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OMNI ENERGY SERVICES CORP
Form 10-Q
November 09, 2001

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

FORM 10-Q

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

For the Quarterly period ended September 30, 2001

or

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

For the transition period _____ to _____

COMMISSION FILE NUMBER 0-23383

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

LOUISIANA
(State or other jurisdiction of
incorporation or organization)

72-1395273
(I.R.S. Employer Identification No.)

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 No

As of November 5, 2001 there were 27,242,974 shares of the Registrant's common stock, \$0.01 par value per share, outstanding.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OMNI ENERGY SERVICES CORP.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2001 AND DECEMBER 31, 2000
(In thousands)

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ASSETS -----	September 30, 2001 -----	December 31, 2000 -----
	(unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 160	\$ 317
Accounts receivable, net	6,501	3,329
Parts and supplies inventory	2,142	2,649
Prepaid expenses	933	1,086
Assets held for sale	1,099	1,678
	-----	-----
Total current assets	10,835	9,059
	-----	-----
PROPERTY AND EQUIPMENT:		
Land	359	359
Buildings and improvements	4,505	4,505
Drilling, field and support equipment	25,034	25,102
Shop equipment	392	374
Office equipment	1,497	1,485
Vehicles	2,483	2,248
Construction in progress	58	74
	-----	-----
	34,328	34,147
Less: accumulated depreciation	12,984	10,721
	-----	-----
Total property and equipment, net	21,344	23,426
	-----	-----
OTHER ASSETS:		
Goodwill, net	2,032	2,059
Other	492	80
	-----	-----
Total other assets	2,524	2,139
	-----	-----
Total assets	\$34,703	\$34,624
	=====	=====

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

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OMNI ENERGY SERVICES CORP.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2001 AND DECEMBER 31, 2000
(In thousands, except share and per share amounts)

LIABILITIES AND EQUITY -----	September 30, 2001 -----
	(unaudited)
CURRENT LIABILITIES:	
Current maturities of long-term debt	\$ 2,137
Line of credit	284

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Accounts payable	3,771
Accrued expenses	1,706
Sales tax payable	862
Due to affiliate	175
Accrued interest	---

Total current liabilities	8,935

LONG-TERM LIABILITIES:	
Long-term debt, less current maturities	5,722
Subordinated debt	---

Total long-term liabilities	5,722

TOTAL LIABILITIES	14,657

MINORITY INTEREST	221

EQUITY:	
Common stock, \$.01 par value, 45,000,000	
Shares authorized; 27,045,074 and 26,911,724, issued and outstanding as of September 30, 2001 and December 31, 2000, respectively	270
Preferred stock, \$1,000 par value, Series A, 7,500 shares issued and outstanding as of September 30, 2001 and December 31, 2000; Series B, 4,600 shares issued and outstanding as of September 30, 2001	12,100
Additional paid-in capital	55,292
Accumulated deficit	(47,676)
Cumulative translation adjustment	(78)
Treasury stock	(83)

Total equity	19,825

Total liabilities and equity	\$ 34,703
	=====

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

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OMNI ENERGY SERVICES CORP.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended S
	2001	2000	2001
	-----		-----
	(Unaudited)		(Unaudite
Operating revenue	\$ 9,180	\$ 4,296	\$19,378
Operating expenses	7,612	4,687	17,635
	-----	-----	-----
Gross profit (loss)	1,568	(391)	1,743

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General and administrative expenses	565	1,405	1,878
Asset impairment charges	---	11,418	180
	-----	-----	-----
Operating income (loss)	1,003	(13,214)	(315)
Interest expense	169	823	1,095
Other income (expense)	160	24	7,854
	-----	-----	-----
	9	801	(6,759)
	-----	-----	-----
Income (loss) before income taxes	994	(14,015)	6,444
Income taxes	---	---	---
	-----	-----	-----
Net income (loss), before minority interest	994	(14,015)	6,444
Minority interest	---	(5)	---
	-----	-----	-----
Net income (loss)	\$ 994	\$ (14,010)	\$ 6,444
	=====	=====	=====
Basic net income (loss) per share:	\$ 0.04	\$ (0.88)	\$ 0.24
Diluted net income (loss) per share:	\$ 0.03	\$ (0.88)	\$ 0.22
Weighted average shares outstanding:			
Basic	27,623	15,994	26,972
Diluted	28,980	15,994	29,533

