MITCHAM INDUSTRIES INC
Form 10-Q
December 08, 2010

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

(Mark One)

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

For the quarterly period ended October 31, 2010

or

o **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	**76-0210849**
(State or other jurisdiction of incorporation or organization)	(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ
		(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 o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 9,947,794 shares of common stock, $0.01 par value, were outstanding as of December 3, 2010.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	October 31, 2010	January 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,521	$ 6,130
Restricted cash	687	605
Accounts receivable, net	14,355	15,444
Current portion of contracts receivable	3,721	2,073
Inventories, net	4,704	5,199
Cost and estimated profit in excess of billings on uncompleted contract		398
Income taxes receivable		1,438
Deferred tax asset	1,919	1,400
Prepaid expenses and other current assets	2,908	1,986
Total current assets	37,815	34,673
Seismic equipment lease pool and property and equipment, net	74,997	66,482
Intangible assets, net	5,475	2,678
Goodwill	4,320	4,320
Prepaid foreign income tax	2,960	2,574
Deferred tax asset		88
Long-term portion of contracts receivable, net	5,262	4,533
Other assets	36	49
Total assets	$ 130,865	$ 115,397
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 12,460	$ 6,489
Current maturities long-term debt	3,111	93
Income taxes payable	1,771	1,345
Deferred revenue	860	854
Accrued expenses and other current liabilities	4,119	2,668
Total current liabilities	22,321	11,449
Non-current income taxes payable	3,402	3,258
Deferred tax liability	224	
Long-term debt, net of current maturities	13,426	15,735
Total liabilities	39,373	30,442
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; 10,872 and 10,737 shares issued at October 31, 2010 and January 31, 2010, respectively		108		107
Additional paid-in capital		77,261		75,746
Treasury stock, at cost (925 shares at October 31, 2010 and January 31, 2010)		(4,843)		(4,843)
Retained earnings		13,222		10,247
Accumulated other comprehensive income		5,744		3,698
Total shareholders equity		91,492		84,955
Total liabilities and shareholders equity	$	130,865	$	115,397

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

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

	For the Three Months Ended October 31, 2010	For the Three Months Ended October 31, 2009	For the Nine Months Ended October 31, 2010	For the Nine Months Ended October 31, 2009
Revenues:				
Equipment leasing	$ 8,074	$ 9,037	$ 24,133	$ 20,165
Lease pool equipment sales	976	808	1,498	978
Seamap equipment sales	4,249	4,241	17,230	13,882
Other equipment sales	6,674	444	8,767	2,787
Total revenues	19,973	14,530	51,628	37,812
Cost of sales:				
Direct costs equipment leasing	895	748	2,485	2,201
Direct costs lease pool depreciation	5,289	4,610	15,556	13,127
Cost of lease pool equipment sales	385	473	634	570
Cost of Seamap and other equipment sales	7,425	2,534	15,376	8,645
Total cost of sales	13,994	8,365	34,051	24,543
Gross profit	5,979	6,165	17,577	13,269
Operating expenses:				
General and administrative	3,937	3,809	12,286	11,280
Provision for doubtful accounts		730	797	1,379
Depreciation and amortization	296	213	871	690
Total operating expenses	4,233	4,752	13,954	13,349
Operating (loss) income	1,746	1,413	3,623	(80)
Other income (expenses):				
Gain from bargain purchase in business combination			1,304	
Interest, net	(90)	(122)	(302)	(303)
Other, net	(553)	123	(618)	405
Total other income (expense)	(643)	1	384	102
Income before income taxes	1,103	1,414	4,007	22

Provision for income taxes	(376)	(388)	(1,032)	(86)
Net income (loss)	$ 727	$ 1,026	$ 2,975	$ (64)
Net income (loss) per common share:				
Basic	$ 0.07	$ 0.10	$ 0.30	$ (0.01)
Diluted	$ 0.07	$ 0.10	$ 0.29	$ (0.01)
Shares used in computing net income (loss) per common share:				
Basic	9,916	9,805	9,854	9,795
Diluted	10,203	9,969	10,122	9,795

