BASIC ENERGY SERVICES INC
Form 10-Q
May 08, 2008

Table of Contents

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

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file no. 001-32693

Basic Energy Services, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Act).

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

41,255,172 shares of the registrant s Common Stock were outstanding as of April 29, 2008.

BASIC ENERGY SERVICES, INC.
Index to Form 10-Q

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

Table of Contents

Part I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 100,174	$ 91,941
Trade accounts receivable, net of allowance of $6,372 and $6,090, respectively	148,695	138,384
Accounts receivable related parties	133	91
Income tax receivable		1,130
Inventories	11,227	11,034
Prepaid expenses	7,776	6,999
Other current assets	5,981	6,353
Deferred tax assets	10,407	10,593
Total current assets	284,393	266,525
Property and equipment, net	649,987	636,924
Deferred debt costs, net of amortization	5,860	6,100
Goodwill	218,430	204,963
Other intangible assets, net of amortization	26,431	26,975
Other assets	2,276	2,122
	$ 1,187,377	$ 1,143,609
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 20,629	$ 22,146
Accrued expenses	60,316	51,003
Income taxes payable	5,976	
Current portion of long-term debt	18,886	17,413
Other current liabilities	1,358	1,474
Total current liabilities	107,717	92,036
Long-term debt	410,179	406,306
Deferred tax liabilities	120,479	114,604

Other long-term liabilities	3,803	5,842
Commitments and contingencies		
Stockholders equity:		
Preferred stock; $.01 par value; 5,000,000 shares authorized; none designated at March 31, 2008 and December 31, 2007, respectively		
Common stock; $.01 par value; 80,000,000 shares authorized; 41,287,230 issued; 41,254,672 shares outstanding at March 31, 2008 and 40,925,530 issued; 40,896,217 shares outstanding at December 31, 2007, respectively	413	409
Additional paid-in capital	316,955	314,705
Retained earnings	229,088	209,707
Treasury stock, 32,558 shares at March 31, 2008, at cost	(705)	
Total stockholders equity	545,751	524,821
	$ 1,187,377	$ 1,143,609

See accompanying notes to consolidated financial statements.

4

Table of Contents

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	(Unaudited)	
Revenues:		
Well servicing	$ 80,519	$ 86,669
Fluid services	71,399	64,182
Completion and Remedial Services	68,458	46,137
Contract drilling	9,497	1,942
Total revenues	229,873	198,930
Expenses:		
Well servicing	48,466	50,094
Fluid services	46,433	40,102
Completion and Remedial Services	35,788	23,135
Contract drilling	7,060	2,814
General and administrative, including stock-based compensation of $1,080 and $1,093 in three months ended March 31, 2008 and 2007, respctively	25,852	22,649
Depreciation and amortization	28,032	19,225
(Gain) loss on disposal of assets	225	341
Total expenses	191,856	158,360
Operating income	38,017	40,570
Other income (expense):		
Interest expense	(7,349)	(5,594)
Interest income	701	470
Loss on early extinguishment of debt		(230)
Other income	38	61
Income from continuing operations before income taxes	31,407	35,277
Income tax expense	(11,751)	(13,204)
Net income	$ 19,656	$ 22,073
Earnings per share of common stock:		
Basic	$ 0.48	$ 0.57
Diluted	$ 0.47	$ 0.56

Comprehensive Income:				
Net income	$	19,656	$	22,073
Unrealized gains (losses) on hedging activities				
Comprehensive Income:	$	19,656	$	22,073

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total Stockholders Equity
Balance December 31, 2007	40,925,530	$ 409	$ 314,705	$	$ 209,707	$ 524,821
Issuances of restricted stock	361,700	4	(4)			
Amortization of share based compensation			995			995
Treasury stock issued as compensation to Chairman of the Board				89	(4)	85
Purchase of treasury stock				(1,149)		(1,149)
Exercise of stock options			1,259	355	(271)	1,343
Net income					19,656	19,656
Balance March 31, 2008 (unaudited)	41,287,230	$ 413	$ 316,955	$ (705)	$ 229,088	$ 545,751

See accompanying notes to consolidated financial statements.

6

Table of Contents

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

	Three Months Ended March 31,	
	2008	2007
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 19,656	$ 22,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,032	19,225
Accretion on asset retirement obligation	31	28
Change in allowance for doubtful accounts	282	223
Amortization of deferred financing costs	240	229
Non-cash compensation	1,080	1,093
Loss on early extinguishment of debt		230
(Gain) loss on disposal of assets	225	341
Deferred income taxes	3,161	2,342
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(7,981)	(9,056)
Inventories	152	129
Prepaid expenses and other current assets	1,403	638
Other assets	(161)	(343)
Accounts payable	(1,517)	(1,583)
Excess tax benefits from exercise of employee stock options	(1,039)	(1,674)
Income tax payable	6,661	(3,230)
Other liabilities	(2,420)	(218)
Accrued expenses	8,191	7,290
Net cash provided by operating activities	55,996	37,737
Cash flows from investing activities:		
Purchase of property and equipment	(18,427)	(23,783)
Proceeds from sale of assets	2,081	1,079
Payments for other long-term assets	(104)	(1,828)
Payments for businesses, net of cash acquired	(26,858)	(104,354)
Net cash used in investing activities	(43,308)	(128,886)
Cash flows from financing activities:		
Proceeds from debt		85,000

See accompanying notes to consolidated financial statements.

BASIC ENERGY SERVICES, INC.
Notes to Consolidated Financial Statements
March 31, 2008 (unaudited)

1. Basis of Presentation and Nature of Operations

Basis of Presentation

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

Nature of Operations

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Basic and its wholly-owned subsidiaries. Basic has no interest in any other organization, entity, partnership, or contract that could require any evaluation under FASB Interpretation No. 46R or Accounting Research Bulletin No. 51. All intercompany transactions and balances have been eliminated.

Estimates and Uncertainties

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

- Depreciation and amortization of property and equipment and intangible assets
- Impairment of property and equipment, goodwill and intangible assets
- Allowance for doubtful accounts
- Litigation and self-insured risk reserves
- Fair value of assets acquired and liabilities assumed
- Stock-based compensation
- Income taxes
- Asset retirement obligation

Table of Contents

Revenue Recognition

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

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

Completion and Remedial Services Basic recognizes revenue when services are performed, collection of the relevant receivables is probable, persuasive evidence of an arrangement exists and the price is fixed or determinable. Basic prices completion and remedial services by the hour, day, or project depending on the type of service performed. When Basic provides multiple services to a customer, revenue is allocated to the services performed based on the fair values of the services.

Contract Drilling Basic recognizes revenues based on either a daywork contract, in which an agreed upon rate per day is charged to the customer, or a footage contract, in which an agreed upon rate is charged per the number of feet drilled.

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

Inventories

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

Impairments

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment at a minimum annually, or whenever, in management s judgment events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of such assets to estimated undiscounted future cash flows expected to be generated by the assets. Expected future cash flows and carrying values are aggregated at their lowest identifiable level. If the carrying amount of such assets exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of such assets exceeds the fair value of the assets. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities, if material, of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet. These assets are normally sold within a short period of time through a third party auctioneer.

Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value.

Basic had no impairment expense in the three months ended March 31, 2008 and 2007.

Deferred Debt Costs

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

Deferred debt costs of approximately $7.6 million at March 31, 2008 and $7.6 million at December 31, 2007, represent debt issuance costs and are recorded net of accumulated amortization of $1.7 million and $1.5 million at March 31, 2008 and December 31, 2007, respectively. Amortization of deferred debt costs totaled approximately $240,000 and $203,000 for the three months ended March 31, 2008 and 2007, respectively.

Goodwill and Other Intangible Assets

Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142) eliminates the amortization of goodwill and other intangible assets with indefinite lives. Intangible assets with lives restricted by contractual, legal, or other means will continue to be amortized over their useful lives. Goodwill and other intangible assets not subject to amortization are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. SFAS No. 142 requires a two-step process for testing impairment. First, the fair value of each reporting unit is compared to its carrying value to determine whether an indication of impairment exists. If impairment is indicated, then the fair value of the reporting unit s goodwill is determined by allocating the unit s fair value to its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill is measured as the excess of its carrying value over its fair value. Basic completed its assessment of goodwill impairment as of the date of adoption and completed a subsequent annual impairment assessment as of December 31 each year thereafter. The assessments did not result in any indications of goodwill impairment.

Basic has identified its reporting units to be well servicing, fluid services, completion and remedial services and contract drilling. The goodwill allocated to such reporting units as of March 31, 2008 is $27.7 million, $43.4 million, $124.0 million and $23.4 million, respectively. The change in the carrying amount of goodwill for the three months ended March 31, 2008 of $13.5 million relates to goodwill from acquisitions and payments pursuant to contingent earn-out agreements, with approximately $926,000, $95,000 and $12.5 million of goodwill additions relating to the well servicing, fluid services and completion and remedial, respectively. There was a decrease in goodwill of $23,000 for contract drilling due to the finalization of the purchase price allocation on an acquisition (See Note 3).

