

## OMNI ENERGY SERVICES CORP. (NASDAQ: OMNI)

Rating: Reiterate Speculative Buy

Share Statistics	
<b>Symbol</b>	OMNI
<b>Last Trade (05/16/05)</b>	\$1.64
<b>52-week range</b>	\$1.21 - \$5.74
<b>Average Volume (3m)</b>	275,545
<b>Market Capitalization</b>	\$19.16 Mn
<b>Shares Outstanding</b>	11.68 Mn

Source: Yahoo! Finance

### Analyst Summary

OMNI demonstrated a very positive start of the year, posting a year-over-year revenue increase of 41% in Q1FY05, and over 100% growth in operating and net income. OMNI continued its cost-cutting measures in Q1FY05, improving the operating and net margins. The expansion of some of OMNI's facilities should further improve the margins due to the expected economies of scale. Although we are unaware whether the \$50 million loan facility has been received or not, we have seen some positive developments in OMNI's debt-management, with the extension of the deadline of its existing loan from Beal Bank. We would still like to see OMNI receive the much-needed loan, which could help eventually invalidate the going-concern opinion of OMNI's auditors, and provide the company with the resources to take on the business backlog, which the management says is "very strong". So far, OMNI's prospects look very bright and we are maintaining the Speculative Buy rating, provided that the necessary financing will be obtained relatively soon.

### Financial highlights

Q1FY05 proved to be very successful for OMNI, with the key financial indicators showing double- and triple-digit year-over-year growth in comparison with Q1FY04, such as the revenue growth of over 40% and operating and net income growth of over 100%. The margins have also improved slightly.

	\$ millions, except per share data			
	Fiscal year ends Dec. 31	Q1FY04	Q1FY05	Change
Revenue		10.9	15.3	41%
Operating income		0.6	1.3	102%
Net income		0.1	0.2	138%
Net income, available to common shareholders		-0.4	0.2	n/m
EPS, diluted		-\$0.04	\$0.02	n/m
Operating Margin		5.8%	8.4%	2.5 pp.
Net Margin		0.8%	1.3%	0.5 pp.
GAE		1.1	2.3	100%
as % of revenue		10.6%	15.0%	4.5 pp.
Interest Expense		0.4	1.1	169%
as % of revenue		3.8%	7.3%	3 pp.

Source: Company press release

The interest expense increased sharply in Q1FY05, almost doubling its share in revenues compared to Q1FY04, and almost tripling in dollar size.

OMNI's management attributes the improved results primarily to the seismic drilling operations, where Q1FY05 revenues increased by 12.4% over Q1FY04 and operating income surged to 23.4% in Q1FY05 compared to 9.4% in Q1FY04. "While drilling revenues slowed early in the second quarter of 2005 due to permit delays, backlog in this sector is very strong for the remainder of this year", said OMNI's CEO James C. Eckert. He also mentioned that the results from the Aviation Division continued to improve and profitability in the Environmental Division remained strong with revenues increasing as OMNI entered the second quarter.

### **Recent events**

#### **Resignation of a Director**

On April 22, OMNI announced that on April 18, 2005, it had received the resignation of Marshall G. Webb, effective April 16, 2005, as a member of the Board of Directors, as a member of the audit committee of the Board, as a member of the corporate governance committee of the Board and the special committee of the Board, and as a designated audit committee financial expert.

#### **Cost Containment Program**

On April 29, OMNI announced the completion of the initial phase of its cost containment program designed to capitalize on certain restructuring initiatives implemented during 2004 and return the company to profitability. OMNI's CEO James C. Eckert mentioned that for 2005, OMNI was budgeting capital expenditures of approximately \$1 million for the Environmental unit to improve its profitability and expand its revenue generating capabilities. OMNI's management also stated that for the Aviation Division, they already had started seeing improvements and that this unit had returned to profitability as the utilization of the fleet had increased and the overhead costs continued to fall. OMNI quoted strong backlog as one of the factors that will contribute to the revenue growth throughout 2005.

#### **Delisting Notice**

On May 2, OMNI received a notification letter from the Nasdaq stock market, indicating that OMNI was no longer in compliance with Nasdaq market rules due to the resignation of one of the three independent directors from OMNI's audit committee. However, OMNI will be provided with a cure period until the earlier of its next annual shareholders' meeting or April 16, 2006 for the appointment of a third independent director to its audit committee. This leaves OMNI plenty of time to restore the compliance with the market rules and avoid the delisting.

#### **Loan Maturity Extension**

On May 2, OMNI announced that the maturity date of its bridge loan from the Beal Bank, N.A. had been extended from April 15, 2005 to May 31, 2005 with no penalties or any other additional charges to the company.

#### **Decontamination Facility Expansion**

On May 5, OMNI announced that it plans to expand its NORM Decontamination facility in Intracoastal City, Louisiana, to satisfy the increasing demand for Trussco's decontamination services. The expansion plans will double OMNI's current capacity for decontamination services at the Trussco facility without a corresponding increase in operating expenses. The expansion is scheduled for completion during the third quarter of 2005.

#### **Auditor's Going Concern Opinion**

On May 11, in accordance with the Nasdaq Rule 4350(b), OMNI announced that its financial statements issued on April 18, 2005, contained a going-concern qualification from its independent registered public accounting firm, relating to the Company's fiscal 2004 financial statements.

**Kipley J. Lytel, CFA**, is a senior partner with money management firm Montecito Capital Management. For over three years, Mr. Lytel served as a 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).

Mr. Lytel has over fifteen years of investment finance experience, with expertise in equity valuation, credit analysis, private placements, and buy/sell recommendations. He received his Masters of Business Administration (MBA) 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 holds the Chartered Financial Analyst® designation, is an active member of CFA Institute and the Los Angeles Society of Financial Analysts (LASFA). He served as a grader/senior grader in the CFA® Examination Grading Program for CFA Institute and has been a Regional Expert for CFA Institute's advisory panel on investment management.

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