OMNI ENERGY SERVICES CORP
Form 10-Q
August 26, 2004

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly period ended June 30, 2004

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period _______ to

COMMISSION FILE NUMBER 0-23383

OMNI ENERGY SERVICES CORP.
(Exact name of registrant as specified in its charter)

LOUISIANA (State or other jurisdiction of incorporation or organization)	72-1395273 (I.R.S. Employer Identification No.)
4500 N.E. EVANGELINE THRUWAY CARENCRO, LOUISIANA (Address of principal executive offices)	70520 (Zip Code)

Registrant's telephone number, including area code: (337) 896-6664

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [ ] No [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of August 19, 2004 there were 11,559,190 shares of the Registrant's common stock, $0.01 par value per share, outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OMNI ENERGY SERVICES CORP.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2004	December 31, 2003

	(unaudited)	(Note 1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 681	$ 572
Trade receivable, net	12,375	7,002
Other receivables	103	2,272
Parts and supplies inventory	4,036	3,289
Prepaid expenses	2,831	3,058
Deferred income taxes	2,000	2,000
Total current assets	22,026	18,193
PROPERTY AND EQUIPMENT:		
Land	648	362
Buildings and improvements	5,585	4,636
Drilling, field and support equipment	29,840	26,877
Aviation equipment	15,426	10,224
Shop equipment	425	425
Office equipment	2,048	1,573
Vehicles	4,886	2,476
	58,858	46,573
Less: accumulated depreciation	21,289	19,463
Total property and equipment	37,569	27,110
OTHER ASSETS:		
Goodwill	2,349	2,129
Intangible assets, net	4,170	1,720
Other	3,046	1,137
Total other assets	9,565	4,986
Total assets	$69,160	$50,289

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

-2-

OMNI ENERGY SERVICES CORP.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2004 (unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current maturities of long-term debt	$ 3,299
Accounts payable	9,697
Accrued expenses	2,827
Notes payable, insurance	846
Convertible debentures, net of discount of $1,871	13,179

Total current liabilities	29,848
LONG-TERM LIABILITIES:	
Line of credit	5,260
Other long-term liabilities	252
Long-term debt, less current maturities	16,711
Total long-term liabilities	22,223
Total liabilities	52,071
COMMITMENTS & CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Preferred stock, no par value, 5,000,000 shares authorized; 29 and 12,100 shares issued and outstanding, respectively, liquidation preference of $1,000 per share	29
Common stock, $.01 par value, 45,000,000 shares authorized; 11,394,641 and 9,569,729 issued and 11,123,295 and 9,207,929 outstanding, respectively	114
Treasury stock, 271,346 and 361,800 shares acquired at cost	(529)
Preferred stock dividends declared	2
Additional paid-in capital	64,584
Accumulated deficit	(47,111)
Total stockholders' equity	17,089
Total liabilities and stockholders' equity	$ 69,160

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

-3-

OMNI ENERGY SERVICES CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Month
	2004	2003	2004
	(Unaudited)		(U
Operating revenue	$ 13,592	$ 10,409	$ 25,088
Operating expenses	10,076	7,537	19,565
Gross profit	3,516	2,872	5,523
General and administrative expenses	3,443	1,232	4,920
Operating income	73	1,640	603
Interest expense	1,193	237	1,609
Other expense, net	118	86	147
Income (loss) before taxes	(1,238)	1,317	(1,153)
Income tax benefit	---	225	---
Net income (loss)	(1,238)	1,542	(1,153)

Preferred stock dividends	(5)	---	(490)
Net income (loss) applicable to common and common equivalent shares	$ (1,243)	$ 1,542	$ (1,643)
Net income (loss) per common share:			
Basic	$ (0.11)	$ 0.18	$ (0.16)
Diluted	$ (0.11)	$ 0.18	$ (0.16)
Weighted average common shares outstanding:			
Basic	11,044	8,740	10,502
Diluted	11,044	8,742	10,502

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

OMNI ENERGY SERVICES CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND JUNE 30, 2004
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	PREFERRED STOCK		COMMON STOCK	
	SHARES	AMOUNT	SHARES	AMOUN
BALANCE, December 31, 2003	12,100	$ 12,100	9,570	$ 9
-- stock option and warrant exercises	--	--	1,340	1
-- redemption of preferred stock	(9,761)	(9,761)	--	-
-- preferred stock dividends paid...........	--	--	--	-
-- preferred stock dividends declared.......	--	--	--	-
-- warrant discount.........................	--	--	--	-
Comprehensive income:				
-- net income	--	--	--	-
-- foreign currency translation adjustments	--	--	--	-
Total comprehensive income	--	--	--	-
BALANCE, March 31, 2004	2,339	$ 2,339	10,910	$ 10
-- issuance treasury shares	--	--	--	-
-- stock option and warrant exercises	--	--	484	
-- redemption of preferred stock	(2,310)	(2,310)	--	-
-- preferred stock dividends paid...........	--	--	--	-
-- preferred stock dividends declared.......	--	--	--	-
-- warrant discount & beneficial conversion feature.................................	--	--	--	-
Comprehensive loss:				
-- net loss.................................	--	--	--	-
-- foreign currency translation adjustments	--	--	--	-
Total comprehensive loss	--	--	--	-
BALANCE, June 30, 2004	29	$ 29	11,394	$ 11

	PREFERRED STOCK DIVIDEND DECLARED	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE LOSS
BALANCE, December 31, 2003	$ 484	$ 57,882	$ (12)
-- stock option and warrant exercises	--	3,885	--
-- redemption of preferred stock	--	--	--
-- preferred stock dividends paid	(830)	--	--
-- preferred stock dividends declared	485	--	--
-- warrant discount	--	1,000	--
Comprehensive income:			
-- net income	--	--	--
-- foreign currency translation adjustments	--	--	10
Total comprehensive income	--	--	10
BALANCE, March 31, 2004	$ 139	$ 62,767	$ (2)
-- issuance of treasury shares	--	297	--
-- stock option and warrant exercises	--	13	--
-- redemption of preferred stock	--	--	--
-- preferred stock dividends paid	(142)	--	--
-- preferred stock dividends declared	5	--	--
-- warrant discount and beneficial conversion feature	--	1,509	--
Comprehensive loss:			
-- net loss	--	--	--
-- foreign currency translation adjustments	--	(2)	2
Total comprehensive loss	--	--	2
BALANCE, June 30, 2004	$ 2	$ 64,584	$ --

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

OMNI ENERGY SERVICES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(THOUSANDS OF DOLLARS)

	Six months e
	2004
	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income (loss)	$ (1,153)

Adjustments to reconcile net income (loss) to net cash provided by operating activities-	
Depreciation and amortization	2,380
Accrued compensation on incentive awards	918
Accretion of bond discount	638
Gain on fixed asset disposition	(65)
Changes in operating assets and liabilities-	
Decrease (increase) in assets, net of acquisition:	
Receivables-	
Trade	(2,155)
Other	532
Inventory	(747)
Prepaid expenses	543
Assets held for sale	---
Other	(141)
Increase (decrease) in liabilities, net of acquisition-	
Accounts payable and accrued expenses	2,743
Other long-term liabilities	(80)
Net cash provided by operating activities	3,413
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisitions, net of cash received	(6,983)
Proceeds from disposal of fixed assets	407
Purchase of fixed assets, net	(3,745)
Net cash used in investing activities	(10,321)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from the issuance of convertible debentures, net of financing fees	14,158
Redemption of preferred stock	(12,071)
Payment of preferred stock dividends	(972)
Proceeds from exercises of options and warrants	3,916
Proceeds from the issuance of long-term debt, net of financing fees	4,709
Principal payments on long-term debt	(3,350)
Borrowings on line of credit	49,251
Payments on line of credit	(48,624)
Net cash provided by (used in) financing activities	7,017
NET INCREASE IN CASH	109
Cash and cash equivalents, at beginning of period	572
Cash and cash equivalents, at end of period	$ 681
SUPPLEMENTAL CASH FLOW DISCLOSURES:	
Cash paid for interest	$ 654
NON-CASH TRANSACTIONS:	
Equipment acquired under capital lease	$ 2,065
Bond Discount and beneficial conversion feature	$ 2,509
Non-cash transfer of assets from other receivable to equipment	$ 1,661
Transfer of equipment to other receivable pending insurance settlement	$ 324
Net non-cash increase in deferred compensation liability and related deferred compensation expense	$ 1,370

Non-cash transfer of deposit to acquisition costs	$ 150

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

OMNI ENERGY SERVICES CORP.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements included herein, which have not been audited pursuant to the rules and regulations of the Securities and Exchange Commission, reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods on a basis consistent with the annual audited statements. All such adjustments are of a normal recurring nature. The results of operations for interim periods are not necessarily indicative of the results that may be expected for any other interim period of a full year. Certain information, accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the Company's audited financial statements included in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2003 filed with the Securities and Exchange Commission.

Changes in Estimates

Effective January 1, 2004, we changed the estimated residual value of our fleet of aircraft from 10% to 30% for aircraft over five years of age and from 10% to 40% for aircraft five years of age or less. We believe the revised residual values more properly match costs over the useful lives and salvage value of these assets.

Decreased depreciation expense was recorded for the Company's fleet of aircraft as a result of management's first quarter 2004 change in the fleet's estimated residual value. The effect of that change to select items in the financial statements is shown in the table below (in thousands of dollars, except per share amounts):

	Three Months Ended June 30, 2004 Increase	Six M June In
Effect of change in estimated residual value to decrease net loss	$ 65	
Effect of change net loss per common Share:		
Basic...	$0.01	
Diluted.......................................	$0.01	

NOTE 2. EARNINGS PER SHARE

Basic Earnings Per Share ("Basic EPS") excludes dilution and is determined by dividing income applicable to common stockholders by the weighted average number of shares of common stock outstanding during the periods presented. The potential dilution that could occur if options, warrants and convertible securities to issue shares of common stock were exercised or converted into common stock is hereinafter referred to as Diluted Earnings Per Share ("Diluted EPS").

-7-

As of June 30, 2004 and June 30, 2003, we had options and warrants outstanding to purchase 2,420,762 and 3,115,786 shares of common stock, respectively, that were excluded from the calculation of Diluted EPS because they were antidilutive. For the Basic and Diluted EPS calculation as of June 30, 2004, we also had preferred stock convertible into 7,733 shares of common stock and debentures convertible into 2,099,990 shares of common stock and convertible promissory notes convertible into 319,149 shares of common stock that were excluded from the calculation because they were antidilutive. At June 30, 2003, we also had preferred stock that was contingently convertible into 4,560,000 shares of common stock was excluded from the calculation of Diluted EPS.