Table of Contents

Intangible assets subject to amortization under SFAS No. 142 consist of customer relationships and non-compete agreements. The gross carrying amount of customer relationships subject to amortization was $23.8 million as of March 31, 2008 and December 31, 2007. The gross carrying amount of non-compete agreements subject to amortization totaled approximately $5.3 million and $5.2 million at March 31, 2008 and December 31, 2007, respectively. Accumulated amortization related to these intangible assets totaled approximately $2.7 million and $2.1 million at March 31, 2008 and December 31, 2007, respectively. Amortization expense for the three months ended March 31, 2008 and 2007 was approximately $641,000 and $170,000, respectively. Other intangibles net of accumulated amortization allocated to reporting units as of March 31, 2008 is $259,000, $635,000, $19.3 million and $6.3 million for well servicing, fluid services, completion and remedial services and contract drilling, respectively.

Customer relationships are amortized over a 15-year life. Non-Compete agreements are amortized over a five-year life.

Stock-Based Compensation

Basic accounts for stock-based compensation based on Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment* (SFAS No. 123R). Options issued are valued on the grant date using the Black-Scholes-Merton option-pricing model and all awards are adjusted for an expected forfeiture rate. Awards are amortized over the vesting period. Compensation expense of the unvested portion of awards granted as a private company and outstanding as of January 1, 2006 will be based upon the intrinsic value method calculated under APB No. 25.

Income Taxes

Basic accounts for income taxes based upon Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109). Under SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in the period that includes the statutory enactment date. A valuation allowance for deferred tax assets is recognized when it is more likely than not that the benefit of deferred tax assets will not be realized.

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

Concentrations of Credit Risk

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

Basic did not have any one customer which represented 10% or more of consolidated revenue during the three months ended March 31, 2008 or 2007.

Asset Retirement Obligations

As of January 1, 2003, Basic adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligation* (SFAS No. 143). SFAS No. 143 requires Basic to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets and capitalize an equal amount as a cost of the asset depreciating it over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each quarter to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, acquisition or construction of assets, and settlements of obligations.

Table of Contents

Basic owns and operates salt water disposal sites, brine water wells, gravel pits and land farm sites, each of which is subject to rules and regulations regarding usage and eventual closure. The following table reflects the changes in the liability during the three months ended March 31, 2008 (in thousands):

Balance, December 31, 2007	$ 1,552
Additional asset retirement obligations	
Accretion expense	31
Balance, March 31, 2008	$ 1,583

Environmental

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

Litigation and Self-Insured Risk Reserves

Basic estimates its reserves related to litigation and self-insured risks based on the facts and circumstances specific to the litigation and self-insured claims and its past experience with similar claims in accordance with Statement of Financial Accounting Standard No. 5 Accounting for Contingencies. Basic maintains accruals in the consolidated balance sheets to cover self-insurance retentions (See note 6).

Recent Accounting Pronouncements

In September 2006, the FASB issued *SFAS No. 157, Fair Value Measurements (SFAS 157)*, which became effective for financial assets and liabilities of the company on January 1, 2008 and will become effective for non-financial assets and liabilities of the company on January 1, 2009. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but would apply to assets and liabilities that are required to be recorded at fair value under other accounting standards. This standard was adopted for financial assets and liabilities as of January 1, 2008 and will be adopted for non-financial assets and liabilities, including fair value measurements for asset impairments, goodwill and intangible asset impairments and purchase price allocations, January 1, 2009. The adoption of this standard did not have any impact on the fair value of any of our financial assets or liabilities.

In February 2007, the FASB issued *SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159)*, which became effective for the company on January 1, 2008. This standard permits companies to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in earnings. Such accounting is optional and is generally to be applied instrument by instrument. The adoption of this standard has not had any material effect on the results of operations or consolidated position.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R), which becomes effective for the company on January 1, 2009. This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date be measured at their fair values as of that date. An acquirer is required to recognize assets or liabilities arising from all other contingencies (contractual contingencies) as of the acquisition date, measured at their acquisition-date fair values, only if it is more likely than not that they meet the definition of an asset or a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*. Any acquisition related costs are to be expensed instead of capitalized. The impact to the company from the adoption of SFAS 141R in 2009 will depend on acquisitions at the time.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160), which becomes effective for the company on January 1, 2009. This standard establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The company does not anticipate that this pronouncement will have a material impact on its results of operations or consolidated financial position.

Table of Contents

In March, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161), which becomes effective for the Company on January 1, 2009. This standard improves financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures to expand on these instruments effects on the Company s financial position, financial performance and cash flows. The company does not anticipate that this pronouncement will have a material impact on its results of operations or consolidated financial position.

3. Acquisitions

In 2008 and 2007, Basic acquired either substantially all of the assets or all of the outstanding capital stock of each of the following businesses, each of which were accounted for using the purchase method of accounting (in thousands):

	Closing Date	Total Cash Paid (net of cash acquired)
Parker Drilling Offshore USA, LLC	January 3, 2007	$ 20,594
Davis Tool Company, Inc.	January 17, 2007	4,164
JetStar Consolidated Holdings, Inc.	March 6, 2007	87,763
Sledge Drilling Holding Corp.	April 2, 2007	50,632
Eagle Frac Tank Rentals, LP	May 30, 2007	3,813
Wildhorse Services, Inc.	June 1, 2007	17,314
Bilco Machine, Inc.	June 21, 2007	600
Steve Carter Inc. and Hughes Services Inc.	September 26, 2007	18,138
Total 2007		$ 203,018
Xterra Fishing and Rental Tools Co.	January 28, 2008	$ 21,033
Lackey Construction, LLC	January 30, 2008	4,311
Total 2008		$ 25,344

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

Contingent Earn-out Arrangements and Purchase Price Allocations

Contingent earn-out arrangements are generally arrangements entered into on certain acquisitions to encourage the owner/manager to continue operating and building the business after the purchase transaction. The contingent earn-out arrangements of the related acquisitions are generally linked to certain financial measures and performance of the assets acquired in the various acquisitions. All amounts paid or reasonably accrued for related to the contingent earn-out payments are reflected as increases to the goodwill associated with the acquisition or compensation expense depending on the terms and conditions of the earn-out arrangement.

Table of Contents

JetStar Consolidated Holdings, Inc.

On March 6, 2007, Basic acquired all of the capital stock of JetStar Consolidated Holdings, Inc. (JetStar). The results of JetStar s operations have been included in the financial statements since that date. The aggregate purchase price was approximately $128.7 million, including $87.7 million in cash which included the retirement of JetStar s outstanding debt. Basic issued 1,794,759 shares of common stock, at a fair value of $22.86 per share, for a total fair value of approximately $41 million. The value of the 1,794,759 shares issued was determined based on the average market price of Basic s common shares over the 2-day period before and after the date the number of shares were determined. This acquisition allowed us to enter into the Kansas market and increased our presence in North Texas. JetStar operates in Basic s completion and remedial segment. The following table summarizes the final estimated fair value of the assets acquired and liabilities assumed at the date of acquisition for JetStar (in thousands):

Current Assets	$ 13,263
Property and Equipment	59,517
Amortizable Intangible Assets (1)	17,857
Goodwill (2)	61,722
Total Assets Acquired	152,359
Current Liabilities	(4,581)
Deferred Income Taxes	(18,650)
Current and Long Term Debt (3)	(37,563)
Total Liabilities Assumed	(60,794)
Net Assets Acquired	$ 91,565

(1) Consists of customer relationship of $17,543, amortizable over 15 years, and non-compete agreements of $314, amortizable over five years.

(2) Approximately $25,955 is expected to be deductible for tax purposes.

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

Table of Contents

Sledge Drilling Holding Corp.

On April 2, 2007, Basic acquired all of the capital stock of Sledge Drilling Holding Corp. (Sledge). The results of Sledge s operations have been included in the financial statements since that date. The aggregate purchase price was approximately $60.8 million, including $50.6 million in cash which included the retirement of Sledge s outstanding debt. Basic issued 430,191 shares of common stock at a fair value of $23.63 per share for a total fair value of approximately $10.2 million. The value of the 430,191 shares issued was determined based on the average market price of Basic s common shares over the 2-day period before and after the date the number shares were determined. This acquisition allowed Basic to expand its drilling operations in the Permian Basin. The following table summarizes the final estimated fair value of the assets acquired and liabilities assumed at the date of acquisition for Sledge (in thousands):

Current Assets	$ 6,029
Property and Equipment	30,638
Intangible Assets (1)	6,365
Goodwill (2)	23,382
Total Assets Acquired	66,414
Current Liabilities	(587)
Deferred Income Taxes	(3,886)
Current and Long Term Debt (3)	(19,093)
Total Liabilities Assumed	(23,566)
Net Assets Acquired	$ 42,848

(1) Consists of customer relationship of $6,269, amortizable over 15 years, and non-compete agreement of $96, amortizable over five years.

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

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

The following unaudited pro-forma results of operations have been prepared as though the JetStar and Sledge acquisitions had been completed on January 1, 2007. Pro forma amounts are based on the purchase price allocations of the significant acquisitions and are not necessarily indicative of the results that may be reported in the future (in thousands, except per share data).

	Three Months Ended March 31, 2007
Revenues	$ 221,489
Net income	$ 25,980
Earnings per common share basic	$ 0.65
Earnings per common share diluted	$ 0.63

Basic does not believe the pro-forma effect of the remainder of the acquisitions completed in 2008 or 2007 are material, either individually or when aggregated, to the reported results of operations.

