

MITCHAM INDUSTRIES INC

Form 10-Q

September 09, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended July 31, 2008

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 000-25142

MITCHAM INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of
incorporation or organization)

76-0210849

(I.R.S. Employer Identification No.)

8141 SH 75 South

P.O. Box 1175

Huntsville, Texas 77342

(Address of principal executive offices, including Zip Code)

(936) 291-2277

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,803,580 shares of common stock, \$0.01 par value, were outstanding as of September 5, 2008.

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	<u>Certification of CEO & CFO Pursuant to Section 906</u>	

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MITCHAM INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	July 31, 2008	January 31, 2008
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,152	\$ 13,884
Restricted cash	1,413	
Accounts receivable, net	15,898	12,816
Current portion of contracts receivable	4,904	2,964
Inventories, net	5,229	6,352
Deferred tax asset	708	1,230
Prepaid expenses and other current assets	711	1,491
Total current assets	35,015	38,737
Seismic equipment lease pool and property and equipment, net	64,180	53,179
Intangible assets, net	3,386	3,692
Goodwill	4,320	4,358
Net deferred tax asset	1,624	1,505
Long-term portion of contracts receivable and other assets	1,268	2,430
Total assets	\$ 109,793	\$ 103,901
 LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 9,623	\$ 16,729
Current maturities long-term debt	2,000	1,500
Income taxes payable	702	1,967
Deferred revenue	1,138	872
Accrued expenses and other current liabilities	9,425	3,674
Total current liabilities	22,888	24,742
Non-current income taxes payable	3,820	3,391
Total liabilities	26,708	28,133
Shareholders' equity:		
Preferred stock, \$1.00 par value; 1,000 shares authorized; none issued and outstanding		
Common stock \$0.01 par value; 20,000 shares authorized; 10,726 and 10,708 shares issued at July 31, 2008 and January 31, 2008, respectively	107	107
Additional paid-in capital	73,350	71,929

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Treasury stock, at cost (921 shares at July 31, 2008 and January 31, 2008)	(4,814)	(4,805)
Retained earnings	6,565	662
Accumulated other comprehensive income	7,877	7,875
Total shareholders' equity	83,085	75,768
Total liabilities and shareholders' equity	\$ 109,793	\$ 103,901

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

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MITCHAM INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2008	2007	2008	2007
Revenues:				
Equipment leasing	\$ 7,500	\$ 6,249	\$ 19,873	\$ 16,330
Lease pool equipment sales	1,844	775	2,405	1,492
Seamap equipment sales	3,285	5,605	8,567	15,663
Other equipment sales	4,866	2,770	5,184	4,928
Total revenues	17,495	15,399	36,029	38,413
Cost of sales:				
Direct costs equipment leasing	343	351	785	821
Direct costs lease pool depreciation	3,673	2,442	7,313	4,846
Cost of equipment sales	6,365	6,033	9,189	16,069
Total cost of sales	10,381	8,826	17,287	21,736
Gross profit	7,114	6,573	18,742	16,677
Operating expenses:				
General and administrative	4,430	3,620	9,305	7,640
Depreciation and amortization	364	366	759	721
Total operating expenses	4,794	3,986	10,064	8,361
Operating income	2,320	2,587	8,678	8,316
Other income				
Interest, net	223	64	373	142
Other, net	3		8	2
Total other income	226	64	381	144
Income before income taxes	2,546	2,651	9,059	8,460
Provision for income taxes	(921)	(930)	(3,156)	(2,799)

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Net income	\$ 1,625	\$ 1,721	\$ 5,903	\$ 5,661
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Net income per common share:

Basic	\$ 0.17	\$ 0.18	\$ 0.61	\$ 0.59
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Diluted	\$ 0.16	\$ 0.17	\$ 0.57	\$ 0.55
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Shares used in computing net income per common share:

Basic	9,764	9,672	9,758	9,657
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Diluted	10,385	10,271	10,361	10,219
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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MITCHAM INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Six Months Ended	
	July 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 5,903	\$ 5,661
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,153	5,567
Stock-based compensation	1,163	985
Provision for (recovery of) doubtful accounts	95	(134)
Provision for inventory obsolescence	249	288
Gross profit from sale of lease pool equipment	(1,173)	(818)
Excess tax benefit from exercise of non-qualified stock options	(96)	(483)
Deferred tax provision	474	1,794
Changes in:		
Accounts receivable	(1,246)	1,222
Contracts receivable	(779)	1,111
Inventories	916	653
Prepaid expenses and other current assets	1,273	245
Income taxes payable	(1,190)	109
Accounts payable, accrued expenses, other current liabilities and deferred revenue	(7,298)	1,304
Net cash provided by operating activities	6,444	17,504
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(15,411)	(17,240)
Purchases of property and equipment	(470)	(355)
Sale of used lease pool equipment	2,405	1,492
Net cash used in investing activities	(13,476)	(16,103)
Cash flows from financing activities:		
Net proceeds from line of credit	2,000	4,500
Payments on borrowings	(1,500)	(6,000)
Purchase of short-term investments	(1,413)	
Proceeds from issuance of common stock upon exercise of warrants and stock options, net of stock surrendered	196	322
Excess tax benefit from exercise of non-qualified stock options	96	483
Net cash used in financing activities	(621)	(695)
Effect of changes in foreign exchange rates on cash and cash equivalents	(79)	424

Net (decrease) increase in cash and cash equivalents	(7,732)	1,130
Cash and cash equivalents, beginning of period	13,884	12,582
Cash and cash equivalents, end of period	\$ 6,152	\$ 13,712

Supplemental cash flow information:

Interest paid	\$ 135	\$ 244
Income taxes paid	\$ 3,306	\$ 588

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

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Mitcham Industries, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)
(unaudited)

1. Basis of Presentation

The condensed consolidated balance sheet as of January 31, 2008 for Mitcham Industries, Inc. (for purposes of these notes the Company) has been derived from audited consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company's Annual Report on Form 10-K for the year ended January 31, 2008. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of July 31, 2008, the results of operations for the three and six months ended July 31, 2008 and 2007, and the cash flows for the six months ended July 31, 2008 and 2007, have been included in these financial statements. The foregoing interim results are not necessarily indicative of the results of the operations to be expected for the full fiscal year ending January 31, 2009.

2. Organization

Mitcham Industries, Inc., a Texas corporation, was incorporated in 1987. The Company, through its wholly owned Canadian subsidiary, Mitcham Canada, Ltd. (MCL) and its wholly owned Russian subsidiary, Mitcham Seismic Eurasia LLC (MSE), provides full-service equipment leasing, sales and service to the seismic industry worldwide. The Company, through its wholly owned Australian subsidiary, Seismic Asia Pacific Pty Ltd. (SAP), provides seismic, oceanographic and hydrographic leasing and sales worldwide, primarily in Southeast Asia and Australia. The Company, through its wholly owned subsidiary, Seemap International Holdings Pte. Ltd. (Seemap), designs, manufactures and sells a broad range of proprietary products for the seismic, hydrographic and offshore industries with product sales and support facilities based in Singapore and the United Kingdom. All intercompany transactions and balances have been eliminated in consolidation.

3. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), to define fair value, establish a framework for measuring fair value and expand disclosures about the use of fair value to measure assets and liabilities. SFAS 157 requires quantitative disclosures using a tabular format in all periods (interim and annual) and qualitative disclosures about the valuation techniques used to measure fair value in all annual periods. SFAS 157 was effective for the Company's fiscal year beginning February 1, 2008. The adoption of SFAS 157 had no material effect on the Company's consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 was effective for the Company's fiscal year beginning February 1, 2008. The adoption of SFAS 159 had no material effect on the Company's consolidated financial position and results of operations.

4. Restricted Cash

In connection with a contract awarded in May 2008, SAP has pledged approximately \$1.4 million in short-term time deposits to secure performance obligations under the contract. The amount of the security will be released as the contract obligations are performed over the life of the contract, which is estimated to be nine to twelve months.

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	July 31, 2008	January 31, 2008
Accounts receivable:		
Accounts receivable	\$ 16,678	\$ 14,328
Allowance for doubtful accounts	(780)	(1,512)
Total accounts receivable, net	\$ 15,898	\$ 12,816

Accounts receivable at July 31, 2008 increased over the amount at January 31, 2008 due primarily to significant transactions occurring near to July 31, 2008. During the three months ended July 31, 2008 certain accounts receivable were charged-off against the allowance for doubtful accounts.

Contracts receivable:		
Contracts receivable	\$ 6,139	\$ 5,360
Less current portion of contracts receivable	(4,904)	(2,964)
Long-term portion of contracts receivable	\$ 1,235	\$ 2,396

Inventories:

Raw materials	\$ 3,362	\$ 3,565
Finished goods	794	898
Work in progress	2,203	2,693
	6,359	7,156
Less allowance for obsolescence	(1,130)	(804)
Total inventories, net	\$ 5,229	\$ 6,352

The allowance for obsolescence increased from January 31, 2008 to July 31, 2008 based on revised estimates of net realizable amounts.