The following table reconciles net earnings available to common and common equivalent shares for the Basic EPS calculation to net earnings available to common and common equivalent shares for the Diluted EPS calculation as of June 30, 2004 and 2003, respectively:

	Three Months Ended June 30, 2004		Six Months Ended June 30, 2004	
	(in thousands)			
	Dollars	Shares	Dollars	Shares
Basic EPS net loss applicable to common and common equivalent shares	$(1,243)	11,044	$(1,643)	10,50
Add Options	---	---	---	--
Diluted EPS net loss applicable to common and common equivalent shares	$(1,243)	11,044	$(1,643)	10,50

	Three Months Ended June 30, 2003		Six Months Ended June 30, 2003	
	(in thousands)			
	Dollars	Shares	Dollars	Shares
Basic EPS net loss applicable to common and common equivalent shares.........	$ 1,542	8,740	$ 1,427	8,740
Add Options..................................	---	2	---	---
Diluted EPS net loss applicable to common and common equivalent shares.........	$ 1,542	8,742	$ 1,427	8,740

======= ====== ======= ======

NOTE 3. LONG-TERM DEBT

Line of Credit and Term Debt

In December 2003, we entered into a $11.0 million senior credit facility with a bank that includes a $8.0 million working capital revolving line of credit (the "Line") and a $3.0 million term loan. The proceeds were used to repay term debt, refinance our then existing revolving line of credit and provide working capital. In connection with the acquisition of Trussco, Inc. and Trussco Properties, L.L.C. (collectively "Trussco") on June 30, 2004, the Line was increased to $12.0 million. (See Note 7)

Availability under the Line is the lower of: (i) $12.0 million or (ii) the sum of eligible accounts receivable, as defined under the agreement, plus the lesser of: $2.0 million or 80% of the appraised orderly liquidation value of eligible inventory of parts and supplies. The Line accrues interest at the prime interest rate plus 1.5% (5.75% at June 30, 2004) and matures on December 31, 2006. The Line is collateralized by accounts receivable and inventory. As of June 30, 2004, we had $5.3 million outstanding under the Line and $2.7 million outstanding on the term loan. Our availability under the Line was $4.0 million at June 30, 2004.

At June 30, 2004 and December 31, 2003, long-term debt consists of the following (in thousands):

Notes payable to a finance company, variable interest rate at LIBOR plus 5.0% (6.36% and 6.12% at June 30, 2004 and December 31, 2003 respectively) maturing July 31, 2006, secured by various property and equipment ....
Notes payable to a bank with interest payable at Prime plus 1.5% (5.75% and 5.5% at June 30, 2004 and December 31, 2003 respectively) maturing July 31, 2023, secured by real estate ....
Notes payable to a bank with interest payable at Prime plus 1.75% (6.00% and 5.75% at June 30, 2004 and December 31, 2003 respectively) maturing December 31, 2006, secured by various property and equipment ....
Notes payable to a finance company with interest at 8% maturing January 1, 2007, secured by various aircraft ....
Notes payable to a finance company with interest at 10.25% maturing May 15, 2008, secured by an aircraft ....
Notes payable to a bank with interest at 8.13%, maturing June 20, 2009, secured by aircraft....
Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate ....
Convertible promissory notes payable to certain former stockholders of Trussco, Inc. with interest at 5% maturing in June 2007 ....
Other Debt ....
Capital lease payable to a leasing companies secured by vehicles ....
Capital lease payable to a finance company secured by various aircraft ....
Total ....

Less: Current maturities ....

Long-term debt, less current maturities ....

Our senior secured credit facility contains 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. As of June 30, 2004, we were in compliance with these covenants and we expect to maintain compliance throughout 2004.

Convertible Debentures

Pursuant to a Securities Purchase Agreement dated February 12, 2004, we sold (i) $10,000,000 in principal amount of 3-year, 6.5% fixed rate, Convertible Debentures (the "Debentures") that are convertible into shares of Common Stock at an initial conversion price of $7.15 per share, (ii) 1-year Common Stock Series A Warrants to purchase an aggregate of 700,000 shares of Common Stock at an initial exercise price of $7.15 per share, and (iii) 5-year Common Stock Series B Warrants to purchase an aggregate of 390,000 shares of Common Stock at an initial exercise price of $8.50 per share. The Warrants are not exercisable for a period of six months and one day after the issue date of such warrants and in no event will the exercise prices of such warrants be less than $6.15 per share. In accordance with Accounting Principles Board (APB) Opinion No. 14, the warrants were valued at a fair market value of $1.0 million using the Black Scholes model. The value of these warrants are recorded as a debt discount with a corresponding credit to paid in capital at June 30, 2004. These sales of the Debentures were made pursuant to a private placement in reliance on Section 4(2) of the Securities Act of 1933.

Additionally, on April 15, 2004, pursuant to a Securities Purchase Agreement, we sold (i) $5,050,000 in principal amount of 3-year, 6.5% fixed rate, Convertible Debentures (collectively with the aforementioned February 12, 2004 issuance hereinafter referred to as the "Debentures") that are convertible into shares of Common Stock at an initial conversion price of $7.20 per share, and (ii) 1-year Common Stock Series A Warrants to purchase an aggregate of

151,500 shares of Common Stock at an initial exercise price of $9.00 per share. The Warrants are not exercisable for a period of six months and one day after the issue date of such warrants and in no event will the exercise prices of such warrants be less than $7.11 per share. In accordance with Accounting Principles Board (APB) Opinion No. 14, the warrants were valued at a fair market value of $.08 million using the Black Scholes model. A beneficial conversion option was also recorded of $0.7 million. The value of the warrants and beneficial conversion option are recorded as debt discount with a corresponding credit to paid in capital at June 30, 2004. These sales of the Debentures were made pursuant to a private placement in reliance on Section 4(2) of the Securities Act of 1933.

Prior to maturity of the Debentures, the holders of the Debentures have the right to require the repayment or conversion of up to an aggregate of $13.17 million of the Debentures (the "Put Option"). We registered 5,012,237 shares effective June 30, 2004 covering the resales of Common Stock that maybe 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 and equal monthly installments beginning August 1, 2004. Accordingly the debentures, net of debt discount, have been classified as a current liability in the accompanying Consolidated Balance Sheet at June 30, 2004. Upon receipt of the Debenture holders' intent to exercise a Put Option, we have the irrevocable option to deliver cash or, if certain conditions set forth in the Debentures are satisfied, Common Stock with respect to such Put Option. If we elect to pay the Put Option with Common Stock, the underlying shares will be valued at a 12.5% discount to the average trading price of our Common Stock for the applicable pricing period, as defined in the Debenture (See Note 9).

Total proceeds of $14.2 million received from the sales, after expenses, dated February 12, 2004 and April 15, 2004 was $9.5 million and $4.7 million, respectively. Of the total proceeds received for these private placements, $8.2 million was used to redeem Series A Preferred Stock in March 2004 (See Note 5) and the balance used for working capital purposes.

The original issue discount for the February 12, 2004 and April 15, 2004 debentures was $1.0 million and $0.8 million, respectively. We recorded a $0.7 million in beneficial conversion option for the April 15, 2004 Debentures. The Debentures are being amortized using the effective interest method over the period in which the debentures can be put to the company. A total of $0.6 million is included in interest expense for the six months ended June 30, 2004.

NOTE 4. LITIGATION

On February 13, 2004, we commenced litigation against Steven Stull, a former director, Advantage Capital Partners ("ACP") and their respective insurers in the Civil District Court for the Parish of Orleans in the State of Louisiana. The suit requests the court to determine our right under the Company's Articles of Incorporation, as amended, to redeem the Series A 8% Convertible Preferred Stock rather than to convert the shares into common stock. Furthermore, to the extent the court determines we did not have a right to redeem, rather than convert, the Series A Preferred Stock, the suit requests the court to determine that the Unanimous Consent of the Board of Directors entered into on November 7, 2000 which, among other things, reduced the conversion price of the Series A Preferred Stock from $2.50 to $0.75 (pre-split) per share, is null and void and without effect because it was accomplished by the defendants in violation of fiduciary duties and/or public policy and Louisiana law. We are seeking a declaration that we have the right to redeem, rather than convert, Series A Preferred Stock. Alternatively, we seek (a) a declaration that the Unanimous Consent entered into on November 7, 2000 is null and void and without effect; or (b) damages back against Mr. Stull and the Advantage Capital Partners as a complete set-off to any additional dollars owed by us to the Advantage Capital Partners as a result of the November 7, 2000 actions.

On March 26, 2004, ACP and its affiliates filed a lawsuit in the United States District Court, Eastern District of Louisiana against us and certain of our executive officers. ACP and its affiliates are alleging that (i) the Company and the officers misrepresented material facts and failed to disclose material facts related to its intention to redeem the Series A Preferred Stock and Series B Preferred Stock of the Company, and (ii) the officers of the Company breached their fiduciary duties. This lawsuit presents risks inherent in litigation including continuing expenses, risks of loss, additional claims, and attorney fee liability. ACP claims that (i) we and the officers misrepresented material facts and failed to disclose material facts related to its intention to redeem our Series A and Series B Convertible Preferred Stock, and (ii) the officers of the Company breached their fiduciary duties. They are claiming damages of approximately $30 million. We have agreed to indemnify our officers in this matter. Our costs and legal expenses related to this lawsuit are not currently determinable. This lawsuit presents risks inherent in litigation including continuing expenses, risks of loss, additional claims, and attorney fee liability. We believe that the claims or litigation arising therefrom will have no material impact on us or our business and all disputes surrounding securities matters will likely be covered by our insurance. However, if this lawsuit is decided against us, and if it exceeds our insurance coverage, it could aversely affect our financial condition, results of operations and cash flows (see Note 4).

NOTE 5. 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 Stock. 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 Stock in full 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 our financial statements.

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 were transferred in 2003 to settle certain litigation (See Note 4) and 858,678 were cancelled. The balance of 761,100 was exercised in the first quarter of 2004 at an exercise price of $2.25.

