MITCHAM INDUSTRIES INC
Form 10-Q
June 05, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2013

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	**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 x No ¨

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 x 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.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 12,782,135 shares of common stock, $0.01 par value, were outstanding as of June 4, 2013.

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PART I. FINANCIAL INFORMATION

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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)

	April 30, 2013	January 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,544	$ 15,150
Restricted cash	775	801
Accounts receivable, net	28,416	23,131
Current portion of contracts and notes receivable	1,638	2,096
Inventories, net	7,445	6,188
Prepaid income taxes	5,528	5,591
Deferred tax asset	1,900	1,842
Prepaid expenses and other current assets	4,619	3,079
Total current assets	66,865	57,878
Seismic equipment lease pool and property and equipment, net	111,829	119,608
Intangible assets, net	3,815	3,989
Goodwill	4,320	4,320
Deferred tax asset	3,919	4,296
Other assets	87	316
Total assets	$ 190,835	$ 190,407
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,599	$ 6,921
Current maturities long-term debt	147	145
Deferred revenue	1,134	539
Accrued expenses and other current liabilities	3,486	1,875
Total current liabilities	8,366	9,480
Non-current income taxes payable	376	376
Long-term debt, net of current maturities	2,199	4,238
Total liabilities	10,941	14,094
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; 13,783 and 13,763 shares issued at April 30, 2013 and January 31, 2013, respectively	138	138
Additional paid-in capital	116,888	116,506
Treasury stock, at cost (1,029 and 926 shares at April 30, 2013 and January 31, 2013, respectively)	(6,387)	(4,860)
Retained earnings	62,655	56,348
Accumulated other comprehensive income	6,600	8,181

Total shareholders equity		179,894		176,313
Total liabilities and shareholders equity	$	190,835	$	190,407

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 April 30, 2013	2012
Revenues:		
Equipment leasing	$ 20,093	$ 21,008
Lease pool equipment sales	900	2,332
Seamap equipment sales	3,927	10,544
Other equipment sales	2,371	747
Total revenues	27,291	34,631
Cost of sales:		
Direct costs - equipment leasing	1,273	2,705
Direct costs - lease pool depreciation	7,419	8,394
Cost of lease pool equipment sales	402	1,404
Cost of Seamap and other equipment sales	3,600	5,242
Total cost of sales	12,694	17,745
Gross profit	14,597	16,886
Operating expenses:		
General and administrative	6,039	5,319
Recovery of doubtful accounts		(428)
Depreciation and amortization	375	329
Total operating expenses	6,414	5,220
Operating income	8,183	11,666
Other income (expenses):		
Interest, net	(3)	(5)
Other, net	(261)	(598)
Total other income (expenses)	(264)	(603)
Income before income taxes	7,919	11,063
Provision for income taxes	(1,612)	(2,607)
Net income	$ 6,307	$ 8,456
Net income per common share:		
Basic	$ 0.49	$ 0.67
Diluted	$ 0.48	$ 0.63

Shares used in computing net income per common share:

Basic	12,789	12,626
Diluted	13,220	13,326

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

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MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended April 30,	
	2013	**2012**
Net income	$ 6,307	$ 8,456
Change in cumulative translation adjustment	(1,581)	1,766
Comprehensive income	$ 4,726	$ 10,222

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 Three Months Ended April 30, 2013	For the Three Months Ended April 30, 2012
Cash flows from operating activities:		
Net income	$ 6,307	$ 8,456
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,826	8,757
Stock-based compensation	266	194
Provision for inventory obsolescence	58	60
Gross profit from sale of lease pool equipment	(498)	(928)
Excess tax benefit from exercise of non-qualified stock options and restricted shares	(56)	(350)
Deferred tax benefit (provision)	259	(1,257)
Changes in working capital items:		
Accounts receivable	(5,665)	4,357
Contracts and notes receivable	688	(632)
Inventories	(1,345)	165
Prepaid expenses and other current assets	(1,578)	(422)
Income taxes receivable and payable	(46)	532
Prepaid foreign income tax		(236)
Accounts payable, accrued expenses, other current liabilities and deferred revenue	2,174	(832)
Net cash provided by operating activities	8,390	17,864
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(4,945)	(23,812)
Purchases of property and equipment	(161)	(146)
Sale of used lease pool equipment	900	2,332
Net cash used in investing activities	(4,206)	(21,626)
Cash flows from financing activities:		
Net (payments on) proceeds from revolving line of credit	(2,000)	6,650
Payments on borrowings	(39)	(1,465)
Net purchases of short-term investments	3	
Proceeds from issuance of common stock upon exercise of options	60	96
Purchase of treasury stock	(1,527)	
Excess tax benefit from exercise of non-qualified stock options and restricted shares	56	350
Net cash (used in) provided by financing activities	(3,447)	5,631
Effect of changes in foreign exchange rates on cash and cash equivalents	657	276
Net change in cash and cash equivalents	1,394	2,145
Cash and cash equivalents, beginning of period	15,150	15,287
Cash and cash equivalents, end of period	$ 16,544	$ 17,432

