investors shifted into the OTC market during Q4 from the ETF and futures market.

In general, demand for gold derivatives in the OTC market was particularly strong during the fourth quarter, as investors sought to gain leveraged exposure in a rising price environment. Demand for allocated metal accounts also grew. Moreover, in addition to inflows into spot, forward and vanilla derivative products in gold, demand increased quite notably for basket and index products in commodities that contain a weighting in gold. Indeed, investor interest in these products surged in 2010, as commodity prices in general experienced a powerful rally.

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Chart 6: COMEX net long on non-commercial and non-reportable positions on the active gold futures contract (million oz) versus the gold price (US\$/oz)

Source: COMEX, Bloomberg, WGC

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Bars and coins

Investment activity in China remained high. Physical delivery at the Shanghai Gold Exchange totalled 836.7 tonnes in 2010, with 236.6 tonnes delivered during Q4. Moreover, physical delivery as a percentage of trading volume had increased to 33% by the fourth quarter, as Chinese investors sought to get hold of gold bullion. Anecdotal evidence suggests continuing strong demand for retail investment products. Of note was the successful launch, on 16 December, of the Industrial and the Commercial Bank of China (ICBC) gold accumulation plan (GAP) in Beijing. The new product, developed in collaboration with the WGC, accumulated 11.5 tonnes during 2010 with more than one million accounts opened.

Gold investment in other parts of Asia remained at a healthy pace. In Taiwan, the Bank of Taiwan (BOT) reported that gold demand remained robust, mainly expressed through a 25% increase of Gold Passbook sales, and a 35% increase of physical gold sales from year-earlier levels. In Vietnam, retail investment demand remained very strong, and some estimates indicate gross purchases of 25 tonnes in Q4 alone, even as the gold price reached new record highs. In order to match the growing demand for gold tael bars, the State Bank of Vietnam (SBV) increased gold import quotas by more than 20 tonnes during the same period. This trend is likely to continue during the first part of 2011. One of the major reasons for this surge in retail investment demand was a high inflation rate in 2010 (+11% YoY) and the steep devaluation of the Vietnamese dong versus the US dollar in the same period. In India, initial reports suggest that gold medallions and bar sales were strong during 2010 as a whole, and in particular in the fourth quarter, relative to the same period of the previous year. Consequently, the Reserve Bank of India has authorised seven more banks to import bullion. The WGC expects the impact of this measure to be visible during 2011. In general, Indian investors are responding to strong economic growth coupled with a higher rate of inflation (e.g. food inflation had grown to 18% by year-end) and are raising their allocation to gold to a substantial share of their holdings. The experience in both Vietnam and India serves to demonstrate how investors around the world are using gold for currency and inflation hedging against their own currencies.

Private investor demand for bars and coins in Europe and North America also continued to grow during 2010, in line with activity observed in other categories of investment demand. European and American investors led the way in gold bar and coin buying for multiple purposes, including risk protection and currency and/or inflation hedging. In the US, investors bought 1.2 million ounces (38.0 tonnes) worth of American Eagle bullion coins, according to the US Mint, just shy of the record 1.4 million ounces (44.3 tonnes) sold during 2009 (chart 7). While American Eagle sales in Q4 2010 were still high on a historical basis, they only accounted for 8.3 tonnes, below the previous 3-quarter average of 9.9 tonnes. Investors wishing to purchase gold coins or small bars can find a list of retail dealers on our website at: http://www.gold.org/investment/why_how_and_where/where_to_invest/.

Chart 7: American Eagle bullion sales

Note: Total sales includes 1-, 1/2-, 1/4-, and 1/10th-ounce coin sales.

Source: The United States Mint

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Lease rates

The implied gold lease rate is the difference between the US Dollar LIBOR and the equivalent duration Gold Forward Offered Rate (GOFO), the rate at which gold holders are willing to lend gold in exchange for US Dollars (also known as the swap rate). Gold lease rates remained negative throughout 2010, reaching an all-time low of -0.25% in the 3-month maturity on 15 December. Within two days of this landmark, other maturities also reached all-time lows with the exception of the longest maturity 12-month implied rate. Examining the components of the lease rates, both GOFO and LIBOR at 3-month maturity moved in relative tandem until Q4 2010 when GOFO started to marginally rise above LIBOR from about 0.35% to 0.50%. Although a rather insignificant move in magnitude, it nonetheless sent the implied lease rate to its record lows (Chart 8).

However, the significance of the lease rate has declined as the two main market participants – gold producers and hedge funds – have scaled back their activity over the last decade. Furthermore, the growth in gold investment vehicles and futures volumes has likely shifted the influence away from OTC forward agreements to exchange-based futures markets.

Nevertheless, negative lease rates do not necessarily suggest that lenders of gold, usually central banks, are paying lessees, bullion banks. As gold leasing is an opaque, OTC market, it is difficult to ascertain whether or not implied rates are reflective of the actual transacted rates. Furthermore, central banks incur costs associated with storage, so lending gold at a low lease rate – perhaps even a periodically negative one, could still be advantageous. Such a transaction might not provide a central bank with a gain, but would reduce their carrying costs. Suggestions that this may be indicative of diminishing global storage capacity and with it, rising costs, are also unfounded. In fact, new vaulting capacity has recently appeared both in Singapore's Freeport area and in Hong Kong.

One conclusion that can be drawn from the data, however, is that lease rates are very low and a profitable leasing environment currently does not exist. As the leasing process will more often than not involve the sale of physical gold in the spot market, to ensure a riskless hedge for bullion banks, the current environment should also be supportive of the gold price.

Chart 8: Implied 3-month lease rate

Source: Bloomberg, WGC

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Market and economic influences

A combination of macro-economic factors coupled with positive demand and supply dynamics ensured gold remained a sought-after asset during 2010. Overall, mixed economic news around the world kept investors looking for alternatives to balance risk and performance in their portfolios.

On the one hand, concerns continued to be felt over the economic health of growth in developed countries, and market participants have sought to hedge various risks, including currency exposure and systemic shocks. On the other hand, many developing countries, including China and India, continue to grow which has led to strong demand for many commodities but also higher levels of inflation.

Markets across Europe, where the sovereign debt crisis that started to make headlines in late 2009 became a cause for unprecedented intervention by the European Central Bank (ECB), started to recover from the low levels experienced in Q2 2010. However, while Greece experienced problems earlier in the year, news in Q4 of the worse-than-anticipated state of finances in Ireland increased the risk of a contagion to other countries such as Portugal, Spain and, to some extent, Italy back under the microscope. As such, European investors have turned to gold as a hedge against currency risks.

After an initial recovery the US labour market remains subdued, the unemployment rate remains high and while there was a temporary increase in government jobs, the full-time private sector has not generated a corresponding increase in employment. Against this backdrop, the Federal Reserve announced the second phase of quantitative easing (QE2) in November, with the potential to expand its balance sheet by US\$600 billion. This, in turn, had a positive impact on some risk assets, including equities, and cyclical commodities such as oil and industrial metals (Chart 9). Also at the same time, the prospect of higher levels of US debt and an extended period of record-low interest rates pushed investors to make upward revisions in their inflation expectations. Similarly, investors increased their bets on a long-term negative impact on the US dollar, not necessarily against the euro or the pound, but certainly against most other G10 currencies, most notably the Japanese yen, as well as those of many emerging markets, including the Chinese yuan (Chart 10).

Emerging markets maintained a more positive tone during 2010. Equity markets in general had positive returns of 14.4% in local currency and 18.8% in US dollar terms as economic growth continued at a healthy pace. For example, the Chinese economy is estimated to have grown at around 9.8% in 2010 and is expected to grow 8.5% in 2011 according to the World Bank (Chart 11). However, China has not escaped unscathed: headline inflation has been rising and the People's Bank of China (PBoC) raised interest rates for both deposits and loans during the latter part of 2010 in order to control it. That, coupled with a measured appreciation of the yuan against the US dollar, is likely to decelerate Chinese growth moderately and thus should have a subsequent positive effect on gold. Especially since Ministers of the PBoC, during the summer of 2010, announced a programme called 'The Proposals for Promoting the Development of the Gold Market', a signal of the government's commitment to further support growth in the gold market.

Similarly, India's growth also remains resilient. Real GDP grew at 8.9% during the third quarter as investment in infrastructure, exports, and industrial output continued to expand, and growth of around 9.0% is expected in both 2010 and 2011. However, the rate of inflation remained high (food prices were rising at an 18.0% pace by year-end), increasing the likelihood that interest rates could be raised at the next central bank review meeting. Given the importance of both India and China for the gold jewellery market (collectively, equating to 45% of total global jewellery demand in 2009); economic recovery in these countries tends to be accompanied by a positive outlook for gold. As the rupee and yuan slowly appreciate, gold remains an effective and accessible savings vehicle. Moreover, investors can and will continue to use gold to hedge against local inflationary pressures.

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Chart 9: Performance of various assets classes in local currency (December 2010 YoY % change)

Source: Barclays Capital, MSCI Barra, WGC

Chart 10: Gold (US\$/oz) versus US trade-weighted dollar index

Source: London Bullion Market Association, Federal Reserve

Chart 11: Chinese real GDP growth (% YoY) and CPI inflation (% YoY)

Source: National Bureau of Statistics, China Economic Information Net

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The shift in risk from the private to the public sector from 2007 to-date and its implications for gold

The continuation of the European sovereign debt crisis during the last part of 2010 and its potential spill-over to other markets has highlighted the prevalence of systemic risks which investors now face. This, in turn, reinforces the need for market participants to finding cost-effective strategies to preserve their capital. Historical analysis demonstrates that gold plays a critical role in such strategies.

The global banking crisis that began to unfold in 2007 has placed a great burden on governments, but especially in developed markets. Although some semblance of normality had returned by Q2 2009, it became clear that a large number of insolvent financial institutions had been kept afloat by governments fearful of systemic implications.

A sizeable portion of banks' risky assets had been transferred from the private to the public purse in exchange for credit lines leading increasing debate about the strain on the taxpayer and the sustainability of public debt. Moreover, the unavoidable ensuing global recession added further fiscal pain and stimulus packages and tax breaks contributed to deteriorating fiscal positions.

This, along with a lack of fiscal prudence and debt consolidation in many countries during the good times, was also a driver of the risk shift from banks to governments, a shift which trended steadily into 2010. This, in turn, has had and will continue to have implications for the gold market. In particular, this type of systemic risk provides a strong rationale for investors, both public and private to use gold as a currency and inflation hedge, a means of preserving capital and protecting against tail-risk events.

CDS market for sovereign and corporate bonds in perspective

A witness to the shifting sands has been the global credit default swap (CDS) market. Being primarily an over-the-counter market, it is more opaque than exchange-traded securities and accessible only to sophisticated investors. Growth in this esoteric sector took off while the crisis was in full swing. It is used by hedgers and speculators alike.

The total outstanding gross notional value of CDS contracts was over US\$25 trillion in December 2010,² representing approximately 30% of the value of the underlying bond markets.³ Despite a pull-back from 2007 levels, the growth in CDS volumes has been phenomenal over the last 10 years. However, the absolute level is still considerably smaller than the underlying bonds, especially for sovereign debt. Notwithstanding certain criticisms levelled at CDS market, they can serve as a useful signal of market sentiment toward the underlying instrument with regard to expectations of the likelihood of default or restructuring of government-backed bonds.⁴

2 Depository Trust and Clearing Corporation (DTCC).

3 ISDA.org.

4 FT. Brussels gives sovereign CDS trading all-clear , FT.com, 6 December 2010.

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Charting the risk shift

The increasing correlation between the default risk priced into sovereign bonds and their respective major financial institutions in the issuing countries concerned is shown in Chart 12. Prior to the second half of 2008, corporate CDS spreads and their underlying bond yields showed a very low correlation as risks for individual institutions remained idiosyncratic. This began to change as the financial crisis ensued and troubled assets were transferred from corporate balance sheets onto government books and systemic risk became more prominent.

Such a shift is not unique to the most recent crisis, but a natural occurrence following a banking crisis (most recently in Sweden in the early 1990s)⁵ as government assumed private sector debt. However, the recent crisis has proved unique in its breadth and depth accompanied by the threat of contagion.

The rising correlation between the CDS spreads of banks and sovereigns is indicative of the increasing risk of default in the latter coupled with the fact that banks are substantial holders of government debt. This trend is most noticeable among European nations. The issues in Greece and Ireland have been well documented, and are now at risk of spilling over to Portugal, Spain and, to some extent, Italy.

However, CDS spreads, and their correlation with banks' spreads have increased almost universally among developed nations, albeit with smaller incremental changes in the US and Japan. The benign moves in the latter belie the fact that their fiscal positions are equally strained. The US, as the global creditor of last resort can borrow in the world's reserve currency and has seen buoyant demand for its Treasury securities. Japan has seen similar demand from domestic investors. With bond market volumes far in excess of CDS volumes, neither Japan nor the US has experienced a case of the tail wagging the dog.

Chart 12: Rolling correlations between sovereign and financials CDS spreads (using daily log changes)

* Average of Germany, France, Italy, Spain and Portugal.

Source: MARKIT, Bloomberg, WGC

5 Reinhart & Reinhart, After the Fall, NBER Working Paper, August 2010.

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The extent of the troubles for developed sovereign governments is further visible in Chart 13, which depicts the convergence of emerging market and developed market default risk.

In fact since December 2010, it has been cheaper to insure a basket of emerging market bonds than a basket of European bonds.

The focus currently is on Europe, which faces distinctive challenges given the divergent economies of the north and the south. Furthermore, the European Central Bank (ECB) has been reluctant to engage in quantitative easing to the extent that the US, Japan and the UK have. Episodes of political wrangling and discord have also slowed initiatives to deal with the crisis. In fact since August 2010, as shown in Chart 14, CDS spreads have been higher on sovereign bonds than on financial institutions. While this immediately conjures up the suggestion that a sovereign nation in Europe may be bankrupt, this is not the case. Unlike corporate CDS, the type of sovereign default that is priced in to a contract generally concerns restructuring. In other words, markets are pricing in the increased probability that one or more European nations will restructure some or all of its debt. Such an event, while not catastrophic would have severe implications for holders of sovereign debt and for future issuance.

Implications for the gold market

The current shift has a number of potential implications for gold. First, the increasing risks associated with government securities, as seen in CDS spreads, have been reflected by ratings agencies enacting a series of downgrades on European sovereign debt, with others being put on negative outlook. These downgrades can trigger a spiral of further deterioration. Government bonds are held for their safe and reliable income streams. If volatility and implied risk-premia increase, investors may have to turn elsewhere to park defensive capital. In this case, gold has a long track record as an alternative vehicle for wealth preservation.

Second, currencies issued by these countries are also likely to suffer. The lack of fiscal rectitude in many countries along with loose monetary policy is weighing heavily on developed market currencies with the euro being most affected as the region tries to shake off its current malaise. This, in turn, increases the potential demand for gold in its role as a currency-hedge. Indeed, gold acts as global currency which is not affected by monetary or fiscal policies.

Third, uncertainty will likely not dissipate any time soon. While growth is looking promising in some developed countries including the US, the building blocks of expansion are brittle as unemployment remains high and structurally problematic, cost-push inflation is hurting the consumer and housing markets remain anaemic. Moreover, while the US seems to be coping better with the crisis relative to other countries with similar circumstances, it also has fiscal and monetary policy issues it will have to face. Its budget deficit is high and the quantitative easing measures implemented by the Federal Reserve have put a long-term burden on the US dollar. If growth does take hold, then inflation risks will increase. In many key gold markets, most notably India, inflation is already seen as problematic. This poses a challenge for governments and central banks wishing to withdraw liquidity without triggering another shock to the economy. In this case, investors may also use gold in its capacity as an inflation hedge.

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Chart 13: Developed market vs emerging market CDS spreads

Source: MARKIT

Chart 14: European sovereign vs senior financial CDS indexes

Source: MARKIT, WGC

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Please note that data on jewellery and industrial demand is released with a lag; the latest data is as of Q3 2010. Data for the fourth quarter of 2010 will be released in mid-February 2011.

During 2010, the gold price performance was not only supported by strong investment activity, but also by a consistent recovery in the jewellery sector and a normalisation of gold demand in technological applications. Moreover, gold supply has not risen at the same pace as demand in part due to a continuation in the declining trend of official sector sales. Indeed, for the first time over the past two decades, the official sector is set to record net inflows during 2010.

Jewellery

Global jewellery demand totalled 1,468.2 tonnes during the first nine months of 2010, increasing 18% from the same period during 2009. While the final data for Q4 2010 will be released in mid-February 2011, current trends indicate that 2010 will see further normalisation in gold jewellery consumption from the low levels experienced in 2009. Moreover, expressed in value terms, jewellery demand totalled US\$55.5 billion during the first three quarters of 2010, equal to the US\$55.5 billion spent globally on gold jewellery during the whole of 2009 (Chart 15). In other words, consumers have increased their gold jewellery spending during 2010, despite the measured appreciation in the gold price in multiple currencies. This is likely the product of two factors: first, a continuation of economic growth and currency appreciation in key countries for the gold market, including India, China and to some extent the Middle East; and second, a higher perception of value for gold jewellery around the world, both as a luxury good as well as a store of wealth.

At the country level, India, the largest gold market, is poised to exhibit the strongest recovery during 2010 (Chart 16). During the first nine months of 2010, gold jewellery consumption in India rose to 513.5 tonnes, 73% higher than the same period during 2009, as consumers benefitted from continued economic growth and periods of rupee appreciation against the US dollar. Similarly, gold jewellery demand in Hong Kong, Russia, mainland China, and Saudi Arabia rose by 27%, 19%, 8% and 2% respectively, during the first three quarters of 2010, from year-earlier levels. Indeed, China the second largest gold market also benefitted from healthy growth and renewed interest in gold consumption. While its 2010 performance so far has been less strong than India, it is worth noting that China was the only market that did not experience a contraction in jewellery consumption during 2009. On the other hand, gold jewellery volume demand in the UAE, Japan, Vietnam and Turkey was slightly lower during the first nine months of 2010, relative to 2009, while the rest of the world saw more significant contractions in jewellery consumption. Notably, European demand had a volume drop of more than 15% in most markets, on the back of a sluggish recovery and currency depreciation. Nevertheless, as with the overall jewellery market, while volumes fell, the value of gold jewellery demand generally rose in most countries.

Preliminary reports on demand trends during Q4 2010 appear to follow a similar trend. In India, the gold market was buoyant during the festive season (October – November), especially around the Hindu festival of Diwali, its biggest annual gold consumption event. Overall, anecdotal evidence suggests Q4 2010 was better year-on-year, as consumers ramped up wedding-related jewellery purchases in anticipation of further price appreciation. In other Asian markets, evidence also suggests a positive trend, as jewellery consumption in Vietnam, whose wedding season reaches a high during December, picked up despite a sharp depreciation in the Vietnamese dong.

In the US, the 8% YoY decline in the value of gold jewellery imports in September was indicative of a desire among mass retailers to tightly manage their gold inventory levels in anticipation of the holiday season, as the price trended higher into the end of the year. However, there was an increase in sales of gold jewellery at the high-end (over US\$1,000 per piece) as pent-up demand among consumers with greater amounts of discretionary income was released. The WGC estimates that high-end purchases could offset lower sales at middle and lower price points, leading to a slight positive growth in value terms during Q4 2010 although volumes are still expected to be down relative to Q4 2009.

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Chart 15: Jewellery demand in tonnes and US\$ billions

Source: GFMS, WGC

Chart 16: Tonnage growth in jewellery demand by country (% 9M 2010 vs 9M 2009)

Source: GFMS

Table of Contents**Technology**

Gold demand for technological, industrial and dental applications continued to recover during the first nine months of 2010, registering a 19% increase over the same period in 2009. Electronics demand, which bore much of the brunt of the economic downturn in 2009, was the chief driver of this rise, buoyed by ongoing inventory restocking and fresh demand for new technologies.

The consumer electronics segment, which dominates industrial demand for gold, registered another robust rise in the first part of 2010, a clear indication that the industry is continuing to recover from the recession-led losses sustained in early 2009. It rose by 26% in the first three quarters to 221.8 tonnes, close to the 238.4-tonne level observed in the same period during 2008 (Chart 17). Demand for semiconductors (produced using gold bonding wire) has continued to rise, with numbers boosted by sales of personal computers, mobile devices and corporations upgrading their information technology systems, plus a modest rise in demand from the automotive industry. Much of this growth has been led by the developing world, in particular China and India. Finally, gold used in dental applications, which accounts for about 10% of technological and other industrial application demand, declined by a further 6% YoY during the first nine months of 2010 to a new record low, as substitution by alternatives, such as ceramics and base metals, continued to erode the use of gold in this segment.

Preliminary reports on Q4 2010 activity indicate that the positive trend of last year in electronics demand remains quite strong. Moreover, predictions from major semiconductor players are bullish for 2011. While some manufacturers have been reducing gold coating thicknesses on contacts and connectors – the second major use in electronics – to lower costs, anecdotal evidence suggests some component failures have helped limit the practice. **Please note that data on mine production and recycled gold is released with a lag; the latest data is as of Q3 2010. Data for the fourth quarter of 2010 will be released in mid-February 2011.**

Mine production and recycled gold

Total gold supply – including mine production, recycled gold and official sector transactions – totalled 2,993.3 tonnes during the first nine months of 2010, a 3.1% decline from the same period during 2009. However, mine production increased by 2.6% to 1,954.2 tonnes in the first three quarters, from 1,903.7 tonnes in the same period a year earlier as a raft of new operations either came online or ramped up production (Chart 18). While Q4 data will be published in mid-February 2011, based on the first three quarters of the year, 2010 is set to mark the second consecutive annual increase in gold production, and it could reach levels previously seen at the beginning of the decade.

Australian production significantly contributed to the increase in output as high grades of ore at Newmont's Boddington mine boosted production. Further positive contributions came from Mexico, where Agnico Eagle ramped up its Pinos Altos operation, and Argentina and the US, with Barrick's continued expansion of its Valadero mine, and higher than expected grades from Cortez Hills. Offsetting the impact of these developments was a decline in production in Peru and Indonesia.

Net producer de-hedging continued to act as a slight constraint on supply, although at 84.6 tonnes in the first three quarters of 2010 this was below the 127.5 tonnes recorded during the year-earlier period. While estimates on hedging activity in Q4 are not yet final, the outstanding global hedge book was reduced to around 65.0 tonnes, following the elimination of the AngloGold Ashanti hedge book in early October of 2010. These moves to unwind their hedge books have enabled miners to sell gold at market prices.

While gold prices continued to trend up in 2010, recycling activity during the nine months ending September 2010 declined by 2.7% to 1,234.8 from 1,268.8 on year-earlier levels. This has been partly driven by continued economic growth in emerging economies, and especially in India and China which substantially contribute to recycled gold supply. However, recycling activity remains high on a long-term basis, especially among Western consumers who have gradually seen a rising trend in recycling. This, coupled with higher price levels ensured that profit-taking on recycled gold in Western markets was marginally higher than year-earlier levels. Similarly, Middle East and Asian markets also witnessed a consistent supply of recycled gold during 2010. There is some evidence however, that near-market supplies in these traditional markets are becoming exhausted and that a fresh surge in the gold price would be required to generate another significant wave of selling-back.

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Chart 17: Industrial demand by category in tonnes

Source: GFMS

Chart 18: Mine production and recycled gold supply in tonnes

Source: GFMS

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The official sector

On 21 December, 2010, the IMF announced the conclusion of its limited gold sales programme covering the sale of 403.3 tonnes of gold that was approved by its Executive Board in September of 2009. The proceeds of this programme will be used to set up an endowment fund, the income from which will finance the regular research and monitoring work of the IMF. In addition, some of the proceeds will be used to support low-income countries.

The IMF conducted the majority of its sales in off-market transactions at market prices with central banks, selling 200 tonnes to the Reserve Bank of India, 10 tonnes to the Central Bank of Sri Lanka, 10 tonnes to the Central Bank of Bangladesh and 2 tonnes to the Central Bank of Mauritius. The remaining sales were conducted through on-market sales within the ceiling set by the third Central Bank Gold Agreement CBGA3. The ease with which the IMF conducted its sales over the past year and the negligible impact they have had on the gold market are a testament to the depth and breadth of the global gold market.

The Central Bank of the Russian Federation bought an additional 9 tonnes of gold in November, after purchasing 19 tonnes in October. In total, Russia's gold reserves increased by 131 tonnes in the first ten months of 2010 to 784 tonnes. With these additional purchases, Russia has now surpassed Japan in gold reserves and is ranked eighth in the world for gold reserves (Table 4).

Finally, Venezuela reported an increase in gold reserves in November of 2 tonnes, which is understood to be continued buying of domestic production along the same lines as earlier in the year.

