



OMNI ENERGY SERVICES CORP. (OMNI: NASDAQ)

Rating: Maintain at Speculative Buy

Share Statistics	
Symbol	OMNI
Last Trade (04/19/05)	\$1.87
High/Low 52 weeks	\$1.21/\$6.50
Average Volume (3m)	227,538
Market Capitalization	\$21.8 Mn
Shares Outstanding	11.7 Mn

Source: Yahoo Finance, SEC Filings

Analyst Rating & Rationale

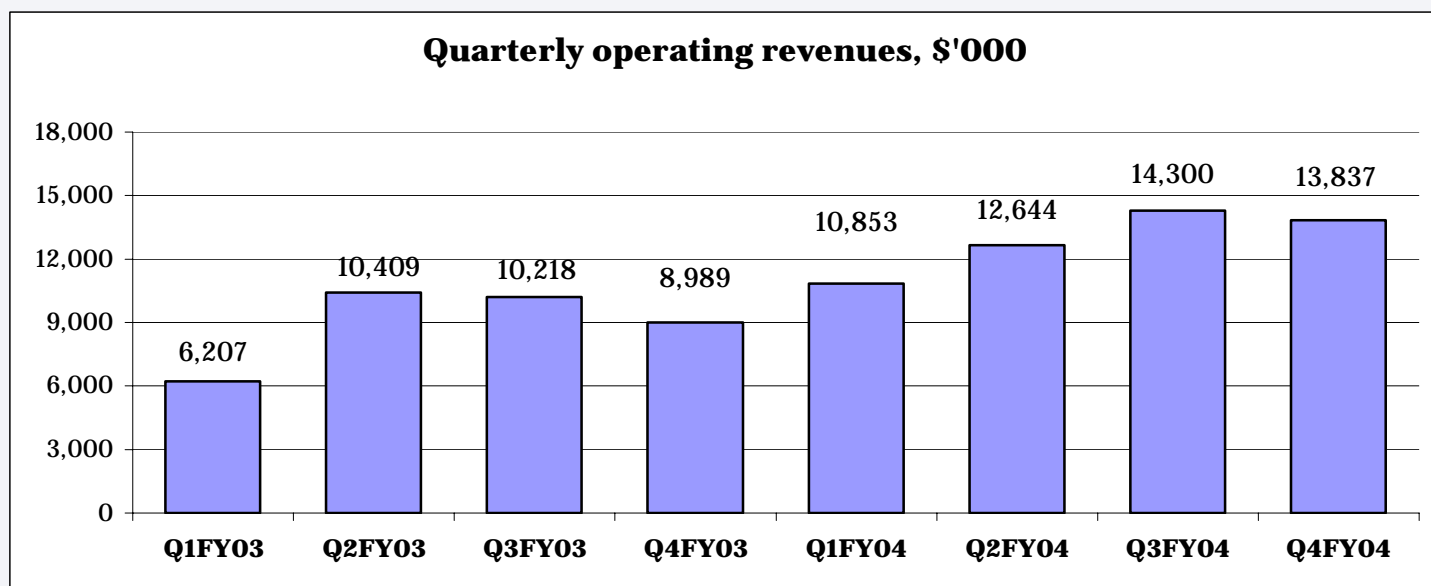
We reaffirm the Speculative Buy rating on OMNI's stock. Following the strong growth witnessed during the past several years, OMNI's management has reaffirmed this trend, stating that in Q1FY05 OMNI saw its daily seismic drilling revenues run at record levels. FY04 revenues grew by 44% versus FY03 revenues, exceeding \$51 million. Even though OMNI suffered net losses in excess of \$14 million in FY04, much of this loss was caused by non-recurring expenses in excess of \$9 million. Besides, in April'05, OMNI secured financial support from an institutional investor, which agreed to commit \$50 million in the form of a 5-year loan to help refinance some of OMNI's long-term obligations at more favorable terms. Even though the transaction has not been closed as of April 19, 2005, there is no doubt that it will be, providing OMNI with greater flexibility in financing its strategic plans.