Supplemental cash flow information:		
Interest paid	$ 66	$ 167
Income taxes paid	$ 1,379	$ 3,821
Purchases of seismic equipment held for lease in accounts payable at end of period	$ 995	$ 2,000

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

(unaudited)

1. Basis of Presentation

The condensed consolidated balance sheet as of January 31, 2013 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 (U.S. 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, 2013. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of April 30, 2013, the results of operations for the three months ended April 30, 2013 and 2012, and the cash flows for the three months ended April 30, 2013 and 2012, have been included in these financial statements. The foregoing interim results are not necessarily indicative of the results of operations to be expected for the full fiscal year ending January 31, 2014.

2. Organization

The Company was incorporated in Texas in 1987. The Company, through its wholly owned Canadian subsidiary, Mitcham Canada, ULC. (MCL), its wholly owned Russian subsidiary, Mitcham Seismic Eurasia LLC (MSE), its wholly owned Hungarian subsidiary, Mitcham Europe Ltd. (MEL), its wholly owned Singaporean subsidiary, Mitcham Marine Leasing Pte Ltd (MML), 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 manufacturing, support and sales facilities based in Singapore and the United Kingdom. All material intercompany transactions and balances have been eliminated in consolidation.

3. Restricted Cash

In connection with the temporary importation of lease pool equipment, MSE has pledged approximately $679,000 in short-term deposits as of April 30, 2013 as collateral to secure import bonds posted with Russian customs authorities. Also, in connection with certain contracts, SAP has pledged approximately $96,000 in short-term time deposits as of April 30, 2013 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 five months.

As these investments in the short-term time deposits relates to financing activities, the securing of contract obligations, these transactions are reflected as a financing activities in the accompanying condensed consolidated statements of cash flows.

4. Balance Sheet

	April 30, 2013	January 31, 2013
	(in thousands)	

Accounts receivable:		
Accounts receivable	$ 31,779	$ 26,505
Allowance for doubtful accounts	(3,363)	(3,374)
Total accounts receivable, net	$ 28,416	$ 23,131
Contracts and notes receivable:		
Contracts receivable	$ 838	$ 904
Notes receivable	849	1,471
Less current portion	(1,638)	(2,096)
Long-term portion	$ 49	$ 279

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Contracts receivable consisted of $838,000 due from two customers as of April 30, 2013 and $904,000 due from two customers as of January 31, 2013. Notes receivable of $849,000 at April 30, 2013 and $1,471,000 at January 31, 2013 relate to promissory notes issued by a customer in settlement of a trade accounts receivable. As of April 30, 2013, these agreements bear interest at an average of approximately 8.7% per year and have remaining repayment terms of four to 14 months. These agreements are collateralized by seismic equipment and are considered collectable; thus, no allowances have been established for them.

	April 30, 2013	January 31, 2013
	(in thousands)	
Inventories:		
Raw materials	$ 3,153	$ 3,103
Finished goods	4,191	3,531
Work in progress	1,220	627
	8,564	7,261
Less allowance for obsolescence	(1,119)	(1,073)
Total inventories, net	$ 7,445	$ 6,188

	April 30, 2013	January 31, 2013
	(in thousands)	
Seismic equipment lease pool and property and equipment:		
Seismic equipment lease pool	$ 239,233	$ 241,395
Land and buildings	366	366
Furniture and fixtures	8,999	8,899
Autos and trucks	746	748
	249,344	251,408
Accumulated depreciation and amortization	(137,515)	(131,800)
Total seismic equipment lease pool and property and equipment, net	$ 111,829	$ 119,608

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5. Goodwill and Other Intangible Assets

	Weighted Average Remaining Life at 4/30/2013	April 30, 2013 Gross Carrying Amount	April 30, 2013 Accumulated Amortization (in thousands)	April 30, 2013 Net Carrying Amount	January 31, 2013 Gross Carrying Amount	January 31, 2013 Accumulated Amortization (in thousands)	January 31, 2013 Net Carrying Amount
Goodwill		$ 4,320			$ 4,320		
Proprietary rights	7.2	$ 3,481	$ (1,657)	$ 1,824	$ 3,503	$ (1,625)	1,878
Customer relationships	4.8	2,383	(943)	1,440	2,402	(876)	1,526
Patents	4.8	718	(284)	434	724	(264)	460
Trade name	4.8	196	(79)	117	197	(72)	125
Amortizable intangible assets		$ 6,778	$ (2,963)	$ 3,815	$ 6,826	$ (2,837)	$ 3,989

As of April 30, 2013, the Company had goodwill of $4,320,000, all of which was allocated to the Seamap segment. No impairment was recorded against the goodwill account.