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	Tonnes	% of reserves**
1 United States	8,133.5	75.2%
2 Germany	3,401.8	71.2%
3 IMF	2,827.2	1
4 Italy	2,451.8	69.6%
5 France	2,435.4	67.2%
6 China	1,054.1	1.8%
7 Switzerland	1,040.1	17.6%
8 Russia	784.1	7.2%
9 Japan	765.2	3.1%
10 Netherlands	612.5	59.6%
11 India	557.7	8.5%
12 ECB	501.4	29.3%
13 Taiwan	423.6	4.8%
14 Portugal	382.5	82.1%
15 Venezuela	365.8	55.2%
16 Saudi Arabia	322.9	3.1%
17 United Kingdom	310.3	17.5%
18 Lebanon	286.8	28.8%
19 Spain	281.6	39.6%
20 Austria	280.0	57.8%
21 Belgium	227.5	38.2%
22 Algeria	173.6	4.6%
23 Philippines	156.5	12.5%
24 Libya	143.8	6.1%
25 Singapore	127.4	2.6%
26 Sweden	125.7	11.7%
27 South Africa	124.9	12.8%
28 BIS ²	120.0	1
29 Turkey	116.1	6.2%
30 Greece	111.7	79.6%
31 Romania	103.7	9.7%
32 Poland	102.9	4.7%
33 Thailand	99.5	2.6%
34 Australia	79.9	8.5%
35 Kuwait	79.0	14.2%
36 Egypt	75.6	9.4%
37 Indonesia	73.1	3.6%
38 Kazakhstan	67.3	10.8%
39 Denmark	66.5	3.5%
40 Pakistan	64.4	16.7%

* This table was updated in December 2010 and reports data available at that time. Data is taken from the International Monetary Fund's International Financial Statistics (IFS), December 2010 edition, and other sources where applicable. IFS data is two months in arrears, so holdings are as of October 2010 for most countries, September 2010 or earlier for late reporters. The table does not list all gold holders: countries which have not

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reported their gold holdings to the IMF in the last six months are not included, while other countries are known to hold gold but they do not report their holdings publicly. Where the WGC knows of movements that are not reported to the IMF or misprints, changes have been made. The countries showing as having 0.0 tonnes of gold report some gold but less than 0.05 tonnes to the IMF.

- ** The percentage share held in gold of total foreign reserves, as calculated by the World Gold Council. The value of gold holdings is calculated using the end of October gold price of \$1,346.75 per troy ounce (there are 32,151 troy ounces in a metric tonne). Data for the value of other reserves is taken from IFS, table Total Reserves minus Gold .
- 1 BIS and IMF balance sheets do not allow this percentage to be calculated. In the case of any countries, up-to-date data for other reserves is not available.
 - 2 BIS data is updated each year from the BIS's annual report to reflect the Bank's gold investment assets excluding any gold held in connection with swap operations, under which the Bank exchanges currencies for physical gold. The bank has an obligation to return the gold at the end of the contract.

Source: IMF, national data, WGC

Table of Contents**Key data****Table 5: Demand (cumulative Q4 2009 Q3 2010)**

	Tonnes	% QOQ¹	% YOY¹	Value (\$bn)	% YOY¹
Jewellery	1,978.0	2.0%	10.0%	73,581	43.0%
Identifiable investment	1,281.0	4.0%	-16.0%	48,148	11.0%
of which ETFs and similar products	388.0	-1.0%	-41.0%	14,799	-22.0%
Industrial and dental	424.0	3.0%	18.0%	15,800	52.0%

Source: GFMS, WGC

Table 6: Supply (cumulative Q4 2009 Q3 2010)

Tonnes&nargin-top:0px;margin-bottom:0px">

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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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 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 financial condition. Moreover, 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, 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 and availability of trained personnel;

fluctuations in the level of activity and major markets;

general economic conditions; and

governmental regulation.

Additionally, in certain geographical areas, some of our competitors 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 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 and environmental 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, the handling

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of explosives and hazardous and non-hazardous waste. Although our cost of compliance with such laws has to date been immaterial, such laws

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frequently change. 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 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 INFLUENCE OVER OUR AFFAIRS.

Dennis R. Sciotto beneficially owns approximately 33% 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 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 year) collectively accounted for 50% (four customers), 38% (two customers), and 32% (two customers), of revenue for fiscal 2004, 2005 and 2006, respectively.

OUR BACKLOG MAY NOT BE TIMELY CONVERTED INTO REVENUE IN ANY PARTICULAR FISCAL PERIOD.

Our backlog represents those seismic drilling and survey projects for which a customer has hired us and has scheduled a start date for the project. Backlog levels vary during the year depending on the timing of the completion of certain contracts and when we are awarded new contracts. Projects currently included in our backlog, at the option of the customer, are subject to termination or delay without penalty, which could substantially reduce the amount of backlog currently reported, and consequently, the conversion of that backlog into revenue.

UNFAVORABLE RESULTS OF LITIGATION COULD HAVE A MATERIAL ADVERSE IMPACT ON OUR FINANCIAL STATEMENTS.

We are subject to a variety of other claims and lawsuits that arise from time to time in the ordinary course of our business. Management currently believes that resolving any of such matters, individually or in the aggregate,

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will not have a material adverse impact on our financial position or results of operations. The litigation and other claims 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.

THE MARKET PRICE OF OUR COMMON STOCK IS HIGHLY VOLATILE.

The market price of our common stock has been and is expected to continue to be highly volatile. Factors, including announcements of technological innovations by us or other companies, regulatory matters, new or existing products or procedures, concerns about our financial position, operating results, litigation, government regulation, developments or disputes relating to agreements, patents or proprietary rights, may have a significant impact on the market price of our common stock. In addition, potential dilutive effects of future sales of shares of common stock by our shareholders and by us could have an adverse effect on the market price of our common stock.

THE HIGH FIXED COSTS OF OUR OPERATIONS COULD RESULT IN OPERATING LOSSES.

Our business has high fixed costs. As a result, any significant downtime or low productivity caused by reduced demand, weather interruptions, equipment failures, permit delays or other causes could adversely affect our results of operations.

FAILURE TO MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR STOCK PRICE.

If, in the future, we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on the price of our common stock.

CERTAIN OF OUR FACILITIES COULD BE DAMAGED BY HURRICANES AND OTHER NATURAL DISASTERS, WHICH COULD HAVE AN ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Certain of our facilities are located in regions of the United States that are susceptible to damage from hurricanes and other weather events, and, during 2005, were impacted by hurricanes or weather events

Future hurricanes or similar natural disasters that impact our facilities may negatively affect our financial position and operating results for those periods. These negative effects may include reduced operations; costs associated with resuming operations; reduced demand for our services from customers that were similarly affected by these events; lost market share; late deliveries; additional costs to purchase materials and supplies from outside suppliers; uninsured property losses; inadequate business interruption insurance and an inability to retain necessary staff.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

NONE.

ITEM 2. PROPERTIES

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

SEISMIC DRILLING FACILITIES. Our primary fabrication and maintenance facilities are situated in a building located adjacent to our corporate headquarters. The building provides approximately 28,000 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 Carencro, 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, Venice and Fourchon, 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.

As discussed above and in MD&A Recent Developments, we completed the acquisition of Holston in March 2007. This acquisition provides us with additional opportunities to expand our environmental services segment. Holston currently operates from its main facility in Jennings, Louisiana and operates satellite facilities in Cameron and Fourchon, Louisiana. Additionally, Holston operates two saltwater disposal wells located in south Louisiana.

As a result of Hurricanes Katrina and Rita in the third quarter of 2005, we sustained damage to our Gulf Coast environmental facilities. Damages to our facilities and to the municipal infrastructure caused interruptions in services from these facilities. With the exception of our facility in Venice, Louisiana, all of our facilities were operational by the end of the fourth quarter of 2005. In August 2006, we leased a new Venice facility which is being used primarily for dockside services.

EQUIPMENT LEASING FACILITIES. Our primary operations facilities for our Equipment Leasing Unit are located in leased facilities in Broussard, Youngsville and Belle Chasse, Louisiana; Alice, Teague, and Freer, Texas; and Rock Springs, Wyoming. We also own facilities in Timpson and Navasota, Texas.

As discussed above and in Recent Developments, we completed the acquisition of Holston in March 2007. This acquisition brings complementary additions to our equipment rental fleet. Holston currently has equipment rental operations located in Jennings, Louisiana and Vernal, Utah.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal and other proceedings that are incidental to the conduct of our business. We believe that none of these proceedings, if adversely determined, would have a material effect on our financial condition, results of operations or cash flows.

On January 25, 2005, we filed suit in United States District Court, Western District of Louisiana against the holders of our 6.5% Subordinated Convertible Debentures (the "Debentures") and other third parties (collectively, the "Debenture Holders"). In the suit, we alleged that the Debenture Holders violated Section 16(b) of the Securities Exchange Act of 1934, as amended and we sought the disgorgement of profits realized by the Debenture Holders from their purchases and sales of our common stock.

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On May 18, 2005, in connection with the completion of a new \$50.0 million senior credit facility, we entered into settlement and debt extinguishment agreements (*Debenture Settlement Agreements*) with each of the Debenture Holders in exchange for our dismissal of the lawsuit filed against the Debenture Holders (see Note 4 to the Consolidated Financial Statements). 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*). We recorded a gain of \$0.2 million at the close of these transactions. The Subordinated Debenture Notes were scheduled to 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 extinguished the terms of the original Debentures and released all parties from any future claims.

On August 26, 2005, we entered into a settlement agreement and mutual release (*Agreement and Release*) with two of the three holders of the Subordinated Debenture Notes. Under terms of the Agreement and Release, we paid \$1.5 million in cash from the proceeds of a new \$25.0 million multiple draw term credit facility, and issued 750,000 shares of our common stock in full satisfaction of the applicable Subordinated Debenture Notes. At December 31, 2005, the remaining Subordinated Debenture Note had a balance of approximately \$0.9 million.

On December 7, 2005, the Fourth Circuit Court of Appeal for the State of Louisiana granted our writ application for supervisory review and rendered a judgment granting our Motion for Partial Summary Judgment seeking a declaratory judgment against Steven T. Stull, a former director, and Advantage Capital Partners, et. al (*ACP*) in connection with our litigation against Mr. Stull and ACP, and their respective insurers seeking a declaratory judgment confirming our right to redeem, rather than convert, its shares of Series A and Series B 8% Convertible Preferred Stock under our Articles of Incorporation, as amended, and other applicable operative documents and agreements. The Court determined that we had the right to redeem, rather than convert both the Series A and Series B preferred stock within 30 days after receiving the notices of conversion from ACP.

On December 20, 2005, the United States District Court for the Eastern District of Louisiana granted our Motion to Dismiss a lawsuit filed by ACP and its affiliates against us and certain of our executive officers. In the lawsuit filed on March 26, 2004, ACP and its affiliates alleged that (i) we and the executive officers misrepresented material facts and failed to disclose material facts related to the intention to redeem our Series A Preferred and Series B Preferred, and (ii) our officers breached their fiduciary duties. The Court held that ACP had failed to satisfy the pleading requirements for alleging fraud under federal securities laws.

On February 13, 2007, our motion for partial summary judgment on ACP's first amended and superceding reconventional and third party demand was granted. ACP had filed the demand seeking damages for our redeeming rather than converting the Series A and B Preferred Stock. The court determined that ACP consequently abandoned its claim by retaining the proceeds.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
NONE.

Table of Contents**Index to Financial Statements****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****PERFORMANCE GRAPH**

The graph below compares the total shareholder return on the Common Stock from December 31, 2001 until December 31, 2006 with the total return on the S&P 500 Index and the Company's Peer Group Index for the same period, in each case assuming the investment of \$100 on December 31, 2001. The Company's Current Peer Group Index consists of Dawson Geophysical Co. (NASDAQ:DWSN), Compagnie Generale de Geophysique (NYSE:CGV), Veritas DGC, Inc. (NYSE:VTS), Input/Output (NYSE:IO), Mitcham Industries, Inc. (NASDAQ:MIND), Petroleum Geo-Services ASA (OSE:PGS), Seitel, Inc. (OTC:SELA.OB) and the Company.

	Cumulative Total Return					
	12/01	12/02	12/03	12/04	12/05	12/06
OMNI Energy Services Corp.	100.00	26.95	228.72	68.79	130.50	347.16
S & P 500	100.00	77.90	100.24	111.15	116.61	135.03
Peer Group	100.00	39.05	59.16	108.31	150.42	298.26

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Our Common Stock is traded on the Nasdaq Global 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 Global Market for the periods indicated.

	HIGH	LOW
2006		
First quarter	\$ 4.94	\$ 3.23
Second quarter	\$ 11.93	\$ 4.29
Third quarter	\$ 12.60	\$ 6.63
Fourth quarter	\$ 11.81	\$ 7.25
2005		
First quarter	\$ 2.84	\$ 1.21
Second quarter	\$ 2.66	\$ 1.43
Third quarter	\$ 5.35	\$ 2.01
Fourth quarter	\$ 4.22	\$ 2.30

On March 14, 2007, the reported last sales price of our common stock as reported by the Nasdaq Global Market was \$9.86. As of March 14, 2007, we had approximately 5,000 stockholders of record.

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 the 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.

ISSUER PURCHASES OF EQUITY SECURITIES

There were no stock repurchases during the year ended December 31, 2006.

EQUITY COMPENSATION PLAN INFORMATION

The following table gives information about our Common Stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2006:

PLAN CATEGORY	(A)	(B)	(C)	(D)
	NUMBER OF	WEIGHTED AVERAGE	NUMBER OF	TOTAL OF
	SECURITIES TO BE	EXERCISE	SECURITIES	SECURITIES
	ISSUED UPON THE	PRICE OF	REMAINING	REFLECTED
	EXERCISE OF	OUTSTANDING	AVAILABLE FOR	IN COLUMNS
	OUTSTANDING	OPTIONS,	FUTURE ISSUANCE	(A) & (C)
	OPTIONS,	AND RIGHTS	UNDER EQUITY	
	WARRANTS AND		COMPENSATION	
	RIGHTS		PLANS (EXCLUDING	

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SECURITIES

REFLECTED IN

COLUMNS (A) & (B)

Equity Compensation Plans Approved by Stockholders	2,278,810	\$	3.59	471,190	2,750,000
Equity Compensation Plans Not Approved by Stockholders	43,409	\$	2.32	56,591	100,000
Total	2,322,219	\$	3.59	527,781	2,850,000

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PLAN NOT APPROVED BY STOCKHOLDERS

In January 1999, we approved the Amended OMNI Energy Services Corp. 1999 Stock Option Plan (the "Option Plan") to provide for the grant of options to purchase shares of our Common Stock to our non-officer employees in lieu of year-end cash bonuses. The Option Plan is intended to increase stockholder value and advance our interests by providing an incentive to employees and by increasing employee awareness of us in the marketplace. Under the Option Plan, we may grant options to any of our employees with the exception of our officers. The options become exercisable immediately with respect to one-half of the shares, and the remaining one-half shall be exercisable one year following the date of the grant. The exercise price of any stock option granted may not be less than the fair market value of the Common Stock on the effective date of the grant. A total of 100,000 shares of Common Stock are authorized, of which 43,409 remain available for issuance at December 31, 2006.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data as of and for the five years ended December 31, 2006 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 document. Our selected historical results are not necessarily indicative of results expected in future periods. The per share data gives retroactive effect to the one for three reverse stock split effective July 3, 2002.

We sold our Aviation Transportation Services segment effective 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 through December 31, 2005 have been adjusted to present the operations of the Aviation Transportation Services segment as discontinued operations.

Table of Contents**Index to Financial Statements****SELECTED FINANCIAL DATA**

	2002	YEAR ENDED DECEMBER 31,			2006
		2003	2004	2005	
(In thousands, except per share data)					
INCOME STATEMENT DATA:					
Operating revenue	\$ 24,592	\$ 31,555	\$ 39,064	\$ 43,350	\$ 98,998
Operating expenses					
Direct costs	17,178	21,586	28,510	27,515	59,830
Depreciation and amortization	3,270	3,355	4,282	4,627	5,660
General and administrative expense	3,186	3,718	9,464	8,497	13,780
Total operating expenses	23,634	28,659	42,256	40,639	79,270
Operating income (loss)	958	2,896	(3,192)	2,711	19,728
Interest expense	(799)	(943)	(3,288)	(2,836)	(4,966)
Gain (loss) on debenture conversion inducement and debt extinguishment			(729)	758	15
Other income (expense), net	115	114	(290)	835	233
Income (loss) before income taxes	274	2,067	(7,499)	1,468	15,010
Income tax benefit	400	1,092		508	6,805
Net income (loss) from continuing operations	674	3,159	(7,499)	1,976	21,815
Income (loss) from discontinued operations, net of taxes	534	324	(6,756)	(3,978)	
Loss on disposal of discontinued operations assets, net of taxes				(2,271)	
Net income (loss)	1,208	3,483	(14,255)	(4,273)	21,815
Dividends and accretion of preferred stock	(484)	(484)	(490)	(249)	(488)
Non-cash charge attributable to beneficial conversion features of preferred stock				(745)	(458)
Net income (loss) available to common stockholders	\$ 724	\$ 2,999	\$ (14,745)	\$ (5,267)	20,869
Basic Income (loss) per common share:					
Income (loss) from continuing operations	\$ 0.02	\$ 0.30	\$ (0.73)	\$ 0.07	\$ 1.29
Income (loss) from discontinued operations	0.06	0.04	(0.62)	(0.30)	
Loss on disposal of discontinued operations assets				(0.17)	
Net Income (loss) available to common stockholders	\$ 0.08	\$ 0.34	\$ (1.35)	\$ (0.40)	\$ 1.29
Diluted Income (loss) per common share:					
Income (loss) from continuing operations	\$ 0.02	\$ 0.28	\$ (0.73)	\$ 0.07	\$ 0.89
Income (loss) from discontinued operations	0.06	0.03	(0.62)	(0.29)	
Loss on disposal of discontinued operations assets				(0.16)	
Net income (loss) available to common stockholders	\$ 0.08	\$ 0.31	\$ (1.35)	\$ (0.38)	\$ 0.89
Number of Weighted Average Shares:					
Basic	8,739	8,772	10,884	13,251	16,190
Diluted	8,745	11,362	10,884	13,683	24,459

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	2002	2003	DECEMBER 31,		
			2004	2005	2006
			(In thousands)		
BALANCE SHEET DATA:					
Total assets	\$ 41,325	\$ 50,289	\$ 65,913	\$ 43,758	\$ 118,884
Long-term debt, less current maturities	8,340	9,624	12,952	15,801	32,935
Preferred Stock	12,100	12,100	29	806	1,285
Total Equity	19,781	24,386	4,864	11,135	39,426

	2002	2003	YEAR ENDED DECEMBER 31,		
			2004	2005	2006
			(In thousands)		
STATEMENT OF CASH FLOW DATA:					
(for continuing and discontinued operations)					
Net cash provided by operating activities	\$ 5,015	\$ 5,664	\$ 5,550	\$ 2,894	\$ 22,363
Net cash provided by (used in) investing activities	(1,901)	(4,158)	(12,647)	11,474	(26,120)
Net cash provided by (used in) financing activities	(3,643)	(1,638)	7,568	(15,237)	16,162

ITEM 7. 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 Cautionary Statements, 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 DEVELOPMENTS

Effective January 5, 2007, we entered into new Restricted Stock and Stock-Based Award Incentive Agreements (RSA) with certain executive officers. The new RSAs replace prior restricted stock agreements and reduce our contingent liability to the executive officers from approximately \$31.7 million to approximately \$10.0 million as of January 5, 2007. The RSAs provide for the granting of between 400,000 and 500,000 shares of our restricted common stock to each of the executive officers on the terms set forth in the RSAs. The number of shares of restricted stock becomes fixed and payable in the event of (i) a change in control or the receipt by our Board of Directors of a change of control offer as defined by the RSAs; (ii) termination without cause; or (iii) death or disability. Additionally, at the time of vesting in the restricted shares, each executive officer will receive the right to a cash payment of \$1.2 million. The revised RSAs will terminate on December 31, 2008, and any unvested restricted common stock or stock-based awards will terminate and lapse.

On February 13, 2007, our motion for partial summary judgment on ACP's first amended and superceding reconventional and third party demand was granted. ACP had filed the demand seeking damages for our redeeming rather than converting the Series A and B Preferred Stock. The court determined that ACP consequently abandoned its claim by retaining the proceeds.

On March 2, 2007, we completed the acquisition of Charles Holston, Inc., pursuant to a Membership Interest Purchase and Sale Agreement (Holston Purchase Agreement) to acquire BMJ Industrial Investments,

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L.L.C. and its wholly-owned subsidiary, Charles Holston, Inc., (collectively "Holston"). Subject to the terms and conditions of the Holston Purchase Agreement, we purchased 100% of the membership interests and equity interests of Holston for the total consideration of approximately \$23.0 million, including \$18.0 million of cash and the issuance of \$5.0 million of promissory notes accruing interest at 5% per annum with various maturities over a three-year period. In addition, we assumed approximately \$2.8 million of certain long-term debt of Holston. As a condition of closing, Holston was required to have on hand a minimum of \$7.5 million of excess working capital as defined in the Holston Purchase Agreement.

On March 2, 2007, we completed the acquisition of certain assets of Cypress Energy Consulting, Inc., d/b/a Cypress Energy Services ("Cypress") pursuant to an Asset Purchase Agreement ("Cypress Purchase Agreement"). Subject to the terms and conditions of the Cypress Purchase Agreement, we purchased certain assets from Cypress for the total consideration of approximately \$10.1 million, including \$7.1 million of cash and the issuance of a \$3.0 million, three-year 5% promissory note.

On March 2, 2007 we completed \$64.5 million of new credit facilities ("Senior Credit Facilities") with LaSalle Business Credit, LLC ("LaSalle"), a wholly-owned subsidiary of LaSalle Bank, N.A. and an affiliate of ABN AMRO. With the proceeds from the Senior Credit Facilities, we (i) repaid approximately \$22.0 million outstanding principal balance under our existing Term A and Term B loans; (ii) closed the acquisition of Holston; and (iii) completed the acquisition of certain assets of Cypress. The balance of the proceeds available under the Senior Credit Facilities was used to pay fees and expenses of the aforementioned transactions and provide additional working capital.

RECLASSIFICATION OF FINANCIAL STATEMENTS

Effective June 30, 2005, we sold our Aviation Transportation Services segment. The income statements for the years ended December 31, 2002, 2003, 2004, and 2005 have been revised to properly present the comparative information related to the Aviation Transportation Services segment. For these periods, the activities of the Aviation Transportation Services segment have 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.

SEASONALITY AND WEATHER RISKS. Our operations are subject to seasonal variations in weather conditions and daylight hours as 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.

Table of Contents**Index to Financial Statements****RESULTS OF OPERATIONS**

The following discussion provides information related to the results of our operations.

As discussed below in Discontinued Operations, we sold our Aviation Transportation Services segment effective June 30, 2005. In order to enhance the comparability of the amounts reflected for the periods below, the financial information related to the results of operations for the years ended December 31, 2005 and 2004 have been revised to present the activities of the Aviation Transportation Services segment as discontinued operations. For more information regarding the discontinued operations of the Aviation Transportation Services segment refer to Note 13 of Consolidated Financial Statements included herein.

Year Ended December 31, 2005 Compared To The Year Ended December 31, 2006:

	YEAR ENDED DECEMBER 31,	
	2005	2006
	(In thousands)	
Operating revenue	\$ 43,350	\$ 98,998
Operating expenses		
Direct costs	27,515	59,830
Depreciation and amortization	4,627	5,660
General and administrative expenses	8,497	13,780
Total operating expenses	40,639	79,270
Operating income	2,711	19,728
Interest expense	(2,836)	(4,966)
Gain on debenture conversion inducement and debt extinguishment	758	15
Other income	835	233
Income before income taxes	1,468	15,010
Income tax benefit	508	6,805
Net income from continuing operations	1,976	21,815
Loss from discontinued operations	(3,978)	
Loss on disposal of discontinued operations assets	(2,271)	
Net income (loss)	(4,273)	21,815
Preferred stock dividends	(249)	(488)
Non-cash charge attributable to beneficial conversion features of preferred stock	(745)	(458)
Net income (loss) available to common stockholders	\$ (5,267)	\$ 20,869

Operating revenues increased 128% or \$55.6 million, from \$43.4 million for the year ended December 31, 2005 to \$99.0 million for the year ended December 31, 2006. This increase was due partially to our acquisition of Preheat, Inc. (Preheat) effective February 10, 2006 which contributed \$25.1 million in revenue for 2006, our acquisition of Rig Tools, Inc. (Rig Tools) effective November 1, 2006 which contributed \$2.5 million in revenue for 2006, as well as an increase in activities from our seismic drilling and environmental services divisions, which accounted for \$24.6 million and \$3.4 million of the increase, respectively.

Direct costs increased 117%, or \$32.3 million, from \$27.5 million for the year ended December 31, 2005 to \$59.8 million for the year ended December 31, 2006. Direct costs as a result of the recent Preheat and Rig Tools acquisitions accounted for \$9.9 million and \$1.2 million of the overall increase, respectively. Direct costs relating

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to the other divisions increased \$21.2 million. Third-party contract services increased by \$9.0 million. We contract third parties to provide services when our existing workforce is working on other projects. Consistent with the increase in revenues, payroll related costs increased \$11.3 million and rental and lease expense increased \$1.5 million, fuel and oil expense increased \$1.6 million, explosives expenses increased \$2.9 million and repairs and maintenance expenses increased \$2.9 million.