Table of Contents

4. Property and Equipment

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

	March 31, 2008	December 31, 2007
Land	$ 3,724	$ 3,475
Buildings and improvements	24,171	21,655
Well service units and equipment	337,516	328,468
Fluid services equipment	100,569	91,830
Brine and fresh water stations	9,123	8,964
Frac/test tanks	92,474	85,649
Pressure pumping equipment	138,370	132,746
Construction equipment	28,271	28,798
Contract drilling	59,561	59,231
Disposal facilities	32,205	27,790
Vehicles	36,817	36,440
Rental equipment	33,892	33,381
Aircraft	4,119	4,119
Other	15,966	15,858
	916,778	878,404
Less accumulated depreciation and amortization	266,791	241,480
Property and equipment, net	$ 649,987	$ 636,924

Table of Contents

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

	March 31, 2008	December 31, 2007
Light vehicles	$ 26,422	$ 25,768
Well service units and equipment	1,036	1,016
Fluid services equipment	39,091	34,668
Pressure pumping equipment	7,302	4,540
Construction equipment	4,484	4,440
Software	6,830	6,308
	85,165	76,740
Less accumulated amortization	26,074	22,660
	$ 59,091	$ 54,080

Amortization of assets held under capital leases of approximately $3.4 million and $1.8 million for the three months ended March 31, 2008 and 2007, respectively, is included in depreciation and amortization expense in the consolidated statements of operations.

5. Long-Term Debt

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

	March 31, 2008	December 31, 2007
Credit Facilities:		
Revolver	$ 150,000	$ 150,000
7.125% Senior Notes	225,000	225,000
Capital leases and other notes	54,065	48,719
	429,065	423,719
Less current portion	18,886	17,413
	$ 410,179	$ 406,306

Senior Notes

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

The Senior Notes are redeemable at the option of Basic on or after April 15, 2011 at the specified redemption price as described in the Indenture. Prior to April 15, 2011, Basic may redeem, in whole or in part, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed plus the Applicable Premium as defined in the Indenture. Prior to April 15, 2009, Basic may redeem up to 35% of the Senior Notes with the proceeds of certain equity offerings at a redemption price equal to 107.125% of the principal amount of the 7.125% Senior

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

Following a change of control, as defined in the Indenture, Basic will be required to make an offer to repurchase all or any portion of the 7.125% Senior Notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest to the date of repurchase.

Pursuant to the Indenture, Basic is subject to covenants that limit the ability of Basic and its restricted subsidiaries to, among other things: incur additional indebtedness, pay dividends or repurchase or redeem capital stock, make certain investments, incur liens, enter into certain types of transactions with affiliates, limit dividends or other payments by restricted subsidiaries, and sell assets or consolidate or merge with or into other companies. These limitations are subject to a number of important qualifications and exceptions set forth in the Indenture. Basic was in compliance with the restrictive covenants at March 31, 2008.

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

The Senior Notes are jointly and severally guaranteed by Basic and all of its restricted subsidiaries. Basic Energy Services, Inc., the ultimate parent company, does not have any independent operating assets or operations. Subsidiaries other than the restricted subsidiaries that are guarantors are minor.

2007 Credit Facility

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

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

At March 31, 2008, Basic, under its Revolver, had outstanding $150.0 million of borrowings and $15.5 million of letters of credit and no amounts outstanding in swing-line loans. At March 31, 2008, Basic had availability under its Revolver of $59.5 million.

Pursuant to the 2007 Credit Facility, Basic must apply proceeds from certain specified events to reduce principal outstanding borrowings under the Revolver, from (a) assets sales greater than $2.0 million individually or $7.5 million in the aggregate on an annual basis, (b) 100% of the net cash proceeds from any debt issuance, including certain permitted unsecured senior or senior subordinated debt, but excluding certain other permitted debt issuances and (c) 50% of the net cash proceeds from any equity issuance (including equity issued upon the exercise of any warrant or option).

The 2007 Credit Facility contains various restrictive covenants and compliance requirements, which include (a) limitations on the incurrence of additional indebtedness, (b) restrictions on mergers, sales or transfer of assets without the lenders consent (c) limitations on dividends and distributions and (d) various financial covenants, including (1) a maximum leverage ratio of 3.25 to 1.00, and (2) a minimum interest coverage ratio of 3.00 to 1.00. At March 31, 2008, Basic was in compliance with its covenants.

Other Debt

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

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

	Three Months Ended March 31,	
	2008	**2007**
Cash payments for interest	$ 2,678	$ 309
Commitment and other fees paid		329
Amortization of debt issuance costs	240	231
Accrued interest	4,149	4,008
Other	282	717
	$ 7,349	$ 5,594

Losses on Extinguishment of Debt

In February 2007, Basic recognized a loss on the early extinguishment of debt. In February 2007, Basic wrote off unamortized debt issuance costs of approximately $230,000, which related to the 2005 Credit Facility.

6. Commitments and Contingencies

Environmental

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

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

Litigation

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

Self-Insured Risk Accruals

Basic is self-insured up to retention limits as it relates to workers compensation and medical and dental coverage of its employees. Basic, generally, maintains no physical property damage coverage on its workover rig fleet, with the exception of certain of its 24-hour workover rigs and newly manufactured rigs. Basic has deductibles per occurrence for workers compensation and medical and dental coverage of $250,000 and $175,000, respectively. Basic has lower deductibles per occurrence for automobile liability and general liability. Basic maintains accruals in the accompanying consolidated balance sheets related to self-insurance retentions by using third-party data and claims history.

At March 31, 2008 and December 31, 2007, self-insured risk accruals totaled approximately $14.9 million and $15.1 million, respectively.

7. Stockholders Equity

Common Stock

In February 2004, Basic granted certain officers and directors 837,500 restricted shares of common stock. The shares vest 25% per year for four years from the award date and are subject to other vesting and forfeiture provisions. The estimated fair value of the restricted shares was $5.8 million at the date of the grant and was recorded as deferred compensation, a component of stockholders equity. This amount is being charged to expense over the respective vesting period and totaled approximately $182,000 and $383,000 for the three months ended March 31, 2008 and 2007, respectively.

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

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

During the year ended December 31, 2006, Basic issued 293,350 shares of common stock from treasury stock for the exercise of stock options. Also, Basic issued 15,670 shares of newly-issued common stock for the exercise of stock options.

During the year ended December 31, 2007, Basic issued 169,875 shares of newly-issued common stock and 22,800 shares of treasury stock for the exercise of stock options.

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

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

During the first three months of 2008, Basic received 51,720 shares of treasury stock, at $22.21 per share, as part of net share settlements for payment of taxes on vested restricted stock. Basic also issued 49,875 shares of treasury stock for the exercise of stock options.

In March 2008, Basic granted various employees 361,700 unvested shares of common stock which vest over a five-year period. Also, in March 2008, Basic granted the Chairman of the Board 4,000 shares of common stock which vested immediately in lieu of annual cash director fees.

Preferred Stock

At March 31, 2008 and December 31, 2007, Basic had 5,000,000 shares of $.01 par value preferred stock authorized, of which none is designated.

8. Incentive Plan

In May 2003, Basic s board of directors and stockholders approved the Basic 2003 Incentive Plan (as amended effective April 22, 2005) (the Plan), which provides for granting of incentive awards in the form of stock options, restricted stock, performance awards, bonus shares, phantom shares, cash awards and other stock-based awards to officers, employees, directors and consultants of Basic. The Plan assumed awards of the plans of Basic s successors that were awarded and remained outstanding prior to adoption of the Plan. The Plan provides for the issuance of 5,000,000 shares. The Plan is administered by the Plan committee, and in the absence of a Plan committee, by the Board of Directors, which determines the awards, and the associated terms of the awards and interprets its provisions and adopts policies for implementing the Plan. The number of shares authorized under the Plan and the number of shares subject to an award under the Plan will be adjusted for stock splits, stock dividends, recapitalizations, mergers and other changes affecting the capital stock of Basic.

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

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model that uses the subjective assumptions noted in the following table. Since the Company has only been public since December 2005, expected volatility for options granted during 2007 is a combination of the Company s historical data and implied volatility based upon a peer group. The expected term of options granted represents the period of time that options granted are expected to be outstanding. For options granted in 2007, the Company used the simplified method to calculate the expected term. For options granted in 2007, the risk-free rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of grant. The estimates involve inherent uncertainties and the application of management judgment. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest. During the three months ended March 31, 2008 and 2007 compensation expense related to share-based arrangements was approximately $1.1 million for both periods. For compensation expense recognized during the three months ended March 31, 2008 and 2007, Basic recognized a tax benefit of approximately $404,000 and $371,000 respectively.

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

	Three Months Ended March 31, 2007
Risk-free interest rate	4.5%
Expected term	6.65
Expected volatility	45.3%
Expected dividend yield	

Options granted under the Plan expire 10 years from the date they are granted, and generally vest over a three-to-five year service period.

The following table reflects the summary of stock options outstanding at March 31, 2008 and the changes during the three months then ended:

	Number of Options Granted	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**	**Aggregate Instrinsic Value (000 s)**
Non-statutory stock options:				
Outstanding, beginning of period	2,257,355	$ 9.58		
Options granted		$		
Options forfeited	(20,250)	$19.48		
Options exercised	(49,875)	$ 6.08		
Options expired		$		
Outstanding, end of period	2,187,230	$ 9.56	6.02	$29,032
Exercisable, end of period	1,490,480	$ 6.36	5.29	$23,847
Vested or expected to vest, end of period	2,164,490	$ 9.39	6.00	$29,032

The weighted-average grant date fair value of share options granted during the three months ended March 31, 2007 was $11.85. The total intrinsic value of share options exercised during the three months ended March 31, 2008 and 2007 was approximately $734,000 and $2.1 million, respectively.

