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OMNI ENERGY SERVICES CORP
Form 10-Q
November 14, 2002

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, 2002

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 [X] No []

As of November 8, 2002 there were 9,101,778 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

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SEPTEMBER 30, 2002 AND DECEMBER 31, 2001

(Thousands of dollars)

| ASSETS | September 30, 2002 | December 31, 2001 |
|---------------------------------------|-----------------------|----------------------|
| | ----- | ----- |
| | (unaudited) | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 316 | \$ 1,233 |
| Accounts receivable, net | 5,748 | 5,250 |
| Parts and supplies inventory | 2,817 | 2,723 |
| Prepaid expenses | 2,230 | 857 |
| Assets held for sale | 663 | 630 |
| | ----- | ----- |
| Total current assets | 11,774 | 10,693 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT: | | |
| Land | 359 | 359 |
| Buildings and improvements | 4,525 | 4,505 |
| Drilling, field and support equipment | 27,170 | 24,834 |
| Aviation equipment | 4,189 | 5,109 |
| Shop equipment | 425 | 392 |
| Office equipment | 1,534 | 1,500 |
| Vehicles | 2,655 | 2,526 |
| Construction in progress | 252 | 50 |
| | ----- | ----- |
| | 41,109 | 39,275 |
| Less: accumulated depreciation | 15,761 | 13,707 |
| | ----- | ----- |
| Total property and equipment, net | 25,348 | 25,568 |
| | ----- | ----- |
| OTHER ASSETS: | | |
| Goodwill, net | 3,926 | 2,006 |
| Other | 528 | 181 |
| | ----- | ----- |
| Total other assets | 4,454 | 2,187 |
| | ----- | ----- |
| Total assets | \$41,576 | \$38,448 |
| | ===== | ===== |

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

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OMNI ENERGY SERVICES CORP.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2002 AND DECEMBER 31, 2001
(Thousands of dollars)

| LIABILITIES AND STOCKHOLDERS' EQUITY | September 30, 2002 | December 31, 2001 |
|--------------------------------------|-----------------------|----------------------|
| | ----- | ----- |

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| | | | | |
|---|----------|----------|-----------|--------|
| Operating revenue | \$ 7,732 | \$ 9,180 | \$ 21,405 | \$ 19, |
| Operating expenses | 5,780 | 7,612 | 16,429 | 17, |
| | ----- | ----- | ----- | ----- |
| Gross profit | 1,952 | 1,568 | 4,976 | 1, |
| General and administrative expenses | 1,004 | 565 | 2,310 | 1, |
| Asset impairment charges | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Operating income (loss) | 948 | 1,003 | 2,666 | (|
| Interest expense | 295 | 169 | 774 | 1, |
| Other income (expense) | (23) | 160 | (55) | 7, |
| | ----- | ----- | ----- | ----- |
| | 318 | 9 | 829 | (6, |
| | ----- | ----- | ----- | ----- |
| Income before taxes | 630 | 994 | 1,837 | 6, |
| Income taxes | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Net income | 630 | 994 | 1,837 | 6, |
| Accretion of preferred stock | -- | (242) | (484) | (|
| | ----- | ----- | ----- | ----- |
| Net earnings applicable to common and common equivalent shares | \$ 630 | \$ 752 | \$ 1,353 | \$ 5, |
| | ===== | ===== | ===== | ===== |
| Basic net income per share: | \$ 0.07 | \$ 0.08 | \$ 0.15 | \$ 0 |
| Diluted net income per share: | \$ 0.07 | \$ 0.08 | \$ 0.15 | \$ 0 |
| Weighted average shares outstanding: | | | | |
| Basic | 8,740 | 8,972 | 8,739 | 8, |
| Diluted | 8,743 | 9,424 | 8,804 | 9, |

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, 2002 AND 2001
(THOUSANDS OF DOLLARS)

| | Nine months ended September 30, | |
|--|------------------------------------|---------------|
| | ----- 2002 | ----- 2001 |
| | ----- (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 1,837 | \$ 6,444 |
| Adjustments to reconcile net income to net cash provided by operating activities- | | |
| Depreciation | 2,674 | 2,396 |
| Amortization | 60 | 125 |
| (Gain) loss on fixed asset disposition | (1) | (53) |