Depreciation and amortization costs increased \$1.1 million from \$4.6 million for the year ended December 31, 2005 to \$5.7 million for year period ended December 31, 2006. Depreciation expense increased \$1.3 million due to the increase in revenue-producing assets, primarily from the acquisition of Preheat in February 2006 and Rig Tools in November 2006. Additionally, amortization expense decreased by \$0.2 million resulting primarily from the revised amortization of intangible assets related to our acquisition of Trussco, Inc. and Trussco Properties, L.L.C. (collectively Trussco) in June 2004.

General and administrative costs increased \$5.3 million, from \$8.5 million during the year ended December 31, 2005 to \$13.8 million for the year ended December 31, 2006 primarily as a result of the acquisitions of Preheat and Rig Tools.

Interest expense increased approximately \$2.2 million from \$2.8 million for the year ended December 31, 2005 to \$5.0 million for the year ended December 31, 2006. The increase in interest expense was primarily attributable to increased levels of debt including financing for the Preheat and Rig Tools acquisitions. Interest expense includes \$0.9 million related to amortization of deferred loan costs.

In 2005, we recorded a \$0.8 million accounting gain in connection with the early extinguishment of a portion of our debt. An additional loss of \$0.7 million is included in loss from discontinued operations for 2005.

Other income (expense) decreased from income of \$0.8 million to income of \$0.2 million. This decrease in income was partially attributable to a \$0.8 million gain on sale of assets in 2005.

In 2005, an income tax benefit was recognized in the amount of \$0.5 million to establish the deferred tax asset balance to its estimated realizable amount compared to \$6.8 million in 2006. This increase reflects the removal of the valuation allowance of our deferred tax assets primarily attributable to our net operating loss carryforwards.

As previously discussed, we sold our Aviation Transportation Services segment effective June 30, 2005. Accordingly, we recorded a loss from discontinued operations of \$4.0 million, net of tax benefit, for the year ended December 31, 2005. Additionally, we recorded a loss of \$2.3 million on the sale of our Aviation Transportation Services segment in 2005.

Preferred stock dividends were \$0.2 million and \$0.5 million, respectively, for the years ended December 31, 2005 and 2006. Furthermore, we recorded a non-cash charge (deemed dividend) of \$0.7 million attributable to the beneficial conversion feature associated with the Series C 9% Convertible Preferred Stock issued in 2005 and \$0.5 million in 2006.

Table of Contents**Index to Financial Statements****Year Ended December 31, 2004 Compared To The Year Ended December 31, 2005:**

	YEAR ENDED DECEMBER 31,	
	2004	2005
	(In thousands)	
Operating revenue	\$ 39,064	\$ 43,350
Operating expenses		
Direct costs	28,510	27,515
Depreciation and amortization	4,282	4,627
General and administrative expenses	9,464	8,497
Total operating expenses	42,256	40,639
Operating income (loss)	(3,192)	2,711
Interest expense	(3,288)	(2,836)
Gain (loss) on debenture conversion inducement and debt extinguishment	(729)	758
Other income (expense)	(290)	835
Income (loss) before taxes	(7,499)	1,468
Income tax benefit		508
Net income (loss) from continuing operations	(7,499)	1,976
Loss from discontinued operations	(6,756)	(3,978)
Loss on disposal of discontinued operations assets		(2,271)
Net loss	(14,255)	(4,273)
Preferred stock dividends	(490)	(249)
Non-cash charge attributable to beneficial conversion features of preferred stock		(745)
Net loss available to common stockholders	\$ (14,745)	\$ (5,267)

Operating revenues increased 11%, or \$4.3 million, from \$39.1 million to \$43.4 million for the years ended December 31, 2004 and 2005, respectively, of which \$8.8 million of this increase was due to the June 30, 2004 acquisition of Trussco. Drilling revenues decreased from \$30.4 million for the year ended December 31, 2004 to \$25.9 million for the year ended December 31, 2005 due to permitting and weather-related delays.

Direct costs decreased 4%, or \$1.0 million, from \$28.5 million in 2004 to \$27.5 million in 2005. Operating payroll costs increased \$0.9 million from \$12.8 million to \$13.7 million for the years ended December 31, 2004 and 2005, respectively. Payroll costs from the Trussco acquisition accounted for a \$2.9 million increase while the drilling division accounted for a \$2.0 million decrease. Repairs and maintenance expenses decreased \$0.7 million from 2004 to 2005, with \$0.8 million of the decrease related to the drilling division offset by \$0.1 million related to Trussco. Explosives expense decreased \$0.4 million primarily as a result of the decreased drilling activity in 2005. Contract services decreased \$1.9 million company-wide, of which our drilling division accounted for \$2.0 million of the decrease with an offsetting increase of \$0.1 million related to Trussco. 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. Rental and lease expenses increased \$0.6 million from 2004 to 2005, with a \$0.2 million decrease related to the drilling division offset by a \$0.8 million increase related to Trussco. Field office expenses and insurance expenses increased \$0.5 million collectively, due to the Trussco acquisition. While operating expenses are expected to continue to increase in 2006 as operating revenues increase, we expect these expenses to remain consistent as a percentage of revenues.

Depreciation and amortization costs increased \$0.3 million, from \$4.3 million in 2004 to \$4.6 million in 2005. Depreciation expense increased \$0.2 million due to the increase in revenue-producing assets, primarily

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from the acquisition of Trussco in June 2004. Additionally, amortization expense increased by \$0.1 million resulting primarily from amortization of intangible assets related to the Trussco acquisition.

General and administrative expenses decreased \$1.0 million from \$9.5 million for 2004 to \$8.5 million for 2005. Of this decrease, \$2.8 million relates to professional services, offset by a \$1.6 million increase attributable to the Trussco acquisition. Other general and administrative expense increased by \$0.2 million.

During 2004, we recorded asset impairment charges of \$4.2 million 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 2005. This 2004 impairment charge, which relates entirely to the Aviation Transportation Services Segment, is included in the loss from discontinued operations.

Interest expense was \$2.8 million for the year ended December 31, 2005 compared to \$3.3 million for the year ended December 31, 2004. The decrease was partially attributable to decreased levels of debt including the convertible debentures. Interest expense allocated to loss from discontinued operations amounted to \$0.9 million and \$1.9 million for the year ended December 31, 2005 and 2004, respectively.

In 2005, we recorded a \$0.8 million accounting gain in connection with the early extinguishment of a portion of our debt compared to a \$0.7 million loss during 2004. An additional loss on debt extinguishment of \$0.7 million is included in loss from discontinued operations for 2005 compared to \$0.3 million for 2004.

Other (income) expense increased from an expense of \$0.3 million to income of \$0.8 million. This increase in income was partially attributable to costs incurred as a result of financing transactions that did not close in 2004, which were charged to expense, coupled with a \$0.8 million gain on sale of assets in 2005.

During 2004, the entire amount of the net operating loss carryforward generated in that year was fully reserved as it was determined that more likely than not this increase in deferred tax asset would not be realized in the near future. In 2005, an income tax benefit was recognized in the amount of \$0.5 million to increase the deferred tax asset balance to its estimated realizable amount.

As previously discussed, we sold our Aviation Transportation Services segment effective June 30, 2005. Accordingly, we recorded a loss from discontinued operations of \$4.0 million, net of tax benefit, for the year ended December 31, 2005 compared to \$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. Additionally, in 2005 we recorded a loss of \$2.3 million on the sale of our Aviation Transportation Services segment.

Preferred stock dividends were \$0.5 million and \$0.2 million, respectively, for the years ended December 31, 2004 and 2005. Furthermore, we recorded a non-cash charge (deemed dividend) attributable to the beneficial conversion feature associated with the Series C 9% Convertible Preferred Stock issued during 2005.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006, we had approximately \$12.6 million in cash on hand and approximately \$0.0 million available on our revolving line of credit. At December 31, 2006, we borrowed \$12.0 million on our revolving line of credit to better illustrate for investors and financial analysts our funds availability at the end of the year. The amount was repaid on the first business day of January 2007. This compares to approximately \$0.2 million in cash on hand and approximately \$2.4 million available on our revolving line of credit at December 31, 2005. At December 31, 2006, we had working capital of approximately \$16.6 million as compared to a working capital deficit of approximately \$0.02 million at December 31, 2005. Our increase in working capital is the result of our acquisitions of Preheat and Rig Tools and increased activity and profitability in our Drilling and Environmental segments during 2006.

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Cash provided by continuing operating activities was \$22.3 million, \$3.2 million, and \$6.0 million for the years ended December 31, 2006, 2005 and 2004, respectively. In 2004, the largest contributing factors were a result of non-cash transactions, an increase in accounts payable and accrued expenses and a decrease in prepaid expenses and other current assets. In 2005, the largest contributing factors were a result of non-cash transactions, an increase in receivables and a decrease in prepaid expenses and other current assets and accounts payable and accrued expenses. In 2006, the largest contributing factor was income from operations.

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, purchased approximately \$6.4 million of aircraft accounted for as capital leases, and purchased approximately \$0.8 million of new vehicles accounted for as capital leases. For the year ended December 31, 2005, we acquired \$0.1 million of new vehicles and approximately \$0.1 million in aviation support equipment as well as \$0.2 million in equipment and approximately \$0.3 million in facility improvements. In 2005, we sold the assets of our Aviation Transportation Services segment. Proceeds from the sale were used to repay capital lease obligations related to that division. In 2006 we acquired Preheat and Rig Tools, purchased approximately \$5.3 million in equipment and refinanced our rolling stock of vehicles previously accounted for as capital leases into operating leases. In 2007, we plan to continue to explore strategic business opportunities and expand and upgrade our facilities and equipment to improve efficiency of our operations. (See Recent Developments).

On February 14, 2006, we borrowed an additional \$7.0 million on the Term A Loan and an additional \$6.0 million on the Term B Loan to partially fund the Preheat acquisition. On November 1, 2006, we borrowed an additional \$5.9 million on the Term A Loan to partially fund the Rig Tools acquisition.

Loan closing costs of \$1.0 million were incurred during the year ended December 31, 2006 related to the Term A and Term B Loans compared to \$3.6 million for the year ended December 31, 2005, and a total of \$0.5 million was incurred during the year ended December 31, 2005 related to our various credit facilities.

As discussed in Recent Developments, we completed \$64.5 million of new Senior Credit Facilities with LaSalle in March 2007. This new credit facility allows us additional financing capacity at more favorable interest rates to meet our future credit needs. In addition, we completed the acquisition of Holston and certain assets of Cypress in March 2007.

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At December 31, 2005 and 2006, long-term debt consists of the following:

	DECEMBER 31, 2005	DECEMBER 31, 2006
	(In thousands)	
Notes payable to a bank with interest payable at Prime plus 1.50% (8.25% at December 31, 2005 and 9.75% at December 31, 2006) maturing July 31, 2023, secured by real estate	\$ 1,354	\$ 1,321
Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate	195	174
Convertible promissory notes payable to certain former stockholders of Trussco, Inc. with interest at 5%, maturing in June 2007	1,000	
Promissory notes payable to certain former stockholders of Preheat, Inc. with interest at 5%, maturing in February 2008		2,667
Promissory notes payable to certain former stockholders of Preheat, Inc. with interest at 5%, maturing in February 2009		1,333
Convertible promissory notes payable to certain former stockholders of Rig Tools, Inc. with interest at 5%, maturing in November 2007, net of beneficial conversion of \$426 (1)		2,574
Convertible promissory notes payable to certain former stockholders of Rig Tools, Inc. with interest at 5%, maturing in November 2008, net of beneficial conversion of \$156 (1)		844
Promissory note payable to finance companies secured by vehicles	729	587
Promissory note payable to finance companies secured by equipment	37	491
Capital lease payable to a finance company secured by an aircraft	941	683
Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, maturing May 13, 2008, unsecured	913	569
Term B notes payable to a finance company, variable interest rate at LIBOR plus 8.0% (12.41% at December 31, 2005 and 13.37% at December 31, 2006) maturing August 29, 2010, secured by various property and equipment	9,000	15,000
Term A notes payable to a finance company, variable interest rate at LIBOR plus 4.0% (10.80% at December 31, 2005 and 9.37% at December 31, 2006), maturing May 18, 2010, secured by various equipment	4,540	14,381
Other debt	15	
Total	\$ 18,724	\$ 40,624
Less: current maturities	(2,926)	(7,689)
Long-term debt, less current maturities	\$ 15,798	\$ 32,935

(1) See Note 12 to the consolidated financial statements regarding Rig Tools stockholder notes.

LINE OF CREDIT

We have a working capital revolving line of credit agreement (the "Line"). Availability under the Line is the lower of: (i) \$15.0 million or (ii) the eligible accounts receivable, as defined under the agreement. The Line accrues interest at the prime interest rate (8.25% at December 31, 2006) and matures in May 2010. The Line is collateralized by accounts receivable and is subject to certain customer concentration limitations. As of December 31, 2006, we had \$12.2 million outstanding under the Line. The weighted-average interest rate on borrowings under our revolving line of credit was 7.7% and 8.6% for the years ended December 31, 2005 and 2006, respectively. Due to the lock-box arrangement and the subjective acceleration clause of the Line agreement, the debt under the Line has been classified as a current liability as of December 31, 2005 and 2006, as required by Emerging Issues Task Force (EITF) No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement*.

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SENIOR SECURED

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 equipment and three Bell helicopters. The proceeds were used to repay debt, pay the October Put Option on the Convertible Debentures discussed below and for working capital purposes.

On January 21, 2005, we entered into a forbearance agreement with Beal Bank, SSB, which increased the interest rate from 12% to 17% and extended the maturity of the Bridge Loan 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 earnings before interest, taxes, depreciation and amortization (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 below) on May 18, 2005.

CAPITAL LEASES

During the year ended December 31, 2005, we had several capital leases for aircraft which generally had 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. From time to time, we acquired an aircraft through cash flows from operations or through the Line which was then sold to a financing company and leased back to us. These sales and lease back transactions were 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 from proceeds of our Term A Loan in the third quarter of 2005.

We also leased several vehicles used in our seismic drilling operations under 40-month capital leases. In February 2006, in accordance with a 2005 agreement, the capital leases on those vehicles were paid off through a refinance transaction with a third party leasing company. The capital leases were replaced with 24-month operating leases expiring in the first quarter of 2008.

At December 31, 2006, we had a capital lease with a finance company secured by an aircraft. The lease term expires in December 2008.

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 were 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 were not exercisable for a period of six months and one day after the issue date of such warrants and in no event would 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 was recorded as debt discount with a corresponding amount recorded to paid in capital at the date of issuance. The 1-year Series A warrants expired during 2005.

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 were 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

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of 151,500 shares of common stock at an initial exercise price of \$9.00 per share. The warrants were not exercisable for a period of six months and one day after the issue date of such warrants and in no event would 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.

Total proceeds of \$14.2 million were 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 (See Note 9 to the Consolidated Financial Statements).

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 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 related to the amortization of the debt discounts for the year ended December 31, 2004. Since the Debentures were in default at December 31, 2004, the entire amount of the debt discount was charged to expense during 2004.

Prior to maturity of the Debentures, the holders of the Debentures had 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 have been 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 had the irrevocable option to deliver cash or, if certain conditions set forth in the Debentures were satisfied, shares of our common stock. If we elected to pay the Put Option with common stock, the underlying shares would have been 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 have delivered was 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%. We did not redeem for cash or stock notices received from the Debenture Holders exercising their Put Option for the months of November and December 2004 and January, February, March and April 2005.

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. (See Note 4 to the Consolidated Financial Statements).

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

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and in accordance with the requirements of Statement of Financial Accounting Standards (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 against the holders of the Debentures and other third parties (collectively, the Debenture Holders). In the suit, we alleged that the Debenture Holders violated Section 16(b) of the Securities Exchange Act of 1934, and we sought the disgorgement of profits realized by the Debenture Holders from their purchases and sales of our common stock.

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 (see Note 4 to the Consolidated Financial Statements). 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 \$0.2 million at the close of these transactions. The Subordinated Debenture Notes were scheduled to 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 extinguished the terms of the original Debentures and released all parties from any future claims.

On August 26, 2005, we entered into a settlement agreement and mutual release (Agreement and Release) with two of the three holders of the Subordinated Debenture Notes. Under terms of the Agreement and Release, we paid \$1.5 million in cash from the proceeds of a new \$25.0 million multiple draw term credit facility, and issued 750,000 shares of our common stock in full satisfaction of the applicable Subordinated Debenture Notes. At December 31, 2006, the remaining Subordinated Debenture Note had a balance of approximately \$0.6 million.

SENIOR CREDIT FACILITY

On May 18, 2005, we completed a \$50 million equipment term financing (Term A Loan) and increased our Line to \$15 million from its previous level of \$12.0 million (with the Term A Loan, collectively referred to herein as the Senior Credit Facility). In conjunction with the disposition of the Aviation Transportation Services segment, effective June 2005, the borrowing base was reduced to \$30.0 million. On February 13, 2006, we entered into the First Amended and Restated Credit Agreement (the Amendment) which amended the Term A Loan. Under the terms of the Amendment, the funding limits will be limited to the lesser of \$30.0 million and the sum of (i) 50% of the orderly liquidation value of our seismic drilling, environmental and leasing equipment, and (ii) 50% of the fair market value of certain real estate. In addition, the Term A Loan matures in May 2010 and will be repaid monthly in equal payments up to a 25% balloon at maturity date, with interest paid in arrears and accruing at the annual interest rate of 90-day LIBOR plus 4.0% (9.37% at December 31, 2006). The Term A Loan restricts the payment of cash dividends and contains customary financial covenants requiring, among other things, minimum levels of tangible net worth, debt to EBITDA ratios and limitations on capital expenditures. On February 14, 2006, we borrowed an additional \$7.0 million on the Term A Loan to partially fund the Preheat acquisition and on November 1, 2006, we borrowed an additional \$5.7 million on the Term A Loan to partially fund the Rig Tools acquisition (see Note 7), leaving an outstanding balance of \$14.4 million at December 31, 2006, after scheduled monthly principal payments.

JUNIOR CREDIT FACILITY

On August 29, 2005, we completed a \$25.0 million multiple draw term credit facility (Term B Loan). Under the terms of the Term B Loan, funding will be done through advances at our request in minimum amounts of \$2.0 million. Quarterly payments in the amount of \$0.2 million, plus interest, will begin on April 1, 2008. In the event that we no longer have any senior term debt outstanding, the annual principal amortization of the Term B Loan will be increased to 7.5% of the advances outstanding under the Term B Loan beginning December 31,

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2006. The Term B Loan matures in August 2010 and will accrue interest at the rate of 90-day LIBOR plus 8% (13.37% at December 31, 2006). The Term B Loan restricts the payment of cash dividends and contains customary financial covenants requiring, among other things, minimum levels of tangible net worth, debt to EBITDA ratios and limitations on annual capital expenditures. On February 14, 2006, we borrowed an additional \$6.0 million on the Term B Loan to partially fund the Preheat acquisition (see Note 7), leaving an outstanding balance of \$15.0 million at December 31, 2006.

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 Note 8 to the Consolidated Financial Statements contained herein. 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. We recognized a gain on debt extinguishment of \$0.3 million upon closing the transaction.

At December 31, 2005, we had \$1.0 million of Stockholder Notes outstanding bearing interest at 5% and maturing in June 2007. In July 2006, we prepaid this indebtedness resulting in a \$0.01 million gain from the early extinguishment of this debt. This transaction also resulted in the termination of the Earnout Note.

PREHEAT NOTES

Effective February 10, 2006, we purchased all of the issued and outstanding stock of Preheat, Inc. for an aggregate acquisition price of \$23.0 million, including \$16.0 million in cash, 900,000 shares of our common stock, \$4.0 million in 5% promissory notes payable to certain stockholders (Preheat Notes) and the assumption of approximately \$1.6 million in debt and other liabilities. The Preheat Notes consist of three separate notes with \$2.7 million maturing in February 2008 and \$0.5 million and \$0.8 million maturing in February 2009. At December 31, 2006, the Preheat Notes had a balance of \$4.0 million.

RIG TOOLS NOTES

Effective November 1, 2006, we purchased all of the issued and outstanding stock of Rig Tools, Inc. for an aggregate acquisition price of \$14.0 million, including \$10.0 million in cash and \$4.0 million in 5% promissory notes payable to certain stockholders (Rig Tools Notes), and the assumption of approximately \$2.5 million in debt and other liabilities. The Rig Tools Notes consist of three separate notes with \$3.0 million maturing in November 2007, \$1.0 million maturing in November 2008. The Rig Tools Notes can be prepaid at any time and are convertible into shares of our common stock at a price of \$8.00 per share. We recorded a beneficial conversion feature of \$0.7 million related to the stock valuation at closing which is being amortized over the conversion period of the notes. At December 31, 2006, the Rig Tools Notes had a balance of \$4.0 million less \$0.6 million in unamortized beneficial conversion discounts.

SERIES C 9% CONVERTIBLE PREFERRED STOCK

On May 17, 2005, we entered into a Securities Purchase Agreement with certain of our affiliates and executive officers to issue up to \$5.0 million of Series C 9% Convertible Preferred Stock (the Series C

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Preferred) in conjunction with the completion of the Term A Loan more fully described above. Our Series C Preferred is convertible into shares of our common stock at a conversion price of \$1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between \$1.95 and \$3.50 per share. The 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 Preferred and warrants to acquire 4,585,000 shares of our common stock, in exchange for \$3.5 million. The second tranche closed on August 29, 2005, at which time the remainder of the Series C Preferred and warrants were issued generating proceeds of \$1.5 million and we granted the remaining 1,965,000 warrants.

As mentioned above, the Term A Loan and the Term B Loan restrict the payment of cash dividends. Consequently, a portion of the 9% dividend obligation related to the Series C Preferred has been satisfied through the issuance of payment-in-kind (PIK) dividends. The PIK dividends are paid through the issuance of additional shares of Series C Preferred. These additional shares of preferred stock do not have warrants attached to them. During the years ended December 31, 2005 and December 31, 2006, 128 shares and 479 shares of Series C Preferred were issued, respectively, as PIK dividends at par.

RELATED PARTY TRANSACTIONS

During the three year period ended December 31, 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. In May 2001, we agreed to pay the affiliate \$3.0 million cash plus issue to the affiliate \$4.6 million of the Company's Series B Preferred 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 9 to the Consolidated Financial Statement 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 4 to the Consolidated Financial Statements). The proceeds were used to redeem \$8.2 million (7,475 shares) of the Series A Preferred Stock outstanding, including accrued dividends. The remaining 25 shares of Series A Preferred were redeemed in April 2004 for \$0.03 million. At December 31, 2004 there are no Series A Preferred outstanding. During the first quarter of 2004, we redeemed 2,286 shares of the Series B Preferred 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 outstanding for \$2.5 million, including accrued dividends. At December 31, 2006, 29 shares of Series B Preferred Stock remain outstanding.

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 (See Note 9 to the Consolidated Financial Statements) 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 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 to \$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

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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 our affiliates and executive officers to issue up to \$5.0 million of Series C Preferred in conjunction with the completion of the Term A Loan more fully described above. Our Series C Preferred is convertible into our common stock at a conversion price of \$1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between \$1.95 and \$3.50 per share. The transactions contemplated by the Securities Purchase Agreement closed in two tranches. On May 17, 2005, the closing date of the first tranche, we issued an aggregate of 3,500 shares of Series C Preferred and warrants to acquire 4,585,000 shares of our common stock, in exchange for \$3.5 million. The second tranche closed on August 29, 2005, at which time the remainder of the Series C Preferred and warrants were issued generating proceeds of \$1.5 million and we granted the remaining 1,965,000 warrants.

The Term A Loan and the Term B Loan restrict the payment of cash dividends. Consequently, the dividend obligation related to the Series C Preferred has been satisfied through the issuance of PIK dividends. The PIK dividends are paid through the issuance of additional shares of Series C Preferred. These additional shares of preferred stock do not have warrants attached to them. During the years ended December 31, 2005 and December 31, 2006, 128 shares and 479 shares of Series C Preferred were issued, respectively, as PIK dividends at par.

Effective February 10, 2006, we purchased all of the issued and outstanding stock of Preheat for an aggregate acquisition price of \$23.0 million, including \$16.0 million in cash, 900,000 shares of our common stock, \$4.0 million in 5% promissory notes payable to certain stockholders (Preheat Notes) and the assumption of approximately \$1.6 million in debt and other liabilities. The Preheat Notes consist of three separate notes with \$2.7 million maturing in February 2008 and \$0.5 million and \$0.8 million maturing in February 2009. At December 31, 2006, the Preheat Notes had a balance of \$4.0 million.

Effective November 1, 2006, we purchased all of the issued and outstanding stock of Rig Tools for an aggregate acquisition price of \$14.0 million, including \$10.0 million in cash and \$4.0 million in 5% convertible promissory notes payable to certain stockholders (Rig Tools Notes), and the assumption of approximately \$2.5 million in debt and other liabilities. The Rig Tools Notes consist of three separate notes with \$3.0 million maturing in November 2007 and \$1.0 million maturing in November 2008. The Rig Tools Notes can be prepaid at any time and are convertible into shares of our common stock at a price of \$8.00 per share. We recorded a beneficial conversion feature of \$0.7 million related to the stock valuation at closing which is being amortized over the life of the notes. At December 31, 2006, the Rig Tools Notes had a balance of \$4.0 million less unamortized beneficial conversion of \$0.6 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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.