On March 11, 2008, the Compensation Committee of our Board of Directors approved grants of performance-based stock awards to certain members of management. The performance-based awards consist of the Company achieving certain earnings per share growth targets and certain return on capital employed performance, over the performance period from January 1, 2006 through December 31,2008 as compared to other members of a defined peer group. The number of shares to be issued will range from 0% to 150% of the target number of shares of 101,500 depending on the performance noted above. Any shares earned at the end of the performance period will then remain subject to vesting over a three-year period, with the first shares vesting March 15, 2010.

A summary of the status of the Company s non-vested share grants at March 31, 2008 and changes during the three months ended March 31, 2008 is presented in the following table:

Nonvested Shares	**Number of Shares**	**Weighted Average Grant Date Fair Value Per Share**
Nonvested at beginning of period	378,000	$ 15.74
Granted during period	447,975	20.94
Vested during period	(167,500)	6.98
Forfeited during period	(5,400)	22.44
Nonvested at end of period	653,075	$ 21.50

As of March 31, 2008, there was approximately $16.1 million of total unrecognized compensation related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.39 years. The total fair value of share-based awards vested during the three months ended March 31, 2008 and 2007 was approximately $10.0 million and $10.8 million, respectively. The actual tax benefit realized for the tax deduction from vested share-based awards was $1.3 million and $1.5 million for the three months ended March 31, 2008 and 2007, respectively.

Cash received from share option exercises under the incentive plan was approximately $303,000 and $659,000 for the three months ended March 31, 2008 and 2007, respectively. The actual tax benefit realized for the tax deductions from options exercised was $305,000 and $797,000 for the three months ended March 31, 2008 and 2007, respectively.

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

9. Related Party Transactions

Basic had receivables from employees of approximately $133,000 and $91,000 as of March 31, 2008 and December 31, 2007, respectively. During 2006, Basic entered into a lease agreement with Darle Vuelta Cattle Co., LLC, an affiliate of the Chief Executive Officer, for approximately $69,000. The term of the lease is five years and will continue on a year-to-year basis unless terminated by either party.

10. Earnings Per Share

Basic presents earnings per share information in accordance with the provisions of Statement of Financial Accounting Standards No. 128, *Earnings per Share* (SFAS No. 128). Under SFAS No. 128, basic earnings per common share are determined by dividing net earnings applicable to common stock by the weighted average number of common shares actually outstanding during the period. Diluted earnings per common share is based on the increased number of shares that would be outstanding assuming conversion of dilutive outstanding securities using the as if converted method. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share data):

Table of Contents

	Three Months Ended March 31,	
	2008	2007
	(Unaudited)	
Numerator (both basic and diluted):		
Net income	$ 19,656	$ 22,073
Denominator:		
Denominator for basic earnings per share	40,577,258	38,521,076
Stock options	775,323	905,192
Unvested restricted stock	111,727	234,810
Denominator for diluted earnings per share	41,464,308	39,661,078
Basic earnings per common share:	$ 0.48	$ 0.57
Diluted earnings per common share:	$ 0.47	$ 0.56

11. Business Segment Information

Basic revised its reportable business segments beginning in the first quarter of 2008. The new operating segments are Well Servicing, Fluid Services, Completion and Remedial Services, and Contract Drilling. These segments have been selected based on changes in management s resource allocation and performance assessment in making decisions regarding the Company. Contract Drilling was previously included in our Well Servicing segment. Well Site Construction Services is now consolidated with our Fluid Services segment. These changes reflect Basic s operating focus in compliance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information.* The following is a description of the segments:

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

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

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

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

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

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

Table of Contents

	Well Servicing	Fluid Services	Completion and Remedial Services	Contract Drilling	Corporate and Other	Total
Three Months Ended March 31, 2008 (Unaudited)						
Operating revenues	$ 80,519	$ 71,399	$ 68,458	$ 9,497	$	$ 229,873
Direct operating costs	(48,466)	(46,433)	(35,788)	(7,060)		(137,747)
Segment profits	$ 32,053	$ 24,966	$ 32,670	$ 2,437	$	$ 92,126
Depreciation and amortization	$ 11,238	$ 7,010	$ 6,691	$ 1,858	$ 1,235	$ 28,032
Capital expenditures, (excluding acquisitions)	$ 7,387	$ 4,608	$ 4,399	$ 1,221	$ 812	$ 18,427
Identifiable assets	$ 288,871	$ 204,958	$ 307,482	$ 71,494	$ 314,572	$ 1,187,377
Three Months Ended March 31, 2007 (Unaudited)						
Operating revenues	$ 86,669	$ 64,182	$ 46,137	$ 1,942	$	$ 198,930
Direct operating costs	(50,094)	(40,102)	(23,135)	(2,814)		(116,145)
Segment profits	$ 36,575	$ 24,080	$ 23,002	$ (872)	$	$ 82,785
Depreciation and amortization	$ 7,989	$ 5,490	$ 4,368	$ 739	$ 639	$ 19,225
Capital expenditures, (excluding acquisitions)	$ 6,783	$ 6,792	$ 5,404	$ 4,014	$ 790	$ 23,783
Identifiable assets	$ 249,208	$ 200,061	$ 261,841	$ 23,064	$ 241,555	$ 975,729

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

	Three Months Ended March 31, 2008	2007
Segment profits	$ 92,126	$ 82,785
General and administrative expenses	(25,852)	(22,649)
Depreciation and amortization	(28,032)	(19,225)
Gain (loss) on disposal of assets	(225)	(341)
Operating income	$ 38,017	$ 40,570

12. Supplemental Schedule of Cash Flow Information

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Capital leases issued for equipment	$ 9,995	$ 5,502
Value of Shares that may be issued	$	$ 2,194
Contingent earnout accrual	$ 554	$ 3,161
Asset retirement obligation additions	$	$ 21
Value of common stock issued in business combinations	$	$ 41,029

Basic paid income taxes of approximately $660,000 and $15.8 million during the three months ended March 31, 2008 and 2007, respectively. Basic paid interest of approximately $2.7 million and $309,000 during the three months ended March 31, 2008 and 2007, respectively.

Table of Contents

13. Subsequent Events

On April 21, 2008, the Company announced that the Board of Directors had approved a definitive agreement to combine with Grey Wolf, Inc. in a merger of equals. The combined company will be named Grey Wolf, Inc., establish incorporation in the state of Delaware and trade on the New York Stock Exchange under the symbol GW. Terms of the agreement give shareholders of the Company 0.9195 shares of the new company and $6.70 in cash for every share owned. Shareholders of Grey Wolf will receive 0.25 shares of the new company and $1.82 in cash for each share owned.

The transaction is expected to close in the third quarter of 2008. Completion of the transaction is subject to shareholder approval of both the Company and Grey Wolf, Inc., receipt of financing proceeds, regulatory approvals and other customary conditions.

On April 30, 2008, the Company purchased all operating assets of B&S Disposal, LLC and B&S Equipment, Ltd. for total consideration of approximately $6.7 million, including capital expenditure reimbursement. The new assets will operate in the Company s Well Servicing and Fluid Services lines of business in the Mid-Continent area.

Table of Contents

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

Management s Overview

We provide a wide range of well site services to oil and gas drilling and producing companies, including well servicing, fluid services, completion and remedial services and contract drilling. Our results of operations reflect the impact of our acquisition strategy as a leading consolidator in the domestic land-based well services industry. Our acquisitions have increased our breadth of service offerings at the well site and expanded our market presence. In implementing this strategy, we have purchased businesses and assets in 45 separate acquisitions from January 1, 2003 to March 31, 2008. Our weighted average number of well servicing rigs has increased from 126 in 2001 to 392 in the first quarter of 2008 and our weighted average number of fluid service trucks has increased from 156 to 644 in the same period. These acquisitions make changes in revenues, expenses and income not directly comparable between periods.

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

	Three Months Ended March 31,			
	2008		2007	
Revenues:				
Well servicing	$ 80.5	35%	$ 86.7	44%
Fluid services	71.4	31%	64.2	32%
Completion and remedial services	68.5	30%	46.1	23%
Contract drilling	9.5	4%	1.9	1%
Total revenues	$229.9	100%	$198.9	100%

Our core businesses depend on our customers willingness to make expenditures to produce, develop and explore for oil and gas in the United States. Industry conditions are influenced by numerous factors, such as the supply of and demand for oil and gas, domestic and worldwide economic conditions, political instability in oil producing countries and merger and divestiture activity among oil and gas producers. The volatility of the oil and gas industry, and the consequent impact on exploration and production activity, could adversely impact the level of drilling and workover activity by some of our customers. This volatility affects the demand for our services and the price of our services. In addition, the discovery rate of new oil and gas reserves in our market areas also may have an impact on our business, even in an environment of stronger oil and gas prices.

During 2005 and 2006, our business activity levels increased due to the impact of higher oil and gas prices and the expansion of our equipment fleets. Natural gas prices reached historical highs in 2006 which stimulated increased drilling activity by our customers. In 2007, natural gas prices declined as an excess supply of natural gas began to occur, mainly due to moderate U.S. weather patterns. Utilization for our services declined from 2006 levels as drilling activity flattened or declined in several of our markets and new equipment entered the marketplace balancing supply and demand for our services. However, pricing for our services improved in 2007 from 2006, mainly reflecting continued increases in labor costs, and offset a portion the effect of the lower utilization of our services on our total revenues. In 2008, we expect that the utilization of our services and pricing for these services will be comparable to 2007 assuming oil and gas prices and U.S. drilling activity remain at or near current levels. We are also experiencing cost inflation for fuel and fuel-based supplies and services, which is creating a negative impact on segment margins. In certain cases, we are able to mitigate this impact by charging fuel surcharges to our customers, when appropriate.