The Series A Preferred Stock has an 8% cumulative dividend rate, was convertible into our common stock with a conversion rate of $2.25 per share, was redeemable at our option at $1,000 per share plus accrued dividends, contained a liquidation preference of $1,000 per share plus accrued dividends, had voting rights on all matters submitted to a vote of our stockholders, had separate voting rights with respect to matters that would affect the rights of the holders of the Preferred Stock, and had aggregate voting rights of the affiliate limited to 49% of our total outstanding common and preferred shares with voting rights. In respect to the Series A Preferred Stock, the affiliate had agreed to waive its conversion rights until our EBITDA (as defined) reached a mutually agreed upon level. The affiliate previously agreed that dividends would not accrue after June 30, 2003, until our EBITDA reached a mutually agreed upon level. During the third quarter of 2003, we agreed with the holders of the preferred stock that our EBITDA had reached an acceptable level for the resumption of conversion rights and the accrual of dividends. Pursuant to our senior secured credit agreements, the dividends could be paid "in kind" (in shares of like preferred stock) or in cash. In February 2004, we issued $10 million of 6.5% Subordinated Convertible Debentures. The proceeds were used to redeem $8.2 million of the Series A Preferred Stock outstanding, including accrued dividends. The remaining 25 shares of Series A Preferred Stock were redeemed in April 2004 for $0.03 million. At June 30, 2004 there are no Series A Preferred Stock shares outstanding.

In May 2001, we committed to issue 4,600 shares of Series B Preferred Stock to an affiliate of ours in satisfaction of all outstanding principal and interest owed under the subordinated debt agreements. These shares were issued in March 2002. The Series B Preferred Stock has an 8% cumulative dividend rate, is convertible into our common stock with an initial conversion rate of $3.75 per share, is redeemable at our option at $1,000 per share plus accrued dividends, contains a liquidation preference of $1,000 per share plus accrued dividends and has no voting rights until such time as it becomes convertible. The affiliate previously agreed that dividends would not accrue after June 30, 2003 until our EBITDA reached a mutually agreed upon level. During the third quarter of 2003 we agreed with the holders of the preferred stock that our EBITDA had reached an acceptable level for the resumption of conversion rights and the accrual of dividends. Pursuant to our senior secured credit agreements, the dividends can be paid "in kind" (in shares of like preferred stock) or in cash. During the first quarter of 2004, we redeemed 2,286 shares of the Series B Preferred Stock for $2.4 million, including accrued dividends. In April 2004, we redeemed 2,285 shares of the total of 2,314 shares of the Series B Preferred Stock outstanding for $2.5 million, including accrued dividends. At June 30, 2004, 29 shares of Series B Preferred Stock remain outstanding.

NOTE 6. SEGMENT INFORMATION

The following shows industry segment information for our four operating segments, Drilling, Aviation, Survey, and Permitting for the three months and six months ended June 30, 2004 and 2003 (in thousands). As described in Note 7, effective June 30, 2004 we acquired Trussco, Inc. and Trussco Properties LLC, (collectively herein referred to as "Trussco") which will require a seperate operating segment. The following also shows the identifiable assets of Trussco:

	Three months ended June 30,		Six months ende
	2004	2003	2004
Operating revenues:			
Drilling	$ 8,289	$ 8,881	$ 15,794
Aviation	5,005	1,038	8,305
Survey	---	---	---
Permitting	298	490	989
Total	$ 13,592	$ 10,409	$ 25,088
Gross profit:			
Drilling	$ 1,284	$ 2,845	$ 2,459
Aviation	2,309	160	3,158
Survey	(9)	(15)	(21)
Permitting	37	102	134
Other (Corporate)	(105)	(220)	(207)
Total	$ 3,516	$ 2,872	$ 5,523
General and administrative expenses	3,443	1,232	4,920
Interest and other expense, net	1,311	323	1,756
Income before taxes	$ (1,238)	$ 1,317	$ (1,153)
Capital Expenditures:			
Drilling	$ 5	$ 34	$ 50

Aviation	1,790	435	3,620
Survey	---	---	---
Permitting	---	---	---
Corporate	37	5	75
Total	$ 1,832	$ 474	$ 3,745

	June 30, 2004	June 30, 2003
Identifiable Assets:		
Drilling	$ 21,455	$ 21,576
Aviation	22,948	7,773
Survey	1,497	1,013
Permitting	114	157
Trussco	11,977	---
Corporate (Note 7)	11,169	11,951
Total	$ 69,160	$ 42,470

NOTE 7. ACQUISITION

On November 20, 2003, we purchased all of the issued and outstanding stock of American Helicopters, Inc. for the aggregate acquisition cost of $5.4 million, including $4.6 million in cash and the assumption of current and long-term liabilities of $0.6 million and $0.2 million, respectively. American Helicopters, Inc. operates 17 helicopters from base locations in Louisiana and Texas and is headquartered in Angleton, Texas. The results of American Helicopters, Inc.'s operations have been included in our consolidated financial statements since the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price is subject to refinement in the future as acquired asset and liability values become finalized (in thousands):

UNAUDITED FINANCIAL DATA:
(in thousands)

BALANCE SHEET DATA	NOVEMBER 19, 2003
Current assets	$ 2,129
Property and equipment	3,322
Current Liabilities	(598)
Long-term liabilities	(213)
Cash purchase price	$ 4,640

On June 30, 2004, we purchased all of the issued and outstanding stock of Trussco, Inc. and all of the membership interest in Trussco Properties, L.L.C. for the aggregate acquisition cost 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 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 will increase our revenue and customer base and offers cross-selling opportunities with our aviation transportation division. Correspondingly, $2.5 million was allocated to intangible assets attributable to customer lists, goodwill and other industry-specific intangible assets. The results of Trussco operations will be included in our consolidated financial statements from 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 and intangible assets are being amortized over five years and will not result in any residual value. The final allocation of the purchase price to intangible assets and goodwill, if any, has not been completed. The allocation of the purchase price is subject to refinement as acquired asset and liability values are being finalized (in thousands):

UNAUDITED FINANCIAL DATA:
(in thousands)

BALANCE SHEET DATA	JUNE 30, 2004
Current assets (including cash of $356)	$ 3,643
Property and equipment............................	5,814
Other assets	19
Intangible assets	2,500
Assumption of Debt	(1,637)
Stockholder Notes	(3,000)
Cash purchase price	$ 7,339

The unaudited pro forma results summarized below reflects our consolidated pro forma results of operations as if American Helicopters, Inc. and Trussco were acquired on January 1, 2003 and January 1, 2004. (in thousands):

UNAUDITED PRO FORMA RESULTS

	THREE MONTHS ENDED JUNE 30, 2004	THREE MO ENDED JUNE 3 2003

Revenue	$ 18,122	$18,31
Gross Profit	$ 4,875	$ 5,25
Net income (loss) applicable to common and common equivalent shares	$ (1,149)	$ 2,31
Net income (loss) per common share:		
Basic	$ (0.10)	$ 0.2
Diluted	$ (0.10)	$ 0.2

NOTE 8. STOCK BASED COMPENSATION

We account for employee stock-based employee compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" ("Opinion No. 25"). Accordingly, the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," permits the continued use of the method prescribed by Opinion No. 25 but requires additional disclosures, including pro forma calculations of earnings and net earnings per share as if the fair value method of accounting prescribed by SFAS No. 123 had been applied. No stock-based compensation costs are reflected in net income (loss), other than compensation expense recorded on awards to certain executive officers (see Note 9), as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. As required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amended SFAS No. 123, the following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation. The pro forma data presented below is not representative of the effects on reported amounts for future years.

	Three Months Ended June	
	2004	2003
Net income (loss) applicable to common and common equivalent shares - as reported	$(1,243)	$ 1,54
Add: stock-based employee compensation expense included in reported net loss, net of related tax effects of $0	918	--
Less: total stock-based employee compensation expense determined under fair value based method for all awards granted to employees, net of related tax effect of $0	(1,118)	(1
Net income (loss) applicable to common and common equivalent shares - pro forma	$(1,443)	$ 1,52
Net income (loss) per common share - as reported:		
Basic	$ (0.11)	$ 0.1
Diluted	$ (0.11)	$ 0.1
Net income (loss) per common share - pro forma:		
Basic	$ (0.13)	$ 0.1
Diluted	$ (0.13)	$ 0.1

NOTE 9. EXECUTIVE COMPENSATION AGREEMENTS

On June 30, 2004, we amended Restricted Stock Incentive Agreements with certain executive management 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, respectively. The stock will be held in escrow, registered in the name of the executive officers, until it vests 100% on November 4, 2004. A tax equalization payment was also paid to the two executive officers totaling $0.1 million at June 30, 2004. The awards were valued at 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 shares, 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"). At June 30, 2004, we had recorded $0.4 million in compensation expense under the Incentive Agreements, with a corresponding deferred liability of $1.4 million. The awards are accounted for under FIN 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. The change in the quoted market price will be reflected in future periods until vested as an adjustment of accrued compensation and compensation expense in the periods in which the changes occur.

We also entered into Stock-Based Award Incentive Agreements (hereinafter "SBA") with certain executive officers on June 30, 2004. The SBA shall become fixed: (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. The grant terminates on December 31, 2008 or upon termination of employment, whichever occurs last. No compensation expense was recorded at June 30, 2004 because the award is contingent on future events none of which is considered probable at June 30, 2004.

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 7), we also entered into employment contracts with certain Trussco managers 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.

NOTE 10. SUBSEQUENT EVENTS

On July 28, 2004, we received notices from Manchester Securities Corporation, Provident Premier Master Fund, Ltd., Gemini Master Fund, Ltd. and Portside Growth and Opportunity Fund exercising their Put Option for approximately $1.3 million (plus accrued interest) of the Debentures (Note 3). Under the terms of the Put Option, we have the irrevocable option to deliver cash or shares of common stock with respect to the Put Option. We elected to use cash to redeem this portion of the Debentures.

In July of 2004, we received $16.6 million of senior aviation equipment financing commitments. The proceeds will be used to provide working capital and complete certain strategic business opportunities currently under consideration.

Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 was due to be filed, by extension, on August 23, 2004. The filing of this Form 10-Q was not timely made.

On February 12, 2004 and April 15, 2004 we entered into the Securities Purchase Agreements and Debentures described above. In connection therewith, we entered into an Amended and Restated Registration Rights Agreement (the "Registration Rights Agreement") pursuant to which we agreed to file and maintain a registration statement with respect to certain underlying shares of common stock (the "Registration Statement"). In accordance with and pursuant to the terms of the Registration Rights Agreement, the Registration Statement was filed and was declared effective by the SEC on June 30, 2004. As a result of the late filing of our Form 10-Q for the quarter ended June 30, 2004, as of August 24, 2004 our Registration Statement is no longer effective. Accordingly, we are in technical default of the Registration Rights Agreement. Pursuant to the Registration Rights Agreement, if this default continues for seven business days following delivery of written notice of such default to the Company, the Company must make payments to each holder of the Debentures equal to 1.5% of the aggregate amount of principal and interest outstanding on the Debentures for each 30 days in which a default occurs.

In addition, the Debentures define an "Event of Default" to mean, among other things, a breach, in a material respect, of any material term of the Registration Rights Agreement that continues for a period of ten business days after written notice thereof to the Company from the holder. As a result of the late filing of our Form 10-Q, there will be an Event of Default under the Debentures if the required notice is given and passage of time occurs as provided above.

