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OMNI ENERGY SERVICES CORP

Form 10-Q

November 14, 2003

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

FORM 10-Q

X Quarterly Report Pursuant to Section 13 or 15(d) of the Securities  
--- Exchange Act of 1934

For the Quarterly period ended September 30, 2003

or

--- Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the transition period from \_\_\_\_ to \_\_\_\_.

COMMISSION FILE NUMBER 0-23383

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

LOUISIANA 72-1395273  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

4500 N.E. EVANGELINE THRUWAY  
CARENCRO, LOUISIANA  
(Address of principal executive offices) 70520  
(Zip Code)

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

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

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

As of November 6, 2003 there were 9,106,777 shares of the Registrant's  
common stock, \$0.01 par value per share, outstanding.

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ITEM 1. FINANCIAL STATEMENTS

OMNI ENERGY SERVICES CORP.  
CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2003 AND DECEMBER 31, 2002  
(Thousands of dollars)

ASSETS	September 30, 2003	December 31, 2002
	----- (unaudited)	----- (Note 1)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,714	\$ 704
Trade receivable, net	4,249	4,485
Other receivables	2,338	1,440
Parts and supplies inventory	2,946	2,711
Prepaid expenses	2,065	2,228
Deferred tax asset	1,025	400
Assets held for sale	127	413
	-----	-----
Total current assets	16,464	12,381
	-----	-----
<b>PROPERTY AND EQUIPMENT:</b>		
Land	359	359
Buildings and improvements	4,571	4,530
Drilling, field and support equipment	26,871	27,354
Aviation equipment	3,779	4,189
Shop equipment	425	425
Office equipment	1,556	1,535
Vehicles	2,541	2,590
	-----	-----
	40,102	40,982
Less: accumulated depreciation	18,612	16,559
	-----	-----
Total property and equipment, net	21,490	24,423
	-----	-----
<b>OTHER ASSETS:</b>		
Goodwill	2,109	2,051
Intangible asset, net	1,745	1,820
Other	1,064	650
	-----	-----
Total other assets	4,918	4,521
	-----	-----
Total assets	\$ 42,872	\$ 41,325
	=====	=====

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

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OMNI ENERGY SERVICES CORP.  
CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2003 AND DECEMBER 31, 2002  
(Thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2003 ----- (unaudited)
CURRENT LIABILITIES:	
Current maturities of long-term debt	\$ 1,476
Notes payable, insurance	1,237
Accounts payable	4,085
Accrued expenses	1,620
	-----
Total current liabilities	8,418
	-----
LONG-TERM LIABILITIES:	
Line of credit	4,184
Other long term liabilities	375
Long-term debt, less current maturities	7,018
	-----
Total long-term liabilities	11,577
	-----
TOTAL LIABILITIES	19,995
	-----
MINORITY INTEREST	221
	-----
STOCKHOLDERS' EQUITY:	
Preferred Stock, Series A, 15,000 shares authorized, 7,500 shares issued and outstanding; Series B, 10,000 shares authorized, 4,600 shares issued and outstanding	12,100
Common Stock, \$.01 par value, 45,000,000 shares authorized; 9,106,777 issued and outstanding	91
Treasury Stock, 361,800 shares, at cost	(706)
Additional paid-in capital	56,840
Accumulated deficit	(45,833)
Preferred stock dividends declared	242
Cumulative translation adjustment	(78)
	-----
Total equity	22,656
	-----
Total liabilities and stockholders' equity	\$ 42,872
	=====

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

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OMNI ENERGY SERVICES CORP.  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended September 30,		
	2003	2002	
	----- (Unaudited) -----		
Operating revenue	\$ 10,218	\$ 7,732	\$
Operating expenses	7,617	5,780	
	-----		
Gross profit	2,601	1,952	
General and administrative expenses	1,090	1,004	
	-----		
Operating income	1,511	948	
Other income (expense):			
Interest	(202)	(295)	
Other	(170)	(23)	
	-----		
	(372)	(318)	
	-----		
Income before taxes	1,139	630	
Income taxes (benefit)	(300)	--	
	-----		
Net income	1,439	630	
Preferred stock dividends	(242)	--	
	-----		
Net earnings applicable to common and common equivalent shares	\$ 1,197	\$ 630	\$
	=====		
Basic net income per share:	\$ 0.14	\$ 0.07	\$
Diluted net income per share:	\$ 0.14	\$ 0.07	\$
Weighted average shares outstanding:			
Basic	8,742	8,740	
Diluted	8,782	8,743	

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

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OMNI ENERGY SERVICES CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002  
(THOUSANDS OF DOLLARS)