We derive a majority of our revenues from services supporting production from existing oil and gas operations. Demand for these production-related services, including well servicing and fluid services, tends to remain relatively stable, even in moderate oil and gas price environments, as ongoing maintenance spending is required to sustain production. As oil and gas prices reach higher levels, demand for all of our services generally increases as our customers engage in more well servicing activities relating to existing wells to maintain or increase oil and gas production from those wells. Because our services are required to support drilling and workover activities, we are also subject to changes in capital spending by our customers as oil and gas prices increase or decrease.

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

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

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

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

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

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

We intend to continue growing our business through selective acquisitions, continuing a newbuild program and/or upgrading our existing assets. Our capital investment decisions are determined by an analysis of the projected return on capital employed of each of those alternatives, which is substantially driven by the cost to acquire existing assets from a third party, the capital required to build new equipment and the point in the oil and gas commodity price cycle. Based on these factors, we make capital investment decisions that we believe will support our long-term growth strategy. While we believe our costs of integration for prior acquisitions have been reflected in our historical results of operations, integration of acquisitions may result in unforeseen operational difficulties or require a disproportionate amount of our management s attention. As discussed below in Liquidity and Capital Resources, we also must meet certain financial covenants in order to borrow money under our existing credit agreement to fund future acquisitions

Selected 2007 Acquisitions

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

Parker Drilling Offshore USA, LLC

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

JetStar Consolidated Holdings, Inc.

On March 6, 2007, we acquired all of the outstanding capital stock of JetStar Consolidated Holdings, Inc. (JetStar) for an aggregate purchase price of approximately $128.7 million, including $87.7 million in cash, of which approximately $37.6 million was used for the retirement of JetStar s outstanding debt. As part of the purchase price, we issued 1,794,759 shares of common stock, at a fair value of $22.86 per share for a total fair value of approximately $41 million. This acquisition operates in our completion and remedial services line of business.

Sledge Drilling Holding Corp.

On April 2, 2007, we acquired all of the outstanding capital stock of Sledge Drilling Holding Corp. (Sledge) for an aggregate purchase price of approximately $60.8 million, including $50.6 million in cash, of which approximately $19 million was used for the repayment of Sledge s outstanding debt. As part of the purchase price, we issued 430,191 shares of common stock at a fair value of $23.63 per share for a total fair value of approximately $10.2 million. This acquisition allowed us to expand our drilling operations in the Permian Basin and operates in our well servicing line of business.

Selected 2008 Acquisitions

During the first three months of 2008, we made two acquisitions that complemented our existing lines of business. These included among others:

Xterra Fishing and Rental Tools Co

On January 28, 2008, we acquired all of the outstanding capital stock of Xterra Fishing and Rental Tools Co. (Xterra) for total consideration of $21.0 million cash. This acquisition operates in our completion and remedial services line of business.

Segment Overview

Well Servicing

During the first three months of 2008, our well servicing segment represented 35% of our revenues. Revenue in our well servicing segment is derived from maintenance, workover, completion, and plugging and abandonment services. We provide maintenance-related services as part of the normal, periodic upkeep of producing oil and gas wells. Maintenance-related services represent a relatively consistent component of our business. Workover and completion services generate more revenue per hour than maintenance work due to the use of auxiliary equipment, but demand for workover and completion services fluctuates more with the overall activity level in the industry.

We typically charge our customers for services on an hourly basis at rates that are determined by the type of service and equipment required, market conditions in the region in which the rig operates, the ancillary equipment provided on the rig and the necessary personnel. Depending on the type of job, we may also charge by the project or by the day. We measure our activity levels by the total number of hours worked by all of the rigs in our fleet. We monitor our fleet utilization levels, with full utilization deemed to be 55 hours per week per rig. Our fleet has increased from a weighted average number of 364 rigs in the first quarter of 2007 to 392 in the first quarter of 2008 through a combination of new build purchases and the remainder through acquisitions and other individual equipment purchases.

Table of Contents

The following is an analysis of our well servicing operations for each of the quarters ended December 31, 2007 and the quarter ended March 31, 2008 (dollars in thousands):

	Weighted Average Number of Rigs	Rig Hours	Rig Utilization Rate	Revenue Per Rig Hour	Profits Per Rig Hour	Segment Profits%
2007:						
First Quarter	364	210,800	81.0%	$ 411	$174	42.2%
Second Quarter	371	207,700	78.3%	$ 415	$163	39.5%
Third Quarter	383	212,100	77.7%	$ 414	$166	40.0%
Fourth Quarter	386	200,600	72.7%	$ 409	$159	38.8%
Full Year	376	831,200	77.3%	$ 412	$166	40.1%
2008:						
First Quarter	392	202,500	72.2%	$ 398	$158	39.8%

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

The decrease in our revenue per rig hour from $411 in the first quarter of 2007 to $398 in the first quarter of 2008 is the result of a change in weighting of our work from higher rate workover markets to the lower rate service markets and increased competition. Lower activity in gas-oriented markets combined with increased competition resulted in a reduction in the utilization rate from 81.0% in the first quarter of 2007 to 72.2% in the first quarter of 2008.

Fluid Services

During the first three months of 2008, our fluid services segment represented 31% of our revenues. Revenues in our fluid services segment are earned from the sale, transportation, storage and disposal of fluids used in the drilling, production and maintenance of oil and gas wells and well site construction and maintenance services. The fluid services segment has a base level of business consisting of transporting and disposing of salt water produced as a by-product of the production of oil and gas. These services are necessary for our customers and generally have a stable demand but typically produce lower relative segment profits than other parts of our fluid services segment. Fluid services for completion and workover projects typically require fresh or brine water for making drilling mud, circulating fluids or frac fluids used during a job, and all of these fluids require storage tanks and hauling and disposal. Because we can provide a full complement of fluid sales, trucking, storage and disposal required on most drilling and workover projects, the add-on services associated with drilling and workover activity enable us to generate higher segment profits contributions. Revenues from our well site construction services are derived primarily from preparing and maintaining access roads and well locations, installing small diameter gathering lines and pipelines, constructing foundations to support drilling rigs and providing maintenance services for oil and gas facilities. The higher segment profits are due to the relatively small incremental labor costs associated with providing these services in addition to our base fluid services segment. We typically price fluid services by the job, by the hour or by the quantities sold, disposed of or hauled.

The following is an analysis of our fluid services operations for each of the quarters and year ended December 31, 2007 and the quarter ended March 31, 2008 (dollars in thousands):

	Weighted Average Number of Fluid Service	Revenue Per Fluid Service	Segment Profits Per Fluid Service	Segment

	Trucks	Truck	Truck	Profits%
2007:				
First Quarter	652	$ 98	$ 37	37.5%
Second Quarter	657	$ 96	$ 35	36.1%
Third Quarter	653	$ 97	$ 35	35.7%
Fourth Quarter	656	$ 104	$ 37	35.7%
Full Year	655	$ 396	$144	36.2%
2008:				
First Quarter	644	$ 111	$ 39	35.0%

Table of Contents

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

The increase in revenue per fluid service truck from $98,000 in the first quarter of 2007 to $111,000 in the first quarter of 2008 is due to the retirement of less efficient and underutilized trucks and an increase in revenue from higher fuel charges and other services which are not directly correlated with trucking volume. The decrease in segment profits from 37.5% in the first quarter of 2007 to 35.0% in the first quarter of 2008 is due primarily to increased fuel and personnel costs (including repair and maintenance).

Completion and Remedial Services

During the first three months of 2008, our completion and remedial services segment represented 30% of our revenues. Revenues from our completion and remedial services segment are generally derived from a variety of services designed to stimulate oil and gas production or place cement slurry within the wellbores. Our completion and remedial services segment includes pressure pumping, cased-hole wireline services, underbalanced drilling and rental and fishing tool operations.

Our pressure pumping operations concentrate on providing single truck, lower-horsepower cementing, acidizing and fracturing services in selected markets. On March 6, 2007, we acquired all of the outstanding capital stock of JetStar Consolidated Holdings, Inc. This acquisition allowed us to enter into the Kansas market and increased our presence in North Texas. Our total hydraulic horsepower capacity for our pressure pumping operations was 120,000 at March 31, 2008 compared to 120,000 at December 31, 2007 and 101,000 at March 31, 2007.

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

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

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

The following is an analysis of our completion and remedial services segment for each of the quarters and year ended December 31, 2007 and the quarter ended March 31, 2008 (dollars in thousands):

	Revenues	Segment Profits%
2007:		
First Quarter	$ 46,137	49.9%
Second Quarter	$ 63,735	47.6%
Third Quarter	$ 66,304	47.6%
Fourth Quarter	$ 64,515	46.2%
Full Year	$240,692	47.7%
2008:		
First Quarter	$ 68,458	47.7%

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

The increase in completion and remedial services revenues from $46.1 million in the first quarter of 2007 to $68.5 million in the first quarter of 2008 is due to the acquisition of JetStar in March 2007, as well as internal expansion. Segment profits did decline from the first quarter of 2007 to the same period in 2008, mainly due to increased costs of the materials used in the Company s pressure pumping operations.