Upon the occurrence of an Event of Default, holders have the right, upon written notice to the Company, to require the Company to redeem all or a portion of their Debentures for cash at the prices indicated in the Debentures. The notice given by the holder must specify a date at least three business days following the day that the notice is delivered to the Company. The Company must pay the Mandatory Redemption Price (as defined in the Debentures) no later than the fifth business day after the payment date specified in the notice.

We are making every effort to cure these defaults, or seek a waiver from the holders with respect thereto, as soon as possible.

On August 25, 2004, the Company received a letter from the NASDAQ staff indicating that the Company has failed to timely file its Form 10-Q for the second quarter of 2004 and therefore is not in compliance with the NASDAQ listing requirements. If necessary, the Company intends to request a hearing before the NASDAQ Listings Qualifications Panel to review the staff determination. The Company's securities would remain listed pending any hearing.

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

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

This discussion should be read in conjunction with the financial statements and the accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2003 filed with the Securities and Exchange Commission.

RECENT DEVELOPMENTS

Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 was due to be filed, by extension, on August 23, 2004. The filing of this Form 10-Q was not timely made.

On February 12, 2004 and April 15, 2004 we entered into the Securities Purchase Agreements and Debentures described above. In connection therewith, we entered into an Amended and Restated Registration Rights Agreement (the "Registration Rights Agreement") pursuant to which we agreed to file and maintain a registration statement with respect to certain underlying shares of common stock (the "Registration Statement"). In accordance with and pursuant to the terms of the Registration Rights Agreement, the Registration Statement was filed and was declared effective by the SEC on June 30, 2004. As a result of the late filing of our Form 10-Q for the quarter ended June 30, 2004, as of August 24, 2004 our Registration Statement is no longer effective. Accordingly, we are in technical default of the Registration Rights Agreement. Pursuant to the Registration Rights Agreement, if this default continues for seven business days following delivery of written notice of such default to the Company, the Company must make payments to each holder of the Debentures equal to 1.5% of the aggregate amount of principal and interest outstanding on the Debentures for each 30 days in which a default occurs.

In addition, the Debentures define an "Event of Default" to mean, among other things, a breach, in a material respect, of any material term of the Registration Rights Agreement that continues for a period of ten business days after written notice thereof to the Company from the holder. As a result of the late filing of our Form 10-Q, there will be an Event of Default under the Debentures if the breach of the Registration Rights Agreement continues as provided above.

Upon the occurrence of an Event of Default, holders have the right, upon written notice to the Company, to require the Company to redeem all or a portion of their Debentures for cash at the prices indicated in the Debentures. The notice given by the holder must specify a date at least three business days following the day that the notice is delivered to the Company. The Company must pay the Mandatory Redemption Price (as defined in the Debentures) no later than the fifth business day after the payment date specified in the notice.

We are making every effort to cure these defaults, or seek a waiver from the holders with respect thereto, as soon as possible.

On August 25, 2004, the Company received a letter from the NASDAQ staff indicating that the Company has failed to timely file its Form 10-Q for the second quarter of 2004 and therefore is not in compliance with the NASDAQ listing requirements. If necessary, the Company intends to request a hearing before the NASDAQ Listings Qualifications Panel to review the staff determination. The Company's securities would remain listed pending any hearing.

GENERAL

OMNI Energy Services Corp. is a leading oilfield service company specializing in providing an integrated range of (i) onshore seismic drilling, permitting, survey and helicopter support services to geophysical companies operating in logistically difficult and environmentally sensitive terrain and (ii) helicopter transportation services to oil and gas companies operating primarily in the shallow waters of the Gulf of Mexico. We operate in two business divisions: Seismic Drilling and Aviation Services.

The principal region in which our Seismic Drilling division operates is the marsh, swamp, shallow water and contiguous dry land areas along the U.S. Gulf Coast (the "Transition Zone"), primarily in Louisiana and Texas, where we are the leading provider of seismic drilling support services. In 2003, we initiated seismic drilling activities in various Transition Zone regions of Mexico.

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

We operate a fleet of 28 company-owned, leased and customer-owned helicopters, and one fixed-wing aircraft, from bases or heliports located in the Gulf Coast regions of Louisiana and Texas. Our land-based aviation customers are primarily geophysical companies operating in various regions of the United States. Our offshore aviation customers include oil and gas companies operating primarily in the shallow waters of the Gulf of Mexico. We maintain and operate certain customer-owned aircraft providing air medical transportation services for hospitals and medical programs in approximately 15 counties in Texas. The aircraft dedicated to this operation are specifically outfitted to accommodate emergency patients and emergency medical equipment. We also maintain an inventory of aviation maintenance parts, turbine engines and other miscellaneous flight equipment used in connection with providing aviation services to our customers. In November 2003, we acquired American Helicopters, Inc. ("AHI") establishing us as a leading provider of helicopter transportation services in the Gulf of Mexico.

We were founded in 1987, as OMNI Drilling Corporation, to provide drilling services to the geophysical industry. In July 1996, OMNI Geophysical, L.L.C. acquired substantially all of the assets of OMNI Geophysical Corporation, the successor to the business of OMNI Drilling Corporation. OMNI Energy Services

Corp. ("OMNI") was formed as a Louisiana corporation on September 11, 1997.

On June 30, 2004, we acquired Trussco, a leading provider of dockside and offshore tank, rig, structure and vessel cleaning for oil and gas companies operating primarily in the Gulf of Mexico, expanding our core business segments and providing us with integration opportunities with aviation transportation services.

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

RESULTS OF OPERATIONS (unaudited)	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended 2004
Operating revenue	$ 13,592	$ 10,409	$ 25,088
Operating expenses	10,076	7,537	19,565
Gross profit	3,516	2,872	5,523
General and administrative expenses	3,443	1,232	4,920
Operating income	73	1,640	603
Interest expense	1,193	237	1,609
Other expense, net	118	86	147
Income before income taxes	(1,238)	1,317	(1,153)
Income tax benefit	---	225	---
Net income (loss)	(1,238)	1,542	(1,153)
Preferred stock Dividends	(5)	---	(490)
Net income applicable to common and common equivalent shares	$ (1,243)	$ 1,542	$ (1,643)

THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

Operating revenues increased 31% or $3.2 million, from $10.4 million for the three months ended June 30, 2003 to $13.6 million for the three months ended June 30, 2004. This increase was due primarily to our expanded role in aviation transportation to oil and gas companies operating in the shallow waters of the Gulf of Mexico. Revenues related to the drilling, survey and permitting divisions decreased $0.8 million, to $8.6 million for the three months ended June 30, 2004 from $9.4 million for the three months ended June 30, 2003. The months of April through June 2004 experienced record rainfall of over 50 inches in Louisiana and the Gulf region, which resulted in approximately 59 weather days for our drilling operations. Aviation revenues increased $4.0 million from $1.0 million to $5.0 million for the three months ended June 30, 2004 compared to the same period in 2003 as a result of an increase of 5,027 flight hours from 1,288 to 6,315 flight hours, due primarily from our acquisition of American Helicopters in November 2003 and the W&T contract that we began in April 2004, providing transportation services to offshore platforms operated by them in the shallow, offshore waters of the Gulf of Mexico.

Operating expenses increased 35%, or $2.6 million, from $7.5 million for the three months ended June 30, 2003 to $10.1 million for the three months ended June 30, 2004. Increases in payroll costs in all divisions accounted for approximately 30% of this increase as operating payroll expense increased from $3.1 million to $3.8 million for the three months ended June 30, 2003 and 2004, respectively. The average number of field personnel we employed increased from 161 for the three months ended June 30, 2003 to 190 for the three months ended June 30, 2004, as a result of our acquisition of AHI. Also, explosives expense increased $0.4 million due to an increase in the cost of explosives on jobs performed in 2004 versus 2003. We currently utilize third party contactors to perform all

permitting services and some drilling services. Third party contract services increased $0.6 million from the second quarter of 2003 to the second quarter of 2004, as a result of utilizing the contractors on a very large job in the second quarter of 2004. Fuel expense increased $0.3 million from $0.4 million for the three months ended June 30, 2003, which is consistent with the aviation revenue increase. Finally, an increase in other general operating expense of $0.6 million from the second quarter of 2003 to the second quarter of 2004, was primarily due to increased personnel and base operations resulting from the AHI acquisition.

Although gross profit increased $0.6 million from $2.9 million to $3.5 million for the second quarter of 2003 and 2004, respectively, our gross profit margins declined from 27.6% in 2003 to 25.9% in 2004. Increased revenue and profitability in our aviation division was offset by lower margins and decreased activity due to record rainfall and consequently, increased weather days, in our drilling division.

General and administrative expenses increased $2.2 million from $1.2 million for the three months ended June 30, 2003 to $3.4 million for the three months ended June 30, 2004. Approximately 50% of the increase or $1.0 million related to executive compensation agreements recorded in the second quarter for awards in 2004 and those that vest through 2006 (see Note 9). Payroll costs and other general administrative costs associated with our recent acquisition of American Helicopters, as well as, professional fees related to additional activities for Sarbanes Oxley Act of 2002 and related Securities and Exchange Commission regulations, cost of defense against a former director and costs associated with financing agreements accounted for the remainder.

Interest expense increased approximately $1.0 million from $0.2 million for the three month period ended June 30, 2003 to $1.2 million for the three month period ended June 30, 2004. Over 60% of this increase is accretion of original issue discount of $0.5 million and a beneficial conversion option of $0.1 million on the 6.5% Debentures issued on February 12 and April 15, 2004. The remaining increase is attributable to increased levels of debt between the periods, resulting primarily from the acquisition of American Helicopters and the financing on three additional aircraft acquired for our new offshore aviation contract with W & T Offshore.

Due to our past history of operating losses, we recorded a valuation allowance during the periods against our net deferred tax assets generated from our net operating loss carry forwards, which resulted in our not reporting any income tax expense or benefit during those periods. For the quarter ended June 30, 2003, the Company reversed $0.2 million of this related reserve due to the Company's expectation of generating income in fiscal 2003. For the period ended June 30, 2004, we did not record any income tax expense or benefit.

SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

Operating revenues increased 51%, or $8.5 million, from $16.6 million for the six months ended June 30, 2003 to $25.1 million for the six months ended June 30, 2004. Revenues from our drilling and permitting operations increased $1.9 million principally as a result of an increased seismic and permitting activity. Revenues from our aviation operations increased $6.5 million from $1.8 million for the six months ended June 30, 2003 to $8.3 million for the same period in 2004. The increase is due to the acquisition of AHI in November 2003 and the W&T contract that we began in April 2004, providing transportation services to offshore platforms operated by them in the shallow, offshore waters of the Gulf of Mexico.