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ACCOUNTS RECEIVABLE

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 evaluating the level of established reserves, we make judgments regarding the customer's 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.

INVENTORY

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 average 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.

INCOME TAXES

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. If tax regulations change, 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.

OTHER CONTINGENCIES

We record liabilities for environmental obligations when remedial efforts are 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

Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R) requiring that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award). Prior to January 1, 2006, we accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related interpretations. We also followed the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. We adopted SFAS No. 123R using the modified prospective method and, accordingly, financial statement amounts for prior periods presented in this Form 10-K have not been restated to reflect the fair value method of recognizing compensation cost relating to non-qualified stock options.

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DISCONTINUED OPERATIONS

In accordance with SFAS No. 144 *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 American Helicopters, Inc. and have accounted for our exit from this market as discontinued operations in 2004. Effective June 30, 2005, we sold the equipment and related assets of our Aviation Transportation Services segment for a cash price of \$11.0 million. The proceeds were used to repay advances under our Term A Loan and for additional working capital. See Note 13 to the Consolidated Financial Statements included herein.

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 December 31, 2006 are comprised of eight marsh buggies. 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 our 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 sale of our Aviation Transportation Services segment.

COMMITMENTS AND CONTINGENCIES

On June 30, 2004, we amended Restricted Stock Incentive Agreements with certain executive officers into Amended and Restated Incentive Agreements (collectively referred to hereinafter as the *Incentive Agreements*) that award stock and/or cash on various vesting dates. Under the terms and conditions of the Incentive Agreements, two executive officers received 40,454 shares and 50,000 shares. The stock was held in escrow, registered in the name of the executive officers, until it vested 100% on November 4, 2004. Tax equalization payments were also paid to the two executive officers totaling \$0.1 million at June 30, 2004. The awards were fair valued at a per share price of \$5.05 at June 30, 2004 and recorded, in full, as compensation expense of \$0.5 million.

The Incentive Agreements also grant these executive officers the right to receive two cash payments each equal to the fair market value of 60,673 shares and 75,000 shares of our common stock, respectively, on the first business day following our annual stockholders meeting in 2005 and in 2006. The amounts of such stock-based awards to the executive officers on each vesting date may be paid in cash or, at the sole option of the Compensation Committee, in additional common stock, provided such shares are available for issuance pursuant to the terms of the Fourth Amended and Restated OMNI Energy Services Corp. Stock Incentive Plan (hereinafter the *Plan*). Such shares were not available until November 30, 2004, when the number of shares available under the Plan was increased after approval by the stockholders. From June 30, 2004 until November 30, 2004, the awards were accounted for under FASB Interpretation (FIN) No. 28 *Accounting for Stock Appreciation Right and Other Variable Stock Option or Award Plans* as a variable plan, which requires that compensation will be measured at the end of each period at the quoted market price of a share of our common stock and the change in the value of the incentive awards be charged to expense. As such, the awards were revalued at the end of each

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reporting period at the quoted market price of a share of our common stock. At November 30, 2004, the market value of a share of our common stock was \$2.93 resulting in compensation expense under variable accounting of \$0.5 million to be recognized through that date. Effective November 30, 2004, the Company amended these incentive agreements to provide for 100% vesting of the restricted stock and have put into escrow the number of shares of common stock to settle the award. Accordingly the previous unvested portion of the award was charged to expense which totaled \$0.8 million and was recorded as compensation expense as of December 31, 2004.

We also entered into Stock-Based Award Incentive Agreements (hereinafter "SBA") with certain executive officers on June 30, 2004. The SBA shall become computed and payable: (a) on the date of the Employee's termination of employment (for any reason other than resignation or termination for cause), (b) 90 days after the executive's death or disability or (c) upon a Change in Control. The executive managers were awarded 45% and 55%, respectively, of: (1) 10% of the fair market value (hereinafter "FMV"), defined as the average closing price per share on the NASDAQ National Market over the five prior trading days times the number of issued and outstanding shares of the Company, of a share of the Company's common stock greater than or equal to \$1.00 but less than \$1.50, plus (2) 15% of the FMV of a share of the Company's common stock greater than or equal to \$1.50 but less than \$2.50, plus (3) 20% of the FMV of a share of the Company's common stock greater than or equal to \$2.50 but less than \$10.00, plus (4) 15% of the FMV of a share of the Company's common stock greater than or equal to \$10.00 but less than \$20.00, plus (5) 10% of the FMV of a share of the Company's common stock greater than or equal to \$20.00. If no payments have been made, the right terminates on December 31, 2008 or upon termination of employment for resignation or cause, whichever occurs first. The intrinsic value of this award at December 31, 2006 is \$32.8 million but no compensation expense has been recorded at December 31, 2006 because the award is contingent on future events none of which are considered probable at December 31, 2006. Subsequent to December 31, 2006, this agreement was replaced by a new Restricted Stock and Stock-Based Award Incentive Agreement (See Note 15 to the consolidated financial statements).

In addition, we entered into employment contracts with certain key executive management effective until various dates ranging from December 31, 2006 through December 31, 2008 with automatic extensions for additional, successive one year periods, unless either party gives notice of non-renewal as provided for under the terms of the employment contracts.

As discussed in MD&A Recent Developments, effective January 5, 2007, we entered into new RSAs with certain executive officers. The new RSAs replace prior restricted stock agreements and reduce our contingent liability to the executive officers from approximately \$31.7 million to approximately \$10.0 million as of January 5, 2007. The RSAs provide for the granting of between 400,000 and 500,000 shares of the Company's restricted common stock to each of the executive officers on the terms set forth in the RSAs. The number of shares of restricted stock becomes fixed and payable in the event of (i) a change in control of the Company or the receipt by the Company's Board of Directors of a change of control offer as defined by the RSAs; (ii) termination without cause; or (iii) death or disability. Additionally, at the time of vesting in the restricted shares, each executive officer will receive the right to a cash payment of \$1.2 million. The revised RSAs will terminate on December 31, 2008 and any unvested restricted common stock or stock-based awards will terminate and lapse.

In connection with the Trussco acquisition, we entered into employment contracts with three former Trussco stockholders effective until December 31, 2006 with automatic extensions for additional, successive one year periods commencing January 1, 2007, unless either party gives notice of non-renewal as provided for under the terms of the employment contracts. During 2005, two of these employment contracts were terminated.

In connection with the Preheat acquisition, we entered into employment contracts with the previous stockholders effective until December 31, 2007 with an automatic extension, granted at the option of Preheat, for one additional twelve-month period commencing on January 1, 2008.

In connection with the Rig Tools acquisition, we entered into an employment contract with one of the previous stockholders effective until October 31, 2008 with an automatic extension, granted at the option of Rig Tools, for one additional twelve-month period commencing on November 1, 2008.

Table of Contents**Index to Financial Statements****TRUSSCO EARNOUT**

In connection with the acquisition of Trussco, we issued to certain former stockholders of Trussco a promissory note (Earnout Note) that earned interest at a rate of 5% per annum of the amount owed. Under the terms of the Earnout Note, we agreed 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 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.

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 8 of our Consolidated 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.

At December 31, 2005, we had \$1.0 million of Stockholder Notes outstanding bearing interest at 5% and maturing in June 2007. In July 2006, we prepaid this indebtedness resulting in a \$0.01 million gain from the early extinguishment of this debt. This transaction also resulted in the termination of the Earnout Note.

CONTRACTUAL DEBT OBLIGATIONS

We have the following contractual debt obligations as of December 31, 2006:

	TOTAL	PAYMENTS DUE BY PERIOD		
		LESS THAN 1 YEAR	1-3 YEARS	AFTER 4 YEARS
		(In thousands)		
Long-term debt	\$ 40,523	\$ 8,060	\$ 31,107	\$ 1,356
Capital lease obligations	683	169	514	
Line of credit	12,179	12,179		
Insurance notes	3,275	3,275		
Total Contractual Cash	\$ 56,660	\$ 23,683	\$ 31,621	\$ 1,356

We have the following operating lease commitments as of December 31, 2006:

	PAYMENTS DUE BY PERIOD				
	2007	2008	2009	2010	2011
	(In thousands)				
Operating leases	\$ 1,590	\$ 1,208	\$ 553	\$ 166	\$ 57

We believe that cash flow generated from operations in 2007 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 twelve months.

OFF BALANCE SHEET ARRANGEMENTS

As mentioned above, we have various vehicle and facilities leases which are classified as operating leases for reporting purposes. The total future commitments under these leases is \$3.6 million.

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RECENTLY ISSUED UNIMPLEMENTED ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more-likely-than-not of being sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50 percent likely of being recognized upon ultimate settlement with the taxing authority, is recorded. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements. At this time, we do not anticipate any material adverse impact on our financial statements from this pronouncement.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and requires enhanced disclosures about fair value measurements. It does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently assessing whether we will early adopt SFAS No. 157 as of the first quarter of fiscal 2007 as permitted, and are currently evaluating the impact adoption may have on our financial statements.

SUBSEQUENT EVENTS

Effective January 5, 2007, we entered into new Restricted Stock and Stock-Based Award Incentive Agreements (RSA) with certain executive officers. The new RSAs replace prior restricted stock agreements and reduce our contingent liability to the executive officers from approximately \$31.7 million to approximately \$10.0 million as of January 5, 2007. The RSAs provide for the granting of between 400,000 and 500,000 shares of our restricted common stock to each of the executive officers on the terms set forth in the RSAs. The number of shares of restricted stock becomes fixed and payable in the event of (i) a change in control or the receipt by our Board of Directors of a change of control offer as defined by the RSAs; (ii) termination without cause; or (iii) death or disability. Additionally, at the time of vesting in the restricted shares, each executive officer will receive the right to a cash payment of \$1.2 million. The revised RSAs will terminate on December 31, 2008, and any unvested restricted common stock or stock-based awards will terminate and lapse.

On February 13, 2007, our motion for partial summary judgment on ACP's first amended and superceding reconventional and third party demand was granted. ACP had filed the demand seeking damages for our redeeming rather than converting the Series A and B Preferred Stock. The court determined that ACP consequently abandoned its claim by retaining the proceeds.

On March 2, 2007, we completed the acquisition of BMJ Industrial Investments, L.L.C. and its wholly-owned subsidiary, Charles Holston, Inc., (collectively Holston) pursuant to a Membership Interest Purchase and Sale Agreement (Holston Purchase Agreement) to acquire Subject to the terms and conditions of the Holston Purchase Agreement, we purchased 100% of the membership interests and equity interests of Holston for the total consideration of approximately \$23.0 million, including \$18.0 million of cash and the issuance of \$5.0 million of promissory notes accruing interest at 5% per annum with various maturities over a three-year period.. In addition, we assumed approximately \$2.8 million of certain long-term debt of Holston. As a condition of closing, Holston was required to have on hand a minimum of \$7.5 million of excess working capital as defined in the Holston Purchase Agreement.

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On March 2, 2007, we completed the acquisition of certain assets of Cypress Energy Consulting, Inc., d/b/a Cypress Energy Services (Cypress) pursuant to an Asset Purchase Agreement (Cypress Purchase Agreement). Subject to the terms and conditions of the Cypress Purchase Agreement, we purchased certain assets from Cypress for the total consideration of approximately \$10.1 million, including \$7.1 million of cash and the issuance of a \$3.0 million, three-year 5% promissory note.

On March 2, 2007 we completed \$64.5 million of new credit facilities (Senior Credit Facilities) with LaSalle Business Credit, LLC (LaSalle), a wholly-owned subsidiary of LaSalle Bank, N.A. and an affiliate of ABN AMRO. With the proceeds from the new Senior Credit Facilities, we (i) repaid approximately \$22 million outstanding principal balance under our existing Term A and Term B loans; (ii) closed the previously announced acquisition of Holston; and (iii) completed the previously announced acquisition of certain assets of Cypress. The balance of the proceeds available under the Senior Credit Facilities was used to pay fees and expenses of the aforementioned transactions and provide additional working capital.

ITEM 7A. 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 December 31, 2006 subject to interest rate risk. All instruments described are non-traded instruments and approximated fair value.

	2007	2008	2009	2010	2011
	(Dollars in thousands)				
Long-term debt					
Fixed Rate	\$ 3,825	\$ 4,650	\$ 1,584	\$ 191	\$ 254
Average interest rate	6.5%	5.7%	5.4%	8.2%	8.5%
Variable Rate	\$ 4,404	\$ 4,931	\$ 5,109	\$ 15,156	\$ 1,102
Average interest rate	9.37%	9.8%	9.9%	13.0%	9.8%
Short-term debt					
Fixed Rate	\$ 3,275				
Average interest rate	5.7%				
Variable Rate	\$ 12,179				
Average interest rate	8.25%				

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 at December 31, 2006 with fixed interest rates totals \$6.6 million. At December 31, 2006, 76% 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 decrease net income before provision for income taxes by approximately \$0.3 million for the year ended December 31, 2006.

FOREIGN CURRENCY RISKS

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

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
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<u>Consolidated Balance Sheets as of December 31, 2005 and 2006</u>	49
<u>Consolidated Statements of Operations for the Years Ended December 31, 2004, 2005 and 2006</u>	50
<u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2004, 2005 and 2006</u>	51
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

OMNI Energy Services Corp:

We have audited the accompanying consolidated balance sheets of OMNI Energy Services Corp. as of December 31, 2005 and 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Omni Energy Services Corp as of December 31, 2005 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company changed its method of accounting for share based payments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Omni Energy Service Corp.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2007 expressed an unqualified opinion on management's assessment of internal control over financial reporting and a qualified opinion on the effective operation of internal control over financial reporting.

/s/ Pannell Kerr Forster of Texas, P.C.

Houston, Texas

March 16, 2007

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OMNI ENERGY SERVICES CORP.
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2005 2006 (Dollars in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 174	\$ 12,576
Restricted cash		1,114
Trade receivables, net	8,094	16,634
Other receivables	1,882	315
Parts and supplies inventory	1,787	3,792
Prepaid expenses and other current assets	2,458	4,663
Deferred tax asset	2,000	11,842
Current assets of discontinued operations	295	67
Assets held for sale	108	108
Total current assets	16,798	51,111
PROPERTY, PLANT AND EQUIPMENT, net	14,922	44,827
OTHER ASSETS:		
Goodwill	2,924	14,521
Customer intangible assets, net	1,520	1,852
Licenses, permits and other intangible assets, net	3,934	4,308
Loan closing costs, net	3,197	3,356
Other assets	463	565
Total other assets, net	12,038	24,602
TOTAL ASSETS	\$ 43,758	\$ 120,540
 LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 5,374	\$ 7,435
Accrued expenses	1,382	3,702
Current maturities of long-term debt	2,926	7,689
Insurance notes payable	1,692	3,275
Line of credit	4,750	12,179
Current liabilities of discontinued operations	698	219
Total current liabilities	16,822	34,499
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities	15,798	32,935
Deferred income taxes		13,680
Other long-term liabilities	3	
Total long-term liabilities	15,801	46,615

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Total liabilities	32,623	81,114
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Convertible Preferred stock, no par value, 5,000,000 shares authorized; 29 shares of Series B issued and outstanding at December 31, 2005 and 2006 and 5,128 and 5,607 shares of Series C issued and outstanding at December 31, 2005 and 2006, respectively, liquidation preference of \$1,000 per share	806	1,285
Common stock, \$.01 par value, 45,000,000 shares authorized; 15,272,121 and 16,909,949 issued and 15,136,448 and 16,864,949 outstanding at December 31, 2005 and 2006, respectively	153	169
Treasury stock, 135,673 and 0 shares, at cost, at December 31, 2005 and 2006, respectively	(264)	
Preferred stock dividends declared	123	132
Additional paid-in capital	75,787	82,441
Accumulated deficit	(65,470)	(44,601)
Total stockholders equity	11,135	39,426
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 43,758	\$ 120,540

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

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2004	2005	2006
	(In thousands, except per share data)		
Operating revenue	\$ 39,064	\$ 43,350	\$ 98,998
Operating expenses:			
Direct costs	28,510	27,515	59,830
Depreciation and amortization	4,282	4,627	5,660
General and administrative expenses	9,464	8,497	13,780
Total operating expenses	42,256	40,639	79,270
Operating income (loss)	(3,192)	2,711	19,728
Interest expense	(3,288)	(2,836)	(4,966)
Gain (loss) on debenture conversion inducement and debt extinguishment	(729)	758	15
Other income (expense), net	(290)	835	233
Income (loss) before income taxes	(7,499)	1,468	15,010
Income tax benefit		508	6,805
Net income (loss) from continuing operations	(7,499)	1,976	21,815
Loss from discontinued operations, net of taxes	(6,756)	(3,978)	
Loss on disposal of discontinued operations assets, net of taxes		(2,271)	
Net income (loss)	(14,255)	(4,273)	21,815
Dividends on preferred stock	(490)	(249)	(488)
Non-cash charge attributable to beneficial conversion feature of preferred stock		(745)	(458)
Net income (loss) available to common stockholders	\$ (14,745)	\$ (5,267)	\$ 20,869
Basic income (loss) per common share:			
Income (loss) from continuing operations	\$ (0.73)	\$ 0.07	\$ 1.29
Loss from discontinued operations	(0.62)	(0.30)	
Loss on disposal of discontinued operations assets, net of taxes		(0.17)	
Net income available to common stockholders	\$ (1.35)	\$ (0.40)	\$ 1.29
Diluted income (loss) per common share:			
Income (loss) from continuing operations	\$ (0.73)	\$ 0.07	\$ 0.89
Loss from discontinued operations	(0.62)	(0.29)	
Loss on disposal of discontinued operations assets, net of taxes		(0.16)	
Net income (loss) available to common stockholders	\$ (1.35)	\$ (0.38)	\$ 0.89
Number of weighted average shares:			
Basic	10,884	13,251	16,190
Diluted	10,884	13,683	24,459

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

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	PREFERRED		COMMON		TREASURY
	STOCK SHARES	AMOUNT	STOCK SHARES	AMOUNT	STOCK AMOUNT
	(Dollars in thousands)				
BALANCE, December 31, 2003	12,100	\$ 12,100	9,569,729	\$ 96	\$ (706)
Issuance of common stock for services			69,930	1	
Issuance of common stock warrants for services					
Convertible debenture warrants recorded as debt discount					
Debenture conversion inducement			200,000	2	
Stock based compensation					
Stock option and warrant exercised for cash			1,839,906	18	
Preferred stock dividends declared					
Preferred stock dividends paid					
Redemption of preferred stock	(12,071)	(12,071)			
Issuance of treasury shares for stock based compensation					177
Comprehensive income:					
Net loss					
Foreign currency translation adjustments					
Total comprehensive loss					
BALANCE, December 31, 2004	29	29	11,679,565	117	(529)
Issuance of common stock for services			284,000	3	
Stock based compensation			30,000		
Stock options and warrants exercised for cash			283,556	3	
Preferred stock dividends declared					
Preferred stock dividends paid	128	128			
Issuance of preferred stock and warrants, net of offering costs	5,000	649			
Beneficial conversion feature associated with preferred stock					
Issuance of treasury shares for stock based compensation					265
Issuance of common stock in payment of debt			995,000	10	
Issuance of common stock in payment of convertible debentures			2,000,000	20	
Net loss					
BALANCE, December 31, 2005	5,157	806	15,272,121	153	(264)
Stock based compensation					
Stock based compensation forfeited			(24,000)		
Stock options and warrants exercised for cash and other			761,828	7	
Preferred stock dividends declared					
Preferred stock dividends paid	479	479			
Common stock issued in acquisition			900,000	9	
Beneficial conversion feature associated with preferred stock					
Issuance of treasury shares for stock based compensation					264
Beneficial conversion feature associated with convertible notes issued in acquisition, net of accretion					
Net income					
BALANCE, December 31, 2006	5,636	\$ 1,285	16,909,949	\$ 169	\$

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OMNI ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Continued)

	PREFERRED		ACCUMULATIVE			TOTAL
	STOCK	ADDITIONAL	OTHER			
	DIVIDEND	PAID-IN	COMPREHENSIVE	ACCUMULATED		
	DECLARED	CAPITAL	LOSS	DEFICIT		
			(Dollars in thousands)			
BALANCE, December 31, 2003	\$ 484	\$ 57,882	\$ (12)	\$ (45,458)		\$ 24,386
Issuance of common stock for services		340				341
Issuance of common stock warrants for services		157				157
Convertible debenture warrants recorded as debt discount		1,110				1,110
Debenture conversion inducement		939				941
Stock based compensation		795				795
Stock options and warrants exercised for cash		3,930				3,948
Preferred stock dividends declared	490			(490)		
Preferred stock dividends paid	(972)					(972)
Redemption of preferred stock						(12,071)
Issuance of treasury shares for stock based compensation		295				472
Comprehensive income:						
Net loss				(14,255)		(14,255)
Foreign currency translation adjustments			12			12
						14,243
BALANCE, December 31, 2004	2	65,448		(60,203)		4,864
Issuance of common stock for services		267				270
Stock based compensation		9				9
Stock options and warrants exercised for cash		526				529
Preferred stock dividends declared	249			(249)		
Preferred stock dividends paid	(128)					
Issuance of preferred stock and warrants, net of offering costs		3,788				4,437
Beneficial conversion feature associated with preferred stock		745		(745)		
Issuance of treasury shares for stock based compensation		(265)				
Issuance of common stock in payment of debt		2,089				2,099
Issuance of common stock in payment of convertible debentures		3,180				3,200
Net loss				(4,273)		(4,273)
BALANCE, December 31, 2005	123	75,787		(65,470)		11,135
Stock based compensation		617				617
Stock based compensation forfeited		3				3
Stock options and warrants exercised for cash and other		2,127				2,134
Preferred stock dividends declared	488			(488)		
Preferred stock dividends paid	(479)					
Common stock issued in acquisition		3,033				3,042
		458		(458)		

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Beneficial conversion feature associated with preferred stock					
Issuance of treasury shares for stock based compensation			(264)		
Beneficial conversion feature associated with convertible notes issued in acquisition, net of accretion			680		680
Net income				21,815	21,815
BALANCE, December 31, 2006	\$ 132	\$ 82,441	\$	\$ (44,601)	\$ 39,426

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

Table of Contents**Index to Financial Statements****OMNI ENERGY SERVICES CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEAR ENDED		
	2004	DECEMBER 31, 2005 (In thousands)	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income (loss) from continuing operations	\$ (7,499)	\$ 1,976	\$ 21,815
Loss from discontinued operations	(6,756)	(6,249)	
	(14,255)	(4,273)	21,815
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	4,282	4,627	5,660
Gain on property, plant and equipment disposals	(44)	(826)	(48)
Stock based compensation expense	1,268	8	620
Accretion of discount on convertible notes	672		100
Amortization of loan closing costs	1,099	417	850
Foreign currency translation adjustments	12		
(Gain) loss on debenture conversion inducement and extinguishment of debt	729	(758)	(15)
Common stock and common stock warrants issued for services		270	
Deferred taxes		(508)	(6,805)
Changes in operating assets and liabilities:			
Trade receivables	611	(270)	(448)
Other receivables	40	(782)	(314)
Parts and supplies inventory	(310)	306	(345)
Prepaid expenses and other current assets	2,029	2,685	2,239
Other assets	585	(301)	(1,191)
Accounts payable and accrued expenses	2,717	(3,589)	245
Other long term liabilities	(227)	(97)	
Net cash provided by operating activities of continuing operations	5,964	3,158	22,363
Net cash used in operating activities of discontinued operations	(414)	(264)	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions, net of cash received	(7,768)		(23,976)
Increase in restricted cash			(1,114)
Proceeds from collection of other receivables			3,870
Proceeds from disposal of property, plant and equipment	450	685	224
Purchase of property, plant and equipment	(786)	(591)	(5,124)
Net cash provided by (used in) investing activities of continuing operations	(8,104)	94	(26,120)
Net cash provided by (used in) investing activities of discontinued operations	(4,543)	11,380	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	6,727	26,956	18,970
Principal payments on long-term debt	(5,894)	(27,254)	(10,835)

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Borrowings (payments) on line of credit, net	4,529	(4,411)	6,904
Proceeds from issuance of convertible debentures	14,159		
Proceeds from issuance of preferred stock and associated warrants		4,677	
Repayment of convertible debentures	(3,062)	(3,404)	
Redemption of preferred stock and dividends	(13,043)		
Loan closing costs	(1,230)	(3,229)	(1,011)
Deferred organizational costs		(240)	
Proceeds from issuance of common stock for exercise of stock options and warrants	3,948	529	2,134
Net cash provided by (used in) financing activities of continuing operations	6,134	(6,376)	16,162
Net cash provided by (used in) financing activities of discontinued operations	1,434	(8,861)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	471	(869)	12,405
CASH, at beginning of year	572	1,043	174
CASH, at end of year	\$ 1,043	\$ 174	\$ 12,576

Table of Contents**Index to Financial Statements****OMNI ENERGY SERVICES CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

	YEAR ENDED		
	2004	DECEMBER 31, 2005 (In thousands)	2006
Supplemental cash flow disclosures:			
Cash paid for interest	\$ 2,101	\$ 3,589	\$ 3,954
Cash paid for taxes	\$	\$	\$
Supplemental non-cash disclosures:			
Equipment acquired under capital lease	\$ 3,750	\$ 56	\$
Premium financed with insurance carrier	\$ 3,302	\$ 2,405	\$ 4,196
Common stock and common stock warrants issued for services	\$ 498	\$	\$
Transfer of inventory and property and equipment to assets held for sale	\$ 3,942	\$ 51	\$
Convertible debenture warrants recorded as a debt discount	\$ 1,110	\$	\$
Transfer of discontinued operations assets to assets held for sale	\$	\$ 11,000	\$
Common stock issuance for extinguishment of convertible debentures	\$	\$ 3,200	\$
Issuance of long-term debt for extinguishment of convertible debentures	\$	\$ 4,293	\$
Common stock issuance for extinguishment of long-term debt	\$	\$ 2,099	\$
Issuance of short-term debt for extinguishment of long-term debt	\$	\$ 1,000	\$
Beneficial conversion feature associated with issuance of preferred stock	\$	\$ 745	\$ 458
Exchange of assets held for sale for extinguishment of capital leases	\$	\$ 2,891	\$
Transfer of inventory to prepaid aviation repairs	\$	\$ 328	\$
Dividends declared	\$	\$ 249	\$ 488
Equipment under capital lease exchanged in sale/leaseback	\$	\$	\$ 596
Equipment financed	\$	\$	\$ 715
Shareholder notes issued in acquisition	\$	\$	\$ 8,000

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Common stock issued in acquisition	\$	\$	\$ 3,042
Beneficial conversion feature associated with issuance of shareholder notes	\$	\$	\$ 680
Preferred stock issued as dividends paid-in-kind	\$	\$ 128	\$ 479
Assets transferred from assets held for sale to other receivables	\$	\$ 116	\$

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

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OMNI ENERGY SERVICES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
NATURE OF BUSINESS AND CURRENT OPERATING ENVIRONMENT**

We are a leading, integrated oilfield service company specializing in providing a range of (i) onshore seismic drilling, operational support, and permitting, survey and (ii) dock-side and offshore hazardous and non-hazardous oilfield waste management and environmental cleaning services, including tank and vessel cleaning and safe vessel entry, for oil and gas companies operating primarily in the Gulf of Mexico and (iii) oilfield equipment rental, for oil and gas companies operating in the Gulf of Mexico.