Contract Drilling

During the first three months of 2008, our contract drilling segment represented 4% of our revenues. Revenues from our contract drilling segment are derived primarily from the drilling of new wells.

Within this segment, we typically charge our drilling rig customers at a daywork daily rate, or footage at an established rate per number of feet drilled. Depending on the type of job, we may also charge by the project. We measure the activity level of our drilling rigs on a weekly basis by calculating a rig utilization rate which is based on a seven day work week per rig. Our contract drilling rig fleet grew from a weighted average of three during the first quarter of 2007 to nine in the first quarter 2008. This increase is due to the Sledge Drilling acquisition in April of 2007.

Table of Contents

The following is an analysis of our contract drilling segment for each of the quarters and year ended December 31, 2007 and the quarter ended March 31, 2008 (dollars in thousands):

	Weighted Average Number of Rigs	Rig Operating Days	Revenue Per Day	Profits (Loss) Per Day	Segment Profits%
2007:					
First Quarter	3	168	$11,500	$ (5,200)	-44.9%
Second Quarter	8	594	$17,200	$ 6,900	39.5%
Third Quarter	9	723	$15,700	$ 6,700	42.4%
Fourth Quarter	10	748	$14,600	$ 5,300	36.3%
Full Year	8	2,233	$15,400	$ 5,400	34.7%
2008:					
First Quarter	9	645	$14,700	$ 3,800	25.7%

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

The decrease in the weighted average number of drilling rigs, from ten in the fourth quarter of 2007 to nine in the first quarter of 2008, is due to one rig being converted to a workover rig in January 2008. The decrease in segment profit from 34.7% in the fourth quarter of 2007 to 25.7% in the first quarter of 2008 is due to the decrease in rig operating days from 748 in the fourth quarter of 2007 to 645 in the first quarter of 2008, while operating costs remained relatively flat over the same period.

Operating Cost Overview

Our operating costs are comprised primarily of labor, including workers compensation and health insurance, repair and maintenance, fuel and insurance. A majority of our employees are paid on an hourly basis. With a reduced pool of workers in the industry, it is possible that we will have to raise wage rates to attract workers from other fields and retain or expand our current work force. We believe we will be able to increase service rates to our customers in the long-term to compensate for wage rate increases. We also incur costs to employ personnel to sell and supervise our services and perform maintenance on our fleet. These costs are not directly tied to our level of business activity. Compensation for our administrative personnel in local operating yards and in our corporate office is accounted for as general and administrative expenses. Repair and maintenance is performed by our crews, company maintenance personnel and outside service providers. Insurance is generally a fixed cost regardless of utilization and relates to the number of rigs, trucks and other equipment in our fleet, employee payroll and safety record.

Critical Accounting Policies and Estimates

Our consolidated financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. A complete summary of these policies is included in note 2 of the notes to our historical consolidated financial statements. The following is a discussion of our critical accounting policies and estimates.

Critical Accounting Policies

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

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

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

Self-Insured Risk Accruals. We are self-insured up to retention limits with regard to workers compensation and medical and dental coverage of our employees. We generally maintain no physical property damage coverage on our workover rig fleet, with the exception of certain of our 24-hour workover rigs and newly manufactured rigs. We have deductibles per occurrence for workers compensation and medical and dental coverage of $250,000 and $175,000 respectively. We have lower deductibles per occurrence for automobile liability and general liability. We maintain accruals in our consolidated balance sheets related to self-insurance retentions by using third-party actuarial data and historical claims history.

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

Income Taxes. We account for income taxes based upon Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS No. 109). Under SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in the period that includes the statutory enactment date. A valuation allowance for deferred tax assets is recognized when it is more likely than not that the benefit of deferred tax assets will not be realized.

Critical Accounting Estimates

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

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

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

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

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

Fair Value of Assets Acquired and Liabilities Assumed. We estimate the fair value of assets acquired and liabilities assumed in business combinations, which involves the use of various assumptions. These estimates may be affected by such factors as changing market conditions, technological advances in industry or changes in regulations governing the industry. The most significant assumptions, and the ones requiring the most judgment, involve the estimated fair value of property and equipment, intangible assets and the resulting amount of goodwill, if any. Our adoption of SFAS No. 142 on January 1, 2002 requires us to test annually for impairment the goodwill and intangible assets with indefinite useful lives recorded in business combinations. This requires us to estimate the fair values of our own assets and liabilities at the reporting unit level. Therefore, considerable judgment, similar to that described above in connection with our estimation of the fair value of acquired company, is required to assess goodwill and certain intangible assets for impairment.

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

Stock-Based Compensation. Basic accounts for stock-based compensation based on Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment* (SFAS No. 123R). Options issued are valued on the grant date using the Black-Scholes-Merton option-pricing model and all awards are adjusted for an expected forfeiture rate. Awards are amortized over the vesting period. Compensation expense of the unvested portion of awards granted as a private company and outstanding as of January 1, 2006 will be based upon the intrinsic value method calculated under APB No. 25.

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

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

Asset Retirement Obligations. SFAS No. 143 requires us to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets and to capitalize an equal amount as a cost of the asset, depreciating it over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each quarter to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, acquisition or construction of assets, and settlement of obligations.

Results of Operations

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

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Revenues. Revenues increased by 16% to $229.9 million during the first quarter of 2008 from $198.9 million during the same period in 2007. This increase was primarily due to expansion through acquisitions, particularly in the completion and remedial services and contract drilling business segments.

Well servicing revenues decreased by 7% to $80.5 million during the first quarter of 2008 compared to $86.7 million during the same period in 2007. The decrease was mainly due to increased competition in the well servicing rig industry caused by increased competition for these services as new equipment entered certain areas of our market. As a result of the increased competition there was a reduction in our revenue per rig hour from $411 in the first quarter of 2007 to $398 in the first quarter of 2008. There was also a decrease in rig utilization rate from 81.0% in the first quarter of 2007 to 72.2% in the first quarter of 2008. Our average number of well servicing rigs increased to 392 during the first quarter of 2008 compared to 364 in the same period in 2007, mainly due to internal expansion from our newbuild rig program. During the first quarter of 2008, we added five newbuilds and five well servicing rigs from the Lackey Construction LLC acquisition, converted one drilling rig to workover mode and also retired three well servicing rigs.

Fluid services revenues increased by 11% to $71.4 million during the first quarter of 2008 compared to $64.2 million in the same period of 2007. This increase was primarily due to internal growth and acquisitions, particularly the Steve Carter Inc. and Hughes Services Inc. (Carter and Hughes) acquisition in September 2007 which added 22 fluid service trucks and other equipment. Our weighted average number of fluid service trucks decreased to 644 during the first quarter of 2008 from 652 in the same period in 2007, mainly as a result of the retirement of a number of underutilized and less efficient fluid service trucks. Our revenue per fluid service truck increased to $111,000 in the first quarter of 2008 compared to $98,000 in same period in 2007.

Completion and remedial services revenues increased by 48% to $68.5 million during the first quarter of 2008 compared to $46.1 million in the same period in 2007. The increase in revenue between these periods was primarily the result of acquisitions, particularly JetStar in March 2007, which added approximately $13 million in revenues.

Contract drilling revenues increased by 389% to $9.5 million during the first quarter in 2008 as compared to $1.9 million in the same period in 2007. The majority of this increase was due to the acquisition of Sledge in April 2007 which added revenues of approximately $6 million during the first quarter of 2008. Our weighted average number of drilling rigs increased to nine as compared to three in the same period in 2007. The average revenue per day increased to $14,700 compared to $11,500 in the same period in 2007.

Direct Operating Expenses. Direct operating expenses, which primarily consist of labor, including workers compensation and health insurance, fuel and maintenance and repair costs, increased by 19% to $137.7 million during the first quarter of 2008 from $116.1 million in the same period in 2007. This increase was primarily due to the acquisitions that we have made since March 31, 2007 and the JetStar acquisition in March of 2007, as well as higher personnel related and other operating costs in all of our business segments.

Direct operating expenses for the well servicing segment decreased by 3% to $48.5 million during the first quarter of 2008 as compared to $50.1 million for the same period in 2007, due primarily to decreased rig hours from 210,800 in the first quarter of 2007 to 202,500 for the same period in 2008. Segment profits decreased to 40% of revenues during the first quarter of 2008 compared to 42% for the same period in 2007, which reflects higher labor costs as we retain our rig crews during times of lower rig utilization, as well as higher fuel costs.

Direct operating expenses for the fluid services segment increased by 16% to $46.4 million during the first quarter of 2008 as compared to $40.1 million for the same period in 2007 due primarily to higher fuel cost and higher personnel costs. Segment profits decreased to 35% of revenues during the first quarter of 2008 compared to 38% for the same period in 2007.

Direct operating expenses for the completion and remedial services segment increased by 55% to $35.8 million during the first quarter of 2008 as compared to $23.1 million for the same period in 2007 due primarily to expansion of our services and equipment, including the JetStar acquisition. The JetStar acquisition added approximately $9 million of direct operating expenses during the quarter. Segment profits decreased to 48% of revenues during the first quarter of 2008 compared to 50% for the same period in 2007, due to higher personnel related costs and increases in the cost of the materials used in our pressure pumping operations and higher fuel costs.

Table of Contents

Direct operating expenses for the contract drilling segment increased by 151% to $7.1 million during the first quarter of 2008 as compared to $2.8 million for the same period in 2007. The Sledge acquisition added approximately $4 million of direct operating expense during the first quarter of 2008. Segment profits for this segment were 26% of revenues during the first quarter of 2008 compared to a segment loss of 45% of revenue in the same period in 2007.