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 Nine Months Ended October 31,	
	2010	**2009**
Cash flows from operating activities:		
Net income (loss)	$ 2,975	$ (64)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	16,586	13,912
Stock-based compensation	941	1,119
Gain from bargain purchase in business combination	(1,304)	
Provision for doubtful accounts	797	1,379
Provision for inventory obsolescence	63	13
Gross profit from sale of lease pool equipment	(864)	(408)
Excess tax benefit from exercise of non-qualified stock options	(3)	(45)
Deferred tax benefit	(1,335)	(1,553)
Changes in non-current income taxes payable	144	(288)
Changes in working capital items, net of effects from business combination:		
Accounts receivable	609	(2,186)
Contracts receivable	(2,376)	(36)
Inventories	833	(1,468)
Prepaid expenses and other current assets	(952)	(268)
Income taxes receivable and payable	1,833	3,073
Costs incurred and estimated profit in excess of billings on uncompleted contract	573	1,746
Prepaid foreign income tax	(221)	
Accounts payable, accrued expenses, other current liabilities and deferred revenue	1,996	(1,339)
Net cash provided by operating activities	20,295	13,587
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(16,049)	(18,828)
Purchases of property and equipment	(262)	(358)
Sale of used lease pool equipment	1,498	978
Acquisition of AES, net of cash acquired	(2,100)	
Net cash used in investing activities	(16,913)	(18,208)
Cash flows from financing activities:		
Net (payments on) proceeds from line of credit	(4,250)	5,300
Proceeds from secured promissory note	3,672	

Payments on borrowings	(122)	
(Purchases of) proceeds from short-term investments	(15)	871
Proceeds from issuance of common stock upon exercise of stock options, net of stock surrendered to pay taxes	244	(12)
Excess tax benefit from exercise of non-qualified stock options	3	45
Net cash (used in) provided by financing activities	(468)	6,204
Effect of changes in foreign exchange rates on cash and cash equivalents	477	(246)
Net change in cash and cash equivalents	3,391	1,337
Cash and cash equivalents, beginning of period	6,130	5,063
Cash and cash equivalents, end of period	$ 9,521	$ 6,400
Supplemental cash flow information:		
Interest paid	$ 465	$ 461
Income taxes paid	$ 1,716	$ 820
Purchases of seismic equipment held for lease in accounts payable at end of period	$ 9,621	$ 4,577

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

MITCHAM INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The condensed consolidated balance sheet as of January 31, 2010 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 of America (GAAP) 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, 2010. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of October 31, 2010, the results of operations for the three and nine months ended October 31, 2010 and 2009, and the cash flows for the nine months ended October 31, 2010 and 2009, 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, 2011.

2. Organization

The Company was incorporated in Texas in 1987. The Company, through its wholly owned Canadian subsidiaries, Mitcham Canada, Ltd. (MCL) and Absolute Equipment Solutions, Inc. (AES), its wholly owned Russian subsidiary, Mitcham Seismic Eurasia LLC (MSE) and its branch operations in Colombia and Peru, 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, Seamap International Holdings Pte, Ltd. (Seamap), 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 Huntsville, Texas, Singapore and the United Kingdom. All material intercompany transactions and balances have been eliminated in consolidation.

3. New Accounting Pronouncements

ASC 805 *Business Combinations* (ASC 805) includes authoritative guidance requiring assets and liabilities recorded in a business combination to be recorded at fair value and is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application was not permitted before that date. This guidance replaces the cost-allocation process used to record business combinations under prior guidance. In addition, ASC 805 requires separate recognition of acquisition costs and of contractual contingencies at fair value as of the acquisition date. Further, the guidance requires capitalization of research and development assets and requires fair value recognition of contingent consideration as of the acquisition date. This guidance changes the accounting treatment for any business combination undertaken by the Company after February 1, 2009.

In the second quarter of 2009, the Company adopted guidance included in ASC 855 *Subsequent Events* (ASC 855), which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. ASC 855 provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The application of ASC 855 had no impact on the Company s consolidated condensed financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were filed.

4. Acquisition

On March 1, 2010, MCL acquired all of the capital stock of AES for a total purchase price of Cdn $4,194,000 (approximately U.S. $3,984,000). AES manufactures, sells and leases heli-pickers and associated equipment that is utilized in the deployment and retrieval of seismic equipment by helicopters. The Company made this acquisition to expand the type of equipment available to its customers and to expand the markets in which it operates. The consideration consisted of cash paid at closing in the amount of Cdn $2,200,000 (approximately U.S. $2,090,000), promissory notes in the amount of Cdn $1,500,000 (approximately U.S. $1,425,000), a post-closing working capital adjustment payment of Cdn $194,000 (approximately U.S. $184,000) and deferred cash payments in the amount of Cdn $300,000. The promissory notes bear interest at 6% annually, payable semi-annually. The principal amount of the notes is repayable in two equal installments on March 1, 2011 and 2012. The deferred cash payments will be made upon the expiration of certain indemnity periods. MCL may offset amounts due pursuant to the promissory notes or the deferred cash payment against indemnity claims due from the sellers. In addition, the sellers may be entitled to additional cash payments of up to Cdn $750,000 should AES attain certain levels of revenues during the 24-month period following the acquisition, as specified in the agreement.