Operating expenses increased 54%, or $6.9 million, from $12.7 million for the six months ended June 30, 2003 to $19.6 million for the six months ended June 30, 2004. This increase is partially attributable to higher operating payroll and payroll related costs, which increased $2.2 million from $5.5 million to $7.7 million for the six month periods ended June 30, 2003 and 2004, respectively. Our average number of field personnel increased from 187 employees during the first half of 2003 to 280 employees during the first half of 2004. We currently utilize third party contractors exclusively to perform permitting services and occasionally to assist in drilling operations. Accordingly, third party contract services increased $0.3 million during the first half of 2004 as compared to the first half of 2003, and drilling contract services increased $1.1 million for the same six-month period. Overall, repairs and maintenance expenses increased $0.4 million, with corresponding increases in fuel and oil expenses and explosives and down hole expenses of $0.4 million and $1.2 million, respectively from the six months ended June 30, 2003 to the same period of 2004. The increase in repairs and maintenance and fuel and oil expense are directly

attributable to increased aviation activity resulting from our acquisition of AHI. Explosives expense increased due to an increase in the cost of explosives on jobs performed in 2004 versus 2003.

Gross profit margins were 22% and 24% for the six months ended June 30, 2004 and 2003, respectively. The decline in the profit margins resulted from increased revenue and profitability in our aviation division offset by lower margins and decreased activity due to record rainfall and consequently, increased weather days in our drilling division.

General and administrative expenses increased $2.6 million from $2.3 million for the six months ended June 30, 2003 to $4.9 million for the six months ended June 30, 2004. Approximately 40% or $1.0 related to executive compensation agreements recorded in the second quarter for awards in 2004 and those that vest through 2006 (see Note 9). Professional services increased $0.5 million from the six month period ended June 30, 2003 to the same period in 2004 related to additional activities for Sarbanes-Oxley Act of 2002 and related Securities and Exchange Commission regulations costs of defense against a former director and costs associated with financing agreements and acquisitions. Payroll related expenses increased $0.7 million for the same period comparison due in part to additional support staff for aviation operations.

Interest expense increased $1.2 million from $0.4 million for the six months ended June 30, 2003 to $1.6 million for the six months ended June 30, 2004. Accretion of original issue discount of $0.5 million and a beneficial conversion option of $0.1 million accounts for 50% of the increase. The remaining increase is attributable to increased levels of debt due to acquisitions.

Due to our recent history of operating losses, we recorded a valuation allowance during the periods against our net operating loss carry-forwards, which resulted in our not reporting any income tax expense or benefit during those periods. For the quarter and six months ended June 30, 2003, the Company reversed $0.2 million and $0.3 million, respectively, of this reserve due to the Company's expectation of generating income in fiscal 2003. For the six month period ended June 30, 2004, we did not record any income tax expense or benefit.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

At June 30, 2004, we had approximately $0.7 million in cash compared to approximately $0.6 million at December 31, 2003 and negative working capital of approximately $(7.8) million at June 30, 2004, compared to working capital of approximately $6.9 million at December 31, 2003. Our working capital decreased due to the classification $13.2 million, net of discount 6.5% Debentures, net of discount, as short-term debt due to the ability of the holder to require repayment or conversion of the debt in 10 monthly put options (See Note 3). Our availability under the line at June 30, 2004 was $4.0 million.

In July 2004, we received $16.6 million of senior aviation equipment financing commitments. The proceeds will increase working capital and liquidity and will be used to complete certain strategic business opportunities under consideration.

Line of Credit and Term Debt

In December 2003, we entered into a $11.0 million senior credit facility with a bank that includes a $8.0 million working capital revolving line of credit (the "Line") and a $3.0 million term loan. The proceeds were used to repay term debt, refinance our then existing revolving line of credit and provide working capital. In connection with the acquisition of Trussco, Inc. and Trussco Properties, L.L.C. (collectively "Trussco") on June 30, 2004, the Line was increased to $12.0 million. (See Note 7)

Availability under the Line is the lower of: (i) $12.0 million or (ii) the sum of eligible accounts receivable, as defined under the agreement, plus the lesser of: $2.0 million or 80% of the appraised orderly liquidation value of eligible inventory of parts and supplies. The Line accrues interest at the prime interest rate plus 1.5% (5.75% at

June 30, 2004) and matures on December 31, 2006. The Line is collateralized by accounts receivable and inventory. As of June 30, 2004, we had $5.3 million outstanding under the Line and $2.7 million outstanding on the term loan. Our availability under the line was $4.0 million.

At June 30, 2004 and December 31, 2003, long-term debt consists of the following (in thousands):

Notes payable to a finance company, variable interest rate at LIBOR plus 5.0% (6.36% and 6.12% at June 30, 2004 and December 31, 2003 respectively) maturing July 31, 2006, secured by various property and equipment ....

Notes payable to a bank with interest payable at Prime plus 1.5% (5.75% and 5.5% at June 30, 2004 and December 31, 2003 respectively) maturing July 31, 2023, secured by real estate ....

Notes payable to a bank with interest payable at Prime plus 1.75% (6.00% and 5.75% at June 30, 2004 and December 31, 2003 respectively) maturing December 31, 2006, secured by various property and equipment ....

Notes payable to a finance company with interest at 8% maturing January 1, 2007, secured by various aircraft ....

Notes payable to a finance company with interest at 10.25% maturing May 15, 2008, secured by an aircraft ....

Notes payable to a bank with interest at 8.13%, maturing June 20, 2009, secured by aircraft....

Notes payable to a finance company with interest at 8%, maturing February 10, 2013, secured by real estate ....

Convertible promissory notes payable to certain former stockholders of Trussco, Inc. with interest at 5% maturing in June 2007 ....

Other Debt ....

Capital lease payable to a leasing companies secured by vehicles ....

Capital lease payable to a finance company secured by various aircraft ....

Total ....

Less: Current maturities ....

Long-term debt, less current maturities ....

Our senior secured credit agreements contain 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. As of June 30, 2004, we were in compliance with these covenants and we expect to maintain compliance thoughout 2004.

Convertible Debentures

Pursuant to a Securities Purchase Agreement dated February 12, 2004, we sold (i) $10,000,000 in principal amount of 3-year, 6.5% fixed rate, Convertible Debentures (the "Debentures") that are convertible into shares of Common Stock at an initial conversion price of $7.15 per share, (ii) 1-year Common Stock Series A Warrants to purchase an aggregate of 700,000 shares of Common Stock at an initial exercise price of $7.15 per share, and (iii) 5-year Common Stock Series B Warrants to purchase an aggregate of 390,000 shares of Common Stock at an initial exercise price of $8.50 per share. The Warrants are not exercisable for a period of six months and one day after the issue date of such warrants and in no event will the exercise prices of such warrants be less than $6.15 per share. In accordance with Accounting Principles Board (APB) Opinion No. 14, the warrants were valued by an independent valuation expert at a fair market value of $1.0 million using the Black Scholes model. The value of these warrants are recorded as debt discount with a corresponding credit to paid in capital at June 30, 2004. These sales of the Debentures were made pursuant to a private placement in reliance on Section 4(2) of the Securities Act of 1933.

Additionally, on April 15, 2004, pursuant to a Securities Purchase Agreement, we sold (i) $5,050,000 in principal amount of 3-year, 6.5% fixed rate, Convertible Debentures (collectively with aforementioned February 12, 2004

issuance hereinafter referred to as the "Debentures") that are convertible into shares of Common Stock at an initial conversion price of $7.20 per share, and (ii) 1-year Common Stock Series A Warrants to purchase an aggregate of 151,500 shares of Common Stock at an initial exercise price of $9.00 per share. The

Warrants are not exercisable for a period of six months and one day after the issue date of such warrants and in no event will the exercise prices of such warrants be less than $7.11 per share. In accordance with Accounting Principles Board (APB) Opinion No. 14, the warrants were valued at a fair market value of $0.8 million using the Black Scholes model. A beneficial conversion option was also recorded of $0.7 million. The value of the warrants and beneficial conversion option are recorded as debt discount with a corresponding credit to paid in capital at June 30, 2004. These sales of the Debentures were made pursuant to a private placement in reliance on Section 4(2) of the Securities Act of 1933.

Prior to maturity of the Debentures, the holders of the Debentures have the right to require the repayment or conversion of up to an aggregate of $13.17 million of the Debentures (the "Put Option"). We registered 5,012,237 shares effective June 30, 2004 covering the resales of Common Stock that maybe 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 and equal monthly installments beginning August 1, 2004. Accordingly the debentures, net of debt discount, have been classified as a current liability in the accompanying Consolidated Balance Sheet at June 30, 2004. Upon receipt of the Debenture holders' intent to exercise a Put Option, we have the irrevocable option to deliver cash or, if certain conditions set forth in the Debentures are satisfied, Common Stock with respect to such Put Option. If we elect to pay the Put Option with Common Stock, the underlying shares will be valued at a 12.5% discount to the average trading price of our Common Stock for the applicable pricing period, as defined in the Debentures (See Note 9).

Total proceeds of $14.3 million received from the sales, after expenses, dated February 12, 2004 and April 15, 2004 was $9.5 million and $4.8 million, respectively. Of the total proceeds received for these private placements, $8.2 million was used to redeem Series A Preferred Stock in March 2004 (see Note 5) and the balance used for working capital purposes.

The original issue discount for the February 12, 2004 and April 15, 2004 debentures was $0.8 million and $1.0 million, respectively. We recorded a $0.7 million in beneficial conversion option for the April 15, 2004 Debentures. The Debentures are being amortized using the effective interest method over the period in which the Debentures can be put to us. A total of $0.6 million is included in interest expense for the six months ended June 30, 2004.

On July 28, 2004, we received notices from Manchester Securities Corporation, Provident Premier Master Fund, Ltd., Gemini Master Fund, Ltd. and Portside Growth and Opportunity Fund exercising their Put Option for approximately $1.3 million (plus accrued interest) of the Debentures. (Note 3) Under the terms of the Debenture agreement, upon receipt of a debenture holder's intent to exercise the Put Option, we have the irrevocable option to deliver cash or shares of common stock with respect to the Put Option. We elected to use cash to redeem this portion of the Debentures.

Capital Resources

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 2003, we acquired American Helicopters Inc., including approximately $3.5 million of aircraft accounted for as capital leases, and approximately $0.2 million of new vehicles accounted for as capital leases. Thus far in 2004, we have acquired approximately $1.3 million of aircraft accounted for as capital leases and approximately $0.8 million of new vehicles accounted for as a capital lease. For the remainder of 2004, we expect to continue renewing our rolling stock, expanding our aviation fleet and continuing to pursue various strategic acquisitions.