General and Administrative Expenses. General and administrative expenses increased by 14% to $25.9 million during the first quarter of 2008 from $22.6 million for the same period in 2007, which included $1.1 million in stock-based compensation expense for both 2008 and 2007. The increase primarily reflects higher salary and office expenses related to the expansion of our business.

Depreciation and Amortization Expenses. Depreciation and amortization expenses were $28.0 million during the first quarter of 2008 as compared to $19.2 million for the same period in 2007, reflecting the increase in the size of and investment in our asset base, particularly due to the JetStar and Sledge acquisitions as well as through the internal expansion of our business segments.

Interest Expense. Interest expense increased by 31% to $7.3 million during the first quarter of 2008 compared to $5.6 million for the same period in 2007. The increase was due primarily to an increase in the amount of long-term debt outstanding during the period from the use of our credit revolver for the cash portion paid for the JetStar, Sledge and Wildhorse acquisitions in 2007.

Income Tax Expense. Income tax expense was $11.8 million during the first quarter of 2008 as compared to $13.2 million for the same period in 2007. Our effective tax rate during the first quarter of 2008 and for the same period in 2007 was approximately 37%.

Liquidity and Capital Resources

Currently, our primary capital resources are net cash flows from our operations, utilization of capital leases as allowed under our 2007 Credit Facility and availability under our 2007 Credit Facility, of which approximately $59.5 million was available at March 31, 2008. As of March 31, 2008, we had cash and cash equivalents of $100.2 million compared to $91.9 million as of December 31, 2007. We have utilized, and expect to utilize in the future, bank and capital lease financing and sales of equity to obtain capital resources. When appropriate, we will consider public or private debt and equity offerings and non-recourse transactions to meet our liquidity needs.

Net Cash Provided by Operating Activities

Cash flow from operating activities was $56.0 million for the three months ended March 31, 2008 as compared to $37.7 million during the same period in 2007. The increase in operating cash flows for the first three months in 2008 compared to the same period in 2007 was primarily due to higher revenues from internal expansion and acquisitions.

Capital Expenditures

Capital expenditures are the main component of our investing activities. Cash capital expenditures (including for acquisitions) during the first three months of 2008 were $45.3 million as compared to $128.1 million in the same period of 2007. We added $10.0 million of additional assets through our capital lease program during the first quarter of 2008 compared to $5.5 million in the same period of 2007.

For 2008, we currently have planned approximately $115 million in cash capital expenditures and $33 million through capital leases, none of which is planned for acquisitions. We do not budget acquisitions in the normal course of business, but we believe that we may continue to spend a significant amount for acquisitions in 2008. The $115 million of capital expenditures planned for property and equipment is primarily for (1) purchase of additional equipment to expand our services, (2) continued refurbishment of our well servicing rigs and (3) replacement of existing equipment. We regularly engage in discussions related to potential acquisitions related to the well services industry.

Table of Contents

Capital Resources and Financing

Our current primary capital resources are cash flow from our operations, the ability to enter into capital leases of up to an additional $86.4 million at March 31, 2008, the availability under our credit facility of $59.5 million at March 31, 2008 and a cash balance of $100.2 million at March 31, 2008. During the first three months of 2008, we financed activities in excess of cash flow from operations primarily through the use of bank debt and capital leases.

At March 31, 2008, of the $225.0 million in financial commitments under the revolving line of credit under our 2007 Credit Facility, there was $59.5 million of available capacity due to the outstanding balance of $150.0 million and the $15.5 million of outstanding standby letters of credit. The 2007 Credit Facility includes provisions allowing us to request an increase in commitments of up to $100.0 million aggregate principal amount at any time. Additionally, the 2007 Credit Facility permits us to make greater expenditures for acquisitions, capital expenditures and capital leases and to incur greater purchase money obligations, acquisition indebtedness and general unsecured indebtedness.

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

Senior Notes

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

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

Interest on the Senior Notes accrues from and including April 12, 2006 at a rate of 7.125% per year. Interest on the Senior Notes is payable in cash semi-annually in arrears on April 15 and October 15 of each year, commencing on October 15, 2006. The Senior Notes mature on April 15, 2016. The Senior Notes and the guarantees are unsecured and rank equally with all of our and the guarantors existing and future unsecured and unsubordinated obligations. The Senior Notes and the guarantees rank senior in right of payment to any of our and the guarantors existing and future obligations that are, by their terms, expressly subordinated in right of payment to the Senior Notes and the guarantees. The Senior Notes and the guarantees are effectively subordinated to our and the guarantors secured obligations, including our senior secured credit facilities, to the extent of the value of the assets securing such obligations.

The indenture contains covenants that limit the ability of us and certain of our subsidiaries to:

- incur additional indebtedness;
- pay dividends or repurchase or redeem capital stock;
- make certain investments;
- incur liens;
- enter into certain types of transactions with affiliates;
- limit dividends or other payments by restricted subsidiaries; and
- sell assets or consolidate or merge with or into other companies.

Table of Contents

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

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

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

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

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

If we experience certain kinds of changes of control, holders of the Senior Notes will be entitled to require us to purchase all or a portion of the Senior Notes at 101% of their principal amount, plus accrued and unpaid interest. We do not believe the merger with Grey Wolf, pursuant to the merger agreement, will constitute a change of control as defined under the indenture governing our Senior Notes.

Credit Facilities

2007 Credit Facility

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

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

Under the 2007 Credit Facility, Basic Energy Services, Inc. is the sole borrower and each of our subsidiaries is a subsidiary guarantor. The 2007 Credit Facility provides for a $225 million revolving line of credit (Revolver). The 2007 Credit Facility includes provisions allowing us to request an increase in commitments of up to $100.0 million

Table of Contents

aggregate principal amount at any time. Additionally, the 2007 Credit Facility permits us to make greater expenditures for acquisitions, capital expenditures and capital leases and to incur greater purchase money obligations, acquisition indebtedness and general unsecured indebtedness. The commitment under the Revolver provides for (1) the borrowing of funds, (2) the issuance of up to $30 million of letters of credit and (3) $2.5 million of swing-line loans. All of the outstanding amounts under the Revolver are due and payable on December 15, 2010. The 2007 Credit Facility is secured by substantially all of our tangible and intangible assets. We incurred approximately $0.7 million in debt issuance costs in connection with the 2007 Credit Facility.

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

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

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

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

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

In connection with the merger with Grey Wolf, we currently plan to repay all amounts outstanding under the 2007 Credit Facility and to enter into a new credit facility.

Other Debt

We have a variety of other capital leases and notes payable outstanding that is generally customary in our business. None of these debt instruments are material individually or in the aggregate. As of March 31, 2008, we had total capital leases of approximately $54.1 million.

Credit Rating Agencies

In April 2006, we received credit ratings of B1 from Moody s and on March 11, 2008 Standard & Poor s raised our rating from B to B+ on our Senior Notes. None of our debt or other instruments is dependent upon our credit ratings. However, the credit ratings may affect our ability to obtain financing in the future. On February 6, 2007, we received a credit rating of Ba1 from Moody s and on March 11, 2008 Standard & Poor s raised our rating from BB to BB+ for our 2007 Credit Facility.

Preferred Stock

At March 31, 2008 and December 31, 2007, we had 5,000,000 shares of $.01 par value preferred stock authorized, of which none was designated.

Other Matters

Net Operating Losses

As of March 31, 2008, we had approximately $2.3 million of NOL carryforwards related to the pre-acquisition period of FESCO, which is subject to an annual limitation of approximately $900,000. The carryforwards begin to expire in 2017.

Recent Accounting Pronouncements

In September 2006, the FASB issued *SFAS No. 157, Fair Value Measurements (SFAS 157)*, which became effective for financial assets and liabilities of the company on January 1, 2008 and will become effective for non-financial assets and liabilities of the company on January 1, 2009. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but would apply to assets and liabilities that are required to be recorded at fair value under other accounting standards This standard was adopted for financial assets and liabilities as of January 1, 2008 and will be adopted for non-financial assets and liabilities, including fair value measurements for asset impairments, goodwill and intangible asset impairments and purchase price allocations, January 1, 2009. The adoption of this standard did not have any impact on the fair value of any of our financial assets or liabilities.

In February 2007, the FASB issued *SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159)*, which became effective for the company on January 1, 2008. This standard permits companies to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in earnings. Such accounting is optional and is generally to be applied instrument by instrument. The company does not anticipate that the adoption of SFAS 159 will have a material effect on its results of operations or consolidated financial position.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R), which becomes effective for the company on January 1, 2009. This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date be measured at their fair values as of that date. An acquirer is required to recognize assets or liabilities arising from all other contingencies (contractual contingencies) as of the acquisition date, measured at their acquisition-date fair values, only if it is more likely than not that they meet the definition of an asset or a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*. Any acquisition related costs are to be expensed instead of capitalized. The impact to the company from the adoption of SFAS 141R in 2009 will depend on acquisitions at the time.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160), which becomes effective for the company on January 1, 2009. This standard establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The company does not anticipate that this pronouncement will have a material impact on its results of operations or consolidated financial position.

Table of Contents

In March, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161), which becomes effective for the Company on January 1, 2009. This standard improves financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures to expand on these instruments effects on the Company s financial position, financial performance and cash flows. The company does not anticipate that this pronouncement will have a material impact on its results of operations or consolidated financial position.