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| | | |
|--|----------|---------|
| Asset impairment and other charges | -- | 180 |
| Provision for bad debts | -- | 59 |
| Changes in operating assets and liabilities- | | |
| Decrease (increase) in assets- | | |
| Receivables- | | |
| Trade | (90) | (3,264) |
| Other | (400) | (9) |
| Inventory | 61 | 508 |
| Prepaid expenses | 1,528 | 152 |
| Assets held for sale | (34) | 580 |
| Other | (2,327) | (677) |
| Increase (decrease) in liabilities- | | |
| Accounts payable | 1,054 | 610 |
| Accrued expenses | (2,251) | (1,123) |
| Other long-term liabilities | 878 | -- |
| | ----- | ----- |
| Net cash provided by operating activities | 2,988 | 5,929 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition paid with cash | (2,076) | -- |
| Proceeds from disposal of fixed assets | 1,035 | 147 |
| Assets acquired from lease buyout | (1,000) | -- |
| Purchase of fixed assets, net | (76) | (408) |
| | ----- | ----- |
| Net cash used in investing activities | (2,117) | (261) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from subordinated debt | -- | (3,209) |
| Repayment of subordinated debt | -- | 1,500 |
| Proceeds from issuance of long-term debt | 3,500 | 1,339 |
| Principal payments on long-term debt | (6,233) | (4,048) |
| Proceeds from issuance of common stock | 6 | 80 |
| Due to affiliates | 271 | -- |
| Purchase of treasury stock | -- | (83) |
| Net borrowings (payments) on line of credit | 668 | (1,404) |
| | ----- | ----- |
| Net cash used in financing activities | (1,788) | (5,825) |
| | ----- | ----- |
| NET DECREASE IN CASH | (917) | (157) |
| CASH, at beginning of period | 1,233 | 317 |
| | ----- | ----- |
| CASH, at end of period | \$ 315 | \$ 160 |
| | ===== | ===== |
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | |
| Cash paid for interest | \$ 774 | \$ 795 |
| | ===== | ===== |
| Equipment acquired under capital lease | \$ 492 | \$ -- |
| | ===== | ===== |
| Premiums financed with insurance carrier | \$ 2,854 | \$ -- |
| | ===== | ===== |

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

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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, 2001 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.

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.

The consolidated financial statements and related notes thereto include the retroactive effect of a one for three reverse stock split effective July 3, 2002. For the three and nine months ended September 30, 2002, we had 1,004,460 and 448,410 options outstanding, respectively, and warrants to purchase 2,121,662 shares of common stock as of September 30, 2002 that were excluded from the calculation of diluted EPS because they were antidilutive. Likewise, we had 424,787 and 114,027 options outstanding, respectively, for the three and nine months ended September 30, 2001 and warrants to purchase 184,722 shares of common stock as of September 30, 2001 that were excluded from the calculation of diluted EPS because they were antidilutive.

NOTE 3. LONG-TERM DEBT

Our primary credit facility is with PNC Bank (the "PNC Facility"). The PNC Facility currently provides us with a \$3.5 million equipment loan and a \$7.0 million revolving line of credit to finance working capital requirements. The loans bear interest at prime plus 1.5% for the revolving line of credit and prime plus 1.75% on the equipment loan, and have a final maturity of August 23, 2005. As of September 30, 2002, we had approximately \$6.1 million outstanding under the PNC Facility.

Our primary credit facility was previously with Hibernia National Bank (the "Hibernia Facility"). The Hibernia Facility provided us with a \$2.0 million equipment loan, a \$2.0 million real estate loan and a \$5.0 million revolving line of credit to finance working capital requirements. The loans bore interest at prime plus 1.5% and had a final maturity of August 31, 2004. The equipment loan and the revolving line of credit were paid off in September 2002 with the proceeds from the PNC Facility. The remaining Hibernia Facility currently provides us with a \$2.0 million real estate loan. The loan bears interest at prime plus 1.5% and has a final maturity of August 31, 2004. As of September 30, 2002, we had approximately \$1.8 million outstanding under the Hibernia Facility.

