



OMNI ENERGY SERVICES CORP. (OMNI: NASDAQ)

Rating: Reiterate *Speculative Buy*

Share Statistics	
Symbol	OMNI
Last Trade (2/02/05)	\$1.47
High/ Low 52 weeks	\$1.21/\$9.00
Average Volume (3m)	241,318
Market Capitalization	\$17.2 Mn
Shares Outstanding	11.6 Mn

Source: Yahoo Finance, SEC Filings

We maintain our Speculative buy rating on OMNI. Our rating takes into account the following fundamentals: i) expected double digit revenue growth through 2005 with seismic drilling activity running at record levels and environmental division continuing to post impressive results; ii) expected succession of incremental improvement in profit margins resulted from the recent restructuring measures; and iii) strong industry performance.

After reviewing the pro and cons factors that backed up the recent stock development, we consider that OMNI stock is undervalued having significant upside potential. The stock price has declined more than three times from the beginning of October'04, and currently is close to the lowest level for the last 52 weeks.

It seems that OMNI share price was primarily influenced by the improper short-swing trading activity conducted by the debenture holders, who exploited a provision the enabled holders to be compensated with more shares as the stock falls below conversion value (win on short, win on more shares). However, though certain financing disruptions also has engendered more sell momentum, we believe the long-term debt funding issues will be resolved shortly. Accordingly, the depressed market capitalization of OMNI does not reflect the fair state of the Company.

Recent Events

Two critical events have befallen since our last update: i) the helicopter accident by the end of year 2004, and ii) difficulties in paying the debentures. It seems that the debenture holders engaged themselves in a short-swing trading activity to force a deliberate decline in price of OMNI's stock following the failure of the company to pay back in time part of the 6.5% Subordinated Convertible Debentures.

If OMNI fails to restructure its debentures, the future earnings could be significantly diluted on a per share basis. Currently, OMNI is constrained to repurchase its debentures by issuing about 6.4 million shares. This represents about 54.9% of the current outstanding shares.

OMNI repurchased none of its debentures since October '04 to December '04. The issue became even more acute by the end of December'04, when Ableco Finance, LLC, an affiliate of Cerberus Capital Management L.P., withdrew its commitment to complete the previously announced \$100 million senior credit facility. As a result, the management plan to solve the financing problem by selling some of its non-essential unutilized assets. The

management anticipates that it will repay up to 20% of its debt (we estimate about \$6 million) from the fixed assets sales by the end of Q2FY05.

Other investment highlights

- *OMNI succeeded to extend the maturity of the bridge loan from January 15'05 to March 15'05. Under the terms of the agreement, OMNI reduced the remaining outstanding principal balance by \$0.5 million and agreed to increase the interest rate to 15% per annum during the extension period.*
- *OMNI announced that it has completed an assessment of the future capital requirements of its Aviation Division. As a result the company has decided to sell some of unutilized assets which are not crucial for accomplishment of OMNI's long-term goals. Accordingly, OMNI will dispose certain non-essential aviation assets and use the proceeds to reduce long-term debt.*
- *On December 28, 2004, Ms. Deborah C. DeRouen's employment as the Chief Accounting Officer of OMNI Energy Services Corp. was terminated.*
- *On January 25' 05 OMNI filed lawsuit against the 6.5% subordinated convertible debentures holders claiming the violation of Securities Exchange Act of 1934. OMNI requested NASD to investigate the short-swing trading activity on OMNI common stock by the debenture holders who beneficially own more than 10% of OMNI's common stock on an as converted basis. OMNI considers the debenture holders engaged in short-swing trading activity to force a deliberate decline in price of OMNI's stock.*
- *On December 21'04 Ableco Finance, LLC, an affiliate of Cerberus Capital Management L.P., withdrew its commitment to complete the previously announced \$100 million senior credit facility. The facility was supposed by the management to remove OMNI's liquidity problems.*

Figure: OMNI versus S&P 500



Kipley J. Lytel, CFA, is a senior partner with money management firm Montecito Capital Management. For over three years Mr. Lytel served as the lead securities analyst for M.L. Stern & Company. Previously, he performed portfolio management and analyst coverage during his employment with two hedge funds, Pacific Strategic Fund Group and DD Capital Management. His background has been marked by his experience as a Generalist, with analyst coverage spanning numerous industries, including: telecommunications & wireless, health care, retail, consumer products, technology, gaming and energy (E&P). He received his Masters of Business Administration (MBA) with Honors from the Peter F. Drucker School of Management at Claremont Graduate University, where he also received his undergraduate Bachelors of Arts (BA) degree in Economics. Mr. Lytel is a Chartered Financial Analyst (CFA) and an active member of the Association of Investment Management and Research (AIMR) and the Los Angeles Society of Financial Analysts (LASFA).

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Spelman Research Associates, Ltd., 545 Madison Avenue, Suite 200, New York City, NY 10028 Phone: (212) 838 5520 Fax: (212) 838 5352 Web: www.spelmanresearch.com Email: info@spelmanresearch.com