	Nine
	-----
	20
	-----
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$
Adjustments to reconcile net income to net cash provided by operating activities-	
Depreciation	
Amortization	
(Gain) loss on fixed asset disposition	
Changes in operating assets and liabilities-	
Decrease (increase) in assets-	
Receivables-	
Trade	
Other	
Inventory	
Prepaid expenses	
Assets held for sale	
Other	
Increase (decrease) in liabilities-	
Accounts payable	
Accrued expenses	
Other long-term liabilities	
Net cash provided by operating activities	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition paid with cash	
Proceeds from disposal of fixed assets	
Assets acquired from lease buyout	
Purchase of fixed assets, net	
Net cash provided by (used in) investing activities	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of long-term debt	
Principal payments on long-term debt	
Proceeds from issuance of common stock	
Due to affiliates	
Net borrowings (payments) on line of credit	
Net cash (used in) financing activities	-----
NET INCREASE (DECREASE) IN CASH	
CASH, at beginning of period	-----
CASH, at end of period	\$ =====

SUPPLEMENTAL CASH FLOW DISCLOSURES:

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Cash paid for interest	\$
Equipment acquired under capital lease	\$
Premiums financed with insurance carrier	\$

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

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OMNI ENERGY SERVICES CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared without audit as permitted by the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been condensed or omitted pursuant to such rules and regulations. However, the management of OMNI Energy Services Corp. believes that this information is fairly presented. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2002 and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles. Certain prior period amounts have been reclassified to be consistent with current year financial statement presentation.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of only normal, recurring adjustments, necessary to fairly present the financial results for the interim periods presented.

NOTE 2. EARNINGS PER SHARE

Basic Earnings Per Share (EPS) excludes dilution and is determined by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding, net of shares held in treasury during the periods presented. Diluted EPS reflects the potential dilution that could occur if options and other contracts to issue shares of common stock were exercised or converted into common stock.

For the three and nine months ended September 30, 2003, we had 471,501 and 972,787 options outstanding, respectively, and warrants to purchase 2,121,662 shares of common stock as of September 30, 2003 that were excluded from the calculation of diluted EPS because they were antidilutive. Likewise, we had 1,004,460 and 448,410 options outstanding, respectively, for the three and nine months ended September 30, 2002 and warrants to purchase 2,121,662 shares of common stock as of September 30, 2002 that were excluded from the calculation of

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diluted EPS because they were antidilutive.

### NOTE 3. LONG-TERM DEBT

In September 2002, we entered into a \$10.5 million senior credit facility including a \$7.0 million working capital revolving line of credit (the "Line") and a \$3.5 million term loan. The proceeds were used to repay term debt, refinance our revolving line of credit and provide working capital.

Availability under the Line is the lower of: \$7.0 million or the sum of 85% of eligible accounts receivable, plus the lesser of: 50% of the cost of eligible inventory or 80% of the appraised orderly liquidation value of eligible inventory of parts and supplies. The Line accrues interest at the prime interest rate plus 1.5% (5.5% at September 30, 2003) and matures on August 31, 2004. The Line is collateralized by accounts receivable and inventory and is subject to certain customer concentration limitations. As of September 30, 2003 we had \$4.2 million outstanding under the Line.

We have received a commitment from a bank (the "Commitment") to refinance our existing revolving line of credit and term loan. We expect to have this new facility completed during November 2003. The Commitment includes an \$8.0 million working capital revolving credit facility and a \$3.0 million senior term facility. The new facility will be collateralized by accounts receivable and inventory and will be subject to certain customer concentration limitations. Availability under this new line of credit will be the lower of: \$8.0 million or the sum of 85% of eligible accounts receivable, plus the lesser of: \$2.0 million or 80% of the appraised orderly liquidation value of eligible inventory of parts and supplies. This line will accrue interest at the prime interest rate plus 1.5% and will mature in November 2006. The term loan will be collateralized by certain equipment. It will accrue interest at the prime interest rate plus 1.75%, will have a five year amortization of principal and interest and will mature November 2006.

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We do not anticipate any significant differences between the Commitment and the final terms of the new facility; however, there can be no assurances given that the terms will be the same.

At September 30, 2003, we also had outstanding approximately \$8.5 million in other senior secured debt including approximately \$1.2 million with an equipment finance company. This loan amortizes over seven years, bears interest at LIBOR plus 5.0%, is secured by seismic drilling equipment and matures in July 2006. Further, at September 30, 2003 we had approximately \$2.2 million outstanding to an aviation equipment finance company. This loan is secured by the aviation fleet, amortizes over ten years, accrues interest at 8% per annum and matures in January 2007.