At December 31, 2006, we operated in four business divisions Seismic Drilling, Environmental Services Equipment Rental and Other Services. The principal market of our Seismic Drilling division is the marsh, swamps, shallow water and contiguous dry areas along the Gulf of Mexico (the Transition Zone), primarily in Louisiana and Texas, where we are the leading provider of seismic drilling support services.

Our Environmental Services division provides dock-side and offshore tank, vessel, boat and barge cleaning services principally to major and independent oil and gas companies operating in the Gulf of Mexico.

Our Equipment Leasing division provides various pieces of oilfield equipment to offshore and land-based oil production rigs and drilling contractors operating primarily in Louisiana, Texas and Wyoming.

Our Other Services division provides various services such as metal stress relieving and wellhead installation services to offshore and land-based oil production rigs and drilling contractors operating primarily in Louisiana and the Gulf of Mexico.

We receive our revenues principally from customers in the energy industry. In recent years, the seismic market has remained depressed due primarily to the excess capacity of available seismic data in the market. However, in 2006, the demand for seismic services has increased significantly. This volatile market has impacted our ability, as well as that of our customers and others in the industry, to change their forecasts and budgets in response to future uncertainties of commodity pricing. These fluctuations can rapidly impact our cash flows as supply and demand factors impact the number and size of seismic projects available.

We adjust our operations to current market conditions by downsizing, when necessary, our operations through closure of certain operating locations, disposing of excess equipment and reducing our corporate overhead structure (See Note 13). Recently, we have experienced an increase in bidding activity. During this same time we continue our efforts to renegotiate our loan agreements with our senior lenders.

In November 2003, we acquired American Helicopters, Inc. (AHI). AHI operated 17 helicopters from base locations in Louisiana and Texas.

In June 2004, we acquired Trussco, Inc. and Trussco Properties, L.L.C. (collectively Trussco). Trussco is a leading provider of dock-side and offshore tank, vessel, boat and barge cleaning services principally to major and independent oil and gas companies operating in the Gulf of Mexico.

We sold our Aviation Transportation Services segment (which included AHI) effective June 30, 2005. This division provided helicopter transportation services to oil and gas companies operating in the shallow waters of the Gulf of Mexico as well as helicopter support services to our Seismic Drilling Division. (See Note 13 for information related to our discontinued Aviation Transportation Services segment).

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In February 2006, we acquired Preheat, Inc. (Preheat), a premier provider of rental equipment and specialized environmental services principally to drilling contractors operating in the Gulf of Mexico. (See Note 12 for additional information.)

In November 2006, we acquired Rig Tools, Inc. (Rig Tools), a leading rental equipment supplier to land-based drilling contractors operating primarily in Louisiana and Texas. (See Note 12 for additional information.)

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of OMNI Energy Services Corp., a Louisiana corporation, and subsidiaries in which we have a greater than 50% ownership. All material intercompany accounts and transactions have been eliminated upon consolidation. Certain prior year amounts have been reclassified to be consistent with current year financial statement presentation.

USE OF ESTIMATES

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The more significant estimates include asset impairment reserves, useful lives for depreciation and amortization, salvage values of depreciable equipment, valuation of warrants and options, allowance for doubtful accounts receivables and the utilization of deferred tax assets. Actual results could differ from those estimates.

Effective April 1, 2005, we changed the amortization periods of the intangibles acquired as part of the acquisition of all the issued and outstanding common shares of Trussco, Inc. and all the membership interests in Trussco Properties, L.L.C. (collectively Trussco) from five years to various periods ranging from three to 20 years based on a valuation supported by a fairness opinion issued by an independent third party. We believe the revised amortization periods more properly match costs over the useful lives of these assets consistent with industry practice.

As a result of the second quarter 2005 change in the amortization periods of the Trussco intangibles, amortization expense for 2005 decreased. The pro forma effect of this change in estimate is shown in the table below and reflects what net loss would have been had the changes in estimate not occurred (in thousands of dollars, except per share amounts):

	YEAR ENDED DECEMBER 31,	
	2005	2006
	(In thousands, except per share data)	
Net income (loss) available to common stockholders, as reported	\$ (5,267)	\$ 20,869
Effect of change in estimate	(600)	(797)
Net income (loss) available to common stockholders, pro forma	\$ (5,867)	\$ 20,072
Net income (loss) per common share as reported:		
Basic	\$ (0.40)	\$ 1.29
Diluted	\$ (0.38)	\$ 0.89
Net income (loss) per common share pro forma:		
Basic	\$ (0.44)	\$ 1.24
Diluted	\$ (0.43)	\$ 0.86

REVENUE RECOGNITION

We recognize revenue as service is rendered. Revenue from our drilling operations is recognized on a per hole basis. Once we have drilled and loaded a source point, revenue from the drilling of such source point is

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recognized. Similarly, revenue is recognized from our seismic survey operations either on a day rate or per mile basis. Under the per mile basis, revenue is recognized when the source or receiving point is marked by one of our survey crews. Permitting is recognized on a per day basis as services are rendered. Our aircraft, which were usually either chartered with a monthly guaranteed rate or for a guaranteed minimum number of hours per day, generated revenue pursuant to a fixed hourly rate. See Note 13 for information related to our discontinued Aviation Transportation Services segment operations. Environmental revenue is recognized upon completion of each cleaning project. Equipment rental revenue is recognized on a daily basis. Revenues for wellhead installations, stress relieving and other services are recognized upon completion of each project. From time to time, we may offer discounts from our standard service rates for volume and competitive reasons. These discounts are recorded as a reduction of revenues.

CASH AND CASH EQUIVALENTS

We consider highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The \$1.1 million included in restricted cash at December 31, 2006 represents cash held in escrow related to the purchase of the aircraft acquired in December 2006. The cash in escrow is expected to be released from restriction in 2007.

ACCOUNTS RECEIVABLE

Trade and other receivables are stated at net realizable value. We grant short-term credit to our customers, primarily geophysical and oil and gas operating companies. We regularly review outstanding trade receivables and provide for estimated losses through our allowance for doubtful accounts when it is determined that an amount is not collectible.

INVENTORIES

Inventories consist of parts and supplies used for our drilling and rental equipment operations. All inventories are valued at lower of average cost or market. Parts and supplies are charged to expense when it is determined that such items have no value or when their service hours have expired.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation. We provide for depreciation expense on a straight line basis over each asset's estimated useful life depreciated to their estimated salvage values as follows:

ASSET CLASSIFICATION	USEFUL LIFE	SALVAGE VALUE
Buildings and improvements	15-25 years	
Drilling, field and support equipment	5-10 years	10%
Aviation equipment (over five years of age)	10 years	30%
Aviation equipment (five years of age or less)	10 years	40%
Shop equipment	10 years	
Office equipment	5 years	
Vehicles	4-5 years	
Environmental	5 years	
Rental Equipment	3-10 years	

Additions to property and equipment and major replacements are capitalized. Gains and losses on dispositions, maintenance, repairs and minor replacements are charged to expense as incurred. Capitalized equipment, which is fabricated, is comprised of direct and indirect costs incurred during fabrication. Costs include materials and labor consumed during fabrication. Interest is also capitalized during the fabrication period.

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There was no interest capitalized for the years ended December 31, 2004, 2005 and 2006. Included in property and equipment at December 31, 2006 is approximately \$1.0 million for an aircraft held under capital lease obligations, net of accumulated depreciation of approximately \$0.0 million.

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 December 31, 2006 are eight marsh buggies.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 *Accounting for the Impairment and Disposal of Long-Lived Assets*. If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated undiscounted net cash flow, before interest, we will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value. During the fourth quarter of 2004, we re-assessed the carrying values of our aviation fleet by obtaining an appraisal from a reputable third party appraiser and compared these appraised values to the net book values that we had recorded. As a result of our analysis, as of December 31, 2004 we recorded an impairment of approximately \$3.0 million of unamortized prepaid repairs, an impairment of \$0.6 million on our aviation fleet and a writedown of \$0.6 million related to helicopters held for sale. These impairment charges are included in loss from discontinued operations. During 2005, the aviation-related improvements at the Mouton Cove facility were deemed to be impaired as a result of the sale of our 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. Such charge is included in loss from discontinued operations. The facility was not included in the sale of our Aviation Transportation Service segment. There were no impairment charges for 2006.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. We account for goodwill in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. As of December 31, 2005 and 2006, we have goodwill of \$2.9 million and \$14.5 million, respectively. We periodically assessed the recoverability of the unamortized balance based on expected future profitability and undiscounted future cash flows of the acquisitions and their contribution to our overall operation. In conjunction with the acquisition of AirJac during 2002, we recorded a customer intangible of \$1.9 million which is being amortized over a period of 20 years; with the acquisition of AHI in 2003, we recorded intangibles of \$0.3 million which was being amortized over a period of 5 years subsequently charged against discontinued operations; with the acquisition of Trussco in 2004, we recorded intangibles of \$3.9 million which are being amortized over various time periods ranging from three to 20 years and goodwill of \$3.0 million; with the acquisition of Preheat in 2006, we recorded goodwill of \$4.7 million; with the acquisition of Rig Tools in 2006, we recorded intangibles of \$0.4 million which are being amortized over five years and goodwill of \$4.9 million. We recorded \$0.7 million, \$0.7 million and \$0.5 million, respectively, in amortization expense related to the intangible assets for the years ended December 31, 2004, 2005 and 2006.

INCOME TAXES

We provide for deferred taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires an asset and liability approach for measuring deferred taxes and liabilities due to temporary differences

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existing at year-end using currently enacted rates (See Note 10). A valuation allowance is provided when necessary to reduce deferred tax assets to amounts expected to be realized.

STOCK BASED COMPENSATION

We have stock-based compensation plans available to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted units and restricted stock to key employees. The OMNI Energy Services Corp. Stock Incentive Plan, as amended, provides for 2,750,000 shares of our common stock. The principal awards outstanding under our stock-based compensation plans include non-qualified stock options and restricted stock units. In addition, we have the 1999 Stock Option Plan (the 1999 Plan) which became effective on November 11, 1999 and was not approved by the stockholders. The total shares of our common stock available for issuance under the 1999 Plan is 100,000 shares.

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

Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R) requiring that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award). Prior to January 1, 2006, we accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related interpretations. We also followed the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. We adopted SFAS No. 123R using the modified prospective method and, accordingly, financial statement amounts for prior periods presented in this Form 10-K have not been restated to reflect the fair value method of recognizing compensation cost relating to non-qualified stock options. There was \$0.6 million of compensation cost related to non-qualified stock options recognized in operating results (included in general and administrative expenses) for the year ended December 31, 2006.

Under APB No. 25 there was no compensation cost recognized for our non-qualified stock options awarded in the years ended December 31, 2004 and 2005 as these non-qualified stock options had an exercise price equal to the market value of the underlying stock at the grant date. The following table sets forth pro forma information as if compensation cost had been determined consistent with the requirements of SFAS No. 123R.

	YEAR ENDED DECEMBER 31,	
	2004	2005
	(In thousands except per share data)	
Net loss available to common stockholders as reported	\$ (14,745)	\$ (5,267)
Add: stock-based employee compensation expense included in net loss, net of tax	1,411	8
Less: total stock-based employee compensation expense determined under fair value based method for all awards granted to employees, net of tax	(2,204)	(785)
Net loss available to common stockholders pro forma	\$ (15,538)	\$ (6,044)
Net loss available to common stockholders as reported:		
Basic	\$ (1.35)	\$ (0.40)
Diluted	\$ (1.35)	\$ (0.38)
Net loss available to common and stockholders pro forma:		
Basic	\$ (1.43)	\$ (0.46)
Diluted	\$ (1.43)	\$ (0.44)

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The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the year ended December 31, 2006 was approximately \$3.3 million (employee share). During the year ended December 31, 2006, the amount of cash we retained from the exercise of stock options was approximately \$1.2 million (Company share). The following table summarizes information about non-vested stock option awards as of December 31, 2005 and changes for the year ended December 31, 2006:

	Number Of Options	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2005	345,816	\$ 1.89
Granted	344,250	3.08
Vested	(283,549)	2.18
Forfeited	(24,360)	2.56
Non-vested at December 31, 2006	382,157	\$ 2.69

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

At December 31, 2006, there was \$1.0 million of total unrecognized compensation cost related to non-vested non-qualified stock option awards that is expected to be recognized over a weighted-average period of 1.93 years. The total fair value of options vested during the year ended December 31, 2006 was \$0.6 million.

The weighted average fair value at date of grant for options granted during 2004 was \$4.00 per option. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (a) dividend yield of 0.00%; (b) average expected volatility 66%; (c) average risk-free interest rate of 2.97%; and (d) expected life of 6.5 years.

The weighted average fair value at date of grant for options granted during 2005 was \$2.15 per option. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (a) dividend yield of 0.00%; (b) expected volatility of 75%; (c) average risk-free interest rate of 3.81%; and (d) expected life of 6.5 years.

The weighted average fair value at date of grant for options granted during 2006 was \$3.08 per option. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (a) dividend yield of 0.00%; (b) expected volatility of 53%; (c) average risk-free interest rate of 4.87%; and (d) expected life of 6.5 years.

AVIATION OVERHAUL AND REPAIR COSTS

Major overhaul of Federal Aviation Administration component parts for our owned aircraft were capitalized as prepaid repairs, as incurred, and amortized over service hours flown. Routine repairs and maintenance were expensed, as incurred. See Note 13 for information related to our discontinued Aviation Transportation Services segment operations.

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EARNINGS PER SHARE

We account for our earnings per share (EPS) in accordance with SFAS No. 128, *Earnings Per Share*, which establishes the requirements for presenting EPS. SFAS No. 128 requires the presentation of basic and diluted EPS on the face of the income statement. Basic earnings per share begins with income (loss) applicable to common stockholders (net income (loss) less preferred stock dividends) and is based on the weighted average number of common shares outstanding during each period presented. Diluted EPS assumes the exercise of all stock options and warrants having exercise prices less than the average market price of the common stock using the treasury stock method. In computing basic loss per share we consider dividends and accretion on the Series B Preferred and Series C Preferred as a reduction of net income from operations in computing basic net income (loss) per share. For the purpose of diluted earnings per common share, and only if such calculation results in dilution, preferred stock dividends will not reduce earnings; however, the weighted average common shares outstanding would increase representing the amount of common shares into which such preferred stock is currently convertible. During the year ended December 31, 2004, we reported a net loss from continuing operations, thus the effects of dilutive securities were anti-dilutive, rendering basic and diluted loss per share the same. Convertible preferred stock, convertible debt instruments, warrants, and options to purchase common stock are included as common stock equivalents only when dilutive.

RECENTLY ISSUED UNIMPLEMENTED ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more-likely-than-not of being sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50 percent likely of being recognized upon ultimate settlement with the taxing authority, is recorded. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements. At this time, we do not anticipate any material adverse impact on our financial statements from this pronouncement.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and requires enhanced disclosures about fair value measurements. It does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently assessing whether we will early adopt SFAS No. 157 as of the first quarter of fiscal 2007 as permitted, and are currently evaluating the impact adoption may have on our financial statements.

Table of Contents**Index to Financial Statements****2. VALUATION ALLOWANCE ACCOUNTS**

The allowance for uncollectible accounts consists of the following:

DESCRIPTION	BALANCE AT	ADDITIONS		WRITE-OFF	BALANCE
	BEGINNING OF	CHARGED TO	OTHER	UNCOLLECTIBLE	AT END
	PERIOD	EXPENSE	ADDITIONS	AMOUNTS	OF PERIOD
			(In thousands)		
December 31, 2006 Allowance for uncollectible accounts	\$	\$	\$ 128	\$	\$ 128
December 31, 2005 Allowance for uncollectible accounts	\$	\$	\$	\$	\$
December 31, 2004 Allowance for uncollectible accounts	\$ 45	\$	\$	\$ (45)	\$

3. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consists of the following at December 31:

	DECEMBER 31,	
	2005	2006
	(In thousands)	
Land	\$ 647	\$ 697
Building and improvements	5,259	6,601
Drilling, field and support equipment	28,727	57,019
Aviation equipment		1,010
Shop equipment	439	594
Office equipment	1,835	2,039
Vehicles	2,680	4,436
Construction in progress		1,248
	39,587	73,644
Less: accumulated depreciation	(24,665)	(28,817)
Total property, plant and equipment, net	\$ 14,922	\$ 44,827

During 2005, some of our facilities and equipment were damaged as a result of Hurricanes Katrina and Rita. As a result of the storms, we incurred damages principally to equipment and vehicles with a cost of approximately \$0.6 million. The damage to the equipment was covered by insurance and the proceeds from the insurance policies are included in the consolidated financial statements at December 31, 2005 in other receivables. At December 31, 2006, approximately \$0.2 million of proceeds from insurance policies remained in other receivables.

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Long-term debt consists of the following at December 31:

	DECEMBER 31,	
	2005	2006
	(In thousands)	
Notes payable to a bank with interest payable at Prime plus 1.50% (8.25% at December 31, 2005 and 9.75% at December 31, 2006) maturing July 31, 2023, secured by real estate	\$ 1,354	\$ 1,321
Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate	195	174
Convertible promissory notes payable to certain former stockholders of Trussco, Inc. with interest at 5%, maturing in June 2007	1,000	
Promissory notes payable to certain former stockholders of Preheat, Inc. with interest at 5%, maturing in February 2008		2,667
Promissory notes payable to certain former stockholders of Preheat, Inc. with interest at 5%, maturing in February 2009		1,333
Convertible promissory notes payable to certain former stockholders of Rig Tools, Inc. with interest at 5%, maturing in November 2007, net of beneficial conversion of \$426(1)		2,574
Convertible promissory notes payable to certain former stockholders of Rig Tools, Inc. with interest at 5%, maturing in November 2008, net of beneficial conversion of \$156(1)		844
Promissory note payable to finance companies secured by vehicles	729	587
Promissory note payable to finance companies secured by equipment	37	491
Capital lease payable to a finance company secured by an aircraft	941	683
Subordinated promissory note to a former debenture holder with a fixed interest rate of 8%, maturing May 13, 2008, unsecured	913	569
Term B notes payable to a finance company, variable interest rate at LIBOR plus 8.0% (12.41% at December 31, 2005 and 13.37% at December 31, 2006) maturing August 29, 2010, secured by various property and equipment	9,000	15,000
Term A notes payable to a finance company, variable interest rate at LIBOR plus 4.0% (10.80% at December 31, 2005 and 9.37% at December 31, 2006), maturing May 18, 2010, secured by various equipment	4,540	14,381
Other debt		15
Total	\$ 18,724	\$ 40,624
Less: current maturities	(2,926)	(7,689)
Long-term debt, less current maturities	\$ 15,798	\$ 32,935

(1) See note 12 regarding Rig Tools stockholder notes.

Annual maturities of long-term debt plus beneficial conversion during each of the years ended December 31, are as follows:

YEAR ENDED DECEMBER 31,	(In thousands)
2007	\$ 8,229
2008	9,582
2009	6,693
2010	15,346
2011 and thereafter	1,356
	\$ 41,206

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The estimated fair value of long-term debt is determined based on borrowing rates currently available to us for notes with similar terms and average maturities and approximates the carrying value as of December 31, 2005 and 2006.

REVOLVING LINE OF CREDIT

We have a working capital revolving line of credit agreement (the Line) with a bank. Availability under the Line is the lower of: (i) \$15.0 million or, (ii) the eligible accounts receivables as defined under the agreement. The Line accrues interest at the prime interest rate (8.25% at December 31, 2006) and matures in May 2010. The Line is collateralized by accounts receivable and is subject to certain customer concentration limitations. As of December 31, 2006, we had \$12.2 million outstanding under the Line. The weighted-average interest rate on borrowings under the Line was 7.7% and 8.6% for the years ended December 31, 2005 and 2006, respectively. Due to the lock-box arrangement and the subjective acceleration clause of the Line agreement, the debt under the Line has been classified as a current liability as of December 31, 2005 and 2006, as required by EITF No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement*.

SENIOR SECURED

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 equipment and three Bell helicopters. The proceeds were used to repay debt, pay the Put Option on the Convertible Debentures discussed below and for working capital purposes.

On January 21, 2005, we entered into a forbearance agreement with Beal Bank, SSB, which increased the interest rate from 12% to 17% and extended the maturity of the Bridge Loan 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 below) on May 18, 2005.

SENIOR CREDIT FACILITY

On May 18, 2005, we completed a \$50 million equipment term financing (Term A Loan) and increased our Line to \$15 million from its previous level of \$12.0 million (with the Term A Loan, collectively referred to herein as the Senior Credit Facility). In conjunction with the disposition of the Aviation Transportation Services segment, effective June 2005, the borrowing base was reduced to \$30.0 million. On February 13, 2006, we entered into the First Amended and Restated Credit Agreement (the Amendment) which amended the Term A Loan. Under the terms of the Amendment, the funding limits will be limited to the lesser of \$30.0 million and the sum of (i) 50% of the orderly liquidation value of our seismic drilling, environmental and leasing equipment, and (ii) 50% of the fair market value of certain real estate. In addition, the Term A Loan matures in May 2010 and will be repaid monthly in equal payments up to a 25% balloon at maturity date, with interest paid in arrears and accruing at the annual interest rate of 90-day LIBOR plus 4.0% (9.37% at December 31, 2006). The Term A Loan restricts the payment of cash dividends and contains customary financial covenants requiring, among other things, minimum levels of tangible net worth, debt to EBITDA ratios and limitations on capital expenditures. On February 14, 2006, we borrowed an additional \$7.0 million on the Term A Loan to partially fund the Preheat acquisition and on November 1, 2006, we borrowed an additional \$5.7 million on the Term A Loan to partially fund the Rig Tools acquisition (see Note 7), leaving an outstanding balance of \$14.4 million at December 31, 2006, after scheduled monthly principal payments. This loan was repaid in full in March 2007 with proceeds from the Company's new senior credit facilities. See Note 15 for additional information.

Table of Contents**Index to Financial Statements****JUNIOR CREDIT FACILITY**

On August 29, 2005, we completed a \$25.0 million multiple draw term credit facility (Term B Loan). Under the terms of the Term B Loan, funding will occur through advances at our request in minimum amounts of \$2.0 million. Quarterly payments in the amount of \$0.2 million, plus interest, will begin on April 1, 2008. In the event that we no longer have any senior term debt outstanding, the annual principal amortization of the Term B Loan will be increased to 7.5% of the advances outstanding under the Term B Loan beginning December 31, 2006. The Term B Loan matures in August 2010 and will accrue interest at the rate of 90-day LIBOR plus 8% (13.37% at December 31, 2006). The Term B Loan restricts the payment of cash dividends and contains customary financial covenants requiring, among other things, minimum levels of tangible net worth, debt to EBITDA ratios and limitations on annual capital expenditures. On February 14, 2006, we borrowed an additional \$6.0 million on the Term B Loan to partially fund the Preheat acquisition (see Note 7), leaving an outstanding balance of \$15.0 million at December 31, 2006. This loan was repaid in full in March 2007 with proceeds from the Company's new senior credit facilities. See Note 15 for additional information.