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

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OMNI ENERGY SERVICES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(In thousands)

	Nine months ended September 30,
	----- 2001 ----- (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income (loss)	\$ 6,444
Adjustments to reconcile net income to net cash provided by (used in) operating activities-	
Depreciation	2,396
Amortization	125
(Gain) loss on fixed asset disposition	(53)
Asset impairment and other charges	180
Provision for bad debts	59
Minority interest	---
Changes in operating assets and liabilities-	
Decrease (increase) in assets-	
Receivables-	

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Trade	(3,264)
Other	(9)
Inventory	508
Prepaid expenses	152
Assets held for sale	580
Other	(677)
Increase (decrease) in liabilities-	
Accounts payable	610
Accrued expenses	(1,123)

Net cash provided by (used in) operating activities	5,929

CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from disposal of fixed assets	147
Purchase of fixed assets	(408)

Net cash provided by (used in) investing activities	(261)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from subordinated debt	1,500
Repayment of subordinated debt	(3,209)
Proceeds from issuance of preferred stock	---
Proceeds from issuance of long-term debt	1,339
Principal payments on long-term debt	(4,048)
Proceeds from issuance of common stock	80
Purchase of treasury stock	(83)
Net borrowings (payments) on line of credit	(1,404)

Net cash provided by (used in) financing activities	(5,825)

NET INCREASE (DECREASE) IN CASH	(157)
CASH, at beginning of period	317

CASH, at end of period	\$ 160
	=====
SUPPLEMENTAL CASH FLOW DISCLOSURES:	
CASH PAID FOR INTEREST	\$ 795
	=====
CASH PAID FOR TAXES	\$ ---
	=====

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

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. (the

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"Company") 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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.

Certain reclassifications have been made to the prior year's financial statements in order to conform with the classifications adopted for reporting in fiscal 2001.

NOTE 2. EARNINGS PER SHARE

Basic Earnings Per Share (EPS) excludes dilution and is determined by dividing income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding 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 month periods ended September 30, 2001, the Company had dilutive stock options and warrants of approximately 1,356,995 and 2,560,894 shares, respectively, which were assumed exercised using the treasury stock method.

The Company had 1,274,360 and 342,080 options outstanding for the three months and nine months ended September 30, 2001, respectively, excluded from the calculation of diluted EPS because of their antidilutive impact. On the same basis, warrants to purchase 554,167 shares of common stock were also excluded for both the three months and nine months ended September 30, 2001.

The Company had 880,705 and 810,917 options outstanding in the three and nine months ended September 30, 2000, respectively, that were excluded from the calculation of diluted EPS because they are antidilutive. On the same basis, warrants to purchase 3,315,036 and 2,400,030 shares of common stock were also excluded for the three months and nine months ended September 30, 2000.

NOTE 3. LONG-TERM DEBT

The Company's primary credit facility (the "Hibernia Facility") was amended in November 2001 to provide the Company with a \$9.1 million credit facility consisting of a \$4.1 million term loan and a \$5.0 million revolving line of credit for working capital requirements. The outstanding principal balance under the term loan is paid at a rate of \$0.1 million per month plus accrued interest. Interest accrues and is paid monthly on both loans at the prime interest rate plus 1.5%. As of September 30, 2001 outstanding borrowings under the Hibernia Facility totaled \$4.5 million, with \$3.4 million of borrowings available to the Company under its revolving line of credit. The Hibernia Facility matures October 2004 and is secured by the Company's accounts receivable, inventory, real estate and various equipment.

As of September 30, 2001, the Company had \$2.6 million outstanding under its assets-based equipment financing agreement with The CIT Group (the "CIT Loan"). The CIT Loan, as amended October 2001, is paid at a rate of

approximately \$0.1 million per month, including interest accruing at the LIBOR plus 5%, and matures August 2004. The CIT Loan is secured by certain seismic

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drilling units and support equipment.

The Hibernia Facility and the CIT Loan contain customary financial covenants requiring, among other things, minimum levels of EBITDA, working capital and debt to EBITDA ratios. As of September 30, 2001 the Company was in compliance with all of the financial covenants.