Along with increasing the revenue, OMNI is in constant process of optimizing its business. Thus, in 2004, OMNI restructured its Aviation division and started (i) re-certifying American Helicopters' fleet under OMNI's FAA certificate; (ii) eliminating duplicative administrative positions; (iii) terminating contracts which were operating at less than acceptable rates for OMNI's transportation services; and (iv) eliminating non-essential personnel, bases and operating facilities. In 2005 OMNI plans to focus on the Seismic drilling segment through similar actions, maximizing this business unit's asset and personnel utilization by consolidating various operational, marketing and administrative functions. OMNI will also concentrate on reducing and eliminating non-essential facilities and administrative overheads in this segment.

OMNI currently runs a difficult period accompanied by a number of negative events. Among them are: i) net losses of about \$10 million incurred during Q4FY04; ii) increased operating expenses, including direct costs; iii) working capital deficit of over \$22 million as of December 31'04; and iv) on top of all, OMNI is currently in default on certain of its debts. All these factors have already led to a downfall in the stock price over the last few months. However, we consider that the management is able to overcome the current difficulties. We see the current OMNI's business model workable and able to generate further strong revenue growth. The oil industry should also be a strong catalyst in this endeavor.

Financial highlights

- **Ascending revenue track.** Over the last two years, OMNI's revenue had an ascendant track, increasing quarterly and achieving the highest outcome during Q3FY04. The Company's business is subject to seasonal variations in weather conditions as well as daylight hours with sales increasing during Q2 and Q3 and declining during the other two quarters. We consider that OMNI maintained the upward revenue trend and expect to see the same development pattern in 2005. The demand for OMNI's services continues to increase, in line with the widening range of services. In addition, the Company will include a full year of operations for Trussco. Regarding OMNI's drilling activities, on April 19, 2005, the management announced that "early 2005 daily seismic drilling revenues ran at record levels. In fact, daily drilling revenues in early 2005 were significantly higher than comparable seismic drilling revenues during any operating period for the past five years."



Source: SEC Filings

- **Q4FY04 revenue increased by 54% year-over-year.** For the entire 2004 year, the sales grew by 44%. The revenue increase was primarily attributable to the completed acquisition of the Trussco, Inc. in the middle of 2004. The deal contributed about \$8.7 million or 17% of the total OMNI's 2004 revenue. Aviation segment was another important revenue generator in 2004. The segment was impacted by the increase in flight hours following the acquisition of the American Helicopters, Inc. by the end of 2003 and the addition of new aircraft in 2004.

- **Two acquisitions completed at the end of 2003 and in the middle of 2004 diversified considerably the revenue and related risks.** During the year 2004, the drilling services' revenue declined by 3% mainly because of the decrease in permitting services and weather related delays. However, the decline in the drilling was offset by the increase in two other segments: aviation and environmental. Together they contributed approximately \$21 million, making up 41% of the aggregate Company's revenue. Consequently, the share of the drilling revenue decreased from 88% in 2003 to 59% in 2004.

Revenue

\$'000	Year end December 31	2004	2003	YoY%
Total revenue		51,634	35,823	44%
<i>Drilling</i>		30,596	31,579	-3%
<i>Aviation</i>		12,371	4,244	191%
<i>Environmental</i>		8,667	0	N/M
Revenue composition				
<i>Drilling</i>		59%	88%	
<i>Aviation</i>		24%	12%	
<i>Environmental</i>		17%	0%	

Source: SEC Filings

• **As a percentage of the aggregate revenue, the operating expenses increased slightly during Q4FY04, as compared to Q4FY03, and considerably during the year 2004 versus 2003.** The largest portion of the total operating cost is attributable to the direct costs, which increased by 47% yoy in 2004. The gross profit margin for the year 2003 declined by 1.5 percentage points from 32% in 2003 to 30.5% in 2004. An increase in the general and administrative expenses was also recorded. Partially the increase was attributable to the Trussco acquisition.

Management expects that operating revenue will remain consistent as a percentage of revenues in 2005. General and administrative expenses are estimated to increase in 2005 due to a full year's inclusion of expenses resulting from the acquisition of Trussco.