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At September 30, 2002, we had approximately \$1.8 million in outstanding debt pursuant to agreements with The CIT Group (CIT), consisting of an asset-based financing loan (the "CIT Loan"). The principal outstanding under the CIT

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Loan bears interest at LIBOR plus 5.0%. The maturity date of the note has been extended to August 2004. This loan is collateralized by various seismic drilling units and support equipment.

At September 30, 2002, we had a note payable to a finance company with interest at 8%, to finance our aviation fleet. The loan amortizes over ten years, maturing January 1, 2007 and is secured by our aviation fleet. The outstanding balance at September 30, 2002 is approximately \$3.6 million.

During the years ended December 31, 1999, 2000 and 2001, we 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 October 2000, we agreed to convert \$4.6 million of the subordinated debentures into our Series A Preferred Stock. In May 2001, we agreed to pay the affiliate \$3.0 million cash plus issue to the affiliate \$4.6 million of our Series B Preferred Stock in full satisfaction of all of the remaining outstanding subordinated debentures including accrued interest of \$1.8 million. This transaction resulted in the affiliate agreeing to forgive \$1.0 million of indebtedness which has been reflected as a capital contribution from the affiliate rather than as income in the accompanying financial statements. (See Note 4).

In connection with the original issuance of the subordinated debentures, we issued to the affiliate detachable warrants to purchase 1,912,833 shares of our common stock, of which 967,000 have been cancelled as of September 30, 2002. The remaining 945,833 warrants outstanding are all exercisable with exercise prices ranging from \$2.250 to \$6.00 per share.

The following table summarizes the exercise prices of warrants to the affiliate as of September 30, 2002:

| Exercise Price | Warrants |
|----------------|----------|
| ----- | ----- |
| \$6.00 | 12,500 |
| \$4.50 | 172,222 |
| \$2.25 | 761,110 |
| | ----- |
| | 945,832 |
| | ===== |

NOTE 4. PREFERRED STOCK

At September 30, 2002 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

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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. The preferred shareholders have also agreed that dividends would not accrue on the outstanding stock from April 2001 through June 2002. Dividends were accreted at 8% during the free dividend period. 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 May 2001, we issued 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. We have also agreed that dividends would not accrue on the outstanding stock from May 2001 through June 2002. Dividends were accreted at 8% during the free dividend period. As of May 2001 there were no dividends in arrears relating to the outstanding shares of Series B Preferred Stock.

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NOTE 5. 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, 2002 and 2001:

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| | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| Operating revenues: (1) | | | | |
| Drilling | \$ 7,045 | \$ 7,093 | \$18,807 | \$15,029 |
| Aviation | 637 | 1,362 | 2,345 | 2,711 |
| Survey | -- | 129 | -- | 611 |
| Permitting | 50 | 596 | 253 | 1,027 |
| Total | \$ 7,732 | \$ 9,180 | \$21,405 | \$19,378 |

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(1) Net of inter-segment revenues of \$0.1 million for the three and nine month periods ended September 30, 2001.

| | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| Gross profit: | | | | |
| Drilling | \$ 1,936 | \$ 1,622 | \$ 4,410 | \$ 2,415 |
| Aviation | 163 | 16 | 1,044 | (357) |
| Survey | (21) | (3) | (91) | (136) |
| Permitting | 8 | 84 | 30 | 143 |
| Other (Corporate) | (134) | (151) | (417) | (322) |
| Total | \$ 1,952 | \$ 1,568 | \$ 4,976 | \$ 1,743 |
| General and administrative expenses | 1,004 | 565 | 2,310 | 1,878 |
| Asset impairment | -- | -- | -- | 180 |
| Other expense (income), net | 318 | 9 | 829 | (6,759) |
| Income before taxes | \$ 630 | \$ 994 | \$ 1,837 | \$ 6,444 |
| Capital Expenditures (2): | | | | |
| Drilling | \$ 96 | \$ 263 | \$ 374 | \$ 477 |
| Aviation | 20 | -- | 20 | -- |
| Survey | -- | -- | -- | -- |
| Permitting | -- | -- | -- | -- |
| Other | 4 | 8 | 34 | 11 |
| Total | \$ 120 | \$ 271 | \$ 428 | \$ 488 |