During the years ended December 31, 1999 and 2000 and the nine months ended September 30, 2001, the Company privately placed with an affiliate subordinated debentures totaling \$7.5 million, \$3.4 million and \$1.5 million, respectively. The debentures matured five years from the date of their issuance. Interest accrued at various rates ranging from a fixed rate of 12% per annum to a variable interest rate of 12% per annum and escalating to 20% per annum.

In November 2000, the Company and the affiliate agreed to convert \$4.6 million of the subordinated debentures into the Company's Series A Preferred Stock. In April 2001, the Company agreed to pay the affiliate \$3.0 million cash and issue to the affiliate \$4.6 million of the Company's Series B Preferred Stock in full satisfaction of all of the remaining outstanding subordinated debentures, including accrued interest of approximately \$1.8 million. This transaction resulted in the affiliate agreeing to forgive approximately \$1.0 million of indebtedness which has been reflected as a capital contribution.

In connection with the original issuance of the subordinated debentures, the Company issued to the affiliate detachable warrants to purchase 5,738,500 shares of the Company's common stock, of which 2,901,000 have been cancelled as of September 30, 2001. The remaining warrants outstanding have various vesting periods up to four years with exercise prices ranging from \$0.75 to \$2.00 per share. The Company has recorded each warrant at its relative fair value at its date of issuance and included this amount as additional paid in capital with the associated discount of the debt being amortized as additional interest expense.

In July 2000, the Company entered into a series of transactions with the same affiliate that enabled the Company to factor, with recourse, approximately \$1.0 million of the trade receivable of a major customer. This receivable had become ineligible under the terms of the Company's Hibernia Facility. The Company guaranteed and is currently renegotiating the terms of the repayment of the trade receivable. As of September 30, 2001 the Company is liable to the affiliate for approximately \$0.2 million, which is payable in 12 equal monthly installments commencing 30 days after execution of the definitive repayment agreement between the Company and the affiliate.

NOTE 4. PREFERRED STOCK

At September 30, 2001 the Company had a total of 12,100 shares of Preferred Stock outstanding, consisting of 7,500 shares of Series A Preferred Stock and 4,600 shares of Series B Preferred Stock, at a total liquidation value of \$12.1 million.

The Series A Preferred Stock has an 8% cumulative dividend rate, is convertible into the Company's common stock with a conversion rate of \$0.75, is redeemable at the option of the Company at par plus accrued dividends, contains a liquidation preference of \$1,000 per share, has voting rights on all matters submitted to a vote of the Company's 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 the Company's 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 the Company's future cash flow from operations

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(as defined) for the preceding twelve months reaches a mutually agreed upon level, after debt service and capital expenditures. The Company and the affiliate have also agreed that dividends would not accrue on the outstanding stock from April 2001 through June 2002. As of April 2001 there were approximately \$0.3 million of dividends in arrears relating to these outstanding shares of Series A Preferred Stock.

In April 2001, the Company issued 4,600 shares of Series B Preferred Stock to an affiliate of the Company in satisfaction of all outstanding principal and interest owed under the subordinated debt agreements (See Note 3). The Series B Preferred Stock has an 8% cumulative dividend rate, is convertible into the Company's common stock with an initial conversion rate of \$1.25, is redeemable at the option of the Company at par plus accrued dividends, contains a liquidation preference of \$1,000 per share and has no voting rights. In respect to the Series B Preferred Stock, the affiliate has agreed to waive its conversion rights until the Company's future cash flow from operations (as defined) for the preceding twelve months reaches a mutually agreed upon level, after debt service and capital expenditures. The Company and the affiliate have also agreed that dividends would not accrue on the outstanding stock from April 2001 through June 2002. As of April 2001 there were no dividends in arrears relating to the outstanding shares of Series B Preferred Stock.