In 2004 OMNI also recorded certain assets impairment charges of \$4.2 million connected to the revaluation of certain aviation equipment, prepaid repairs and assets held for sale.

Income statement

\$'000	Year end December 31	2004	2003	YoY%	Q4FY04	Q4FY03	YoY%
Operating revenue		51,634	35,823	44%	13,837	8,989	54%
Total operating expenses		51,630	32,482	59%	14,082	9,058	55%
<i>Direct costs</i>		<i>35,870</i>	<i>24,352</i>	<i>47%</i>	<i>N/A</i>	<i>N/A</i>	
<i>Operating expenses as % of revenue</i>		<i>100%</i>	<i>91%</i>		<i>102%</i>	<i>101%</i>	
Operating income (loss)		(4,170)	3,341	N/M	(4,419)	(69)	N/M
Net income (loss)		(14,255)	3,483	N/M	(9,989)	617	N/M
Net income (loss) available to common stockholders		(14,745)	2,999	N/M	(9,989)	375	N/M

Source: SEC Filings

• **During Q4FY04, OMNI incurred net losses of about \$10 million with an EPS of (\$0.88).** During the similar quarter of 2003, OMNI registered net income of about \$0.62 million and an EPS of \$0.4. The Company also incurred net losses of about \$14.75 million during FY04. The results were primarily influenced by the increased operating and interest expenses.

• **Increased debts and working capital deficit as of December 31'04.** OMNI's balance sheet weakened over the last year. By the end of 2004, OMNI had a working capital deficit of about \$22.1 million. It declined mainly because of the losses incurred by the Company in 2004 and because of increased borrowings under the line of credit. In addition, the management reclassified the Convertible Debentures as current liabilities.

Financial statistics

\$'000	Year end December 31	2003	2004
Total current assets		18,193	25,961
Property, plant and equipment		27,110	29,804
Total assets		50,289	65,913
Accounts payable		5,326	11,351
Current maturities of long-term debt		2,051	11,608
Convertible debenture		0	11,097
Long term debt, less current maturities		9,624	12,852
Total liabilities		25,903	61,049
Total equity stock		24,386	4,864
Working capital		2,242	(22,136)
Operating cash flow		5,472	8,121

Source: SEC Filings

• **OMNI faces temporary difficulties in paying its debts.** The management extended the maturity date of its bridge loan with Beal Bank, S.S.B. from March 15'05 to April 15'05. So far, there is no additional information on the status of the loan to date. Initially the maturity period was January 15'05, which was then extended until March 15'05. The senior secured loan was completed in October'04 and amounted to \$6.5 million. On April 19, OMNI announced that it had received commitments for a \$50 million senior credit term loan from an institutional investor, part of which will be used to "re-finance existing debt under terms more favorable than what is provided under the existing credit agreements", as quoted by the management.

Recent events

On March 14'05, OMNI announced the completion of the disposition of certain non-essential aviation equipment previously included in its aviation fleet. The disposition would result in a \$2.9 million reduction of OMNI's long-term debt. In addition, OMNI will take a \$0.5 million charge in connection with the early termination of the debt related to these disposed assets.

On April 19, 2005, OMNI announced that it had secured a \$50 million commitment from an institutional investor to provide a senior credit term loan (Term A Loan). Closing is expected during the second quarter of 2005 and is subject to the negotiation, execution and delivery of loan and contractual documentation reasonably satisfactory to the lender, as well as approval from OMNI's Board of Directors. The loan will mature 60 months after closing and with level amortization of the principal, quarterly in arrears, to a 50% balloon at the maturity date. The loan will initially accrue interest at the rate of the 30-day LIBOR plus 6.5%, payable quarterly. OMNI also announced that in connection with this loan it will also increase its existing working capital revolver to \$15 million. The proceeds from the senior credit term loan and the increased availability under the revolver will be used to re-finance certain long-term debt, provide working capital and establish funding necessary to complete strategic transactions.

Investment risk

Perhaps, the highest risk associated with OMNI's stock is the ability of the Company to continue as a going concern. If the cash flow generated by the Company is not enough to fund ongoing operations and other liabilities as they come due, and if the management fails to raise additional capital and financing, then there is a high risk that OMNI will not be able to continue as a going concern.