(2) Net of assets acquired from AirJac (See Note 9) totaling \$2.1 million and assets previously leased from Bank One totaling \$1.0 million.

| Identifiable Assets: | As of September 30, | |
|----------------------|---------------------|----------|
| | 2002 | 2001 |
| Drilling | \$25,573 | \$23,890 |
| Aviation | 5,827 | 1,748 |
| Survey | 1,073 | 1,640 |
| Permitting | 40 | -- |
| Other | 9,063 | 7,425 |
| Total | \$41,576 | \$34,703 |

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NOTE 6. RECENT PRONOUNCEMENTS

In July 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" were issued. SFAS No. 141 requires all business combinations initiated after September 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after September 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we adopted SFAS No. 142 effective January 1, 2002 and accordingly, no amortization of goodwill was recorded in the quarter or nine months ended September 30, 2002. Goodwill amortization expense for the quarter and nine months ended September 30, 2001 were approximately \$26,000 and \$48,000. The adoption of SFAS No. 142 did not have a significant effect on our results of operations and financial condition.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued. These 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 was effective for our fiscal year beginning January 1, 2002. Under SFAS No. 144 an impairment loss shall be recognized if an evaluation of the carrying amount of an asset against the undiscounted future cash flows associated with it is not sufficient to cover the carrying value of such assets. An impairment loss shall also be recognized on assets held for sale if the carrying amount of a long-lived asset or asset group is not recognizable and exceeds the fair value. The adoption of SFAS No. 144 did not have any impact on our financial statements.

In April 2002, Statement of Financial Accounting Standards (SFAS) No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections" was issued. SFAS No. 145 eliminates the requirement under FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" (Statement 4) to report gains and losses from extinguishments of debt as extraordinary items in the income statement. Accordingly, gains or losses from extinguishments of debt for fiscal years beginning after May 15, 2002 shall not be reported as extraordinary items unless the extinguishment qualifies as an extraordinary item under the provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (Opinion 30). The adoption of SFAS 145 is not expected to have any impact on our financial statements upon adoption.

NOTE 7. 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 account 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 8. ASSETS HELD FOR SALE

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At September 30, 2002, we had \$0.7 million in assets held for sale which includes 8 steel marsh buggies as well as the remaining assets of our South American operation. We expect to dispose of the remaining assets held for sale during 2002. The carrying values, which we believe approximate fair market value of our assets held for sale at September 30, 2002, is as follows (in thousands):

| Asset Type | September 30, 2002 |
|-----------------------------------|--------------------|
| Steel marsh buggies | \$108 |
| South American facility and other | 555 |
| | ---- |
| Total assets held for sale | \$663 |
| | ===== |

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NOTE 9. ACQUISITION

On January 18, 2002 we acquired the assets of AirJac Drilling (AirJac), a division of Veritas DGC Land, Inc., 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 certain future consideration. In this acquisition we acquired inventory, vehicles, shop equipment and drilling, field and support equipment. The acquisition also resulted in the recognition of \$1.9 million of goodwill principally from discounts granted to Veritas in connection with minimum future work. We are still in the process of valuing the assets and liabilities acquired, including customer relationship intangible assets. We expect to have this completed prior to December 31, 2002. Offsetting liabilities have been recorded for these future minimum discounts. The results of AirJac's operations have been included in our consolidated financial statements since the acquisition date. The following summarized unaudited data reflects our consolidated pro forma results of operations as if the AirJac transaction had taken place on January 1, 2001 (in thousands):

| | Unaudited Pro forma Results | |
|----------------------------|--|---|
| | Three months ended September 30, 2001 | Nine months ended September 30, 2001 |
| Revenue | 12,925 | 29,227 |
| Gross Profit | 1,888 | 2,524 |
| Net income | 1,120 | 6,563 |
| Basic earnings per share | \$ 0.12 | \$ 0.73 |
| Diluted earnings per share | \$ 0.12 | \$ 0.67 |

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 and is expected to be completed by December 31, 2002 (amounts in thousands):

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| | |
|----------------------------------|----------|
| 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 |
| | ===== |

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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, 2001.