CRITICAL ACCOUNTING POLICIES

This discussion should be read in conjunction with the financial statements and the accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2003 filed with the Securities and Exchange Commission on March 30, 2004.

We account for employee stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("Opinion No. 25"). Accordingly, the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," permits the continued use of the method prescribed by Opinion No. 25, but requires additional disclosures, including pro forma calculations of earnings and net earnings per share as if the fair value method of accounting prescribed by SFAS No. 123 had been applied. No stock-based compensation costs are reflected in net income (loss), other than compensation expense recorded on awards to certain executive officers (See Note 9), as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. As required by SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure," which amended SFAS No. 123, a table illustrating the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation is presented in Note 8 of the accompanying financial statements.

Aside from the change in estimated residual values of our aircraft, there have been no changes to the Company's accounting policies as disclosed in our Form 10-K, as amended, for the year ended December 31, 2003.

-21-

LEGAL PROCEEDINGS

On February 13, 2004, we commenced litigation against a former director, Advantage Capital Partners ("ACP") and their respective insurers in the Civil District Court for the Parish of Orleans in the State of Louisiana. On March 26, 2004, ACP and its affiliates filed a lawsuit in the United States District Court, Eastern District of Louisiana against us and certain of our executive officers. This lawsuit presents risks inherent in litigation including continuing expenses, risks of loss, additional claims, and attorney fee liability. We believe that the claims or litigation arising therefrom will have no material impact on us or our business and all disputes surrounding securities matters will likely be covered by our insurance. However, if this lawsuit is decided against us, and if it exceeds our insurance coverage, it could adversely affect our financial condition, results of operations and cash flows (Note 4).

-21-

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical fact included in this report regarding our financial position and liquidity, our strategic alternatives, future capital needs, business strategies and other plans and objectives of our management for future operations and activities, are forward-looking statements. These statements are based on certain assumptions and analyses made by our management in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate under the circumstances. Such forward-looking statements are subject to uncertainties that could cause our actual results to differ materially from such statements. Such uncertainties include but are not limited to: the volatility of the oil and gas industry, including the level of offshore exploration, production and development activity; changes in competitive factors affecting our operations; operating hazards, including the significant possibility of accidents resulting in personal injury, property damage or environment damage; the effect on our performance of regulatory programs and environmental matters; seasonality of the offshore industry in the Gulf of Mexico; and our dependence on certain customers. These and other uncertainties related to our business are described in detail in our other public filings. Although we believe that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update any of our forward-looking statements for any reason.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in our market risks since the year ended December 31, 2003. For more information, please read the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2003 filed with the Securities and Exchange Commission.

ITEM 4. CONTROLS AND PROCEDURES

As required by paragraph (b) of Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our principal executive officer and principal financial officer have evaluated our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of our second fiscal quarter of 2004 (the "Evaluation Date"). Based on this evaluation, such officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to us (including its consolidated subsidiaries) required to be included in our periodic filings under the Exchange Act.

There have not been changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonable likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 13, 2004, we commenced litigation against a former director, Advantage Capital Partners ("ACP") and their respective insurers in the Civil District Court for the Parish of Orleans in the State of Louisiana. The suit requests the court to determine our right under the Company's Articles of Incorporation, as amended, to redeem the Series A 8% Convertible Preferred Stock rather than to convert the shares into common stock. Furthermore, to the extent the court determines we did not have a right to redeem, rather than convert, the Series A Preferred Stock, the suit requests the court to determine that the Unanimous Consent of the Board of Directors entered into on

November 7, 2000 which, among other things, reduced the conversion price of the Series A Preferred Stock from $2.50 to $0.75 (pre-split) per share, is null and void and without effect because it was accomplished by the defendants in violation of fiduciary duties and/or public policy and Louisiana law. We are seeking a declaration that we have the right to redeem, rather than convert, Series A Preferred Stock. Alternatively, we seek (a) a declaration that the Unanimous Consent entered into on November 7, 2000 is null and void and without effect; or (b) damages back against Mr. Stull and the Advantage Capital Partners as a complete set-off to any additional dollars owed by us to the Advantage Capital Partners as a result of the November 7, 2000 actions.

On March 26, 2004, ACP and its affiliates filed a lawsuit in the United States District Court, Eastern District of Louisiana against us and certain of our executive officers. ACP and its affiliates are alleging that (i) the Company and the officers misrepresented material facts and failed to disclose material facts related to its intention to redeem the Series A Preferred Stock and Series B Preferred Stock of the Company, and (ii) the officers of the Company breached their fiduciary duties. This lawsuit presents risks inherent in litigation including continuing expenses, risks of loss, additional claims, and attorney fee liability. ACP claims that (i) we and the officers misrepresented material facts and failed to disclose material facts related to its intention to redeem our Series A and Series B Convertible Preferred Stock, and (ii) the officers of the Company breached their fiduciary duties. They are claiming damages of approximately $30 million. We have agreed to indemnify our officers in this matter. Our costs and legal expenses related to this lawsuit are not currently determinable. This lawsuit presents risks inherent in litigation including continuing expenses, risks of loss, additional claims, and attorney fee liability. We believe that the claims or litigation arising therefrom will have no material impact on us or our business and all disputes surrounding securities matters will likely be covered by our insurance. However, if this lawsuit is decide against us and if it exceeds our insurance coverage, it could adversely affect our financial condition, results of operations and cash flows (Note 4).

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

On April 15, 2004, pursuant to a Securities Purchase Agreement, we sold (i) $5,050,000 in principal amount of 3-year, 6.5% fixed rate, Convertible Debentures (collectively with aforementioned February 12, 2004 issuance hereinafter referred to as the "Debentures") that are convertible into shares of Common Stock at an initial conversion price of $7.20 per share, and (ii) 1-year Common Stock Series A Warrants to purchase an aggregate of 151,500 shares of Common Stock at an initial exercise price of $9.00 per share. The Warrants are not exercisable for a period of six months and one day after the issue date of such warrants and in no event will the exercise prices of such warrants be less than $7.11 per share. In accordance with Accounting Principles Board (APB) Opinion No. 14, the warrants were valued at a fair market value of $0.8 million using a Black Scholes model. The value of these warrants are included in paid in capital at June 30, 2004. A beneficial conversion option was also recorded of $0.7 million. The value of the warrants and beneficial conversion option are included in paid in capital at June 30, 2004. These sales of the debentures were made pursuant to a private placement in reliance on Section 4(2) of the Securities Act of 1933.

Prior to maturity of the Debentures, the holders of the Debentures have the right to require the repayment or conversion of up to an aggregate of $13.17 million of the Debentures (the "Put Option"). We registered 5,012,237 shares effective June 30, 2004 covering the resales of Common Stock that may be issuable pursuant to the conversion of the Debentures and the exercise of the Put Option and all associated warrants, including additional shares that may be issuable due to adjustments for conversion price upon the Debenture conversion, payment of interest with shares and/or the exercise of warrants due to subdivision or combination of our common stock. Pursuant to the Debenture agreement, the registration of the related common stock triggered the ability of the Debentures holders to exercise the Put option in ten consecutive and equal monthly installments beginning August 1, 2004. Upon receipt of the Debenture holders' intent to exercise a Put Option, we have the irrevocable option to deliver cash or, if certain conditions set forth in the Debentures are satisfied, Common Stock with respect to such Put Option. If we elect to pay the Put Option with Common Stock, the underlying shares will be valued at a 12.5% discount to the average trading price of our Common Stock for the applicable pricing period, as defined in the Debentures (See Note 9).

Total proceeds of $4.8 million was received from the sale, after expenses, dated April 15, 2004. Of the total proceeds received for this private placement and the previous private placement on February 12, 2004, $8.2 million was used to redeem Series A Preferred Stock in March 2004 (Note 5) and the balance used for working capital purposes.

The original issue discount for the April 15, 2004 Debentures was $0.8 million. We recorded a $0.7 million in beneficial conversion option for the April 15, 2004 Debentures. The Debentures are being amortized using the effective interest method over the period in which the Debentures can be put to us. A total of $0.6 million is included interest expense at June 30, 2004.

On July 28, 2004, we received notices from Manchester Securities Corporation, Provident Premier Master Fund, Ltd., Gemini Master Fund, Ltd. and Portside Growth and Opportunity Fund exercising their Put Option for approximately $1.3 million (plus accrued interest) of the Debentures. (Note 3) Under the terms of the Debenture agreement, upon receipt of a debenture holder's intent to exercise the Put Option, we have the irrevocable option to deliver cash or shares of common stock with respect to the Put Option. We elected to use cash to redeem this portion of the Debentures.

The following table provides information about purchases by the Company and its affiliated purchasers during the three months ended June 30, 2004 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

ISSUER PURCHASES OF EQUITY SECURITIES

PERIOD	TOTAL NUMBER OF SHARES PURCHASED (1)	PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS (2)	MAXIMU SHARE YET B UNDER P
04/01/04 - 04/30/04				
Series A Preferred	25	$ 1,000	25	
Series B Preferred	2,285	$ 1,000	2,285	
05/01/04 - 05/31/04				

Series A Preferred	---	---	---
Series B Preferred	---	---	---
06/01/04 - 06/30/04			
Series A Preferred	---	---	---
Series B Preferred	---	---	---
TOTAL			
Series A Preferred	25	$ 1,000	25
Series B Preferred	2,285	$ 1,000	2,285

(1) We repurchased an aggregate of 25 and 2,285 shares of our Series A Preferred Stock and Series B Preferred Stock respectively, pursuant to the terms and conditions of the preferred stock (see Note 5).

(2) Our Board of Directors approved the repurchase up to 7,500 Series A Preferred Stock and 4,600 Series B Preferred Stock having a value of up to $12.1 million, plus accrued dividends in the aggregate, pursuant to the terms and conditions of the preferred stock (see Note 5).

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of stockholders was held at our principal executive offices at 4500 NE Evangeline Thruway, Carencro, Louisiana on Thursday, June 17, 2004. As disclosed in our proxy statement filed with the SEC the following were the items submitted for consideration and the corresponding outcome of the stockholder vote:

1. All six directors submitted were elected to the Board of Directors for the ensuing year by a total of 9,358,638 of the total votes cast of 10,191,047. There were no abstentions and no broker non-votes. There were 832,409 votes against for all nominees.