CAPITAL LEASES

Prior to December 31, 2005, we had several capital leases for aircraft which generally had lease terms of 60 months at inception of the lease. Aircraft leases either contained a bargain purchase option at the end of the lease or a balloon amount due that can be refinanced over 36 months. From time to time, we acquired an aircraft through cash flows from operations or through the Line which was then sold to a financing company and leased back to us. These sales and lease back transactions were 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 above). As set forth in Note 13, we sold the equipment and related assets of our Aviation Transportation Services segment for a cash price of \$11.0 million effective June 30, 2005. The aviation assets which were held under capital lease at December 31, 2004 were sold in that transaction. During May 2005, proceeds from the borrowings under the Term A Loan were used to repay certain aviation leases outstanding at that time.

We also leased several vehicles used in our seismic drilling and environmental operations under 40-month capital leases. In February 2006, the capital leases on vehicles were paid off through a sale/leaseback transaction with a third party leasing company. The capital leases were replaced with twenty-four (24) month operating leases expiring in the first quarter of 2008.

In December 2006, we acquired a corporate-configured helicopter under capital lease for internal use. The capital lease matures in 2008.

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

	DECEMBER 31, 2005 2006 (In thousands)	
Aircraft	\$	\$ 1,010
Vehicles		1,694
	1,694	1,010
Less: Accumulated amortization		(795)
Capitalized cost, net	\$ 899	\$ 1,010

Depreciation expense for the years ended December 31, 2004, 2005 and 2006 was approximately \$0.7 million, \$0.6 million and \$0.1 million, respectively, for all assets held under capital lease.

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The following schedule shows future minimum lease payments for capital leases as of December 31, 2006:

YEAR ENDED DECEMBER 31,	(In thousands)
2007	\$ 219
2008	548
Total minimum lease payments	767
Less: Amount representing interest	(84)
Present value of net minimum lease payments	\$ 683

TRUSSCO NOTES

On June 30, 2004, we purchased all of the issued and outstanding stock of Trussco, Inc. and all of the membership interests in Trussco Properties, L.L.C. 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, in connection with the completion of the Term A Loan, 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 Note 8. Under the terms of the Debt Extinguishment Agreements, we were required to (i) 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 contingent Earnout Note. The Company recognized a gain on debt extinguishment of \$0.3 million upon closing the transaction.

On August 29, 2005, in accordance with the Debt Extinguishment Agreements, we paid \$1.0 million in cash from the proceeds of the Term B Loan, and issued 0.2 million shares of our common stock in full satisfaction of \$2.0 million of the Stockholder Notes. In addition, we recorded an additional gain on extinguishment of \$0.3 million in accordance with the terms of the agreements.

At December 31, 2005, we had \$1.0 million of Stockholder Notes outstanding bearing interest at 5% and maturing in June 2007. In July 2006, we prepaid this indebtedness resulting in a \$0.01 million gain from the early extinguishment of this debt. This transaction resulted in the termination of the Earnout Note.

PREHEAT NOTES

Effective February 10, 2006, we purchased all of the issued and outstanding stock of Preheat for an aggregate acquisition price of \$23.0 million, including \$16.0 million in cash, 900,000 shares of our common stock, \$4.0 million in 5% promissory notes payable to certain stockholders (Preheat Notes) and the assumption of approximately \$1.6 million in debt and other liabilities. The Preheat Notes consist of three separate notes with \$2.7 million maturing in February 2008 and \$0.5 million and \$0.8 million maturing in February 2009. At December 31, 2006, the Preheat Notes had a balance of \$4.0 million.

RIG TOOLS NOTES

Effective November 1, 2006, we purchased all of the issued and outstanding stock of Rig Tools for an aggregate acquisition price of \$14.0 million, including \$10.0 million in cash and \$4.0 million in 5% promissory notes payable to certain stockholders (Rig Tools Notes), and the assumption of approximately \$2.5 million in debt and other liabilities. The Rig Tools Notes consist of three separate notes with \$3.0 million maturing in

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November 2007, \$1.0 million maturing in November 2008. The Rig Tools Notes can be prepaid at any time and are convertible into shares of our common stock at a price of \$8.00 per share. We recorded a beneficial conversion feature of \$0.7 million related to the stock valuation at closing which is being amortized over the life of the notes.

INSURANCE NOTES PAYABLE

A portion of our property and casualty insurance premiums are financed through certain short-term installment loan agreements. The insurance notes are payable in monthly installments through September 2007 and accrue interest at rates ranging between 5.64% to 6.05%.

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 were 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 were not exercisable for a period of six months and one day after the issue date of such warrants and in no event would 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 was recorded as a debt discount with a corresponding amount recorded to paid in capital at the date of issuance. The 1-year Series A Warrants expired during 2005.

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 were 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 were not exercisable for a period of six months and one day after the issue date of such warrants and in no event would 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.

Total proceeds of \$14.2 million were 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 (See Note 9).

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 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 related to the amortization of the debt discounts for the year ended December 31, 2004. Since the Debentures were in default at December 31, 2004, the entire amount of the debt discount was charged to expense during 2004.

Prior to maturity of the Debentures, the holders of the Debentures had 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 have been issuable pursuant to the conversion of the Debentures and the exercise of the Put Option and all associated warrants, including additional

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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 had the irrevocable option to deliver cash or, if certain conditions set forth in the Debentures were satisfied, shares of our common stock. If we elected to pay the Put Option with common stock, the underlying shares would have been 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 have delivered was 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%. We did not redeem for cash or stock notices received from the Debenture Holders exercising their Put Option for the months of November and December 2004 and January, February, March and April 2005.

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 against the holders of the Debentures and other third parties (collectively, the *Debenture Holders*). In the suit, we alleged that the Debenture Holders violated Section 16(b) of the Securities Exchange Act of 1934, and we sought the disgorgement of profits realized by the Debenture Holders from their purchases and sales of our common stock.

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*). We recorded a gain of \$0.2 million at the close of these transactions. The Subordinated Debenture Notes were scheduled to 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 extinguished the terms of the original Debentures and released all parties from any future claims.

On August 26, 2005, we entered into a settlement agreement and mutual release (*Agreement and Release*) with two of the three holders of the Subordinated Debenture Notes. Under terms of the Agreement and Release, we paid \$1.5 million in cash from the proceeds of a new \$25.0 million multiple draw term credit facility, and issued 750,000 shares of our common stock in full satisfaction of the applicable Subordinated Debenture Notes. At December 31, 2006, the remaining Subordinated Debenture Note had a balance of approximately \$0.6 million.

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Intangible assets consist of the following at December 31:

	2005		2006	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	(In thousands)			
Customer lists	\$ 1,920	\$ 400	\$ 2,359	\$ 507
Trademark/tradename	2,900	942	2,900	1,172
Non-compete agreements	240	72	240	120
Trussco licenses and permits	800	120	800	200
Total amortizable intangible assets	\$ 5,860	\$ 1,534	\$ 6,299	\$ 1,999
Goodwill	\$ 3,048	\$ 124	\$ 14,645	\$ 124
Acquisition costs	1,128		1,860	
Total unamortizable intangible assets	\$ 4,176	\$ 124	\$ 16,505	\$ 124

ESTIMATED

AGGREGATE

AGGREGATE

AMORTIZATION

AMORTIZATION

YEAR ENDED DECEMBER 31,

EXPENSE

EXPENSE

(In thousands)

2004	\$ 730	\$
2005	663	
2006	465	
2007		452
2008		402
2009		378
2010		354
Thereafter		2,692

Goodwill, net, of \$2.0 million is attributable to our previous acquisition of Gulf Coast Resources, \$2.1 million is attributable to our acquisition of Trussco, \$4.7 million is attributable to our acquisition of Preheat and \$4.7 million is attributable to our acquisition of Rig Tools at December 31, 2006.

6. 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. In May 2001, we agreed to pay the affiliate \$3.0 million cash plus issue to the affiliate \$4.6 million of the Company's Series B Preferred 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 rather than as income in the accompanying financial statements.

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(See Note 9 regarding the accounting for preferred stock). In February and April 2004, we issued \$10 million and \$5.05 million, respectively, of the Debentures (See Note 4). The proceeds were used to redeem \$8.2 million (7,475 shares) of the Series A Preferred outstanding, including accrued dividends. The remaining 25 shares of Series A Preferred were redeemed in April 2004 for \$0.03 million. At December 31, 2004 there are no Series A Preferred shares outstanding. During the first quarter of

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2004, we redeemed 2,286 shares of the Series B Preferred 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 outstanding for \$2.5 million, including accrued dividends. At December 31, 2006, 29 shares of Series B Preferred remain outstanding.

In connection with the original issuance of the Debentures, we issued to the affiliate detachable warrants to purchase 1,912,833 shares of our common stock, of which 293,055 shares were transferred in 2003 to settle certain litigation (See Note 9) and 858,678 shares were cancelled. The balance of 761,100 shares was exercised during the first quarter of 2004 at an exercise price of \$2.25.

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

As mentioned above, the Term A Loan and the Term B Loan restrict the payment of cash dividends. Consequently, a portion of the 9% dividend obligation related to the Series C Preferred has been satisfied through the issuance of payment-in-kind (PIK) dividends. The PIK dividends are paid through the issuance of additional shares of Series C Preferred. These additional shares of preferred stock do not have warrants attached to them. During the years ended December 31, 2005 and 2006, 128 and 479 shares of Series C Preferred were issued, respectively, as PIK dividends at par.

Effective February 10, 2006, we purchased all of the issued and outstanding stock of Preheat for an aggregate acquisition price of \$23.0 million, including \$16.0 million in cash, 900,000 shares of our common stock, \$4.0 million in 5% promissory notes payable to certain stockholders (Preheat Notes) and the assumption of approximately \$1.6 million in debt and other liabilities. The Preheat Notes consist of three separate notes with \$2.7 million maturing in February 2008 and \$0.5 million and \$0.8 million maturing in February 2009. At December 31, 2006, the Preheat Notes had a balance of \$4.0 million.

Effective November 1, 2006, we purchased all of the issued and outstanding stock of Rig Tools for an aggregate acquisition price of \$14.0 million, including \$10.0 million in cash and \$4.0 million in 5% convertible promissory notes payable to certain stockholders (Rig Tools Notes), and the assumption of approximately \$2.5 million in debt and other liabilities. The Rig Tools Notes consist of three separate notes with \$3.0 million maturing in November 2007 and \$1.0 million maturing in November 2008. The Rig Tools Notes can be prepaid at any time and are convertible into shares of our common stock at a price of \$8.00 per share. We recorded a beneficial conversion feature of \$0.7 million related to the stock valuation at closing which is being amortized over the life of the notes. At December 31, 2006, the Rig Tools Notes had a balance of \$4.0 million less unamortized beneficial conversion of \$0.6 million.

7. VENDOR, CUSTOMER AND CREDIT CONCENTRATION

During the year ended December 31, 2004, four customers associated with the drilling division, accounted for 50% (15%, 13%, 11% and 11%, respectively) of our total revenues.

During the year ended December 31, 2005, two customers associated with the drilling division, accounted for 38% (20% and 18%, respectively) of our total revenues. Included in accounts receivable as of December 31, 2005, are amounts receivable from these customers totaling approximately 37% (33% and 4%, respectively) of total accounts receivable.

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During the year ended December 31, 2005, one vendor associated with the drilling division accounted for 15% of our total direct costs. Included in accounts payable as of December 31, 2005 are amounts payable to this vendor totaling approximately 28% of total accounts payable

During the year ended December 31, 2006, two customers associated with the drilling division, accounted for 32% (17%, and 15%, respectively) of our total revenues. Included in accounts receivable as of December 31, 2006, are amounts receivable from these customers totaling approximately 25% (18%, and 7%, respectively) of total accounts receivable.

**8. COMMITMENTS AND CONTINGENCIES
OPERATING LEASES**

Total rental expense inclusive of equipment leased on a short-term basis, was \$0.9 million, \$1.6 million and \$3.5 million for the years ended December 31, 2004, 2005 and 2006, respectively.

We have the following operating lease commitments under non-cancelable lease terms, as of December 31, 2006:

	PAYMENTS DUE BY PERIOD				
	2007	2008	2009	2010	2011
	(In thousands)				
Operating leases	\$ 1,590	\$ 1,208	\$ 553	\$ 166	\$ 57

INSURANCE

Trussco, Inc. maintained a self-insurance program for a portion of its health care and workers' compensation costs. Preheat, Inc. maintained a partially self-funded program for a portion of its workers' compensation, liability, and auto coverages. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and the estimated liability for claims incurred but not reported. As of December 31, 2006, we had \$0.0 million of accrued liabilities related to health care and workers' compensation claims.

Management is not aware of any significant workers' compensation claims or any significant claims incurred but not reported as of December 31, 2006.

SERIES A AND SERIES B PREFERRED STOCK LITIGATION

On December 7, 2005, the Fourth Circuit Court of Appeal for the State of Louisiana granted our writ application for supervisory review and rendered a judgment granting our Motion for Partial Summary Judgment seeking a declaratory judgment against Steven T. Stull, a former director, and Advantage Capital Partners, et. al (ACP). On February 13, 2005, we commenced litigation against Mr. Stull and ACP, and their respective insurers seeking a declaratory judgment confirming our right to redeem, rather than convert, its shares of Series A and Series B 8% Convertible Preferred Stock under our Articles of Incorporation, as amended and other applicable operative documents and agreements. The Court determined that we had the right to redeem, rather than convert both the Series A and Series B preferred stock within 30 days after receiving the notices of conversion from ACP.

On December 20, 2005, the United States District Court for the Eastern District of Louisiana granted our Motion to Dismiss a lawsuit filed by ACP and its affiliates against us and certain of our executive officers. In the lawsuit filed on March 26, 2004, ACP and its affiliates alleged that (i) we and the executive officers misrepresented material facts and failed to disclose material facts related to the intention to redeem our Series A Preferred and Series B Preferred, and (ii) our officers breached their fiduciary duties. The Court held that ACP had failed to satisfy the pleading requirements for alleging fraud under federal securities laws.

See Note 15 for additional information.

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DEBENTURE LITIGATION

On January 25, 2005, we filed suit in United States District Court, Western District of Louisiana against the holders of the Debentures and other third parties (collectively, the Debenture Holders). In the suit we alleged that the Debenture Holders violated Section 16(b) of the Securities Exchange Act of 1934 and we sought the disgorgement of profits realized by the Debenture Holders from their purchases and sales of our common stock.

On May 18, 2005, we entered into settlement agreements (Settlement Agreements) with each of the Debenture Holders in exchange for our dismissal of the lawsuit filed against the Debenture Holders (See Note 4). 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). We recorded a gain on debt extinguishment of approximately \$0.2 million upon closing of these transactions. The Subordinated Debenture Notes were scheduled to 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 extinguished the terms of the original Debentures and released all parties from any future claims.

On August 26, 2005, we entered into a settlement agreement and mutual release (Agreement and Release) with two of the three holders of the Subordinated Debenture Notes. Under terms of the Agreement and Release, we paid \$1.5 million in cash from the proceeds of a new \$25.0 million multiple draw term credit facility, and issued 750,000 shares of our common stock in full satisfaction of the applicable Subordinated Debenture Notes. At December 31, 2006, the remaining Subordinated Debenture Note had a balance of approximately \$0.6 million.

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

EMPLOYMENT AGREEMENTS

On June 30, 2004, we amended Restricted Stock Incentive Agreements with certain executive officers and executed Amended and Restated Incentive Agreements (collectively referred to hereinafter as the Incentive Agreements) that award stock and/or cash on various vesting dates. Under the terms and conditions of the Incentive Agreements, two executive officers received 40,454 shares and 50,000 shares, respectively. The stock was held in escrow, registered in the name of the executive officers, until it vested 100% on November 4, 2004. Tax equalization payments were also paid to the two executive officers totaling \$0.1 million at June 30, 2004. The awards were valued at their fair market value at a price of \$5.05 per share at June 30, 2004 and recorded, in full, as compensation expense of \$0.5 million.

The Incentive Agreements also grant these executive officers the right to receive two cash payments each equal to the fair market value of 60,673 shares and 75,000 shares of our common stock, respectively, on the first business day following our annual stockholders meeting in 2005 and in 2006. The amounts of such stock-based awards to the executive officers on each vesting date may be paid in cash or, at the sole option of the Compensation Committee, in additional common stock, provided such shares are available for issuance pursuant to the terms of the Fourth Amended and Restated OMNI Energy Services Corp. Stock Incentive Plan (hereinafter the Plan). Such shares were not available until November 30, 2004, when the number of shares available under the Plan was approved by the stockholders to be increased. From June 30, 2004 until November 30, 2004 the awards were accounted for under FASB Interpretation (FIN) No. 28 *Accounting for Stock Appreciation Right and Other Variable Stock Option or Award Plans* as a variable plan, which requires that compensation be measured at the end of each reporting period at the quoted market price of a share of our common stock and the change in the market value of the incentive awards be charged to expense. As such, the awards were revalued at

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the end of each reporting period at the quoted market price of a share of our common stock and the period over period change charged to expense. At November 30, 2004, the market value of a share of our common stock was \$2.93 per share resulting in compensation expense under variable accounting of \$0.5 million to be recognized through that date. Effective November 30, 2004, the Company amended these incentive agreements to provide for 100% vesting of the restricted stock award and we have put into escrow the number of shares of common stock to settle the award. Accordingly, the previously unvested portion of the award was charged to expense which, along with the previously recognized \$0.5 million, totaled \$0.8 million which was recorded as compensation expense as of December 31, 2004.

We also entered into Stock-Based Award Incentive Agreements (hereinafter "SBA") with certain executive officers on June 30, 2004. The SBA shall become computed and payable: (a) on the date of the Employee's termination of employment (for any reason other than resignation or termination for cause), (b) 90 days after the executive's death or disability or (c) upon a Change in Control. The executive managers were awarded 45% and 55%, respectively, of: (1) 10% of the fair market value (hereinafter "FMV"), defined as the average closing price per share on the NASDAQ National Market over the five prior trading days times the number of issued and outstanding shares of the Company, of a share of the Company's common stock greater than or equal to \$1.00 but less than \$1.50, plus (2) 15% of the FMV of a share of the Company's common stock greater than or equal to \$1.50 but less than \$2.50, plus (3) 20% of the FMV of a share of the Company's common stock greater than or equal to \$2.50 but less than \$10.00, plus (4) 15% of the FMV of a share of the Company's common stock greater than or equal to \$10.00 but less than \$20.00, plus (5) 10% of the FMV of a share of the Company's common stock greater than or equal to \$20.00. If no payments have been made, the right terminates on December 31, 2008 or upon termination of employment for resignation or cause, whichever occurs first. The intrinsic value of this award at December 31, 2006 is \$32.8 million but no compensation expense has been recorded at December 31, 2006 because the award is contingent on future events none of which are considered probable at December 31, 2006. Subsequent to December 31, 2006, this agreement was replaced by a new Restricted Stock and Stock-Based Award Incentive Agreement.

See Note 15 for additional information related to the Stock-Based Award Incentive Agreements.

In addition, we entered into employment contracts with certain key executive management effective until December 31, 2008 with automatic extensions for additional, successive one year periods commencing January 1, 2009, unless either party gives notice of non-renewal as provided for under the terms of the employment contracts.

In connection with the Trussco acquisition (See Note 12), we entered into employment contracts with three former Trussco stockholders effective through December 31, 2006 with automatic extensions for additional, successive one year periods commencing January 1, 2007, unless either party gives notice of non-renewal as provided for under the terms of the employment contracts. During 2005, two of these employment contracts were terminated.

In connection with the Preheat acquisition, we entered into employment contracts with the previous stockholders effective until December 31, 2007 with an automatic extension, granted at the option of the Company, for one additional twelve-month period commencing on January 1, 2008.

In connection with the Rig Tools acquisition, we entered into an employment contract with one of the previous stockholders effective until October 31, 2008 with an automatic extension, granted at the option of the Company, for one additional twelve-month period commencing on November 1, 2008.

TRUSSCO INC. 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 agreed to pay these stockholders on or before June 30, 2007, the lesser of

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(i) the amount of \$3.0 million, or (ii) the sum of the product of 3.12 times Trussco's average annual EBITDA for the 36 month period ending December 31, 2006 less the sum of \$9.0 million plus \$1.5 million of Trussco long-term and former shareholder debt existing as of June 30, 2004 that we assumed.

At December 31, 2005, we had \$1.0 million of Stockholder Notes outstanding bearing interest at 5% and maturing in June 2007. In July 2006, we prepaid this indebtedness resulting in a \$0.01 million gain from the early extinguishment of this debt. This transaction also resulted in the termination of the Earnout Note.

OTHER CONTINGENCIES

We record liabilities for environmental obligations when remediation efforts are 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. As of December 31, 2006, no liability related to remediation efforts were recorded, since none were deemed necessary.

9. STOCKHOLDERS' EQUITY
COMMON STOCK

We currently have 45,000,000 shares of our \$0.01 par value common stock authorized; of these authorized shares, there were 15,272,121 and 16,909,949 issued at December 31, 2005 and 2006, respectively. In 2001, we repurchased 361,800 shares of treasury stock, of which during 2004, 90,454 shares were re-issued, during 2005, 135,673 shares were re-issued, and during 2006, 135,673 shares were re-issued, leaving no remaining treasury shares outstanding at December 31, 2006.

PREFERRED STOCK

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 which is convertible into common stock of the company at a conversion price of \$0.75 per share. 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 in satisfaction of all of the remaining outstanding subordinated debentures including accrued interest of \$1.8 million. The Series B Preferred are convertible into our common stock at a conversion price of \$1.25 per share. This transaction resulted in the affiliate agreeing to forgive \$1.0 million of indebtedness, which has been reflected as a capital contribution from the affiliate rather than as income in the accompanying financial statements. The Preferred Stock earns dividends at a rate of 8% of which dividends of \$484,000 and \$490,000 were recorded during the years ended December 31, 2003 and 2004, respectively. In February 2004, we issued \$10.0 million of 6.5% Subordinated Convertible Debentures (See Note 4). The proceeds were used to redeem \$8.2 million (7,475 shares) of the Series A Preferred outstanding, including accrued dividends of \$0.7 million. The remaining 25 shares of Series A Preferred were redeemed in April 2004 for \$0.03 million. During the first quarter of 2004, we redeemed 2,286 shares of the Series B Preferred for \$2.4 million, including accrued

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dividends of \$0.1 million. In April 2004, we redeemed 2,285 shares of the total of 2,314 shares of the Series B Preferred outstanding for \$2.5 million, including accrued dividends of \$0.2 million. At December 31, 2006, 29 shares of Series B Preferred remain outstanding and are convertible into 7,733 shares of our common stock.

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 shares were transferred during 2003 to settle certain litigation and 858,678 shares were cancelled. The balance of 761,100 shares was exercised in the first quarter of 2004 at an exercise price of \$2.25 per share.

On May 17, 2005, we entered into a Securities Purchase Agreement with certain of our affiliates and executive officers to issue up to \$5.0 million of Series C Preferred in conjunction with the completion of the Senior Credit Facility more fully described in Note 4. Our Series C Preferred is convertible into shares of our common stock at a conversion price of \$1.95 per share and includes detachable warrants to purchase up to 6,550,000 additional shares of our common stock at exercise prices ranging between \$1.95 and \$3.50 per share. The conversion prices of our Series C Preferred and the warrant exercise prices were supported by a fairness opinion issued by a third party. The transactions contemplated by the Securities Purchase Agreement closed in two tranches. On May 17, 2005, we issued an aggregate of 3,500 shares of Series C Preferred and warrants to acquire 4,585,000 shares of our common stock, in exchange for \$3.3 million, net of offering costs of \$0.2 million. The proceeds of the issuance were allocated to the warrants and preferred stock based on the relative fair value of each instrument. The value attributed to the warrants was \$2.9 million (\$2.7 million net of offering costs) and was recorded as additional paid in capital while \$0.6 million was the attributed value to the preferred stock. In addition, the conversion terms of the preferred stock result in a beneficial conversion feature valued at approximately \$0.7 million. As a result of the terms of conversion, we recorded a one time charge to retained earnings for this amount representing a deemed dividend to the preferred stockholders with the offset recorded in additional paid in capital.

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

The Term A Loan and the Term B Loan restrict the payment of cash dividends. Consequently, the dividend obligation related to the Series C Preferred has been satisfied through the issuance of PIK dividends. The PIK dividends are paid through the issuance of additional shares of Series C Preferred. These additional shares of preferred stock do not have warrants attached to them. During the years ended December 31, 2005 and 2006, 128 and 479 shares of Series C Preferred were issued, respectively, as PIK dividends. In addition, the conversion terms of the preferred stock issued as PIK dividends resulted in an immaterial beneficial conversion feature. As a result of these PIK dividends, we recorded a one time charge to retained earnings representing a dividend to the preferred stockholders with the offset recorded in additional paid in capital.

At December 31, 2006, 5,607 shares of Series C Preferred remain outstanding and are convertible into 2,875,385 shares of our common stock at a commission rate of \$1.95 per share.