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 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, the market experienced a rebound. Based upon bid activity and existing backlog, we expect revenues to continue to improve in 2002.

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

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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, | | Nine months en September 3 |
|---|-------------------------------------|----------|-------------------------------|
| | 2002 | 2001 | 2002 |
| Operating revenue | \$ 7,732 | \$ 9,180 | \$ 21,405 |
| Operating expense | 5,780 | 7,612 | 16,429 |
| Gross profit | 1,952 | 1,568 | 4,976 |
| General and administrative expenses | 1,004 | 565 | 2,310 |
| Asset impairment charges | -- | -- | -- |
| Operating income (loss) | 948 | 1,003 | 2,666 |
| Interest expense | 295 | 169 | 774 |
| Other income (expense) | (23) | 160 | (55) |
| Income before income taxes | 630 | 994 | 1,837 |
| Income taxes | -- | -- | -- |
| Net income | 630 | 994 | 1,837 |
| Accretion of preferred stock | -- | (242) | (484) |
| Net income (loss) applicable to common and common equivalent shares | \$ 630 | \$ 752 | \$ 1,353 |

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Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001

Operating revenues decreased 16%, or \$1.5 million, from \$9.2 million for the three months ended September 30, 2001 to \$7.7 million for the three months ended September 30, 2002. Drilling revenues remained constant at \$7.0 million for the three month periods ended September 30, 2002 and 2001. Aviation revenues decreased \$0.7 million from the three month period ended September 30, 2001 to the same three month period of 2002 as a result of fewer aircraft and fewer hours flown. Permitting revenues decreased \$0.5 million from the third quarter of 2001 to the third quarter of 2002; likewise, survey revenues decreased \$0.1 million. This decrease was primarily attributable to our decision to concentrate personnel, equipment and available working capital into more profitable segments of the seismic industry.

Operating expenses decreased 24%, or \$1.8 million, from \$7.6 million for the three months ended September 30, 2001 to \$5.8 million for the three months ended September 30, 2002. This decrease is partially attributable to lower operating payroll and payroll related costs, which decreased \$0.2 million from \$2.8 million to \$2.6 million for the three month periods ended September 30, 2001 and 2002, respectively. Our average number of field personnel increased by 37 from 182 employees during the third quarter of 2001 to 219 employees during the third quarter of 2002. We currently utilize third party contractors to perform all survey and permitting services as well as some drilling services. Third party contract services decreased \$0.5 million during the three months

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ended September 30, 2002 as compared to September 30, 2001 principally as a result of the decrease in permitting and survey revenues. Rentals and leases expenses decreased \$0.5 million primarily as a result of the capitalization of the aircraft previously leased by the aviation division. Explosives and down hole expenses decreased \$0.3 million, and repairs and maintenance expenses and fuel and oil expenses decreased \$0.1 million each from the three months ended September 30, 2001 to the same period of 2002 as management continues its efforts to control its costs.

Gross profit margins were 25% for the three months ended September 30, 2002 as compared to 17% for the three months ended September 30, 2001. The increase in profit margins in 2002 as compared to 2001 was attributable to a combination of improved margins obtained for services rendered and implementation of stringent controls over, and a restructuring of, our field operating expenses.