NOTE 5. COMPREHENSIVE INCOME

In 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income", which requires an entity to report and display comprehensive income and its components. Comprehensive income is as follows (thousands of dollars):

	Three months ended September 30,		Nine months
	2001	2000	2001
Net Income (Loss)	\$ 994	\$ (14,009)	\$6,444
Other Comprehensive Income:			
Foreign currency translation adjustments	(33)	(9)	(43)
Comprehensive Income (Loss)	\$ 961	\$ (14,018)	\$6,401
	=====	=====	=====

NOTE 6. SEGMENT INFORMATION

The following shows industry segment information for the Company's four operating segments - Drilling, Aviation, Survey, and Permitting - for the three and nine month periods ended September 30, 2001 and 2000:

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	Three months ended September 30		Nine months ended September	
	2001	2000	2001	2000
Operating revenues: (1) (2)				
Drilling	\$7,093	\$2,145	\$15,029	\$ 6,550

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Aviation	1,362	2,070	2,711	5,474
Survey	129	81	611	1,319
Permitting	596	---	1,027	---
	-----	-----	-----	-----
Total	\$9,180	\$4,296	\$19,378	\$13,343
	=====	=====	=====	=====

- (1) Net of inter-segment revenues of \$0.1 million and \$0.2 million for the three and nine month periods ended September 30, 2001, respectively
- (2) The Company's Permitting Division commenced operations during the first quarter of 2001.

	Three months ended September 30,		Nine months
	2001	2000	2001
	-----	-----	-----
Gross profit (loss):			
Drilling	\$ 1,622	\$ (519)	\$ 2,4
Aviation	16	313	(3
Survey	(3)	(92)	(1
Permitting	84	-	1
Other	(151)	(93)	(3
	-----	-----	-----
Total	\$ 1,568	\$ (391)	\$ 1,7
General and administrative expenses	565	1,405	1,8
Asset impairment	-	11,418	1
Other expense (income), net	9	801	(6,7
	-----	-----	-----
Income (loss) before taxes	\$ 994	\$ (14,015)	\$ 6,4
	=====	=====	=====

	Three months ended September 30,		Nine months
	2001	2000	2001
	-----	-----	-----
Identifiable Assets:			
Drilling	\$23,890	\$20,921	
Aviation	1,748	3,213	
Survey	1,640	2,052	
Permitting	---	---	
Other	7,425	8,703	
	-----	-----	
Total	\$34,703	\$34,889	
	=====	=====	
Capital Expenditures:			
Drilling	\$ 263	\$ 25	\$ 477
Aviation	---	---	---
Survey	---	---	---
Permitting	---	---	---
Other	8	---	11
	-----	-----	-----
Total	\$ 271	\$ 25	\$ 488
	=====	=====	=====

In November 1999, the Company adopted a formal plan to dispose of its aviation division, which was comprised of 20 leased aircraft, aviation and turbine engine inventories and miscellaneous flight and other equipment. In November 2000, the Company elected to renew its focus on its aviation division given the anticipated market recovery in the oil and gas industry. Management thus determined it would not discontinue this service line and decided to reorganize the aviation division to better align it with other divisions in the Company. Therefore, the September 30, 2000 and September 30, 2001 financial statements include the assets, liabilities and results of operations of the aviation division in continuing operations.

NOTE 7. RECENT PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 141 "Business Combinations", and SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS No. 141 prohibits the use of the pooling-of-interests method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill not be amortized in any circumstance and also requires that goodwill be tested for impairment annually or when events or circumstances occur between annual tests indicating that goodwill for a reporting unit might be impaired. The standard establishes a new method for testing goodwill for impairment based on a fair value concept and is effective for fiscal years beginning after December 15, 2001. Upon adoption, the Company will be required to cease amortization of its remaining net goodwill balance and will be required to perform impairment tests based on a fair value concept of its existing goodwill. The Company has not completed an analysis of the potential impact upon adoption of the impairment test of goodwill, however amortization of existing goodwill, which was approximately \$28,000 and \$76,000 for the three and nine months ended September 30, 2001, respectively, will cease upon adoption.

In July 2001 the FASB issued SFAS NO 143 "Accounting for Asset Retirement Obligations. SFAS NO. 143 requires the Company to record the fair value of liabilities related to future asset retirement obligations in the period the obligation is incurred and is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS NO. 143 is not expected to have a material impact on the Company's financial statements because the Company does not have any assets that require retirement obligations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The FASB's new rules on asset impairment supersede SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and will be effective for the Company's fiscal year beginning January 1, 2002. The Company is currently evaluating the impact that adoption of this standard will have on its financial statements.