Seismic equipment lease pool and property and equipment:		
Seismic equipment lease pool	\$ 133,594	\$ 116,676
Land and buildings	366	366
Furniture and fixtures	5,768	5,026
Autos and trucks	622	605
	140,350	122,673
Accumulated depreciation and amortization	(76,170)	(69,494)
Total seismic equipment lease pool and property and equipment, net	\$ 64,180	\$ 53,179

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	Weighted Average Life at 7/31/08	Gross Carrying Amount	July 31, 2008 Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	January 31, 2008 Accumulated Amortization	Net Carrying Amount
Goodwill		\$ 4,320		\$ 4,320	\$ 4,358		\$ 4,358
Proprietary rights Covenants not-to-compete	11.9	\$ 3,861	\$ (475)	\$ 3,386	\$ 3,886	\$ (333)	\$ 3,553
		1,000	(1,000)		1,000	(861)	139
Amortizable intangible assets		\$ 4,861	\$ (1,475)	\$ 3,386	\$ 4,886	\$ (1,194)	\$ 3,692

As of July 31, 2008, the Company had goodwill of \$4,320, all of which is allocated to the Seemap segment. During the three months ended July 31, 2008 the Company recorded a decrease in goodwill in the amount of \$38 resulting from the recognition of certain tax credits relating to the operations of Seemap. These tax credits related to the period prior to the acquisition of Seemap by the Company. No impairment has been recorded against the goodwill account.

Amortizable intangible assets are amortized over their estimated useful lives of three to 15 years using the straight-line method. Aggregate amortization expense was \$127 and \$114 for the three months ended July 31, 2008 and 2007, respectively, and \$282 and \$228 for the six months ended July 31, 2008 and 2007, respectively. As of July 31, 2008, future estimated amortization expense related to amortizable intangible assets is estimated to be:

For fiscal years ending January 31:

2009	\$ 142
2010	284
2011	284
2012	284
2013 and thereafter	2,392
Total	\$ 3,386

7. Long-Term Debt and Notes Payable

The Company entered into a \$12,500 revolving loan agreement with First Victoria National Bank (the Bank) which expires on February 1, 2009. The facility bears interest at the prime rate. Amounts available for borrowing under the facility are determined by a borrowing base. The borrowing base is computed based on certain outstanding accounts receivable, certain portions of the Company's lease pool and any lease pool assets that are to be purchased with proceeds of the facility. Borrowings under the facility are secured by essentially all of the Company's domestic assets. Interest on any outstanding principal balance is payable monthly, while the principal is due at maturity. The loan agreement also contains certain financial covenants that require, among other things, that the Company maintain a debt to shareholders' equity ratio of a maximum of 1.3 to 1.0, maintain a current assets to current liabilities ratio of a minimum of 1.25 to 1.0, and not incur or maintain any indebtedness or obligations or guarantee the debts or obligations of others in a total aggregate amount which exceeds \$1,000 without the prior written approval of the Bank, except for indebtedness incurred as a result of the Seemap acquisition and other specific exceptions. As of July 31, 2008, \$2,000 is outstanding under this facility.

In connection with the Seemap acquisition in July 2005, the Company issued \$3,000 in promissory notes payable to the former shareholders of Seemap, of which \$1,500 was outstanding at January 31, 2008. The notes bear interest at

5%, which is payable annually on the anniversary of the notes. A partial principal payment of \$637 was made in February 2008 and the remaining principal payment of \$863 was made in July 2008.

8. Shareholders Equity

During the six months ended July 31, 2008, approximately 18 shares were issued upon the exercise of stock options by employees pursuant to various stock option plans of the Company.

Table of Contents**9. Comprehensive Income**

Comprehensive income generally represents all changes in shareholders' equity during the period, except those resulting from investments by, or distributions to, shareholders. The Company has comprehensive income related to changes in foreign currency to U.S. dollar exchange rates, which is recorded as follows:

	Three Months Ended		Six Months Ended	
	July 31,		July 31,	
	2008	2007	2008	2007
Net income	\$ 1,625	\$ 1,721	\$ 5,903	\$ 5,661
Gain (loss) from foreign currency translation adjustment	(299)	1,248		