Amortizable intangible assets are amortized over their estimated useful lives of eight to 15 years using the straight-line method. Aggregate amortization expense was $165,000 and $169,000 for the three months ended April 30, 2013 and 2012, respectively. As of April 30, 2013, future estimated amortization expense related to amortizable intangible assets was estimated to be:

For fiscal years ending January 31 (in thousands):	
2014	$ 499
2015	665
2016	665
2017	665
2018	665
2019 and thereafter	656
Total	$ 3,815

6. Long-Term Debt and Notes Payable

Long-term debt and notes payable consisted of the following (in thousands):

	April 30, 2013	January 31, 2013
Revolving line of credit	$ 2,000	$ 4,000
Other equipment notes	346	383
	2,346	4,383
Less current portion	(147)	(145)
Long-term debt	$ 2,199	$ 4,238

In August 2012, the Company entered into an amended credit agreement with First Victoria Bank (the Bank) that provides for borrowings of up to $50,000,000 on a revolving basis through August 31, 2015 (the Revolving Credit Facility). The Company may, at its option, convert any or all balances outstanding under the Revolving Credit Facility into a series of term notes with monthly amortization over 48 months.

Amounts available for borrowing under the Revolving Credit Facility are determined by a borrowing base. The borrowing base is computed based upon certain outstanding accounts receivable, certain portions of the Company s lease pool and certain lease pool assets that have been purchased with proceeds from the Revolving Credit Facility. The Revolving Credit Facility and any term loans are collateralized by essentially all of the Company s domestic assets.

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Interest is payable monthly at the greater of the prime rate or 3.25%. As of April 30, 2013, the applicable rate was 3.25%. Up to $10,000,000 of available borrowings under the Revolving Credit Facility may be utilized to secure letters of credit. As of April 30, 2013, there were outstanding stand-by letters of credit totaling approximately $622,000. The Revolving Credit Facility contains certain financial covenants that require, among other things, the Company to maintain a debt to shareholders equity ratio of no more than 0.7 to 1.0, maintain a current assets to current liabilities ratio of not less than 1.25 to 1.0; and have quarterly earnings before interest, taxes, depreciation and amortization (EBITDA) of not less than $2,000,000. The Revolving Credit Facility also provides that the Company may not incur or maintain indebtedness in excess of $10,000,000 without the prior written consent of the Bank, except for borrowings related to the Revolving Credit Facility. The Company may also guaranty up to $5,000,000 of subsidiary debt without the Bank s prior consent. The Company was in compliance with each of these provisions as of and for the three months ended April 30, 2013. The Company s average borrowings under the Revolving Credit Facility for the three months ended April 30, 2013 and 2012 were approximately $6,983,000 and $15,634,000, respectively.

From time to time, certain subsidiaries have entered into notes payable to finance the purchase of certain equipment, which are secured by the equipment purchased.

7. Income Taxes

Prepaid income taxes of approximately $5.5 million at April 30, 2013 consisted of approximately $3.6 million of foreign taxes and approximately $1.9 million of domestic federal and state taxes. Prepaid income taxes of approximately $5.6 million at January 31, 2013 consisted of approximately $4.2 million of foreign taxes and approximately $1.4 million of domestic federal and state taxes.

The Company and its subsidiaries file consolidated and separate income tax returns in the United States federal jurisdiction and in foreign jurisdictions. The Company is subject to United States federal income tax examinations for all tax years beginning with its fiscal year ended January 31, 2010.

The Company is subject to examination by taxing authorities throughout the world, including foreign jurisdictions such as Australia, Canada, Colombia, Hungary, Peru, Russia, Singapore, and the United Kingdom. With few exceptions, the Company and its subsidiaries are no longer subject to foreign income tax examinations for tax years before 2008.

In July 2012, the Company reached a settlement with the Canadian Revenue Agency (CRA) and the Internal Revenue Service regarding its request for competent authority assistance for matters arising from an audit of the Company s Canadian income tax returns for the years ended January 31, 2004, 2005 and 2006. The issues involved related to intercompany repair charges, management fees and the deductibility of depreciation charges and whether those deductions should be taken in Canada or in the United States. Pursuant to the settlement agreement, adjustments have been proposed to the Company s Canadian and United States income tax returns for the years ended January 31, 2004 through January 31, 2012. These changes are estimated to result in a net reduction to consolidated income tax expense of approximately $141,000, which amount was reflected in the Company s benefit from income taxes for the fiscal year ended January 31, 2013.