Industry highlights

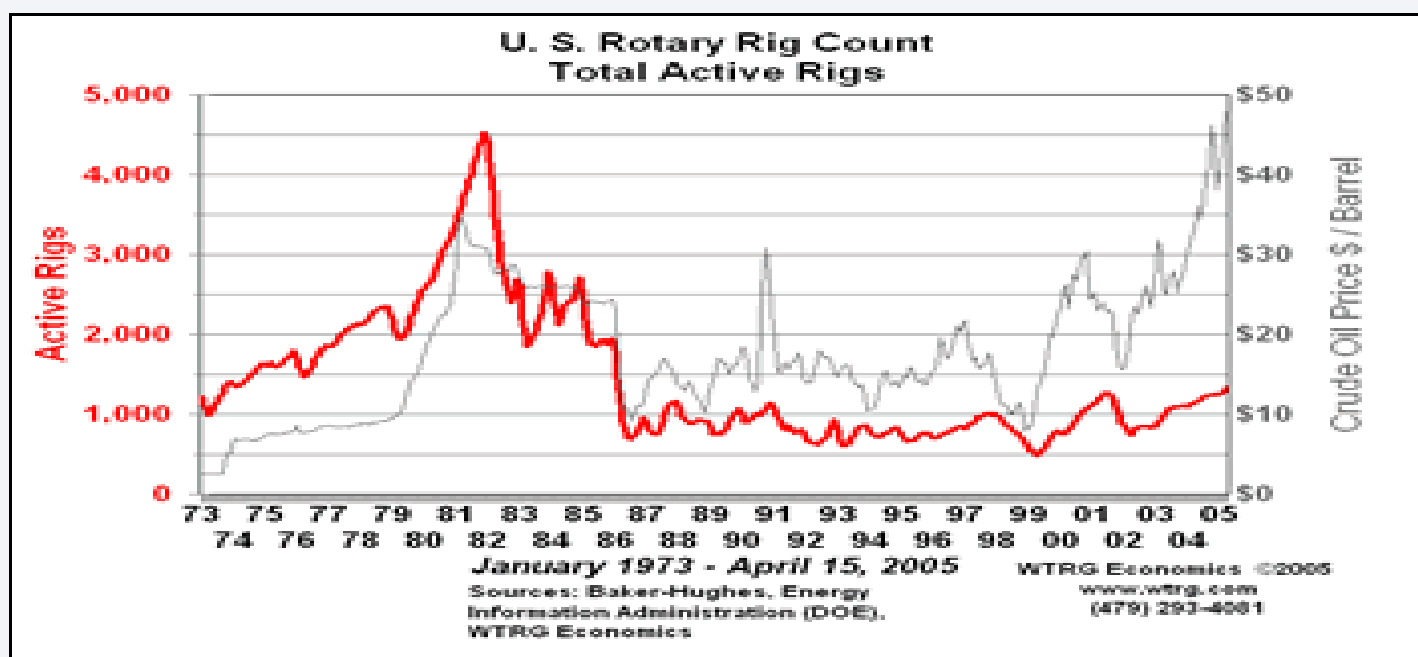
Mid-April 2005 U.S. rotary rig count was 17% higher than in the similar period of the previous year. The total number of rotary rigs for the week of April 15'05 was 1348, up 21 rigs versus a week earlier and up 198 rigs versus a similar period of 2003. The rigs directed toward the natural gas grew by 18% on a year on year basis, reaching a number of 1175 rotary rigs on April 15, 2005. The rigs directed towards oil increased as well, reaching 173 rigs by the week of April 15'05¹.

U.S. and North American rig count

	04/15/05	04/08/05	04/16/04	% change as of 04/15/05	
				weekly	Annual
Total North America	1,508	1,535	1,287	-1.8%	17.2%
Total U.S.	1,348	1,327	1,150	1.6%	17.2%
Gulf of Mexico	92	91	89	1.1%	3.4%
Oil	173	170	156	1.8%	10.9%
Gas	1,175	1,157	992	1.6%	18.4%

Source: <http://www.wtrg.com/rotaryrigs.html>

Currently the number of total active rigs in the U.S. reached its highest level for the last 2 decades. The record oil price is the main catalyst for such development. The crude oil price for May delivery is about \$52 per barrel, and it declined by about 12% from its recent record high of \$58.28 recorded on April 4. Brent futures reached \$57.65 a barrel on April 4. This was the highest price since trading began in 1988².



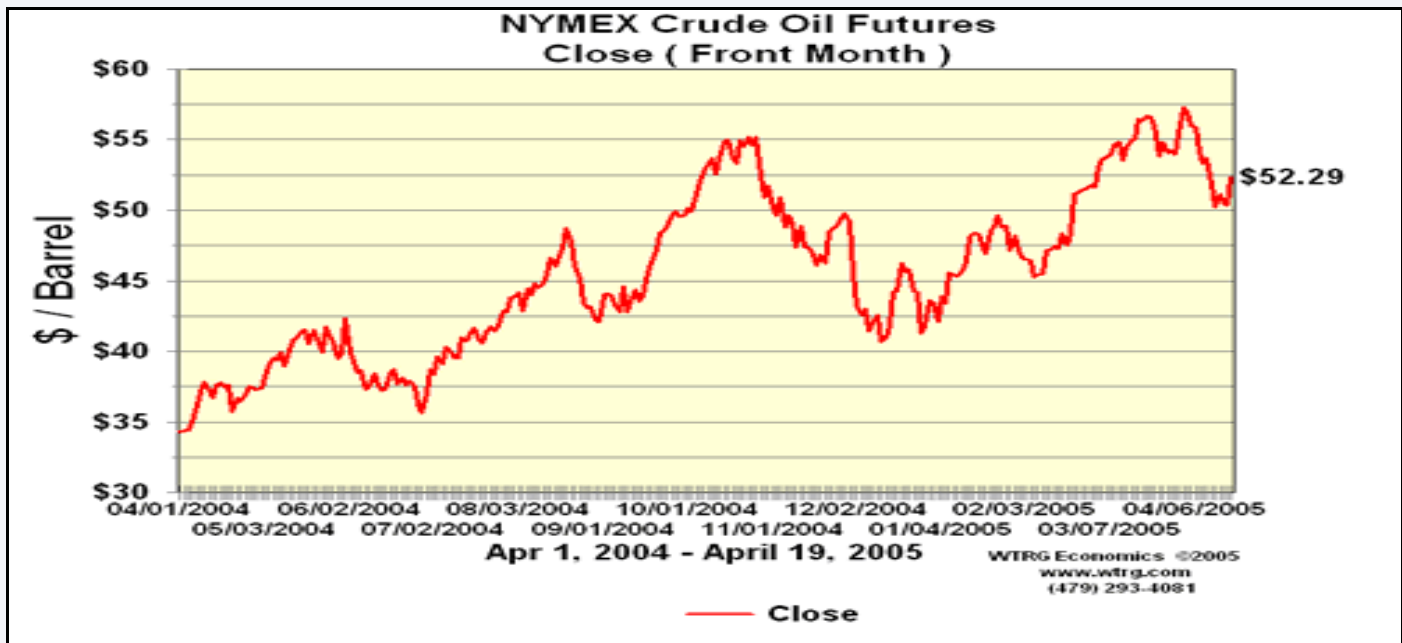
Source: <http://www.wtrg.com/rotaryrigs.html>

According to the International Energy Agency,³ oil prices will go down as the growth in demand for oil is slowing in China, which is the second largest world oil consumer. Also, the increased OPEC production and higher global oil inventories set their pressure on the prices.

¹ <http://www.wtrg.com/rotaryrigs.html>

² <http://www.bloomberg.com/apps/news?pid=10000081&sid=aIQGmxHVrBfo&refer=australia>

³ <http://www.bloomberg.com/apps/news?pid=10000081&sid=aIQGmxHVrBfo&refer=australia>



Source: <http://www.wtrg.com/daily/crudeoilprice.html>

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