General and administrative expenses increased \$0.4 million from \$0.6 million for the three months ended September 30, 2001 to \$1.0 million for the three months ended September 30, 2002. Payroll and payroll related costs accounted for \$0.1 million of this increase. The average number of administrative employees decreased from 31 during the third quarter of 2001 to 29 for the third quarter of 2002. During the three month period ended September 30, 2001, we also renegotiated certain vendor and lease agreements at terms more favorable than those agreements previously in existence, resulting in a savings of approximately \$0.3 million with no comparable adjustments in the three month period ended September 30, 2002.

Interest expense increased \$0.1 million from the three months ending September 30, 2001 to the three months ended September 30, 2002. This is a result of higher levels of debt between the two periods, primarily the capitalization of the aviation fleet which was previously leased.

No income tax expense was recognized on our income during the third quarters of 2001 or 2002 as we expect to utilize our net operating loss carryforwards, which have been reserved in prior periods, to offset our taxable income during the periods.

Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

Operating revenues increased 10%, or \$2.0 million, from \$19.4 million for the nine months ended September 30, 2001 to \$21.4 million for the nine months ended September 30, 2002. Revenues from our drilling operations increased \$3.8 million principally as a result of an increase in seismic activity. The aviation, permitting and survey divisions, however, experienced an aggregate \$1.8 million decrease in revenues over this same period, attributable to our decision to concentrate personnel, equipment and available working capital into more profitable segments of the seismic industry.

Operating expenses decreased 7%, or \$1.2 million, from \$17.6 million for the nine months ended September 30, 2001 to \$16.4 million for the nine months ended September 30, 2002. Rentals and leases expenses and repairs and maintenance expenses on previously leased aviation equipment decreased \$0.7 million each during the first three quarters of 2002 as compared to the first three quarters of 2001. However, as a result of increased drilling activity for the seismic

industry, explosive supplies used in the drilling operations increased \$0.4 million for the nine months ended September 30, 2002 as compared to the same

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nine month period ended 2001.

Gross profit margins were 23% and 9% for the nine months ended September 30, 2002 and 2001, respectively. The improvement in the profit margins is a direct result of increased business activity in our more profitable business segments, improved margins received for the services provided and more stringent controls on operating expenses.

General and administrative expenses increased \$0.4 million from the nine months ended September 30, 2001 to the nine months ended September 30, 2002. We realized approximately \$0.4 million in savings during the nine month period ended September 30, 2001 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, 2002. These increases were partially offset by a \$0.1 million decrease in bad debt expense due to the recovery of amounts previously expensed.

Restructuring and asset impairment charges decreased \$0.2 million due to revaluation of certain drilling equipment in 2001 with no corresponding charges for the same period in 2002.

Interest expense decreased \$0.3 million from \$1.1 million for the nine month period ended September 30, 2001 to \$0.8 million for the nine month period ended September 30, 2002. The reduction was a result of lower average debt outstanding coupled with lower average interest rates during the periods.

No income tax expense was recognized on income during the first nine months of 2001 or 2002 as we expect to utilize our net operating loss carryforwards, which have been reserved in prior periods, to offset our taxable income during those periods.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2002, we had approximately \$0.3 million in cash compared to approximately \$1.2 million at December 31, 2001. We had working capital of approximately \$3.5 million at September 30, 2002, compared to approximately \$2.3 million at December 31, 2001. The increase in working capital from December 31, 2001 to September 30, 2002 is due primarily to the increase in prepaid insurance resulting from policy renewals in September 2002.

Cash provided by operating activities was \$3.0 million for the period ended September 30, 2002. This compares to cash provided by operating activities totalling \$5.9 million for the period ended September 30, 2001 which included \$7.5 million from the receipt of key-man life insurance proceeds used principally to retire long term and subordinated debt.