In August 2003, we completed a new \$1.65 million real estate loan with a bank. The proceeds were used to repay the existing real estate loan, the principal balance of which totalled \$1.7 million. The gain on the early extinguishment of the then existing real estate debt was recognized as income in the second quarter of 2003. The new real estate loan is payable in 240 equal monthly installments plus interest accruing at the prime interest rate plus 1.5% and is secured by our corporate office, real estate and fabrication and maintenance facilities. Further, under the terms of the new real estate credit agreement, a principal payment of \$0.2 million is due in July 2008.

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Our senior secured credit agreements and our real estate loan contain customary financial covenants requiring, among other things, minimum levels of tangible net worth, debt to EBITDA ratios, and limitations on annual capital expenditures. As of September 30, 2003 we were in compliance with these covenants and we expect to maintain compliance throughout 2003.

In connection with the original issuance of certain subordinated debentures, we issued to an affiliate detachable warrants to purchase 1,912,833 shares of our common stock, of which 967,000 have been cancelled as of September 30, 2003. The remaining 945,833 warrants outstanding are all exercisable with exercise prices ranging from \$2.25 to \$6.00 per share, as set forth below:

Exercise Price	Warrants
-----	-----
\$6.00	12,500
\$4.50	172,222
\$2.25	761,111
	-----
	945,833
	=====

#### NOTE 4. COMMITMENTS AND CONTINGENCIES

During September 2003 we entered into a sale leaseback transaction for two of our aircraft. We received \$1.9 million upon the sale of the aircraft and entered into an operating lease for a period of 60 months. Monthly rental payments under the lease are approximately \$30,000. We have the option to buy back the aircraft at the end of the lease period for 30% of the original sale price. The proceeds were used to retire debt.

#### NOTE 5. PREFERRED STOCK

At September 30, 2003 we had a total of 7,500 shares of Series A Preferred Stock, and 4,600 shares of Series B Preferred Stock issued and outstanding, at a total liquidation value of \$12.1 million.

The Series A Preferred Stock has an 8% cumulative dividend rate, is convertible into our common stock with a conversion rate of \$2.25, is redeemable at our option at \$1,000 per share plus accrued dividends, contains a liquidation preference of \$1,000 per share plus accrued dividends, has voting rights on all matters submitted to a vote of our shareholders, has separate voting rights with respect to matters that would affect the rights of the holders of the Preferred Stock, and has aggregate voting rights of the affiliate limited to 49% of our total outstanding common and preferred shares with voting rights. In respect to the Series A Preferred Stock, the affiliate has agreed to waive its conversion rights until our EBITDA (as defined) reaches a mutually agreed upon level. Pursuant to an agreement with the preferred shareholders, dividends did not accrue on the outstanding stock from April 2001 through June 2002. Dividends were accreted at 8% during the free dividend period. As of September 2003 there were approximately \$0.4 million dividends in arrears relating to these outstanding shares of Series A Preferred Stock. The affiliate previously agreed that dividends would not accrue after June 30, 2003 until our EBITDA reached a mutually agreed upon level. During the third quarter of 2003 we agreed with the holders of the preferred stock that our EBITDA had reached an acceptable level for the resumption of conversion rights and the accrual of



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dividends. Pursuant to our senior secured credit agreements, the dividends will be paid "in kind" (in shares of like preferred stock) rather than in cash.

In May 2001, we committed to issue 4,600 shares of Series B Preferred Stock to an affiliate of ours in satisfaction of all outstanding principal and interest owed under the subordinated debt agreements (See Note 3). These shares were issued in March 2002. The Series B Preferred Stock has an 8% cumulative dividend rate, is convertible into our common stock with an initial conversion rate of \$3.75, is redeemable at our option at \$1,000 per share plus accrued dividends, contains a liquidation preference of \$1,000 per share plus accrued dividends and has no voting rights until such time as it becomes convertible. The Series B Preferred Stock does not have conversion rights until our EBITDA (as defined) reaches a mutually agreed upon level, and until all shares of Series A Preferred Stock become convertible. Pursuant to an agreement with the preferred shareholders, dividends did not accrue on the outstanding stock from April 2001 through June 2002. Dividends were accreted at 8% during the free dividend period. As of September 2003 there were approximately \$0.1 million dividends in arrears relating to these outstanding shares of Series B Preferred Stock. The affiliate previously agreed that dividends would not accrue after June 30, 2003 until our EBITDA reached a mutually agreed upon level. During the third quarter of 2003 we agreed with the holders of the preferred stock that our EBITDA had reached an acceptable level for the resumption of conversion rights and the accrual of dividends. Pursuant to our senior secured credit agreements, the dividends will be paid "in kind" (in shares of like preferred stock) rather than in cash.