2. The increase in the number of shares issuable under the Amended and Restated OMNI Energy Services Corp. Stock Incentive Plan was not approved by a total of 1,816,812 of the total votes cast of 2,990,077, including 25,117 abstentions. There were 7,200,970 broker non-votes.

3. The Securities Purchase Agreements were not approved by a total of 1,684,328 of the total votes cast of 2,990,077, including 38,389 abstentions. There were 7,200,970 broker non-votes.

No other business was submitted before the meeting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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, File No. 000-23383, originally filed with the Commission on June 10, 2004).

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, File No. 000-23383, originally filed with the Commission on June 10, 2004).

4.1 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, File No. 000-23383, originally filed with the Commission on April 19, 2004).

4.2 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, File No. 000-23383, originally filed with the Commission on April 19, 2004).

4.3 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, File No. 000-23383, originally filed with the Commission on April 19, 2004).

10.1 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, File No. 000-23383, originally filed with the Commission on April 19, 2004).

10.2 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, File No. 000-23383, originally filed with the Commission on April 19, 2004).

10.3 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, File No. 000-23383, originally filed with the Commission on April 19, 2004).

10.4* Employment Agreement of James C. Eckert dated July 1, 2004

10.5* James C. Eckert Stock Based Award Incentive Agreement dated June 30, 2004

10.6* James C. Eckert Amended & Restated Incentive Agreement dated August 12, 2004

10.7* Employment Agreement of G. Darcy Klug dated July 1, 2004

10.8* G. Darcy Klug Stock Based Award Incentive Agreement dated June 30, 2004

10.9* G. Darcy Klug Amended & Restated Incentive Agreement dated August 12, 2004

10.10* James C. Eckert Incentive Agreement dated December 1, 2003

10.11* G. Darcy Klug Incentive Agreement dated December 1, 2003

31.1 Section 302 Certification of Chief Executive Officer

31.2 Section 302 Certification of Chief Financial Officer

32.1 Section 906 Certification of Chief Executive Officer

32.2 Section 906 Certification of Chief Financial Officer

*Management Compensatory Agreements

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K on April 16, 2004 regarding litigation filed April 5, 2004 against the Company and certain executive officers.

The Company filed a Current Report on Form 8-K on April 19, 2004 regarding the Securities Purchase Agreement dated April 15, 2004.

The Company filed a Current Report on Form 8-K on June 10, 2004 regarding certain stock purchase agreements dated May 26, 2004 for the acquisition of Trussco, Inc. and Trussco Properties, L.L.C.

The Company filed an Amendment No. 1 on a Current Report on Form 8-K on June 14, 2004 to include exhibits inadvertently omitted from the Current Report on Form 8-K filed on June 10, 2004.

We also furnished information to the SEC on a Current Report on Form 8-K on May 18, 2004 under Item 12, Results of Operations and Financial Condition. Current Reports on Form 8-K under Item 12 are not considered to be "filed" for purposes of Section 18 of the Exchange Act and are not subject to the liabilities of that section, but are filed to provide full disclosure under Regulation FD.

-25-

SIGNATURES

Pursuant to the requirements 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.

SIZE="2">

9,200

(1,600
)

7

106,775

$
106,782

Distributions to S Corporation shareholders

(84,287
)

$
(84,287
)

Change in unrealized gain or loss on available-for-sale securities, net of tax of $33

48

$
48

Stock-based compensation expense

8,220

$
8,220

Exercise of stock options, including tax benefit of $5

30

267

$
267

Balance at July 28, 2012

9,230

18,400

$
27

$
115,412

$
(19,276
)

$
48

$
96,211

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

Table of Contents

TILLY S, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Twenty-Six Weeks Ended July 28, 2012	Twenty-Six Weeks Ended July 30, 2011
Cash flows from operating activities		
Net income	$ 4,757	$ 8,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,029	7,491
Loss on disposal of assets	38	197
Deferred income taxes	6,148	
Stock-based compensation expense	8,220	
Excess tax benefit from stock-based compensation	(9)	
Changes in operating assets and liabilities:		
Receivables	(3,570)	(1,664)
Merchandise inventories	(18,019)	(11,736)
Prepaid expenses and other assets	(12,149)	(1,862)
Accounts payable	15,143	13,260
Accrued expenses	5,530	80
Accrued compensation and benefits	(2,428)	1,458
Deferred rent	5,263	973
Deferred revenue	(1,275)	(1,096)
Net cash provided by operating activities	15,678	15,430
Cash flows from investing activities		
Purchase of property and equipment	(16,449)	(8,742)
Insurance proceeds from casualty loss	799	
Proceeds from sale of property and equipment	17	18
Purchases of marketable securities	(35,539)	
Sales of marketable securities	9,455	
Net cash used in investing activities	(41,717)	(8,724)
Cash flows from financing activities		
Payment of capital lease obligation	(329)	(309)
Net proceeds from initial public offering	106,783	
Proceeds from exercise of stock options, net of tax withholdings	267	
Excess tax benefit from stock-based compensation	9	
Distributions	(84,287)	(4,783)
Net cash provided by (used in) financing activities	22,443	(5,092)
Change in cash and cash equivalents	(3,596)	1,614
Cash and cash equivalents, beginning of period	25,091	29,338
Cash and cash equivalents, end of period	$ 21,495	$ 30,952

Supplemental disclosures of cash flow information				
Interest paid	$	156	$	8
Income taxes paid	$	11	$	71
Supplemental disclosure of non-cash activities				
Unpaid purchases of property and equipment	$	914	$	1,517

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

Table of Contents

TILLY S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of the Company and Basis of Presentation

Tilly s, Inc. was formed as a Delaware corporation on May 4, 2011 for the purpose of reorganizing the corporate structure of World of Jeans & Tops, a California corporation (WOJT). On May 2, 2012, the shareholders of WOJT contributed all of their shares of common stock to Tilly s, Inc. in return for shares of Tilly s, Inc. Class B common stock on a one-for-one basis. In addition, effective May 2, 2012, WOJT converted from an S Corporation to a C Corporation for income tax purposes. These events are collectively referred to as the Reorganization . As a result of the Reorganization, WOJT became a wholly owned subsidiary of Tilly s, Inc. Except where context requires or where otherwise indicated, the terms Company and Tilly s refers to WOJT before the Reorganization and to Tilly s, Inc. and its subsidiary, WOJT, after the Reorganization.

Tilly s operates a chain of specialty retail stores featuring casual clothing, footwear and accessories for teens and young adults. The Company operated a total of 155 and 140 stores as of July 28, 2012 and January 28, 2012, respectively. The stores are located in malls, lifestyle centers, power centers, community centers, outlet centers and street-front locations. Customers may also shop online, where the Company features a similar assortment of product as is carried in its brick-and-mortar stores.

The accompanying unaudited consolidated financial statements include the assets, liabilities, revenues and expenses of the Company. These consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) have been omitted from this report as is permitted by SEC rules and regulations.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the financial condition, results of operations and cash flows of the Company for the interim periods presented. The results of operations for the thirteen and twenty-six weeks ended July 28, 2012 and July 30, 2011 are not necessarily indicative of results to be expected for the full fiscal year. These interim consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company s Registration Statement on Form S-1, as amended (Registration No. 333-175299), which was declared effective on May 3, 2012.

Fiscal Periods

The Company s fiscal year ends on the Saturday closest to January 31. References to the fiscal quarters ended July 28, 2012 and July 30, 2011 refer to the thirteen week periods ended as of those dates.

Table of Contents

Initial Public Offering

On May 3, 2012, Tilly s, Inc. completed its initial public offering (IPO) in which it issued and sold 7,600,000 shares of its Class A common stock and certain selling stockholders sold 400,000 shares of Class A common stock. In addition, on May 9, 2012, the underwriters exercised their option to purchase an additional 1,200,000 shares of Class A common stock from the selling stockholders to cover over-allotments. As a result, the total IPO size was 9,200,000 shares of Class A common stock, which consisted of 7,600,000 shares sold by Tilly s, Inc. and 1,600,000 shares sold by the selling stockholders. The 9,200,000 shares of Class A common stock sold in the offering were sold at a price of $15.50 per share. Tilly s, Inc. did not receive any proceeds from the sale of shares by the selling stockholders.

As a result of the IPO, the Company received net proceeds of approximately $107 million, after deducting the underwriting discount of $8.7 million and related fees and expenses of approximately $2.5 million. The Company used $84.0 million of the net proceeds from the IPO to pay in full notes previously issued to the shareholders of WOJT. These notes represented WOJT s undistributed taxable income from the date of its formation through the date of termination of its S Corporation status.

Unaudited Pro Forma Income Information

The unaudited pro forma income information gives effect to the conversion of the Company to a C Corporation on May 2, 2012. Prior to such conversion, the Company was an S Corporation and generally not subject to income taxes. The pro forma net income and per share amounts, therefore, include an adjustment for income tax expense as if the Company had been a C Corporation during the periods presented at an assumed combined federal, state and local effective tax rate of 40%, which approximates the calculated statutory tax rate for each period. In addition, the unaudited pro forma diluted weighted average shares outstanding was computed using the assumed 40% effective tax rate. As a result, the pro forma adjustment to diluted weighted average shares outstanding for the twenty-six weeks ended July 28, 2012 is a reduction of approximately 12,000 shares. There was no pro forma adjustment for the thirteen weeks ended July 28, 2012 as the dilutive effect of stock options is applicable only in periods of net income.

2. Summary of Significant Accounting Policies

Information regarding significant accounting policies is contained in Note 2, Summary of Significant Accounting Policies , of the financial statements of the Company s Registration Statement on Form S-1, as amended (File No. 333-175299). Presented below in the following notes is supplemental information that should be read in conjunction with Notes to Financial Statements .

Marketable Securities

Marketable securities are classified as available-for-sale and are carried at fair value, with the unrealized holding gains and losses, net of income taxes, reflected as a separate component of stockholders equity until realized. For the purposes of computing realized and unrealized gains

Table of Contents

and losses, cost is determined on a specific identification basis. The Company considers all marketable securities available-for-sale, including those with maturity dates beyond 12 months, and classifies these securities within current assets on the consolidated balance sheet as they are available to support current operational liquidity needs.

Income Taxes

The Company calculates its interim income tax provision in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 270, *Interim Reporting* and ASC Topic 740, *Accounting for Income Taxes* (ASC 740). At the end of each interim period, the Company estimates the annual effective tax rate and applies that rate to its ordinary quarterly earnings. The tax expense or benefit related to significant, unusual or extraordinary items is recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws, rates or tax status is recognized in the interim period in which the change occurs. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including the expected operating income for the year, permanent and temporary differences as a result of differences between amounts measured and recognized in accordance with tax laws and financial accounting standards and the likelihood of recovering deferred tax assets generated in the current fiscal year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as the tax environment changes.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management evaluates its estimates and judgments, including those related to inventory valuation, property and equipment, recoverability of long-lived assets, income taxes and stock-based compensation.