Our primary credit facility is with PNC Bank (the "PNC Facility"). The PNC Facility, which partially replaced the Hibernia Facility in September 2002, currently provides us with a \$3.5 million equipment loan and a \$7.0 million revolving line of credit to finance working capital requirements. The revolving line of credit bears interest at prime plus 1.5% and the equipment loan bears interest at prime plus 1.75% and both have a final maturity of August 23, 2005. The proceeds from the facility were used to repay debt. As of September 30, 2002, we had approximately \$6.1 million outstanding under the PNC Facility, of which \$2.7 million was outstanding under the revolving line of credit and \$3.4 million was outstanding under the equipment term note. Availability under the revolving line of credit is the lower of: (i) \$7.0 million or (ii) the sum of 85% of eligible accounts receivable, plus 50% of eligible aviation inventory of parts and supplies. The revolving line of credit is collateralized by our accounts receivable and inventory. At September 30, 2002 additional borrowing capacity under the revolving line of credit was \$0.9 million. We expect the cash flow provided by our operating activities will be adequate to finance our

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working capital needs for the remainder of 2002.

At September 30, 2002, we also had approximately \$9.3 million in other loans outstanding, including approximately \$1.8 million in outstanding debt pursuant to agreements with a financing company. This loan is an asset-based financing instrument bearing interest at LIBOR plus 5.0% and maturing in August 2004. We also had \$3.6 million in outstanding debt to a financing company pursuant to the acquisition of our aviation fleet previously financed through an operating lease. This loan is secured by the aviation fleet, amortizes over ten years, accrues interest at 8% per annum and matures January 1, 2007. Additionally, we had \$1.8 million in outstanding debt to a bank which is collateralized by our primary office buildings. The loan bears interest at prime plus 1.5% and has a final maturity of August 31, 2004. Of the remaining \$2.1 million on other loans outstanding, \$0.6 million is due pursuant to capital lease obligations on our vehicle fleet and \$1.5 million is due to certain insurance finance companies.

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On January 18, 2002 we acquired the assets of AirJac Drilling, a division of Veritas DGC Land, Inc., 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 certain future consideration. In this acquisition we acquired inventory, vehicles, shop equipment and drilling, field and support equipment. The acquisition also resulted in the recognition of \$1.9 million of goodwill resulting principally from future discounts granted to Veritas in connection with future minimum work. Offsetting liabilities have been recorded for these future discounts. We received advances from affiliates totaling approximately \$1.3 million in connection with the financing of this transaction. At September 30, 2002 approximately \$0.4 million of these advances remain outstanding, all of which is secured by accounts receivable from a customer. The results of AirJac's operations have been included in our consolidated financial statements since the acquisition date.

Historically, our capital requirements have primarily related to the purchase or fabrication of new seismic drilling equipment and related support equipment and business acquisitions. Other than the acquisition discussed in Note 9, we have no material commitments outstanding for expenditures nor do we anticipate significant capital expenditures in the remainder of 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

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development activity; changes in competitive factors affecting our operations; operating hazards, including the significant possibility of accidents resulting in personal injury, property damage or environment damage; 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 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, 2001. 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, 2001.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report pursuant to Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified under the Exchange Act. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we filed under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99.1 Certification of Chief Executive Officer

99.2 Certification of Chief Financial Officer

(b) Reports on Form 8-K

Current Report on Form 8-K filed July 3, 2002 regarding reverse stock split.

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certifying accountant.

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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 14, 2002

/s/ JAMES C. ECKERT

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

Dated: November 14, 2002

/s/ BURTON T. ZAUNBRECHER

Burton T. Zaunbrecher
Executive Vice President,
Chief Operating Officer and Treasurer

Dated: November 14, 2002

/s/ G. DARCY KLUG

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

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OMNI Energy Services Corp.
a Louisiana corporation
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Section 302 Certification

I, James Eckert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OMNI Energy Services Corp., a Louisiana corporation (the "registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for

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establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ JAMES ECKERT

James Eckert
Chief Executive Officer

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OMNI Energy Services Corp.
a Louisiana corporation
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Section 302 Certification

I, Darcy Klug, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of OMNI Energy Services Corp., a Louisiana corporation (the "registrant");
- 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to

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make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ G. DARCY KLUG

G. Darcy Klug
Chief Financial Officer

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EXHIBIT INDEX

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| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|--|
| 99.1 | Certification of Chief Executive Officer |
| 99.2 | Certification of Chief Financial Officer |