NOTE 6. SEGMENT INFORMATION

The following shows industry segment information for our four operating segments - Drilling, Aviation, Survey, and Permitting for the three and nine month periods ended September 30, 2003 and 2002:

	Three months ended September 30,		Ni
	2003	2002	
Operating revenues:			
Drilling	\$ 8,399	\$ 7,045	\$
Aviation	1,254	637	
Survey	--	--	
Permitting	565	50	
	-----	-----	
Total	\$ 10,218	\$ 7,732	\$
	=====	=====	==

Three months ended September 30,	
2003	2002
-----	-----

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Gross profit:		
Drilling	\$ 2,249	\$ 1,936
Aviation	350	163
Survey	(13)	(21)
Permitting	116	8
Other (Corporate)	(101)	(134)
	-----	-----
Total	\$ 2,601	\$ 1,952
General and administrative expenses	1,090	1,004
Other expense (income), net	372	318
	-----	-----
Income before taxes	\$ 1,139	\$ 630
	=====	=====
Capital Expenditures (1):		
Drilling	\$ 283	\$ 96
Aviation	174	20
Survey	--	--
Permitting	--	--
Other	52	4
	-----	-----
Total	\$ 509	\$ 120
	=====	=====

(1) Net of assets acquired from AirJac (See Note 10) totaling \$2.1 million and assets previously leased from Bank One totaling \$1.0 million.

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Identifiable Assets:	As of September 30,	
	2003	2002
	-----	-----
Drilling	\$ 20,593	\$ 25,573
Aviation	7,356	5,827
Survey	1,000	1,073
Permitting	90	40
Other	13,833	9,063
	-----	-----
Total	\$ 42,872	\$ 41,576
	=====	=====

NOTE 7. RECENT PRONOUNCEMENTS

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets." Under SFAS 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed for impairment annually, or more frequently if circumstances indicate potential impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. No impairment of goodwill has occurred.

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In April 2002, the FASB issued SFAS No. 145, "Rescission of Financial Accounting Standards Board (FASB) Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 requires that gains and losses recorded from the extinguishment of debt that do not meet the criteria of Accounting Principles Board (APB) Opinion No. 30 should not be presented as extraordinary items. This statement is effective for fiscal years beginning after May 15, 2002 as it relates to the reissued FASB Statement No. 4, with earlier application permitted. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB 30 for classification as an extraordinary item will be reclassified.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," under which a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. SFAS 146 has no impact on the Company's financial statements.

In November 2002, the FASB issued FASB Interpretation (FIN) 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applied prospectively to guarantees issued or modified after December 31, 2002. The adoption of these recognition provisions will result in recording liabilities associated with certain guarantees provided by the Company. The disclosure requirements of this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. Management does not expect this Interpretation to have a material impact on the Company's financial statements.

In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure -- An Amendment of FASB Statement No. 123," was issued by the FASB and amends FASB Statement No. 123, "Accounting for Stock-Based Compensation." This Statement provides alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation and amends the disclosure provisions of SFAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Additionally, this Statement amends APB Opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. The transition method provisions of this Statement are effective for fiscal years ending after December 15, 2002. The interim financial reporting requirements of this Statement are effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002.

In May 2003, SFAS No. 150 "Accounting for Certain Financial Instruments with

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Characteristics of Both Liabilities and Equity," was issued to establish new standards for how an entity classifies and measures certain financial "instruments with characteristics of both liabilities and equity. It requires that an entity classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of these instruments were previously classified as equity. This statement was effective when issued for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for calendar year public companies for the third quarter of 2003. Management does not expect this statement to have a material impact on the Company's financial statements.

### NOTE 8. CONCENTRATION OF CREDIT RISK

We extend credit to customers and other parties in the normal course of business. We regularly review outstanding receivables, and provide for estimated losses through an allowance for doubtful accounts. In evaluating the level of established reserves, we make judgments regarding the parties' ability to make required payments, economic events and other factors. As the financial condition of these parties change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required. Due to the nature of our industry, we have a concentration of credit risk. As a result, adjustments to the allowance for doubtful accounts may be significant.