The Company hired an outside consulting firm, The BVA Group L.L.C., to assess the fair value of the assets and liabilities acquired in the AES acquisition in accordance with ASC 805. The fair value of the contingent consideration was determined to be approximately Cdn $200,000. There were no amounts recognized related to other contingencies. The fair value of the assets and liabilities acquired exceeded the total value of consideration paid, resulting in a bargain purchase. Accordingly, a gain of $1,304,000 was recorded as of the date of acquisition and no goodwill resulted from the transaction. Management believes that the bargain purchase arose due to the recent decline in the oil and gas service industry and the limited market for seismic equipment businesses. The following is a summary of the amounts recognized for assets acquired and liabilities assumed at the date of acquisition (in thousands):

Working capital	$ 327
Seismic equipment lease pool	2,990
Deferred taxes	(1,086)
Intangible assets	3,154

Revenue and net loss for AES were $637,000 and $(47,000) for the three months ended October 31, 2010, respectively, and $1,285,000 and $(142,000) for the eight months ended October 31, 2010, respectively. The operations of AES are included in our Equipment Leasing segment.

Pro Forma Results of Operations

The following consolidated pro forma results of operations for the three months and nine months ended October 31, 2010 and 2009 assumes the acquisition of AES occurred as of the beginning of those periods and reflects the full results of operations for the periods presented. The consolidated pro forma results have been prepared for comparative purposes only and do not purport to indicate the results of operations that would actually have occurred had the combinations been in effect on the dates indicated, or that may occur in the future.

	Three Months Ended October 31,		**Nine Months Ended October 31,**	
(In thousands, except per share amounts)	**2010**	**2009**	**2010**	**2009**
Revenues	$ 19,973	$ 15,251	$ 51,789	$ 40,185
Net income	$ 727	$ 1,169	$ 2,882	$ 220
Earnings per share:				
Basic	$ 0.07	$ 0.12	$ 0.29	$ 0.02
Diluted	$ 0.07	$ 0.12	$ 0.28	$ 0.02

5. Restricted Cash

In connection with certain contracts, SAP has pledged approximately $687,000 in short-term time deposits as of October 31, 2010 to secure performance obligations under those contracts. The amount of security will be released as the contractual obligations are performed over the remaining terms of the contracts, which is estimated to be approximately three months. As the investment in the short-term time deposits relates to a financing activity, the securing of contract obligations, this transaction is reflected as a financing activity in the accompanying condensed consolidated statements of cash flows.

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6. Balance Sheet

	October 31, 2010	January 31, 2010
	(in thousands)	
Accounts receivable:		
Accounts receivable	$ 17,051	$ 17,864
Allowance for doubtful accounts	(2,696)	(2,420)
Total accounts receivable, net	$ 14,355	$ 15,444
Contracts receivable:		
Contracts receivable	$ 10,470	$ 8,093
Valuation allowance	(1,487)	(1,487)
Less current portion of contracts receivable	(3,721)	(2,073)
Long-term portion of contracts receivable, net	$ 5,262	$ 4,533

Contracts receivable consisted of $8,983,000 due from four customers as of October 31, 2010 and $6,606,000 due from five customers as of January 31, 2010. Long-term contracts receivable, at October 31, 2010 and January 31, 2010, includes approximately $3,217,000 related to a contract receivable from a customer that has defaulted on this contract. The Company is in the process of repossessing the equipment that was pledged as collateral for the obligation. The carrying value of this account has been reduced to the fair market value of the equipment, less the estimated cost to repossess the equipment. The Company expects to place the equipment recovered in its lease pool of equipment and accordingly has classified this amount as a non-current asset. The balance of contracts receivable at October 31, 2010 and January 31, 2010 consists of contracts bearing interest at an average of approximately 8% per year and with remaining repayment terms from three to 20 months. These contracts are collateralized by the equipment sold and are considered collectable, thus no allowances have been established for them.

	October 31, 2010	January 31, 2010
	(in thousands)	
Inventories:		
Raw materials	$ 2,413	$ 2,695
Finished goods	1,991	2,171
Work in progress	992	1,016
	5,396	5,882
Less allowance for obsolescence	(692)	(683)
Total inventories, net	$ 4,704	$ 5,199

	October 31, 2010	January 31, 2010
	(in thousands)	
Seismic equipment lease pool and property and equipment:		
Seismic equipment lease pool	$ 175,530	$ 151,921
Land and buildings	366	366
Furniture and fixtures	6,704	6,305
Autos and trucks	631	526
	183,231	159,118
Accumulated depreciation and amortization	(108,234)	(92,636)
Total seismic equipment lease pool and property and equipment, net	$ 74,997	$ 66,482

7. Goodwill and Other Intangible Assets

	Weighted Average Life at 10/31/10	October 31, 2010 Gross Carrying Amount	October 31, 2010 Accumulated Amortization	October 31, 2010 Net Carrying Amount	January 31, 2010 Gross Carrying Amount	January 31, 2010 Accumulated Amortization	January 31, 2010 Net Carrying Amount
			(in thousands)			(in thousands)	
Goodwill		$ 4,320			$ 4,320		