As a result of the settlement, in the fiscal year ended January 31, 2013, the Company recognized the benefit of certain tax positions amounting to approximately $3.3 million and reversed previous estimates of potential penalties and interest amounting to approximately $1.9 million.

The effective tax rate for the three months ended April 30, 2013 and 2012 was approximately 20.4% and 23.6%, respectively. These rates are less than the federal statutory rate of 34% primarily due to the effect of lower tax rates in certain foreign jurisdictions. The Company has determined that earnings from these jurisdictions have been permanently reinvested outside of the United States.

8. Earnings per Share

Net income per basic common share is computed using the weighted average number of common shares outstanding during the period, excluding unvested restricted stock. Net income per diluted common share is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period using the treasury stock method. Potential common shares result from the assumed exercise of outstanding common stock options having a dilutive effect and from the assumed vesting of unvested shares of restricted stock.

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The following table presents the calculation of basic and diluted weighted average common shares used in the earnings per share calculation:

	Three Months Ended April 30, 2013	Three Months Ended April 30, 2012
	(in thousands)	
Basic weighted average common shares outstanding	12,789	12,626
Stock options	393	676
Unvested restricted stock	38	24
Total weighted average common share equivalents	431	700
Diluted weighted average common shares outstanding	13,220	13,326

9. Treasury Stock

In April 2013, the Board of Directors authorized the repurchase of up to 1,000,000 shares of the Company s common stock through December 31, 2014. During the three months ended April 30, 2013, the Company has repurchased 102,900 shares of its common stock at an average price of $14.79 per share. These shares are reflected as treasury stock in the accompanying financial statements. The Company expects that it will continue to purchase its shares from time to time in the open market or in privately negotiated purchase transactions as market and financial conditions warrant.

10. Stock-Based Compensation

Total compensation expense recognized for stock-based awards granted under the Company s various equity incentive plans during the three months ended April 30, 2013 and 2012 was approximately $266,000 and $194,000, respectively.

11. Segment Reporting

The Equipment Leasing segment offers new and experienced seismic equipment for lease or sale to the oil and gas industry, seismic contractors, environmental agencies, government agencies and universities. The Equipment Leasing segment is headquartered in Huntsville, Texas, with sales and services offices in Calgary, Canada; Brisbane, Australia; Ufa, Bashkortostan, Russia; Budapest, Hungary; Singapore; Bogota, Colombia; and Lima, Peru.

The Seamap segment is engaged in the design, manufacture and sale of state-of-the-art seismic and offshore telemetry systems. Manufacturing, support and sales facilities are maintained in the United Kingdom and Singapore.

Financial information by business segment is set forth below (net of any allocations):

	As of April 30, 2013 Total Assets	As of January 31, 2013 Total Assets
	(in thousands)	
Equipment Leasing	$ 173,642	$ 171,971
Seamap	17,284	18,578
Eliminations	(91)	(142)
Consolidated	$ 190,835	$ 190,407

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Results for the three months ended April 30, 2013 and 2012 were as follows (in thousands):

	Revenues		Operating income		Income before taxes	
	2013	2012	2013	2012	2013	2012
Equipment Leasing	$ 23,364	$ 24,087	$ 8,158	$ 7,027	$ 7,835	$ 6,726
Seamap	3,934	10,841	(26)	4,561	33	4,259
Eliminations	(7)	(297)	51	78	51	78
Consolidated	$ 27,291	$ 34,631	$ 8,183	$ 11,666	$ 7,919	$ 11,063

Sales from the Seamap segment to the Equipment Leasing segment are eliminated in the consolidated revenues. Consolidated income before taxes reflects the elimination of profit from intercompany sales and depreciation expense on the difference between the sales price and the cost to manufacture the equipment. Fixed assets are reduced by the difference between the sales price and the cost to manufacture the equipment, less the accumulated depreciation related to the difference.

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q (this Form 10-Q) may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words anticipate, believe, expect, plan intend, foresee, should, could, or other similar expressions are intended to identify forward-looking statements, which generally are not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

decline in the demand for seismic data and our services;

the effect of changing economic conditions and fluctuations in oil and natural gas prices on exploration activities;

the effect of uncertainty in financial markets on our customers and our ability to obtain financing;

loss of significant customers;

increased competition;