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

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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 the Company 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

GENERAL

Demand. Demand for the Company's 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 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.

Within the last decade, improvements in drilling and production techniques and the acceptance of 3-D imaging as an exploration tool resulted in significantly increased seismic activity throughout the Company's primary market, which includes the marsh, swamp, shallow water and contiguous dry land areas along the U.S. Gulf Coast (the "Transition Zone"). Due to this increased demand, beginning in 1997, the Company significantly increased its capacity, primarily through acquisition, as measured by drilling units, support equipment and employees. The additional capacity and related increase in work force led to significant increases in the Company's revenue and generally commensurate increases in operating expenses and selling, general and administrative expenses through the second quarter of 1998. Beginning in mid-1998, seismic activity in the areas in which the Company operates decreased substantially, resulting in corresponding reductions in demand for the Company's services, and adversely affected results of operations. For the three months ended September 30, 2001 and 2000, the Company's operating revenues and net income (loss) were \$9.2 million and \$4.3 million, and \$1.0 million and \$(14.0) million, respectively.

The Company curtailed its expansion strategy in the last half of 1998 in response to industry conditions and the short-term outlook. Management continues to adjust its operations to current market conditions by closely monitoring the expenses of its operating segments and corporate overhead. During October and November 2001, the Company renegotiated the terms and maturity dates of its primary secured debt. Management continues to explore opportunities for restructuring its indebtedness and alternative financing and capital opportunities.

Seasonality and Weather Risks. Results of operations for interim periods are not necessarily indicative of the operating results that may be expected for the full fiscal year. The Company's operations are subject to seasonal variations in weather conditions and daylight hours. Since the Company's activities take place outdoors, on average, fewer hours are worked per day, aviation flight hours decline and fewer holes are generally drilled or surveyed per day in winter months than in summer months, due to an increase in rainy, foggy, and

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cold conditions and a decrease in daylight hours.

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Results of Operations	Three months ended September 30		Nine mo 20
	2001	2000	
Operating revenue	\$9,180	\$ 4,296	\$19,
Operating expense	7,612	4,687	17,
Gross profit	1,568	(391)	1,
General and administrative expenses	565	1,405	1,
Asset impairment charges	---	11,418	
Operating income (loss)	1,003	(13,214)	(
Interest expense	169	823	1,
Other income (expense)	160	24	7,
Income (loss) before income taxes	994	(14,015)	6,
Income taxes	---	---	
Net income (loss), including minority interest	994	(14,015)	6,
Minority interest	---	(5)	
Net income (loss)	\$ 994	\$ (14,010)	\$ 6,

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Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000

Operating revenues increased 114%, or \$4.9 million, from \$4.3 million for the three months ended September 30, 2000 to \$9.2 for the three months ended September 30, 2001. The increase in revenues was principally due to an increase in seismic related activities. Collectively, drilling and survey revenues increased \$5.0 million, or 227%, to \$7.1 million and \$0.1 million, respectively, for the quarter ended September 30, 2001 as compared to the same three month period ended September 30, 2000. Additionally, the Company commenced the operations of its permitting division during the first quarter of 2001 and reported revenues of \$0.6 million during the third quarter of 2001. No corresponding revenues were reported for the third quarter ended September 30, 2000. These operating revenue increases were offset by a \$0.7 million decline in the Company's aviation revenues from \$2.1 million in 2000 to \$1.4 million for the third quarter 2001. The decline in aviation revenues is principally attributable to fewer billable flight hours being flown during the quarter ended September 30, 2001 as compared to the same period ended September 30, 2000.

Operating expenses increased 62%, or \$2.9 million, from \$4.7 million for the three months ended September 30, 2000 to \$7.6 million for the three months ended September 30, 2001. This increase is principally attributable to higher operating payroll and payroll related costs, which increased \$1.0 million from \$1.8 million to \$2.8 million for the three month periods ended September 30, 2000 and 2001, respectively. The Company's average number of field personnel increased by 55 from 127 field operating employees during the third quarter of 2000 to 182 field operating employees during the same three month period ended

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2001. The Company currently utilizes third parties to perform survey and permitting services. Accordingly, third party contract services increased \$1.0 million during the three months ended September 30, 2001 as compared to September 30, 2000. Consistent with the increase in seismic related activity, repairs and maintenance, fuel and oil, and rental and lease expenses increased \$0.1 million each from the third quarter of 2000 to the same period in 2001. Likewise, explosives and down hole supplies expenses increased \$0.8 million.