### NOTE 9. ASSETS HELD FOR SALE

At September 30, 2003, we had \$0.2 million in assets held for sale of which \$0.1 million is included in "Other Assets" and \$0.1 million is included in "Assets Held for Sale" in the accompanying balance sheets. As of September 30, 2003 assets held for sale included 8 steel marsh buggies as well as the remaining assets of our South American operation, for which we have specific agreements to sell. We expect to dispose of the remaining assets held for sale by the end of 2003. The carrying values, which we believe approximate fair market value of our assets held for sale at September 30, 2003, are as follows (in thousands):

Asset Type	September 30, 2003
Steel marsh buggies	\$ 108
South American facility and other	128
Total assets held for sale	\$ 236

### NOTE 10. ACQUISITION

Effective January 18, 2002 we acquired the assets of AirJac Drilling (AirJac), a division of Veritas DGC Land, Inc. (Veritas), a seismic drilling support company headquartered in New Iberia, Louisiana. The aggregate acquisition cost was \$4.2 million, including \$2.0 million cash, acquisition costs, assumption of a capital lease and a commitment valued at \$1.9 million to discount future work to be performed for Veritas over a four year period. In this acquisition we acquired inventory, vehicles, shop equipment and drilling, field and support equipment. The acquisition resulted in the recognition of a \$1.9 million customer relationship intangible asset. We established a liability for these future minimum discounts which will be recognized as work is performed. The results of AirJac's operations have been included in our consolidated financial statements since the acquisition date. The results of operations between January 1, 2002 and the acquisition date, January 18, 2002 were not considered material.

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

Current assets	\$	154
Property, plant, and equipment		2,101
Goodwill		1,920
Capital lease obligation assumed		(179)
Obligation for future discounts		(1,920)
		-----
Net assets acquired	\$	2,076
		=====

11. STOCK BASED COMPENSATION

We account for employee stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," do not affect our reported results of operations. Pro forma disclosures as if we had adopted the provisions of SFAS No. 123 are presented below.

Had compensation cost been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 123, our net income and earnings per common share would have approximated the pro forma amounts below:

	FOR THE THREE MONTHS ENDED			
	-----			
	SEPTEMBER 30, 2003			
	AS	COMPEN-	PRO	AS
	REPORTED	SATION(1)	FORMA	REPORTED
	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE A			
Net income (loss) available to common and common equivalent shares .....	\$ 1,197	(17)	\$ 1,180	\$ 630
Basic income (loss) per share .....	\$ 0.14	\$ (0.01)	\$ 0.13	\$ 0.07
Diluted income (loss) per share .....	\$ 0.14	\$ (0.01)	\$ 0.13	\$ 0.07

FOR THE NINE MONTHS ENDED

-----  
SEPTEMBER 30, 2003

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	AS REPORTED	COMPEN- SATION (1)	PRO FORMA	AS REPORTED
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)			
Net income (loss) available to common and common equivalent shares .....	\$ 2,624	(34)	\$ 2,590	\$ 1,353
Basic income (loss) per share .....	\$ 0.30	--	\$ 0.30	\$ 0.15
Diluted income (loss) per share .....	\$ 0.30	--	\$ 0.30	\$ 0.15

(1) Represents stock based employee compensation expense determined under fair value based method for all awards, net of tax.

12. INCOME TAXES

Due to our recent history of operating losses, we recorded a valuation allowance during the periods against our net operating loss carry-forwards, which resulted in our not reporting any income tax expense or benefit during the nine month period ended September 30, 2002. For the year ended December 31, 2002 the Company reversed \$0.4 million of this related reserve due to the Company's expectation of generating income in fiscal 2003. For the three and nine month periods ended September 30, 2003 the Company reversed an additional \$0.3 million and \$0.6 million, respectively.

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

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

This discussion should be read in conjunction with the financial statements and the accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2002.

GENERAL

Demand. We receive our revenues from customers in the energy industry. Demand for our services is principally impacted by conditions affecting geophysical companies engaged in the acquisition of 3-D seismic data. The level of activity among geophysical companies is primarily influenced by the level of capital expenditures by oil and gas companies for seismic data acquisition

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activities. A number of factors affect the decision of oil and gas companies to pursue the acquisition of seismic data, including (i) prevailing and expected oil and gas demand and prices; (ii) the cost of exploring for, producing and developing oil and gas reserves; (iii) the discovery rate of new oil and gas reserves; (iv) the availability and cost of permits and consents from landowners to conduct seismic activity; (v) local and international political and economic conditions; (vi) governmental regulations; and (vii) the availability and cost of capital. The ability to finance the acquisition of seismic data in the absence of oil and gas companies' interest in obtaining the information is also a factor, as some geophysical companies will acquire seismic data on a speculative basis.

During 1999, with the reduction in the price of oil and gas, we began to experience a decrease in demand for our services. In 2001 and 2002, the market experienced a rebound. Based on bid activity and existing backlog, we expect revenues to continue to improve throughout the remainder of 2003 and remain strong in 2004

Seasonality and Weather Risks. Our operations are subject to seasonal variations in weather conditions and available daylight hours. Since our activities take place outdoors, on average, fewer hours are worked per day and fewer holes are generally drilled or surveyed per day in winter months than in summer months, due to an increase in rain, fog, and cold conditions and a decrease in daylight hours.