Impact of Inflation on Operations

Management is of the opinion that inflation has not had a significant impact on our business, other than increases in fuel costs and personnel expenses are discussed previously in the Management s Discussion and Analysis.

Table of Contents

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

As of March 31, 2008, we had $150.0 million outstanding under the revolving portion of our credit facility subject to variable interest rate risk. The impact of a 1% increase in interest rates on this amount of debt would result in increased interest expense of approximately $1.5 million annually and a decrease in net income of approximately $939,000.

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

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II OTHER INFORMATION

ITEM 1. ***LEGAL PROCEEDINGS***

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

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

For information regarding risks that may affect our business, see the risk factors included in our most recent annual report on Form 10-K under the heading Risk Factors. The following are some additional important factors that could affect our financial performance or could cause actual results to differ materially from estimates contained in our forward-looking statements. We may encounter risks in addition to those described below. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may also impair or adversely affect our business, results of operation, financial condition and prospects.

If our merger with Grey Wolf is consummated, the anticipated benefits of combining the companies may not be realized.

We and Grey Wolf, Inc. entered into the Agreement and Plan of Merger, dated April 20, 2008 with the expectation that the mergers would result in various benefits that cannot be quantified at this time. We may not achieve these benefits at the levels expected or at all. If we fail to achieve these expected benefits, the results of operations and the enterprise value of the combined company may be adversely affected.

The integration of us and Grey Wolf following the mergers will present significant challenges that may reduce the anticipated potential benefits of the mergers.

If the mergers are consummated, we and Grey Wolf will face significant challenges in consolidating functions and integrating our organizations, procedures and operations in a timely and efficient manner, as well as retaining key personnel. The integration of us and Grey Wolf will be complex and time-consuming due to the location of the corporate headquarters, size and complexity of each organization. The principal challenges will include the following:

- integrating our and Grey Wolf s existing businesses;
- combining diverse product and service offerings and sales and marketing approaches;
- preserving customer, supplier and other important relationships and resolving potential conflicts that may arise as a result of the mergers; and
- addressing differences in business cultures, preserving employee morale and retaining key employees, while maintaining focus on providing consistent, high quality customer service and meeting the operational and financial goals of the combined company.

The respective managements of us and Grey Wolf will have to dedicate substantial effort to integrating the businesses. These efforts could divert management s focus and resources from other day-to-day tasks, corporate initiatives or strategic opportunities during the integration process.

We and Grey Wolf may not be able to retain key employees.

Uncertainty about the effect of the mergers on employees may have an adverse effect on us and Grey Wolf and, consequently, on the combined company. These uncertainties may impair our and Grey Wolf s ability to attract, retain and motivate key personnel until the mergers are consummated and, if consummated, for a period of time thereafter. Employee retention may be particularly challenging during the pendency of the mergers because employees may experience uncertainty about their future roles with the combined company. If, despite our and Grey Wolf s retention efforts, key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company, the combined company s business could be seriously harmed. Additionally, even if the mergers are not consummated, we may have difficulty retaining key employees due to the various uncertainties described above.

While the mergers are pending, we and Grey Wolf will be subject to business uncertainties and contractual restrictions that could adversely affect their businesses.

Uncertainty about the effect of the mergers on customers and suppliers may have an adverse effect on us and Grey Wolf and, consequently, if the mergers are consummated, on the combined company. These uncertainties could cause customers, suppliers and others who deal with us and Grey Wolf to seek to change existing business relationships with us and Grey Wolf. In addition, the merger agreement restricts us and Grey Wolf, without the other party s consent and subject to certain exceptions, from making certain acquisitions and taking other specified actions until the mergers occur or the merger agreement terminates. These restrictions may prevent us and Grey Wolf from pursuing otherwise attractive business opportunities and making other changes to their businesses that may arise prior to completion of the mergers or termination of the merger agreement.

Table of Contents

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes stock repurchase activity for the three months ended March 31, 2008:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1 January 31				
February 1 February 29 (1)	51,720	$ 22.21		
March 1 March 31				
Total	51,720	$ 22.21		

(1) These shares were repurchased from certain of our officers to provide such officers the cash amounts necessary to pay certain tax liabilities associated with the vesting of restricted shares owned by them. The shares were repurchased effective February 28, 2008, based on the closing price per share on February 28, 2008.

Table of Contents

ITEM 6. *EXHIBITS*

Exhibit No.	Description
2.1*	Agreement and Plan of Merger, dated as of January 8, 2007, by and among Basic Energy Services, Inc. (the Company), JS Acquisition LLC and JetStar Consolidated Holdings, Inc. (Incorporated by reference to Exhibit 2.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on March 8, 2007)
2.2*	Amendment to Merger Agreement, dated as of March 5, 2007, by and among the Company, JS Acquisition LLC and JetStar Consolidated Holdings, Inc. (Incorporated by reference to Exhibit 2.2 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on March 8, 2007)
3.1*	Amended and Restated Certificate of Incorporation of the Company, dated September 22, 2005. (Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form S-1 (SEC File No. 333-127517), filed on September 28, 2005)
3.2*	Amended and Restated Bylaws of the Company, dated December 14, 2005. (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on December 14, 2005)
4.1*	Specimen Stock Certificate representing common stock of the Company. (Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form S-1 (SEC File No. 333-127517), filed on November 4, 2005)
4.2*	Indenture dated April 12, 2006, among the Company, the guarantors party thereto, and The Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on April 13, 2006)
4.3*	Form of 7.125% Senior Note due 2016. (Incorporated by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on April 13, 2006)
4.4*	First Supplemental Indenture dated as of July 14, 2006 to Indenture dated as of April 12, 2006 among the Company, as Issuer, the Subsidiary Guarantors named therein and The Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on July 20, 2006)
4.5*	Second Supplemental Indenture dated as of April 26, 2007 and effective as of March 7, 2007 to Indenture dated as of April 12, 2006 among the Company as Issuer, the Subsidiary Guarantors named therein and the Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on form 8-K (SEC File No 001-32693), filed on May 1, 2007)
4.6*	Third Supplemental Indenture dated as of April 26, 2007 to Indenture dated as of April 12, 2006 among the Company as Issuer, the Subsidiary Guarantors named therein and the Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K (SEC File No 001-32693), filed on May 1, 2007)
10.1*	

	Form of Performance-Based Award Agreement (effective March 2008). (Incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on March 17, 2008)
10.2	Form of Restricted Stock Grant Agreement (Officers and Employees) (2008)
10.3	Form of Restricted Stock Grant Agreement (Non-Employee Directors) (2008)
31.1	Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
31.2	Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act Certification by Chief Executive Officer pursuant to 18 U.S.C.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

Exhibit No.	Description
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference

Management contract or compensatory plan or arrangement

Table of Contents

SIGNATURES

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

BASIC ENERGY SERVICES, INC.

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

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

Date: May 8, 2008

Table of Contents

Exhibit Index

Exhibit No.	Description
2.1*	Agreement and Plan of Merger, dated as of January 8, 2007, by and among Basic Energy Services, Inc. (the Company), JS Acquisition LLC and JetStar Consolidated Holdings, Inc. (Incorporated by reference to Exhibit 2.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on March 8, 2007)
2.2*	Amendment to Merger Agreement, dated as of March 5, 2007, by and among the Company, JS Acquisition LLC and JetStar Consolidated Holdings, Inc. (Incorporated by reference to Exhibit 2.2 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on March 8, 2007)
3.1*	Amended and Restated Certificate of Incorporation of the Company, dated September 22, 2005. (Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form S-1 (SEC File No. 333-127517), filed on September 28, 2005)
3.2*	Amended and Restated Bylaws of the Company, dated December 14, 2005. (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on December 14, 2005)
4.1*	Specimen Stock Certificate representing common stock of the Company. (Incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form S-1 (SEC File No. 333-127517), filed on November 4, 2005)
4.2*	Indenture dated April 12, 2006, among the Company, the guarantors party thereto, and The Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on April 13, 2006)
4.3*	Form of 7.125% Senior Note due 2016. (Incorporated by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on April 13, 2006)
4.4*	First Supplemental Indenture dated as of July 14, 2006 to Indenture dated as of April 12, 2006 among the Company, as Issuer, the Subsidiary Guarantors named therein and The Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on July 20, 2006)
4.5*	Second Supplemental Indenture dated as of April 26, 2007 and effective as of March 7, 2007 to Indenture dated as of April 12, 2006 among the Company as Issuer, the Subsidiary Guarantors named therein and the Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.1 of the Company s Current Report on form 8-K (SEC File No 001-32693), filed on May 1, 2007)
4.6*	Third Supplemental Indenture dated as of April 26, 2007 to Indenture dated as of April 12, 2006 among the Company as Issuer, the Subsidiary Guarantors named therein and the Bank of New York Trust Company, N.A., as trustee. (Incorporated by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K (SEC File No 001-32693), filed on May 1, 2007)
10.1*	

	Form of Performance-Based Award Agreement (effective March 2008). (Incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K (SEC File No. 001-32693), filed on March 17, 2008)
10.2	Form of Restricted Stock Grant Agreement (Officers and Employees) (2008)
10.3	Form of Restricted Stock Grant Agreement (Non-Employee Directors) (2008)
31.1	Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
31.2	Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act Certification by Chief Executive Officer pursuant to 18 U.S.C.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

Exhibit No.	Description
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference

Management contract or compensatory plan or arrangement