Increases in operating expenses were partially offset by a \$0.1 million decline in the Company's depreciation costs, resulting from reductions in the Company's fleet of operating equipment.

Gross profit margins were 17% for the three month period ended September 30, 2001 as compared to (9%) for the three month period ended September 30, 2000. The increase in profit margins in 2001 as compared to 2000 was attributable to a combination of significantly greater domestic revenues resulting from increased seismic activity, higher prices obtained for services rendered by the Company and implementation of stringent controls over, and a restructuring of, the Company's field operating expenses.

General and administrative expenses decreased \$0.8 million from \$1.4 million for the three months ended September 30, 2000 to \$0.6 million for the three months ended September 30, 2001. Payroll and payroll related costs accounted for \$0.2 million of this decline. The average number of administrative employees declined from 38 during the third quarter of 2000 to 31 for the same three month period ended September 30, 2001. Additionally, the compensation levels of the Company's current management are at base compensation rates significantly lower than the rates of the Company's previous management. During the three month period ended September 30, 2001, the Company also renegotiated certain vendor and lease agreements at terms more favorable than those agreements in existence during the third quarter of 2000, resulting in a savings of approximately \$0.3 million. The remaining decreases in general and administrative expenses related to decreases in bad debt expense and amortization expense.

Interest expense decreased \$0.6 million from \$0.8 million for the three month period ended September 30, 2000 to \$0.2 million for the three month period ended September 30, 2001. This decline resulted from lower average outstanding indebtedness at lower average interest rates during the period (See Liquidity and Capital Resources).

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Operating revenues increased 46%, or \$6.1 million, from \$13.3 million for the nine months ended September 30, 2000 to \$19.4 million for the nine months ended September 30, 2001. Revenues from the Company's drilling and survey operations increased \$7.8 million principally as a result of an increase in drilling revenues which more than offset a decline in survey revenues. The \$8.5 million increase in drilling revenues for the nine month period ended September 30, 2001 as compared to the nine month period ended September 30, 2000 resulted from increased seismic activity. The \$0.7 million

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decrease in survey revenues over this same period can be attributed to the Company's decision to concentrate its personnel, equipment and its available working capital into more profitable segments of the seismic industry.

For the nine months ended September 30, 2001 the Company's newly formed permitting division reported revenues of \$1.0 million with no revenues reported

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for the corresponding period in 2000. Aviation revenues declined \$2.8 million for the nine months ended September 30, 2001 versus the same period of 2000 primarily as a result of a decrease in the number of flight hours billed between the periods.

Operating expenses increased 9%, or \$1.5 million, from \$16.1 million for the nine months ended September 30, 2000 to \$17.6 million for the nine months ended September 30, 2001. As a result of increased drilling activity for the seismic industry, payroll related expenses increased \$0.8 million, as the average number of field employees increased from 150 to 170 for the nine months ended September 30, 2001 compared to the nine months ended September 30, 2000. Likewise, explosive supplies used in the drilling operations increased \$0.7 million for the nine months ended September 30, 2001 as compared to the same nine month period ended 2000. Contracting services increased \$1.5 million during the nine month period ended 2001 as compared to the same nine month period ended 2000 principally as a result of the commencement of the Company's newly formed permitting division. These increases were partially offset by a \$0.9 million decrease in the rental expense and related insurance expense on leased aviation equipment. The decreases resulted from fewer helicopters being leased from third parties during the first nine months of 2001 as compared to the same nine month period ended September 30, 2000. Depreciation expense and property and casualty insurance expense decreased \$0.3 million and \$0.2 million, respectively, for the nine months ended September 30, 2001 as compared to the nine months ended September 30, 2000 because of an overall reduction in the level of the Company's operating equipment.

Gross profit margins were 9% and (21%) for the nine months ended September 30, 2001 and 2000, respectively. The improvement in the profit margins is a direct result of increased business activity in the Company's more profitable business segments, increased prices received for the services provided by the Company and more stringent controls on operating expenses.