Results of Operations	Three months ended September 30,	
	2003	2002
	-----	-----
Operating revenue .....	\$ 10,218	\$ 7,732
Operating expense .....	7,617	5,780
	-----	-----
Gross profit .....	2,601	1,952
General and administrative expenses .....	1,090	1,004
	-----	-----
Operating income (loss) .....	1,511	948
Interest expense .....	202	295
Other income (expense) .....	(170)	(23)
	-----	-----
Income before income taxes .....	1,139	630
Income taxes .....	(300)	--
	-----	-----
Net income .....	1,439	630
Preferred stock dividends .....	(242)	--
	-----	-----
Net income (loss) applicable to common and common equivalent shares .....	\$ 1,197	\$ 630
	=====	=====

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Operating revenues increased 32%, or \$2.5 million, from \$7.7 million for the three months ended September 30, 2002 to \$10.2 million for the three months ended September 30, 2003. Drilling revenues increased \$1.4 million from \$7.0 million for the three month period ended September 30, 2002 to \$8.4 million for the three months ended September 30, 2003 as a result of increased seismic activity. Aviation revenues doubled from \$0.6 million for the three month period ended September 30, 2002 to \$1.2 million for the same three month period of 2003 as a result of more aircraft and greater hours flown. Permitting revenues increased \$0.5 million from the third quarter of 2002 to the third quarter of 2003.

Operating expenses increased 32%, or \$1.8 million, from \$5.8 million for the three months ended September 30, 2002 to \$7.6 million for the three months ended September 30, 2003. This increase is partially attributable to higher operating payroll and payroll related costs, which increased \$0.3 million from \$2.6 million to \$2.9 million for the three month periods ended September 30, 2002 and 2003, respectively. We currently utilize third party contractors to perform all permitting services as well as some drilling services. Third party contract services increased \$0.2 million during the three months ended September 30, 2003 as compared to September 30, 2002 principally as a result of the increase in permitting revenues. Explosives and down hole expenses increased \$0.6 million and repairs and maintenance expenses and fuel and oil expenses increased \$0.3 million and \$0.2 million, respectively, from the three months ended September 30, 2002 to the same period of 2003 as a result of increased seismic activity.

Gross profit margins remained constant at 25% each for the three months ended September 30, 2003 and 2002 as management continues to maintain stringent control over our field operating expenses.

General and administrative expenses increased only slightly from \$1.0 million for the three months ended September 30, 2002 to \$1.1 million for the three months ended September 30, 2003.

Interest expense decreased \$0.1 million from the three months ended September 30, 2002 to the three months ended September 30, 2003. This is a result of lower levels of debt as well as reduced interest rates between the two periods.

During the third quarter of 2003 we agreed with the holders of the preferred stock that our EBITDA had reached an acceptable level for the resumption of conversion rights and the accrual of dividends. Accordingly, we accrued dividends of \$0.2 million for the three months ended September 30, 2003. Pursuant to our senior secured credit agreements, the dividends will be paid "in kind" (in shares of like preferred stock) rather than in cash.

Due to our recent history of operating losses, we recorded a valuation allowance during the periods against our net operating loss carry-forwards, which resulted in our not reporting any income tax expense or benefit during the three month period ended September 30, 2002. For the year ended December 31, 2002 we reversed \$0.4 million of this related reserve due to our expectation of generating income in fiscal 2003. For the period ended September 30, 2003 we reversed an additional \$0.3 million.

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Operating revenues increased 25%, or \$5.4 million, from \$21.4 million for the nine months ended September 30, 2002 to \$26.8 million for the nine months ended September 30, 2003. Revenues from our drilling and permitting operations increased \$3.7 million and \$1.0 million, respectively, principally as



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a result of an increase in seismic activity. The aviation division likewise experienced an increase in revenues of \$0.7 million between the third quarters of 2002 and 2003 as a result of greater hours flown.

Operating expenses increased 24%, or \$3.9 million, from \$16.4 million for the nine months ended September 30, 2002 to \$20.3 million for the nine months ended September 30, 2003. This increase is partially attributable to higher operating payroll and payroll related costs, which increased \$1.3 million from \$7.1 million to \$8.4 million for the nine month periods ended September 30, 2002 and 2003, respectively. Repairs and maintenance expenses also increased \$1.3 million between the two periods. As a result of increased drilling activity for the seismic industry, explosive supplies and fuels and oils expenses increased \$0.9 million and \$0.4 million, respectively, for the nine months ended September 30, 2003 as compared to the same nine month period ended 2002.