3. Marketable Securities

Marketable securities are classified as available-for-sale and, as of July 28, 2012, consisted of commercial paper and corporate bonds with $24.1 million of securities with maturity dates less than one year and $2.0 million with maturity dates over one year and less than two years. The Company did not have any marketable securities as of January 28, 2012.

Table of Contents

The following table summarizes the Company s investments in marketable securities at July 28, 2012 (in thousands):

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Commercial paper	$ 19,881	$ 98	$	$ 19,979
Corporate bonds	6,203	3	20	6,186
	26,084	101	20	26,165

4. Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosure*, (ASC 820) defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under ASC 820 as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. ASC 820 established the following three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs (i.e. projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company measures certain financial assets at fair value on a recurring basis, including our marketable securities, which are classified as available-for-sale securities, and certain cash equivalents, specifically money market accounts. The money market accounts are valued based on quoted market prices in active markets. The marketable securities are valued based on other observable inputs for those securities (including market corroborated pricing or other models that utilize observable inputs such as interest rates and yield curves) based on information provided by independent third party entities.

From time to time, the Company measures certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment. The Company estimates the fair value of its long-lived assets using company-specific assumptions which would fall within Level 3 of the fair value hierarchy.

During the thirteen and twenty-six weeks ended July 28, 2012, the Company did not make any transfers between Level 1 and Level 2 financial assets. Furthermore, as of July 28, 2012 and January 28, 2012, the Company did not have any Level 3 financial assets. The Company conducts reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure.

Table of Contents

The Company has no other financial instruments that would be considered significant for fair value measurement purposes.

In accordance with the provisions of the guidance, the Company categorized its financial assets based on the priority of the inputs to the valuation technique for the instruments as follows (in thousands):

	July 28, 2012		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market securities	$ 18,953	$	$
Marketable securities:			
Commercial paper		19,979	
Corporate bonds		6,186	

5. Line of Credit

On May 3, 2012, the Company amended its revolving credit facility agreement with Wells Fargo Bank, N.A. The amended credit facility provides for a line of credit of $25.0 million and matures on May 3, 2014. Interest charged on borrowings is either at the London Interbank Offered Rate (LIBOR) plus 1.75%, or at the bank s prime rate. The Company has the ability to select between the prime or LIBOR-based rate at the time of a cash advance. Borrowing from the credit facility is secured by substantially all of the Company s assets. A sub-feature of the credit facility allows stand-by and commercial letters of credit up to $15.0 million. The Company is required to maintain certain financial and nonfinancial covenants in accordance with the revolving credit facility. The financial covenants contain requirements for certain levels of liquidity and profitability, such as: (i) a minimum current asset to current liability ratio of 1.25 to 1.00, (ii) a net profit before tax of at least $1, determined as of the end of each fiscal quarter on a cumulative rolling four-quarter basis, excluding a non-cash expense of up to a maximum of $2.0 million for the write-off of impaired fixed assets for that period and (iii) a maximum ratio of 4.00 to 1.00 for funded debt to EBITDAR , where funded debt includes credit facility borrowings, capital lease debt and eight times annual operating lease rent expense, and EBITDAR includes net income before interest, income taxes, depreciation, amortization and rent expense.

At July 28, 2012, the Company was in compliance with all of its covenants and had no outstanding borrowings under the line of credit.

6. Income Taxes

Prior to May 2, 2012, WOJT was taxed as an S Corporation for federal income tax purposes under Section 1362 of the Internal Revenue Code, and therefore was not subject to federal and state income taxes (subject to an exception in a limited number of state and local jurisdictions that do not recognize the S Corporation status). On May 2, 2012, as part of the Reorganization, the Company s S Corporation status terminated and the Company became subject to corporate-level federal and state income taxes at prevailing corporate rates. As a result of the conversion, the Company recorded an increase in current deferred tax assets of $3.6 million, an increase in noncurrent deferred tax liabilities of $0.6 million and a one-time deferred tax benefit of $3.0 million. WOJT will file a tax return for the period January 1, 2012 through May 1, 2012 as an S Corporation. The Company will also file a tax return as a C Corporation for the period May 2, 2012 through February 2, 2013.

The Company accounts for income taxes and the related accounts under the liability method in accordance with ASC 740. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates to be in effect during the year in which the basis differences reverse. Because management believes that it is more likely than not that the Company will realize the full amount of the net deferred tax assets, the Company has not recorded any valuation allowance for the deferred tax assets.

The provision for income taxes is based on the current estimate of the annual effective tax rate and is adjusted as necessary for discrete events occurring in a particular period. The effective income tax rate was 33.6% and 1.1% for both the thirteen and twenty-six weeks ended July 28, 2012 and July 30, 2011, respectively. The effective rates for the thirteen and twenty-six weeks ended July 28, 2012 are higher primarily due to the Company s conversion from an S Corporation to a C Corporation on May 2, 2012. Pro forma tax expense for the thirteen and twenty-six weeks ended July 28, 2012 and July 30, 2011 was calculated at an assumed combined federal, state and local effective tax rate of 40%, which approximates the calculated effective tax rate had the Company been a C Corporation in each of those periods.

For the thirteen weeks ended July 28, 2012, the Company recorded a net income tax benefit of $2.1 million. The net benefit was comprised of (1) a one-time deferred tax benefit of $3.0 million recognized upon the conversion to a C Corporation, (2) a provision of $2.0 million related to the period during fiscal year 2012 in which the Company was an S Corporation (January 29, 2012 through May 1, 2012) computed at the effective tax rate of 33.6% rather than the previously recognized 1.1% S Corporation effective tax rate and (3) a tax benefit of $1.1 million related to the period in which the Company was a C Corporation (May 2, 2012 through July 28, 2012) at an effective tax rate of 33.6%.

7. Stock-Based Compensation

On May 3, 2012, in connection with the completion of the IPO, the Company recognized $7.6 million of stock-based compensation expense relating to stock options previously granted to employees and directors under the Tilly s 2007 Stock Option Plan (the 2007 Plan). This amount represented the cumulative stock-based compensation expense from the inception of the 2007 Plan through the IPO date, as the Company had not previously recognized any stock-based compensation expense for these awards due to the performance condition wherein, if the stock options were vested, they would only become exercisable upon the consummation of the Company s IPO. In connection with the recognition of stock-based compensation, the Company recorded an increase in noncurrent deferred tax assets and income taxes payable of $3.0 million.

Table of Contents

On May 4, 2012, the Company granted stock options to employees to purchase a total of 650,500 shares of Class A common stock under the Tilly s 2012 Equity and Incentive Award Plan (the 2012 Plan). The exercise price of these awards is equal to the IPO price of $15.50 per share. On July 9, 2012, the Company granted options to an employee to purchase 20,000 shares of Class A common stock under the 2012 Plan. The exercise price of this award is equal to the Company s closing stock price of $16.62 on the date of grant. The stock options vest in four equal annual installments beginning on the first anniversary of the date of grant, provided that the respective award recipient continues to be employed by the Company through each of those dates. The total grant date fair value of stock options granted during the thirteen and twenty-six weeks ended July 28, 2012 was $6.1 million, before applying an estimated forfeiture rate. The Company is recognizing the expense relating to these stock options, net of estimated forfeitures, on a straight-line basis over the four year service period of the awards.

The stock option awards discussed above were measured at fair value on the grant date using the Black-Scholes option valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, expected volatility of the Company s stock over the option s expected term, the risk-free interest rate over the option s expected term and the Company s expected annual dividend yield, if any. The Company s estimate of pre-vesting forfeitures, or forfeiture rate, was based on its internal analysis, which included the award recipients positions within the Company and the vesting period of the awards. The Company will issue shares of Class A common stock when the options are exercised.

The fair value of stock options granted during the thirteen and twenty-six weeks ended July 28, 2012 were estimated on the grant dates using the following assumptions:

	May 4, 2012	July 9, 2012
Expected option term(1)	5.0 years	5.0 years
Expected volatility factor(2)	62.1%	62.7%
Risk-free interest rate(3)	0.8%	0.6%
Expected annual dividend yield	0%	0%

(1) The Company has limited historical information regarding expected option term. Accordingly, the Company determined the expected option term of the awards using the latest historical data available from comparable public companies and management s expectation of exercise behavior.
(2) Stock volatility for each grant is measured using the weighted average of historical daily price changes of the Company s competitors common stock over the most recent period equal to the expected option term of the Company s awards.
(3) The risk-free interest rate is determined using the rate on treasury securities with the same term as the expected life of the stock option as of the grant date.

Table of Contents

The following table summarizes the Company s stock option activity for the twenty-six weeks ended July 28, 2012 (aggregate intrinsic value in thousands):

	Stock Options	Grant Date Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value(1)
Outstanding at January 28, 2012	1,540,000	$ 11.34		
Granted year-to-date	670,500	$ 15.53		
Exercised year-to-date	(30,250)	$ 8.67		
Forfeited year-to-date	(11,250)	$ 14.52		
Outstanding at July 28, 2012	2,169,000	$ 12.66	7.8	$ 7,713
Exercisable at July 28, 2012	975,625	$ 9.62	6.0	$ 6,416

(1) Intrinsic value for stock options is defined as the difference between the market price of the Company s Class A common stock on the last business day of the fiscal quarter and the weighted average exercise price of in-the-money stock options outstanding at the end of each fiscal period. The market value per share was $16.19 at July 27, 2012.

On May 4, 2012, the Company granted 5,161 restricted shares of Class A common stock to each of its four independent directors under the 2012 Plan. These shares vest in two equal annual installments beginning on May 4, 2013, provided that the respective award recipient continues to serve on the Company s board of directors through each of those dates. The grant date fair value of these awards totaled $0.3 million. The Company is recognizing the expense relating to these awards on a straight line basis over a two year service period commencing on the date of grant.

There are a total of 2,913,900 shares issuable under the 2012 Plan, of which 2,212,434 shares were still available for issuance as of July 28, 2012. The Company recorded a total of $8.2 million of stock-based compensation expense, which includes the one-time charge of $7.6 million noted above, in the thirteen and twenty-six weeks ended July 28, 2012. At July 28, 2012, there was $6.9 million of total unrecognized stock-based compensation expense related to unvested stock options and restricted stock grants. This cost has a weighted average recognition period of 3.1 years.

Table of Contents

8. Earnings (Loss) Per Share

Earnings (loss) per share is computed under the provisions of ASC Topic 260, *Earnings Per Share*. Basic earnings (loss) per