General and administrative expenses decreased \$2.5 million, or 57%, from \$4.4 million for the nine months ended September 30, 2000 to \$1.9 million for the nine months ended September 30, 2001. Payroll and payroll related costs accounted for 40% of this decrease, or \$1.0 million, declining from \$2.0 million for the first nine months of 2000 to \$1.0 million for the same period of 2001. This decrease is due to a 33% decrease in the average number of administrative employees between the periods, as well as significantly reduced base compensation levels of the Company's management. The Company realized approximately \$0.9 million in savings during the nine month period ended September 30, 2001 on renegotiating certain lease and vendor agreements with terms more favorable to the Company than those agreements for the nine month period ended September 30, 2000. Amortization expense was reduced \$0.3 million from the nine month period ended September 30, 2000 to the same period of 2001 as a result of the Company's asset impairment charges taken in the third quarter of 2000. Bad debt expense also decreased \$0.2 million from the nine month period ended September 30, 2000 to the same period in 2001.

Restructuring and asset impairment charges decreased \$11.2 million, from \$11.4 million in 2000 to \$0.2 million in 2001, due to the Company's elimination of all its existing goodwill as well as revaluation of certain drilling equipment in 2000 with only minor revaluation of certain drilling equipment in 2001.

Interest expense decreased \$1.1 million from \$2.2 million for the nine month period ended September 30, 2000 to \$1.1 million for the nine month period ended September 30, 2001. The reduction was a result of lower average debt outstanding coupled with lower average interest rates during the periods.

Other Income increased \$7.9 million from \$0 for the nine-month period ended September 30, 2000 to \$7.9 million for the nine-month period ended September 30,

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2001. The increase is due to the receipt of proceeds from a life insurance policy purchased on the Company's CEO, who was killed in a private aircraft accident in February, 2001.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2001, the Company had approximately \$0.2 million in cash as compared to approximately \$0.3 million at December 31, 2000. The Company's working capital position increased \$5.3 million to \$1.9 million at

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September 30, 2001 from a working capital deficit of \$(3.4) million at December 31, 2000. The increase in the Company's working capital position resulted from an overall increase in the Company's business activity and corresponding accounts receivable since the year ended December 31, 2000 coupled with reductions in the Company's outstanding indebtedness under its lines of credit and accrued interest.

The Company's primary credit facility (the "Hibernia Facility") was amended in November 2001 to provide the Company with a \$9.1 million credit facility consisting of a \$4.1 million term loan and a \$5.0 million revolving line of credit for working capital requirements. The outstanding principal balance under the term loan is paid at a rate of \$0.1 million per month plus accrued interest. Interest accrues and is paid monthly on both loans at the prime interest rate plus 1.5%. As of September 30, 2001 outstanding borrowings under the Hibernia Facility totaled \$4.5 million, with \$3.4 million of borrowings available to the Company under its revolving line of credit. The Hibernia Facility matures October 2004 and is secured by accounts receivable, inventory, real estate and various equipment.

As of September 30, 2001, the Company had \$2.6 million outstanding under its assets-based equipment financing agreement with The CIT Group (the "CIT Loan"). The CIT Loan, as amended October 2001, is paid at a rate of approximately \$0.1 million per month, including interest accruing at the LIBOR plus 5%, and matures August 2004. The CIT Loan is secured by certain seismic drilling units and support equipment.

During the years ended December 31, 1999 and 2000 and the nine months ended September 30, 2001, the Company privately placed with an affiliate subordinated debentures totaling \$7.5 million, \$3.4 million and \$1.5 million, respectively. The debentures matured five years from their date of issue and accrued interest at various rates ranging from a fixed rate of 12% per annum to a variable rate of interest starting at 12% per annum and escalating to 20% per annum.

In November 2000, the Company and the affiliate agreed to convert \$4.6 million of the subordinated debentures into the Company's Series A Preferred Stock. In April 2001, the Company agreed to pay the affiliate \$3.0 million cash plus issue to the affiliate \$4.6 million of the Company's Series B Preferred Stock in full satisfaction of all of the remaining outstanding subordinated debentures including accrued interest.