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Gross profit margins were 24% and 23% for the nine months ended September 30, 2003 and 2002, respectively. This continued stability in profit margins is a direct result of increased business activity in our more profitable business segments and continued controls on operating expenses.

General and administrative expenses increased \$1.1 million from the nine months ended September 30, 2002 to the nine months ended September 30, 2003. Insurance expenses and professional services increased \$0.2 million each. Amortization of loan closing costs and a customer intangible increased \$0.3 million. We realized approximately \$0.2 million in savings during the nine month period ended September 30, 2002 from renegotiating certain lease and vendor agreements with terms more favorable to us than those agreements for prior periods with no corresponding savings for the nine month period ended September 30, 2003. We also recognized a \$0.1 million increase in bad debt expense due to the recovery of amounts previously expensed in the first nine months of 2002.

Interest expense decreased \$0.1 million from \$0.8 million for the nine month period ended September 30, 2002 to \$0.7 million for the nine month period ended September 30, 2003. The reduction was a result of lower average debt outstanding coupled with lower average interest rates during the periods.

During the third quarter of 2003 we agreed with the holders of the preferred stock that our EBITDA had reached an acceptable level for the resumption of conversion rights and the accrual of dividends. Accordingly, we accrued dividends of \$0.2 million for the nine months ended September 30, 2003. Pursuant to our senior secured credit agreements, the dividends will be paid "in kind" (in shares of like preferred stock) rather than in cash.

Due to our recent history of operating losses, we recorded a valuation allowance during the periods against our net operating loss carry-forwards, which resulted in our not reporting any income tax expense or benefit during the nine month period ended September 30, 2002. For the year ended December 31, 2002 we reversed \$0.4 million of this related reserve due to our expectation of generating income in fiscal 2003. For the nine month period ended September 30, 2003 we reversed an additional \$0.6 million.

### LIQUIDITY AND CAPITAL RESOURCES

At September 2003, we had approximately \$3.7 million in cash compared to approximately \$0.7 million at December 31, 2002. We had working capital of approximately \$8.0 million at September 30, 2003, compared to approximately \$3.0

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million at December 31, 2002. The improved working capital from December 31, 2002 to September 30, 2003 is due primarily to the increased business activity while maintaining consistent profit margins and cost controls.

Cash provided by operating activities was \$4.2 million for the period ended September 30, 2003 compared to cash provided by operating activities totalling \$3.0 million for the period ended September 30, 2002. Our cash position improved principally as a result of increased seismic drilling activity and improved operating results.

In September 2002, we entered into a \$10.5 million senior credit facility with a bank including a \$7.0 million working capital revolving line of credit (the "Line") and a \$3.5 million term loan. The proceeds were used to repay term debt, refinance our revolving line of credit and provide working capital.

Availability under the Line is the lower of: \$7.0 million or the sum of 85% of eligible accounts receivable, plus the lesser of: 50% of the cost of eligible inventory or 80% of the appraised orderly liquidation value of eligible inventory of parts and supplies. The Line accrues interest at the prime interest rate plus 1.5% (5.5% at September 30, 2003) and matures on August 31, 2004. The Line is collateralized by accounts receivable and inventory and is subject to certain customer concentration limitations. As of September 30, 2003 we had \$4.2 million outstanding under the Line.

We have received a commitment from a bank (the "Commitment") to refinance our existing revolving line of credit and term loan. We expect to have this new facility completed during November 2003. The Commitment includes an \$8.0 million working capital revolving credit facility and a \$3.0 million senior term facility. The new facility will be collateralized by accounts receivable and inventory and will be subject to certain customer concentration limitations. Availability under this new line of credit will be the lower of: \$8.0 million or the sum of 85% of eligible accounts receivable, plus the lesser of: \$2.0 million or 80% of the appraised orderly liquidation value of eligible inventory of parts and supplies. This line will accrue interest at the prime interest rate plus 1.5% and will mature in November 2006. The term loan will be collateralized by certain equipment. It will accrue interest at the prime interest rate plus 1.75%, will have a five year amortization of principal and interest and will mature November 2006. We do not anticipate any significant differences

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between the Commitment and the final terms of the new facility; however, there can be no assurances given that the terms will be the same.

At September 30, 2003, we also had outstanding approximately \$8.5 million in other senior secured debt including approximately \$1.2 million with an equipment finance company. This loan amortizes over seven years, bears interest at LIBOR plus 5.0%, is secured by seismic drilling equipment and matures in July 2006. Further, at September 30, 2003 we had approximately \$2.2 million outstanding to an aviation equipment finance company. This loan is secured by the aviation fleet, amortizes over ten years, accrues interest at 8% per annum and matures in January 2007.