EARNINGS PER SHARE

Basic EPS is determined by dividing income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the potential dilution that could occur if options and other contracts to issue shares of common stock were exercised or converted into common stock. We had 63,003, 683,208, and 174,703 options outstanding for the years ended December 31, 2004, 2005 and 2006, respectively, that were excluded from the calculation of diluted EPS as they were antidilutive. In addition, warrants to purchase up to 1,241,500, 2,021,363, and 541,500 shares of common

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stock were also excluded for the years ended December 31, 2004, 2005, and 2006, respectively. Additionally, debentures convertible into 1,123,264, 585,552, and 0 shares of common stock and the Stockholder Notes convertible into 319,149, 186,826, and 0 shares of common stock, and Rig Tools Notes convertible into 0, 0, and 83,562 shares of common stock were excluded in the calculation for 2004, 2005, and 2006, respectively. Preferred stock convertible into 7,733, 2,637,477 and 0 shares of common stock were excluded from the calculation for 2004, 2005 and 2006 respectively.

The following table sets forth the computation of basic and diluted weighted average shares outstanding:

	Year Ended December 31,		
	2004	2005	2006
	(In thousands)		
Shares:			
Basic shares outstanding	10,884	13,251	16,190
Effect of dilutive securities:			
Stock options		62	712
Warrants		370	4,661
Contingently issuable shares			45
Preferred stock			2,790
Shareholder notes			61
Dilutive shares outstanding	10,884	13,683	24,459

Due to the Company incurring a net loss for the year ended December 31, 2004, basic and diluted weighted average shares used in the calculation of EPS are the same due to the effects of potential dilutive securities being anti-dilutive.

STOCK BASED COMPENSATION

During 2004, we entered into Incentive Agreements with our executive officers that provides for, among other things, the issuance of restricted common stock. Additionally, we entered into an SBA with certain executive officers that provides for payments, based on the market value of our outstanding common stock, in the event of death or change of control, for a period beginning on June 30, 2004 and expires on December 31, 2008 (See Note 8).

In September 1997, we adopted the Stock Incentive Plan (the "Incentive Plan") to provide long-term incentives to our key employees, officers, directors who are our employees, and our consultants and advisors and non-employee directors ("Eligible Persons"). Under the Incentive Plan, we may grant incentive stock options, non-qualified stock options, restricted stock, other stock-based awards, or any combination thereof to Eligible Persons. Options generally vest over a four-year period and expire if unused after ten years. The exercise price of any stock option granted may not be less than the fair market value of the common stock on the date of grant. A total of 2,750,000 shares of common stock have been authorized under the Incentive Plan, of which 471,190 remain available for issuance at December 31, 2006.

In January 1999, we approved the Stock Option Plan (the "Option Plan") to provide for the grant of options to purchase shares of our common stock to our non-officer employees in lieu of year-end cash bonuses. The Option Plan is intended to increase shareholder value and advance our interests by providing an incentive to employees and by increasing employee awareness of us in the marketplace. Under the Option Plan, we may grant options to any of our employees with the exception of our officers. The options become exercisable immediately with respect to one-half of the shares, and the remaining one-half shall be exercisable one year following the date of the grant. The exercise price of any stock option granted may not be less than the fair market value of the common stock on the effective date of the grant. A total of 100,000 shares of common stock are authorized, of which 56,591 remain available for issuance at December 31, 2006.

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A summary of our employee stock options as of December 31, 2004, 2005 and 2006, and changes during the years then ended, are presented below:

	WEIGHTED AVERAGE EXERCISE PRICE	INCENTIVE PLAN OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM (Years)	AGGREGATE INTRINSIC VALUE (In Thousands)
Balance at December 31, 2003	\$ 2.74	1,169,140	5.9	\$ 4,338
Exercisable	\$ 3.10	598,729	7.7	\$ 2,022
Granted	4.00	177,500		
Exercised	2.04	(152,312)		
Forfeited	6.28	(125,036)		
Balance at December 31, 2004	2.63	1,069,292	6.2	\$
Exercisable	2.51	741,135	7.2	\$
Granted	2.16	477,900		
Exercised	1.92	(283,556)		
Forfeited	2.37	(325,809)		
Balance at December 31, 2005	2.69	937,827	7.6	\$ 928
Exercisable	2.77	592,011	6.6	\$ 539
Granted	5.38	344,250		
Exercised	3.00	(399,029)		
Forfeited	4.14	(26,681)		
Balance at December 31, 2006	\$ 3.59	856,367	8.1	\$ 5,309
Exercisable	\$ 2.85	474,210	6.1	\$ 3,291

The following table summarizes information about employee stock options outstanding at December 31, 2006:

		OPTIONS OUTSTANDING WGTD. AVG.			OPTIONS EXERCISABLE	
		NUMBER	REMAINING	WGTD. AVG.	NUMBER	WGTD. AVG.
EXERCISE PRICES	OUTSTANDING	CONTR. LIFE	EXERCISE PRICE	EXERCISABLE	EXERCISE PRICE	
\$1.30 \$ 5.21	833,367	8.1	\$ 3.41	474,210	\$ 2.85	
\$5.22 \$10.42	23,000	9.5	\$ 10.13		\$	

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856,367	8.1	\$	3.59	474,210	\$	2.85
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A summary of our warrants as of December 31, 2004, 2005 and 2006, and changes during the years then ended are presented below:

	WEIGHTED AVERAGE	
	EXERCISE PRICE	WARRANTS
Balance at December 31, 2003	\$ 2.16	1,773,709
Exercisable	\$ 2.16	1,773,709
Granted	7.75	1,341,500
Exercised	2.16	(1,687,594)
Forfeited	2.25	(54,166)
Balance at December 31, 2004	7.62	1,373,449
Exercisable	7.65	1,273,449
Granted	2.17	6,550,000
Exercised		
Forfeited	7.15	(700,000)
Balance at December 31, 2005	2.73	7,223,449
Exercisable	2.73	7,223,449
Granted		
Exercised	2.57	362,799
Forfeited		
Balance at December 31, 2006	\$ 2.73	6,860,650
Exercisable	\$ 2.73	6,860,650

10. INCOME TAXES

The components of deferred tax assets and liabilities as of December 31, are as follows:

	DECEMBER 31,	
	2005	2006
Deferred Tax Assets:		
Allowance for doubtful accounts	\$ 188	\$ 341
Net operating loss carryforward	17,042	10,723
Alternative minimum tax credit		342
Accrued expenses and other		436
Total deferred tax assets	17,230	11,842
Deferred Tax Liabilities:		
Property and equipment	1,564	12,024
Intangibles	1,082	1,656

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Total deferred tax liabilities	2,646	\$ 13,680
	14,584	
Less: Valuation allowance	(12,584)	
Net deferred tax asset	\$ 2,000	

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The income tax benefit (expense) for the years ended December 31, consisted of the following:

	YEAR ENDED DECEMBER 31,		
	2004	2005	2006
	(In thousands)		
Current benefit (expense)	\$	\$	\$ (342)
Deferred benefit (expense)	4,450	(238)	(5,437)
Less: change in valuation allowance	(4,450)	238	12,584
 Total tax benefit	 \$	 \$	 \$ 6,805
Federal	\$	\$	\$ 6,010
State			795
 Total tax benefit	 \$	 \$	 \$ 6,805
Continuing operations	\$	\$ 508	\$
Discontinued operations		(508)	
 Total tax benefit	 \$	 \$	 \$

The reconciliation of Federal statutory and effective income tax rates for the years ended December 31, is shown below:

	YEAR ENDED DECEMBER 31,		
	2004	2005	2006
Statutory federal rate	34%	34%	34%
Non-deductible expense			3
State taxes	3	3	3
Valuation allowance	(37)	(37)	(85)
 Total	 0%	 0%	 (45)%

As of December 31, 2006, for tax purposes, we had net operating loss carryforwards (NOLs) of approximately \$26.4 million. The NOLs will expire commencing 2018. We account for income taxes under the provision of SFAS No. 109, *Accounting for Income Taxes* which requires recognition of future tax benefits (NOLs and other temporary differences), subject to a valuation allowance based on more likely than not that such asset will be realized. In determining whether it is more-likely-than-not that we will realize such tax asset, SFAS No. 109 requires that all negative and positive evidence be considered (with more weight given to evidence that is objective and verifiable) in making the determination. Prior to 2006, we had valuation allowances in place against the deferred tax asset arising from the NOLs. In 2006, we reversed the allowances in expectation of generating taxable income in the future.

The Company receives a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the fair market value of the stock over the exercise price of the options. This deduction is recorded as a tax asset when it is a cash tax savings to us with a corresponding amount recorded as additional paid in capital. For each of the years ended December 31, 2004, 2005 and 2006, we had net operating losses available for carryforward. Consequently, we were not in a position requiring us to make cash payments for income taxes. The income tax benefit of the option exercises was \$0.3 million, \$0.2 million and \$1.1 million for 2004, 2005 and 2006, respectively. These amounts are not recorded until we have cash taxes to pay and they are available for carryforward to future periods. At the time that we are required to pay cash taxes, the amount of the tax benefit will be recorded as a reduction of current taxes paid and an increase in additional paid in capital. The total aggregate value of deferred tax benefit not recorded as a deferred tax asset at December 31, 2006 is approximately \$1.6 million.

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11. SEGMENT INFORMATION

SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, which requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. At December 31, 2006, we conducted our operations principally in four segments—Seismic Drilling, Environmental Services, Equipment Leasing, and Other Services—all of which operate exclusively in North America. The Aviation Transportation Services segment was sold during 2005 (See Note 13) and its operations are presented as discontinued operations. The Seismic Drilling division is comprised of three segments—Drilling, Survey and Permitting. The Equipment Leasing segment and the Environmental Services segment operate as stand-alone segments, as did the Aviation Transportation segment. Other Services are accounted for in the Equipment Leasing segment. All remaining assets, primarily our corporate offices, warehouses and underlying real estate, are located in North America.

The segment classified as Corporate includes all other operating activities to support the executive office, capital structure and costs of being a public registrant. These costs are not allocated to the business segments by management when determining segment profit or loss.

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Drilling revenue is derived primarily from drilling and loading of the source points for seismic analysis. Aviation revenue was derived through transport of geophones and recorders used to collect the seismic data between receiving points, transport heli-portable drilling units into remote or otherwise inaccessible terrain, transport people and equipment to offshore oil and gas platforms and rigs. Survey revenue is recorded after the customer has determined the placement of source and receiving points, and after survey crews are sent into the field to plot each source and receiving point prior to drilling. Permitting revenue is derived from services provided in conjunction with obtaining permits from landowners. Environmental services revenue is earned from tank, vessel and rig pit cleaning. Equipment leasing revenue is derived from the rental of various pieces of oilfield equipment to offshore and land-based oil production rigs. Other services revenue is comprised of metal stress relieving and wellhead installation services. The following table shows segment information (net of intercompany transactions) as adjusted for discontinued operations for the years ended December 31, 2004, 2005 and 2006:

	DRILLING	AVIATION	ENVIRONMENTAL	CORPORATE	EQUIPMENT LEASING	OTHER SERVICES	TOTAL
	(In thousands, except per share data)						
2006							
Operating revenues	\$ 50,587	\$	\$ 27,003	\$	\$ 16,180	\$ 5,228	\$ 98,998
Operating income (loss)	10,636		6,720	(5,284)	5,646	2,010	19,728
Interest expense			31	4,622	313		4,966
Depreciation and amortization	2,656		1,167	23	1,763	51	5,660
Identifiable assets	14,496	67	17,410	37,091	49,785	1,691	120,540
Capital expenditures(1)	282		2,462	1,085	852	587	5,268
2005							
Operating revenues	\$ 25,909	\$	\$ 17,441	\$	\$	\$	\$ 43,350
Operating income (loss)	3,781		2,179	(3,249)			2,711
Interest expense				2,836			2,836
Depreciation and amortization	3,295		1,332				4,627
Loss from discontinued operations		(3,978)					(3,978)
Loss on disposal of discontinued segment		(2,271)					(2,271)
Identifiable assets	16,671	295	13,540	13,252			43,758
Capital expenditures	106	140	539				785
2004							
Operating revenues	\$ 30,398	\$	\$ 8,666	\$	\$	\$	\$ 39,064
Operating income (loss)	2,430		597	(6,219)			(3,192)
Interest expense				3,288			3,288
Depreciation and amortization	3,332		950				4,282
Loss from discontinued operations		(6,756)					(6,756)
Identifiable assets	21,502	22,077	13,264	9,070			65,913
Capital expenditures(1)	162	6,612	21	103			6,898

(1) Net of assets obtained in acquisitions (See Note 12).

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TRUSSCO, INC.**

On June 30, 2004, we purchased all of the issued and outstanding stock of Trussco, Inc. and all of the membership interests in Trussco Properties, L.L.C. 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 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. Trussco is a leading provider of dock-side and offshore tank, vessel, boat and barge cleaning services principally to major and independent oil and gas companies operating in the Gulf of Mexico. The acquisition increased our revenue and customer base and offered cross-selling opportunities with our aviation transportation division. Correspondingly, \$3.9 million was allocated to intangible assets attributable to customer lists and other industry-specific intangible assets. The results of Trussco operations are included in our consolidated financial statements since the date of the acquisition.

In connection with the acquisition of Trussco, we issued to certain former stockholders of Trussco a promissory note that earned interest at a rate of 5% per annum of the amount owed. Under the terms of the Earnout Note, we agreed to pay these shareholders on or before June 30, 2007, the lesser of (i) the amount of \$3.0 million, or (ii) the sum of the product of 3.12 times Trussco's average annual EBITDA for the 36 month period ending December 31, 2006 less the sum of \$9.0 million plus \$1.5 million of Trussco long-term and former stockholder debt existing as of June 30, 2004 that we assumed.

On May 18, 2005, we entered into debt extinguishment agreements with respect to \$2.0 million of the Stockholder Notes (See Note 4) and \$1.0 million of the Earnout Note. Under the terms of the Debt Extinguishment Agreements, we were required to (i) 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. We recognized a gain on debt extinguishment of \$0.3 million upon closing this transaction.

On August 29, 2005, in accordance with the Debt Extinguishment Agreements, we paid \$1.0 million in cash from the proceeds of the Term B Loan, and issued 0.2 million shares of our common stock in full satisfaction of \$2.0 million of the Stockholder Notes. In addition, the Company recorded an additional gain on extinguishment of \$0.3 million in accordance with the terms of the agreements.

At December 31, 2005, we had \$1.0 million of Stockholder Notes outstanding bearing interest at 5% and maturing in June 2007. In July 2006, we prepaid this indebtedness resulting in a \$0.01 million gain from the early extinguishment of this debt. This transaction also resulted in the termination of the Earnout Note.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The property and equipment and intangible assets are being amortized over periods ranging from zero to twenty years with no residual value.

	(In thousands)
Current assets, including cash of \$427	\$ 3,618
Property and equipment	3,695
Other assets	19
Intangible assets	6,187
Current Liabilities	(1,460)
Deferred income tax credit	(1,543)
Assumption of Debt	(177)
Stockholder Notes	(3,000)
Cash purchase price	\$ 7,339

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In July 2004, we incurred fees for merchant banking services provided during the Trussco acquisition. The fees were earned upon signing of final documents and the receipt of title to assets. The total fee included \$0.5 million cash, increasing the cash purchase price to \$7.8 million, 69,930 shares of restricted stock and 5-year common stock warrants to purchase 100,000 shares of common stock at an exercise price of \$7.15. The restricted stock was valued at the common stock price on July 1, 2004 of \$4.89 per share, or \$0.3 million. The warrants were not exercisable for a period of one-year after the issue date of such warrants. In accordance with APB Opinion No. 14, the warrants were valued at a fair market value of \$0.2 million using the Black Scholes option pricing model. The total value of fees of \$1.0 million were capitalized as part of the allocation of the purchase price and assigned to intangibles other than goodwill associated with the Trussco acquisition and are being amortized over 5 years.

PREHEAT, INC.

Effective February 10, 2006, we purchased all of the issued and outstanding stock of Preheat for an aggregate acquisition price of \$23.0 million, including \$16.0 million in cash, \$3.0 million (900,000 shares) of our common stock and \$4.0 million in 5% promissory notes payable to certain stockholders, and the assumption of approximately \$1.5 million in debt and other liabilities. The Preheat Notes consist of three separate notes with \$2.7 million maturing in February 2008, \$0.5 million maturing in February 2009, and \$0.8 million maturing in February 2009. The acquisition was accounted for using purchase accounting. Preheat is a leading provider of oilfield rental equipment services principally to major and independent oil and gas companies operating in the Gulf of Mexico. The acquisition has increased our revenue and customer base and offers cross-selling opportunities to customers of our existing environmental division. The results of Preheat's operations are included in our consolidated financial statements since the date of the acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The property and equipment are amortized over three to ten years with no residual value (in thousands):

Current assets (includes cash of \$1,822)	\$ 8,773
Property and equipment	15,599
Other assets	6,847
Current liabilities	(2,008)
Deferred income tax liability	(4,654)
Assumption of debt	(1,515)
Purchase price	 \$ 23,042

RIG TOOLS, INC.

Effective November 10, 2006, we purchased all of the issued and outstanding stock of Rig Tools for an aggregate acquisition price of \$14.0 million, including \$10.0 million in cash and \$4.0 million in 5% promissory notes payable to certain stockholders (Rig Tools Notes), and the assumption of approximately \$2.5 million in debt and other liabilities. The Rig Tools Notes consist of three separate notes with \$3.0 million maturing in November 2007, \$1.0 million maturing in November 2008. The Rig Tools Notes can be prepaid at any time and are convertible into shares of our common stock at a price of \$8.00 per share. We recorded a beneficial conversion feature of \$0.7 million related to the stock valuation at closing which is being amortized to interest expense over the life of the notes. The acquisition was accounted for using purchase accounting. Rig Tools is a leading rental equipment supplier to land-based drilling contractors operating primarily in Louisiana and Texas. The acquisition has increased our revenue and customer base and offers cross-selling and geographic consolidation opportunities with our existing rental equipment and environmental divisions. The results of Rig Tools' operations are included in our consolidated financial statements since the date of the acquisition.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The property and equipment are amortized over three to ten years with no residual value. The final allocation of the purchase price has not been completed. The allocation of the purchase price is subject to adjustment as acquired asset and liability values are finalized and certain "look back" provisions are resolved (in thousands):

Current assets (includes cash of \$205)	\$ 3,071
Fixed Assets	14,274
Other assets	5,273
Current liabilities	(1,264)
Deferred income tax liability	(4,834)
Assumption of debt	(2,520)
Purchase price	\$ 14,000

The pro forma unaudited results summarized below reflects our consolidated pro forma results of operations as if Trussco, Preheat and Rig Tools were acquired on January 1, 2004, with the entire results of the Aviation Transportation Segment presented as discontinued operations (See Note 13):

UNAUDITED RESULTS

YEAR ENDED DECEMBER 31,
2004 2005 2006
(In thousands, except per share data)

INCOME STATEMENT DATA			
Operating revenue	\$ 71,679	\$ 75,053	\$ 113,466
Operating expenses	73,185	67,168	91,121
Net income (loss) from continuing operations available to common stockholders	(10,575)	2,215	21,548
Discontinued operations	(6,756)	(6,249)	
Net income (loss) available to common stockholders	\$ (17,331)	\$ (4,034)	\$ 21,548
Basic income (loss) per common share:			
Income (loss) from continuing operations available to common stockholders	\$ (0.90)	\$ 0.16	\$ 1.33
Income (loss) from discontinued operations	(0.57)	(0.43)	
Net Income (loss) available to common stockholders	\$ (1.47)	\$ (0.27)	\$ 1.33
Diluted income (loss) per common share:			
Income (loss) from continuing operations available to common stockholders	\$ (0.86)	\$ 0.20	\$ 0.92
Income (loss) from discontinued operations	(0.55)	(0.41)	
Net income (loss) available to common stockholders	\$ (1.41)	\$ (0.21)	\$ 0.92

13. DISCONTINUED OPERATIONS

On November 20, 2003, we purchased AHI, resulting in the acquisition of thirteen (13) helicopters and four (4) leased helicopters at bases located in Louisiana and Texas. AHI was strategically targeted and purchased for the infrastructure of aircraft, fueling stations, flight (customer) following and pilot and mechanic organizations.

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We made the decision in July 2004, after owning AHI for approximately eight months, to exit from the Texas location in Brazoria County, to begin the withdrawal of business activity with AHI customers in Texas, and to move all operations to our main operating facility in Louisiana. This strategy also fits with the planned

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completion of the Intracoastal City (Mouton Cove) facility as a central operation base of operations. Our planned strategy is to certify all of our fleet under the OMNI Federal Aviation Agency 135 certificate and to market our flight services to independent and major oil and gas customers. Our strategy is to service operators that require aircraft geared to crew change and larger passenger capacity, which allow for higher rates and use. The large operators work from Master Service Agreements which meet our needs for higher, more fixed pricing and fixed unit structures. The plan encompassed relocation of personnel, the elimination of certain duplicate positions, and the negotiation of early release of operating leases at the Brazoria County facility. The costs we incurred include travel and re-location costs for personnel who were relocated, costs associated with the transfer of aircraft to the 135 certificate, termination costs for personnel who were eliminated, any costs incurred to obtain an early release of operating leases at the Brazoria County facility and other direct costs related to the exit of this business group. In September 2004, we surrendered the AHI 135 certificate.

Effective June 30, 2005, we sold the equipment and related assets of our Aviation Transportation Services segment for a cash price of \$11.0 million. Accordingly, the disposition of the Aviation Transportation Services segment has been accounted for as a discontinued operation in the accompanying financial statements.

Interest expense was allocated to the discontinued operations (Aviation Transportation Services segment) in accordance with the provisions of the EITF No. 87-24 *Allocation of Interest to Discontinued Operations*. The total amounts of interest expense included in loss from discontinued operations is \$1.9 million and \$0.9 million for the years ended December 31, 2004 and 2005, respectively.

Accordingly, the table below presents all revenues and expenses of the Aviation Transportation Services segment as loss from discontinued operations:

	YEAR ENDED DECEMBER 31,	
	2004	2005
	(In thousands)	
Revenue	\$ 15,350	\$ 4,900
Operating expenses:		
Direct operating costs	11,418	4,629
Depreciation and amortization	1,127	521
General and administrative expenses	1,943	987
Total operating expenses	14,488	6,137
Asset impairment	4,174	505
Interest expense	1,889	1,029
Loss on debt extinguishment	279	733
Other (income) expense	1,276	(34)
Total expenses	22,106	8,370
Loss from discontinued operations	(6,756)	(3,470)
Income taxes		(508)
Net loss from discontinued operations	\$ (6,756)	\$ (3,978)

We have included in the loss from discontinued operations an allowance for doubtful accounts of \$0.2 million recorded as a result of contract termination negotiations associated with our exit of the Brazoria County, Texas market. As required by SFAS No. 146, the following table reflects the total amount incurred in connection with the other exit activity for the year ended December 31, 2004:

YEAR ENDED

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	DECEMBER 31, 2004	
	(In thousands)	
Lodging and travel	\$	53
Severance and outplacement		30
Total exit costs	\$	83

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As a result of the sale of the Aviation Transportation Services segment, we incurred a loss in the amount of \$2.3 million. The table below presents the assets of the Aviation Transportation Services segment as of December 31, 2005 which were removed from the balance sheet as a result of the sale:

	(In thousands)
Inventory	\$ 1,567
Other receivable	411
Prepaid expenses	411
Aircraft held for sale	370
Property, plant and equipment	11,079
Less: accumulated depreciation	(1,708)
Other assets, net of accumulated amortization	
Acquisition costs	\$ 13
Intangible assets	207
Loan closing costs	921
	1,141
Total book value of assets sold	\$ 13,271

The loss on the disposal of the Aviation Transportation Services segment is calculated as follows (in thousands):

Proceeds from the sale	\$ 11,000
Less: book value of assets sold	(13,271)
Loss on sale of aviation division	\$ (2,271)

14. SUMMARIZED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The quarterly financial information presented for 2005 below has been adjusted from information previously filed in order to present operations from our Aviation Transportation Services segment as discontinued operations.

2006	MARCH 31	QUARTER ENDED		
		JUNE 30	SEPTEMBER 30	DECEMBER 31
		(In thousands except per share data)		
Operating revenues	\$ 18,455	\$ 27,684	\$ 26,639	\$ 26,220
Operating expenses	15,121	21,376	21,492	21,281
Operating income	3,334	6,308	5,147	4,939
Other expense	(1,032)	(1,119)	(1,090)	(1,477)
Income before income taxes	2,302	5,189	4,057	3,462
Income tax benefit		1,000	2,500	3,305

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Net income	2,302	6,189	6,557	6,767
Dividends and accretion of preferred stock	(116)	(121)	(124)	(127)
Non-cash charge attributable to beneficial conversion feature of preferred stock	(96)	(117)	(121)	(124)
Net income available to common stockholders	\$ 2,090	\$ 5,951	\$ 6,312	\$ 6,516
Basic income per common share:				
Net income available to common stockholders	\$ 0.13	\$ 0.37	\$ 0.38	\$ 0.40
Diluted income per common share:				
Net income available to common stockholders	\$ 0.10	\$ 0.26	\$ 0.26	\$ 0.27

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2005	QUARTER ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
	(In thousands except per share data)			
Operating revenues	\$ 13,115	\$ 9,463	\$ 9,623	\$ 11,149
Operating expenses	11,583	9,197	9,690	10,169
Operating income (loss)	1,532	266	(67)	980
Other expense	(604)	(161)	(303)	(175)
Income (loss) before income taxes	928	105	(370)	805
Income tax benefit			508	
Income (loss) before income tax benefit	571	65	(228)	495
Income tax benefit from net operating loss carryforward	357	40	366	310
Income from continuing operations	928	105	138	805
Loss from discontinued operations	(726)	(2,136)	(411)	(705)
Loss on disposal of discontinued operations assets		(2,271)		
Income (loss)	202	(4,302)	(273)	100
Dividends and accretion of preferred stock		(704)	(80)	(210)
Net income (loss) available to common stockholders	\$ 202	\$ (5,006)	\$ (353)	\$ (110)
Basic income (loss) per common share:				
Income (loss) from continuing operations	\$ 0.08	\$ (0.05)	\$ 0.00	\$ 0.04
Loss from discontinued operations	(0.06)	(0.17)	(0.03)	(0.05)
Loss on disposal of discontinued operations assets		(0.18)		
Net income (loss) available to common stockholders	\$ 0.02	\$ (0.40)	\$ (0.03)	\$ (0.01)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	\$ 0.08	\$ (0.05)	\$ 0.00	\$ 0.04
Loss from discontinued operations	(0.06)	(0.17)	(0.02)	(0.04)
Loss on disposal of discontinued operations assets		(0.18)		
Net income (loss) available to common stockholders	\$ 0.02	\$ (0.40)	\$ (0.02)	\$ (0.00)

15. SUBSEQUENT EVENTS

Effective January 5, 2007, we entered into new Restricted Stock and Stock-Based Award Incentive Agreements (RSA) with certain executive officers. The new RSAs replace prior restricted stock agreements and reduce our contingent liability to the executive officers from approximately \$31.7 million to approximately \$10.0 million as of January 5, 2007. The RSAs provide for the granting of between 400,000 and 500,000 shares of our restricted common stock to each of the executive officers on the terms set forth in the RSAs. The number of shares of restricted stock becomes fixed and payable in the event of (i) a change in control of or the receipt by our Board of Directors of a change of control offer as defined by the RSAs; (ii) termination without cause; or (iii) death or disability. Additionally, at the time of vesting in the restricted shares, each executive officer will receive the right to a cash payment of \$1.2 million. The revised RSAs will terminate on December 31, 2008, and any unvested restricted common stock or stock-based awards will terminate and lapse.

On February 13, 2007, our motion for partial summary judgment on ACP's first amended and superceding reconventional and third party demand was granted. ACP had filed the demand seeking damages for our redeeming rather than converting the Series A and B Preferred Stock. The court determined that ACP consequently abandoned its claim by retaining the proceeds.

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On March 2, 2007, we completed the acquisition of Charles Holston, Inc., pursuant to a Membership Interest Purchase and Sale Agreement (Holston Purchase Agreement) to acquire BMJ Industrial Investments, L.L.C. and its wholly-owned subsidiary, Charles Holston, Inc., (collectively Holston). Subject to the terms and conditions of the Holston Purchase Agreement, we purchased 100% of the membership interests and equity interests of Holston for the total consideration of approximately \$23.0 million, including \$18.0 million of cash and the issuance of \$5.0 million of promissory notes accruing interest at 5% per annum with various maturities over a three-year period. In addition, we assumed approximately \$2.8 million of certain long-term debt of Holston. As a condition of closing, Holston was required to have on hand a minimum of \$7.5 million of excess working capital as defined in the Holston Purchase Agreement.

On March 2, 2007, we completed the acquisition of certain assets of Cypress Energy Consulting, Inc., d/b/a Cypress Energy Services (Cypress) pursuant to an Asset Purchase Agreement (Cypress Purchase Agreement). Subject to the terms and conditions of the Cypress Purchase Agreement, we purchased certain assets from Cypress for the total consideration of approximately \$10.1 million, including \$7.1 million of cash and the issuance of a \$3.0 million, three-year 5% promissory note.

On March 2, 2007 we completed \$64.5 million of new credit facilities (Senior Credit Facilities) with LaSalle Business Credit, LLC (LaSalle), a wholly-owned subsidiary of LaSalle Bank, N.A. and an affiliate of ABN AMRO. With the proceeds from the Senior Credit Facilities, we (i) repaid approximately \$22.0 million outstanding principal balance under our existing Term A and Term B loans; (ii) closed the acquisition of Holston; and (iii) completed the acquisition of certain assets of Cypress. The balance of the proceeds available under the Senior Credit Facilities was used to pay fees and expenses of the aforementioned transactions and provide additional working capital.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's Disclosure Committee and management, including the Chief Executive Officer and the Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon, and as of the date of this evaluation, the Chief Executive Officer and the Chief Accounting Officer concluded that the Company's disclosure controls and procedures were not effective because of the material weaknesses described below. In light of the material weaknesses described below, the Company performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the consolidated financial statements included in this Annual Report on Form 10-K fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.

Management's Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles.

Our system of internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

In assessing the effectiveness of our internal control over financial reporting as of December 31, 2006, we have excluded Rig Tools, Inc. (Rig Tools), which we acquired in November 2006. Rig Tools' total assets were \$18.3 million, or approximately 15.2% of our total assets, as of December 31, 2006, and Rig Tools' total revenues were \$2.5 million, or approximately 2.6% of our total revenues, for the year ended December 31, 2006.

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Our management, including our principal executive officer and principal financial officer, performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 based upon criteria in *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management determined that our internal control over financial reporting was effective as of December 31, 2006 except as follows:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We identified the following material weaknesses in our assessment of the effectiveness of internal control over financial reporting as of December 31, 2006:

In preparation of the Companies provision for income taxes and related deferred taxes a computational error was identified associated with its recent acquisitions and in its provision for various state income taxes. This material weakness resulted in an accounting adjustment that impacted goodwill and deferred income taxes. This accounting adjustment has been recorded in the consolidated financial statements and related disclosures for the year ended December 31, 2006.

Because of the material weaknesses described above, we have concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2006 based on the criteria in the *Internal Control Integrated Framework* issued by the COSO.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by PKF Texas, an independent registered public accounting firm, as stated in their report which appears herein.

Plan for Remediation.

Management, with the oversight of the Audit Committee, has addressed the material weaknesses described above in our internal control over financial reporting and its impact over disclosure controls and procedures and is committed to effectively remediating these deficiencies as expeditiously as possible. We have enhanced the current deferred tax calculation and have addressed the matter that resulted in the above material weakness.

Changes in Internal Control over Financial Reporting.

There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

OMNI Energy Services Corp.

Carencro, Louisiana

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting appearing in Item 9A, that OMNI Energy Services Corp. did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of the material weaknesses identified in management's assessment, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is 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 financial statements will not be prevented or detected. A material weakness has been identified and is included in management's assessment of internal control over financial reporting. Management has identified and included within their assessment the following internal control deficiency that is considered a material weakness in the operating effectiveness of internal control over financial reporting:

In preparation of the Companies provision for income taxes and related deferred taxes, a computational error was identified associated with its recent acquisitions and in its provision for various state income taxes.

This material weakness resulted in an accounting adjustment that impacted goodwill and its various income tax accounts. This accounting adjustment has been recorded in the consolidated financial statements and related disclosures for the year ended December 31, 2006.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements of the Company as of and for the year ended December 31, 2006, and this report does not affect our report dated March 16, 2007 on such financial statements.

As described in Management's Annual Report on Internal Control over Financial Reporting, management has excluded Rig Tools, Inc. (Rig Tools), which was acquired in November 2006. Accordingly, we have also excluded Rig Tools, Inc. from our audit of internal controls over financial reporting as of December 31, 2006. Rig Tools' total assets were \$18.3 million, or approximately 15.2% of total assets, as of December 31, 2006, and Rig Tools' total revenues were \$2.5 million, or approximately 2.6% of total revenues, for the year ended December 31, 2006.

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In our opinion, management's assessment that OMNI Energy Services Corp. did not maintain effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by COSO. Also, in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, OMNI Energy Services Corp. has not maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.

We do not express an opinion or any other form of assurance on management's statement referring to the effectiveness of the processes instituted to remediate the material weaknesses.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 and our report dated March 16, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ Pannell Kerr Forster of Texas, P.C.

Houston, Texas

March 16, 2007

ITEM 9B. OTHER

NONE.

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PART III

In accordance with paragraph (3) of General Instruction G to Form 10-K, Part III of this Report is omitted because we will file a definitive proxy statement involving the election of directors with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

Reference is made to the sections of such proxy statement entitled Information About the Company's Directors, Board Committees, Director Independence, Executive Officers and Key Managers, Compensation, Principal Stockholders, Certain Relationships and Related Transactions and Principal Accountant Fees and Services, which sections of such proxy statement are incorporated herein.

PART IV

ITEM 15. EXHIBITS, AND FINANCIAL STATEMENT SCHEDULES

(a) The following financial statements, schedules and exhibits are filed as part of this Report:

- (1) Financial Statements. Reference is made to Item 8 hereof.
- (2) Financial Statement Schedules: None.
- (3) Exhibits. See Index to Exhibits. We will furnish to any eligible shareholder, upon written request of such shareholder, a copy of any exhibit listed upon the payment of a reasonable fee equal to our expenses in furnishing such exhibit.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on our behalf by the undersigned, thereunto duly authorized.

OMNI ENERGY SERVICES CORP.

(REGISTRANT)

By: */s/* JAMES C. ECKERT
James C. Eckert

President and Chief Executive Officer

(Principal Executive Officer)

Date: March 16, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
<i>/s/</i> JAMES C. ECKERT James C. Eckert	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 16, 2007
<i>/s/</i> GREGORY B. MILTON Gregory B. Milton	Chief Accounting Officer (Principal Financial Officer)	March 16, 2007
<i>/s/</i> EDWARD E. COLSON, III Edward E. Colson III	Director	March 16, 2007
<i>/s/</i> BARRY E. KAUFMAN Barry E. Kaufman	Director	March 16, 2007
<i>/s/</i> DENNIS R. SCIOTTO Dennis R. Sciotto	Director	March 16, 2007
<i>/s/</i> RICHARD C. WHITE Richard C. White	Director	March 16, 2007

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OMNI ENERGY SERVICES CORP.

EXHIBIT INDEX

EXHIBIT

NUMBER

- 2.1 Stock Purchase and Sale Agreement (Employee-Shareholders) dated May 26, 2004, by and between the Company and Trussco, Inc. and Trussco Properties (filed as Exhibit 2.1 to our Form 8-K, as amended on June 14, 2004, originally filed with the Commission on June 10, 2004 and incorporated by reference herein).
- 2.2 Stock Purchase and Sale Agreement (Non-Employee-Shareholders) dated May 26, 2004, by and between the Company and Trussco, Inc. and Trussco Properties (filed as Exhibit 2.2 to our Form 8-K, as amended on June 14, 2004, originally filed with the Commission on June 10, 2004 and incorporated by reference herein).
- 2.3 Stock Purchase and Sale Agreement dated December 29, 2005, by and between OMNI Energy Services Corp. and the stockholders of Preheat, Inc., a Louisiana corporation (incorporated by reference to Exhibit 10.1 to our Form 8-K, originally filed with the Commission on January 5, 2006).
- 2.4 Stock Purchase and Sale Agreement, dated November 1, 2006, by and between OMNI Energy Services Corp., Rig Tools, Inc., and James V. King, Sr. and Paulette B. King (incorporated by reference to Exhibit 10.1 to our Form 8-K, originally filed with the Commission on November 7, 2006).
- 2.5 Membership Interest Purchase and Sale Agreement dated January 16, 2007 by and between OMNI Energy Services Corp., BMJ Industrial Investments, L.L.C., a Texas limited liability company, Charles Holston, Inc., a Louisiana corporation, and Brian J. Recatto, Lawrence J. Shaw, III, and Matthew E. Miller (incorporated by reference to Exhibit 10.1 to our Form 8-K, originally filed with the Commission on January 22, 2007).
- 2.6 Asset Purchase Agreement dated January 24, 2007 by and between OMNI Energy Services Corp. and Cypress Consulting Services, Inc., d/b/a Cypress Energy Services, a Texas corporation and Dennis Gray (incorporated by reference to Exhibit 10.1 to our Form 8-K, originally filed with the Commission on January 30, 2007).
- 3.1 Composite Articles of Incorporation of OMNI Energy Services Corp. (as of November 7, 2000) (filed as Exhibit 3 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated by reference herein).
- 3.2 Form of Articles of Amendment Articles of Incorporation (filed as Exhibit 3.2 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated by reference herein).
- 3.3 Form of Articles of Amendment Articles of Incorporation (incorporated by reference to Exhibit 3.1 to our Form 8-K, originally filed with the Commission on May 24, 2005).
- 3.4 Bylaws of OMNI, as amended (incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
- 4.1 See Exhibit 3.1, 3.2, 3.3 and 3.4 for provisions of our Articles of Incorporation and By-laws defining the rights of holders of Common Stock.
- 4.2 Specimen Common Stock Certificate (incorporated by reference to our Registration Statement on Form S-1 (Registration Statement No. 333-36561)).

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- 4.3 Form of 6.5% Convertible Debenture dated as of February 12, 2004 among the Company and certain accredited investors (with attached schedule of parties and terms thereto) (filed as Exhibit 4.1 to our Form 8-K, originally filed with the Commission on February 13, 2004 and incorporated by reference herein).
- 4.4 Form of 6.5% Convertible Debenture, dated as of April 15, 2004, among the Company and certain accredited investors (with attached schedule of parties and terms thereto) (filed as Exhibit 4.1 to our Form 8-K, originally filed with the Commission on April 19, 2004 and incorporated by reference herein).
- 4.5 Form of Warrant to Purchase Common Stock dated as of February 12, 2004 among the Company and certain accredited investors exercisable at \$7.15 per share (with attached schedule of parties and terms thereto) (filed as Exhibit 4.2 to our Form 8-K, originally filed with the Commission on February 13, 2004 and incorporated by reference herein).
- 4.6 Form of Warrant to Purchase Common Stock dated as of February 12, 2004 among the Company and certain investors exercisable at \$8.50 per share (with attached schedule of parties and terms thereto) (filed as Exhibit 4.3 to our Form 8-K, originally filed with the Commission on February 13, 2004 and incorporated by reference herein).
- 4.7 Form of Warrant to Purchase Common Stock, dated as of April 5, 2004, among the Company and certain accredited investors exercisable at \$9.00 per share (with attached schedule of parties and terms thereto) (filed as Exhibit 4.2 to our Form 8-K, originally filed with the Commission on April 19, 2004 and incorporated by reference herein).
- 4.8 Omnibus Amendment, dated as of April 15, 2004, by and among the Company and certain accredited investors listed therein (filed as Exhibit 4.3 to our Form 8-K, originally filed with the Commission on April 19, 2004 and incorporated by reference herein).
- 4.9 Amendment and Conditional Waiver Agreement, dated as of October 8, 2004, among OMNI Energy Services Corp., Provident Premier Master Fund Ltd., Portside Growth and Opportunity Fund, Manchester Securities Corp., and Gemini Master Fund, Ltd. (filed as Exhibit 4.1 to our Form 8-K, originally filed with the Commission on October 12, 2004 and incorporated herein by reference).
- 4.10 Form of Series A Warrant (incorporated by reference to Exhibit 4.1 to our Form 8-K, originally filed with the Commission on May 24, 2005).
- 4.11 Form of Series B Warrant (incorporated by reference to Exhibit 4.2 to our Form 8-K, originally filed with the Commission on May 24, 2005).
- 4.12 Form of Series C Warrant (incorporated by reference to Exhibit 4.2 to our Form 8-K, originally filed with the Commission on May 24, 2005).
- 4.13 Registration Rights Agreement, dated May 17, 2005, by and between OMNI Energy Services Corp. and certain investors identified therein (incorporated by reference to Exhibit 4.3 to our Form 8-K, originally filed with the Commission on May 24, 2005).
- 4.14 Amendment No. 1 to Registration Rights Agreement, dated July 16, 2005, by and between OMNI Energy Services Corp. and certain investors identified therein (incorporated by reference to Exhibit 4.7 to our Registration Statement on Form S-1, as amended, (Registration Statement No. 333-129138)).
- 4.15 Registration Rights Agreement, dated as of November 11, 2005, between OMNI Energy Services Corp. and Fusion Capital Fund II, LLC (incorporated by reference to Exhibit 4.1 to our Form 8-K, originally filed with Commission on November 15, 2005).

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- 4.16 Registration Rights Agreement dated as of February 12, 2004, by and among the Company and certain accredited investors listed therein (filed as Exhibit 10.2 to our Form 8-K, originally filed with the Commission on April 19, 2004 and incorporated herein by reference).
- 4.17 Amendment No. 1 to Registration Rights Agreement, dated as of April 12, 2004, by and among the Company and certain accredited investors listed therein (filed as Exhibit 10.2 to our Form 8-K, originally filed with the Commission on April 19, 2004 and incorporated herein by reference).
- 4.18 Amended and Restated Registration Rights Agreement, dated as of April 15, 2004, by and among the Company and certain accredited investors listed therein (filed as Exhibit 10.3 to our Form 8-K, originally filed with the Commission on April 19, 2004 and incorporated herein by reference).
- *10.1 Form of Indemnity Agreement by and between us and each of our directors and executive officers (incorporated by reference to our Registration Statement on Form S-1 (Registration Statement No. 333-36561)).
- *10.2 Stock Incentive Plan (incorporated by reference to our Registration Statement on Form S-1 (Registration Statement No. 333-36561)).
- *10.3 Fifth Amended And Restated OMNI Energy Services Corp. Stock Incentive Plan (incorporated by reference to our Proxy Statement for our November 30, 2004 stockholders meeting originally filed with the Commission on November 1, 2004).
- *10.4 Form of Stock Option Agreements under our Stock Incentive Plan (incorporated by reference to our Registration Statement on Form S-1 (Registration Statement No. 333-36561)).
- 10.5 Securities Purchase Agreement dated as of February 12, 2004, by and among the Company and certain accredited investors listed therein (filed as Exhibit 10.1 to our Form 8-K, originally filed with the Commission on February 13, 2004 and incorporated herein by reference).
- 10.6 Securities Purchase Agreement, dated as of April 15, 2004, by and among the Company and certain accredited investors listed therein (filed as Exhibit 10.1 to our Form 8-K, originally filed with the Commission on April 19, 2004 and incorporated herein by reference).
- *10.7 Employment Agreement of James C. Eckert dated July 1, 2004 (filed as Exhibit 10.4 to our Form 10-Q, originally filed with the Commission on August 25, 2004 and incorporated herein by reference).
- *10.8 James C. Eckert Stock Based Award Incentive Agreement dated June 30, 2004 (filed as Exhibit 10.5 to our Form 10-Q, originally filed with the Commission on August 25, 2004 and incorporated herein by reference).
- *10.9 James C. Eckert Amended & Restated Incentive Agreement dated August 12, 2004 (filed as Exhibit 10.6 to our Form 10-Q, originally filed with the Commission on August 25, 2004 and incorporated herein by reference).
- *10.10 Employment Agreement of G. Darcy Klug dated July 1, 2004 (filed as Exhibit 10.7 to our Form 10-Q, originally filed with the Commission on August 25, 2004 and incorporated herein by reference).
- *10.11 G. Darcy Klug Stock Based Award Incentive Agreement dated June 30, 2004 (filed as Exhibit 10.8 to our Form 10-Q, originally filed with the Commission on August 25, 2004 and incorporated herein by reference).
- *10.12 G. Darcy Klug Amended & Restated Incentive Agreement dated August 12, 2004 (filed as Exhibit 10.4 to our Form 10-Q, originally filed with the Commission on August 25, 2004 and incorporated herein by reference).

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- 10.13 Webster Bank Credit and Security Agreement dated December 23, 2003 (filed Exhibit 10.18 to our Form 10-K, originally filed with the Commission on April 18, 2005 and incorporated herein by reference).
- 10.14 Webster Bank First Amendment to Credit and Security Agreement dated June 30, 2004 (filed as Exhibit 10.19 to our Form 10-K, originally filed with the Commission on April 18, 2005 and incorporated herein by reference).
- 10.15 Webster Bank Second Amendment to Credit and Security Agreement dated August 27, 2004 (filed as Exhibit 10.20 to our Form 10-K, originally filed with the Commission on April 18, 2005 and incorporated herein by reference).
- 10.16 Webster Bank Third Amendment to Credit and Security Agreement dated October 22, 2004 (filed as Exhibit 10.21 to our form 10-K, originally filed with the Commission on April 18, 2005 and incorporated herein by reference).
- 10.17 Beal Bank, SSB Security Agreement dated October 22, 2004 (filed as Exhibit 10.22 to our Form 10-K, originally filed with the Commission on April 18, 2005 and incorporated herein by reference).
- 10.18 Beal Bank, SSB Forbearance Agreement dated January 21, 2005 (filed as Exhibit 10.23 to our Form 10-K, originally filed with the Commission on April 18, 2005 and incorporated herein by reference).
- 10.19 Beal Bank, SSB First Amendment to Forbearance Agreement dated March 15, 2005 (filed as Exhibit 10.24 to our Form 10-K, originally filed with the Commission on April 18, 2005 and incorporated herein by reference).
- 10.20 Common Stock Purchase Agreement, dated as of November 11, 2005, between OMNI Energy Services Corp. and Fusion Capital Fund II, LLC (incorporated by reference to Exhibit 10.1 to our Form 8-K, originally filed with the Commission on November 15, 2005).
- 10.21 Employment Agreement between Preheat, Inc. and Robert H. Rhyne, Jr. dated January 1, 2006 (filed as Exhibit 10.4 to our Form 10-Q, originally filed with the Commission on May 15, 2006 and incorporated herein by reference).
- 10.22 First Amended and Restated Credit Agreement (Junior Credit Facility) dated February 13, 2006, by and between OMNI Energy Services Corp. and ORIX Finance Corp. (filed as Exhibit 10.2 to our Form 10-Q, originally filed with the Commission on May 15, 2006 and incorporated herein by reference).
- 10.23 First Amended and Restated Credit Agreement (Senior Credit Facility) dated February 13, 2006, by and between OMNI Energy Services Corp. and ORIX Finance Corp. (filed as Exhibit 10.1 to our Form 10-Q, originally filed with the Commission on May 15, 2006 and incorporated herein by reference).
- 10.24 First Amended and Restated Credit Agreement (Junior Credit Facility) dated February 13, 2006, by and between OMNI Energy Services Corp. and ORIX Finance Corp. (filed as Exhibit 10.2 to our Form 10-Q, originally filed with the Commission on May 15, 2006 and incorporated herein by reference).
- 10.25 First Amended to the Amended and Restated Credit and Security Agreement dated February 13, 2006, by and between OMNI Energy Services Corp. and Webster Business Credit Corporation (filed as Exhibit 10.3 to our Form 10-Q, originally filed with the Commission on May 15, 2006 and incorporated herein by reference).

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*10.26	Sixth Amended And Restated OMNI Energy Services Corp. Stock Incentive Plan (incorporated by reference to our Proxy Statement for our June 29, 2006 stockholders meeting originally filed with the Commission on May 1, 2006).
*10.27	Employment Agreement effective September 23, 2006, by and between OMNI Energy Services Corp. and Nolan Vice (incorporated by reference to Exhibit 10.2 to our From 8-K, originally filed with the Commission on September 29, 2006).
*10.28	First Amended and Restated Employment Agreement effective November 30, 2004, by and between OMNI Energy Services Corp. and Shawn L. Rice (incorporated by reference to Exhibit 10.3 to our From 8-K, originally filed with the Commission on September 29, 2006).
*10.29	Employment Agreement effective September 23, 2006 by and between OMNI Energy Services Corp. and John Harris (incorporated by reference to Exhibit 10.1 to our From 8-K, originally filed with the Commission on September 29, 2006).
*10.30	Restricted Stock and Stock-Based Award Incentive Agreement effective January 5, 2007 by and between OMNI Energy Services Corp. and James C. Eckert (incorporated by reference to Exhibit 10.1 to our From 8-K, originally filed with the Commission on January 11, 2007).
*10.31	Restricted Stock and Stock-Based Award Incentive Agreement effective January 5, 2007, by and between OMNI Energy Services Corp. and G. Darcy Klug (incorporated by reference to Exhibit 10.2 to our From 8-K, originally filed with the Commission on January 11, 2007).
10.32	Loan and Security Agreement, dated February 28, 2007, by and among LaSalle Business Credit, LLC, the lenders identified therein, OMNI, the subsidiaries of OMNI identified therein and the other Credit Parties identified therein (incorporated by reference to Exhibit 10.1 to our From 8-K, originally filed with the Commission on March 8, 2007)
21.1	Subsidiaries of OMNI Energy Services Corp.
23.1	Consent of Pannell Kerr Forster of Texas, P.C.
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Accounting Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Accounting Officer

* Management contract or compensation plan or arrangement