In connection with the original issuance of the subordinated debentures, the Company issued to the affiliate detachable warrants to purchase 5,738,500 shares of the Company's common stock, of which 2,901,000 have been cancelled as of September 30, 2001. The remaining warrants outstanding have various vesting periods up to four years with exercise prices ranging from \$0.75 to \$2.00 per share. The Company has recorded each warrant at its relative fair value at its date of issuance and included this amount as additional paid in capital with the associated discount of the debt being amortized as additional interest expense.

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In July 2000, the Company entered into a series of transactions with the same affiliate that enabled the Company to factor, with recourse, approximately \$1.0 million of the trade receivable of a major customer. This receivable had become ineligible under the terms of the Company's Hibernia Facility. The Company guaranteed and is currently renegotiating the terms of the repayment of the trade receivable. As of September 30, 2001 the Company is liable to the affiliate for approximately \$0.2 million, which is payable in 12 equal monthly installments commencing 30 days after execution of the definitive repayment agreement between the Company and the affiliate.

On October 31, 2001 the company authorized the repurchase of up to 1,000,000 shares of its common stock. The Company expects to repurchase its shares from time to time through open market purchases or privately negotiated transactions. The timing and amount of shares repurchased will depend on prevailing share market prices and trading volume. The Company expects to fund future repurchases of its common stock with operating cash or through its credit facility.

Currently, the Company expects minimal capital expenditures during the remainder of the year ending December 31, 2001.

AUDIT COMMITTEE

On October 11, 2001, the Board of Directors of the Company adopted resolutions appointing Michael G. DeHart, Richard C. White and Crichton W. Brown as members of the Audit Committee of the Board of Directors.

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Each of Messrs. DeHart and White are independent, as that term is defined in Rule 4200 of the National Association of Securities Dealers' listing standards. Mr. Brown is an executive officer and a director of the Advantage Capital Partners, a series of institutional venture capital funds under common ownership and control, founded in 1992 (collectively, "Advantage Capital"). Advantage Capital beneficially owns more than 25% of the Company's common stock. As a result, Mr. Brown is not independent, as that term is defined in Rule 4200 of the National Association of Securities Dealers' listing standards.

The Board of Directors carefully considered Mr. Brown's affiliation with Advantage Capital as well as his accounting and financial expertise and has determined that Mr. Brown's position with Advantage Capital will not interfere with his providing impartial advice to the Audit Committee and that Mr. Brown's service on the Audit Committee is in the best interest of the Company and its shareholders.

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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 the Company's financial position and liquidity, its strategic alternatives, future capital needs, business strategies and other plans and objectives of management of the Company for future operations and activities, are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company's management in light of its experience and its 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

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that could cause the Company's 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 the Company's operations; operating hazards, including the significant possibility of accidents resulting in personal injury, property damage or environment damage; the effect on the Company's performance of regulatory programs and environmental matters; seasonality of the offshore industry in the Gulf of Mexico; and the Company's dependence on certain customers. These and other uncertainties related to the Company's business are described in detail in the Company's other public filings. Although the Company believes 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. The Company undertakes no obligation to update any of its forward-looking statements for any reason.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

INTEREST RATE RISK

There have been no significant changes in our market risks since the year ended December 31, 2000. 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, 2000.

PART II. OTHER INFORMATION

None.

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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 its behalf by the undersigned thereunto duly authorized.

OMNI ENERGY SERVICES CORP.

Dated: November 9, 2001

/s/ James C. Eckert

James C. Eckert
President and Chief Executive Officer

Dated: November 9, 2001

/s/ Burton T. Zaunbrecher

Burton T. Zaunbrecher
Executive Vice President and
Chief Operating Officer

Dated: November 9, 2001

/s/ G. Darcy Klug

G. Darcy Klug
Chief Financial Officer

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OMNI ENERGY SERVICES CORP.

EXHIBIT INDEX

EXHIBIT
NUMBER

- 3.1 Composite Articles of Incorporation of the Company (as of November 7, 2000) (1)
- 3.2 Bylaws of the Company, as amended (2)
- 4.1 See Exhibits 3.1 and 3.2 for provisions of the Company's Articles of Incorporation and By-laws defining the rights of holders of Common Stock.
- 4.2 Specimen Common Stock Certificate (3)

- (1) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.
- (2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
- (3) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration Statement No. 333-36561).

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