In August 2003, we completed a new \$1.65 million real estate loan with a bank. The proceeds were used to repay the existing real estate loan, the principal balance of which totalled \$1.7 million. The gain on the early

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extinguishment of the then existing real estate debt was recognized as income in the second quarter of 2003. The new real estate loan is payable in 240 equal monthly installments plus interest accruing at the prime interest rate plus 1.5% and is secured by our corporate office, real estate and fabrication and maintenance facilities. Further, under the terms of the new real estate credit agreement, a principal payment of \$0.2 million is due in July 2008.

Our senior secured credit agreements and real estate loan contain customary financial covenants requiring, among other things, minimum levels of tangible net worth, debt to EBITDA ratios, and limitations on annual capital expenditures. As of September 30, 2003 we were in compliance with these covenants and we expect to maintain compliance throughout 2003.

Historically, our capital requirements have primarily related to the purchase or fabrication of new seismic drilling equipment and related support equipment, additions to our aviation fleet and new business acquisitions. In 2002, we acquired the assets of AirJac Drilling (See Note 10) and approximately \$0.4 million of new vehicles accounted for as a capital lease. Thus far in 2003, we have acquired two new aircraft totalling approximately \$1.6 million and approximately \$0.2 million of new vehicles under capital leases. For the remainder of 2003 we expect to continue renewing our rolling stock of vehicles, expanding our aviation fleet and pursuing various strategic acquisitions. We recently announced the restructuring of our aviation fleet to expand our offshore and heavy lifting capabilities. At this time, we have no further material commitments outstanding for expenditures nor do we anticipate acquiring a significant amount of capital assets in the remainder of 2003.

### CRITICAL ACCOUNTING POLICIES

There have been no changes to the Company's accounting policies as disclosed in our Form 10-K for the period ended December 31, 2002.

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### FORWARD-LOOKING STATEMENTS

This Quarterly Report contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical fact included in this report regarding our financial position and liquidity, our strategic alternatives, future capital needs, business strategies and other plans and objectives of our management for future operations and activities, are forward-looking statements. These statements are based on certain assumptions and analyses made by our management in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate under the circumstances. Such forward-looking statements are subject to uncertainties that could cause our actual results to differ materially from such statements. Such uncertainties include but are not limited to: the volatility of the oil and gas industry, including the level of offshore exploration, production and development activity; changes in competitive factors affecting our operations; operating hazards, including the significant possibility of accidents resulting in personal injury, property damage or environmental damage; the successful restructuring our aviation fleet and acceptance by our customers and potential customers; the effect on our performance of regulatory programs and environmental matters; seasonality of the offshore industry in the Gulf of Mexico; and our dependence on certain customers. These and other uncertainties

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related to our business are described in detail in our other public filings. Although we believe that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update any of our forward-looking statements for any reason.

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

There have been no significant changes in our market risks since the year ended December 31, 2002. For more information, please read the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002.

### ITEM 4. CONTROLS AND PROCEDURES

As required by paragraph (b) of Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our principal executive officer and principal financial officer have evaluated our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of our third fiscal quarter of 2003 (the "Evaluation Date"). Based on this evaluation, such officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to us (including its consolidated subsidiaries) required to be included in our periodic filings under the Exchange Act.

## PART II - OTHER INFORMATION

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

At the Company's Annual Meeting of Shareholders held on September 4, 2003, a proposal to elect the nominees listed in the following table as directors of the Company was submitted to a vote of the Company's shareholders. The following table shows the results of voting as to each nominee:

NOMINEES	FOR	WITHHELD
Crichton W. Brown	10,453,764	34
Michael G. DeHart	10,778,764	1
James C. Eckert	10,453,764	34
Steven T. Stull	10,453,764	34
Richard C. White	10,778,764	1

At the same meeting, the following proposals were also approved by the Company's shareholders:

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	FOR	AGAINST
Increase in the number of shares issuable under the Company's stock incentive plan.....	8,416,657	401,683

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 31.1 Section 302 Certification of Chief Executive Officer
- 31.2 Section 302 Certification of Chief Financial Officer
- 32.1 Section 906 Certification of Chief Executive Officer
- 32.2 Section 906 Certification of Chief Financial Officer

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(b) Reports on Form 8-K

Current Report on Form 8-K on August 15, 2003 regarding change in certifying accountant.

Current Report on Form 8-K on September 22, 2003 regarding accrual of preferred stock dividends.

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

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SIGNATURES

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

OMNI ENERGY SERVICES CORP.

Dated: November 10, 2003

/s/ JAMES C. ECKERT

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James C. Eckert  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: November 10, 2003

/s/ G. DARCY KLUG

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G. Darcy Klug  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer