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# EDITED TRANSCRIPT

MIND.OQ - Q4 2007 Mitcham Industries Earnings Conference Call

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## CORPORATE PARTICIPANTS

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**Bill Mitcham** *Mitcham Industries - President and CEO*

**Rob Capps** *Mitcham Industries - CFO*

## CONFERENCE CALL PARTICIPANTS

**Pierre Conner** *Capital One Southcoast - Analyst*

**Tyson Bauer** *Wealth Monitors - Analyst*

**Brian Black** *Lamb Partners - Analyst*

**Tamara Menukien** *Greenwood Investments - Analyst*

**Terese Fabian** *Sidoti & Co. - Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen, thank you for standing by. Welcome to the Mitcham Industries' fourth quarter and year end financial results conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be opened for questions. (OPERATOR INSTRUCTIONS).

This conference is being recorded today, Wednesday, April 11, 2007.

I would now like to the conference over to [Karen Roan] of DRG&E. Please go ahead.

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### Karen Roan - DRG&E - Host

Thank you Heidi. Good morning and welcome to the Mitcham Industries' fiscal 2007 fourth quarter and year end conference call. We appreciate you joining us today. Your host will be Bill Mitcham, President and Chief Executive Officer; and Chief Financial Officer Rob Capps.

Before I turn the call over to management, I have a few items to cover. If you would like to be added to the Company's e-mail distribution list please call DRG&E's office at 713-529-6600 and relay that information to us. Or you can send an e-mail to me at [kcroan@DRG-e.com](mailto:kcroan@DRG-e.com) and we will add you to the list.

If you would like to listen to a replay of today's call, it is available via webcast by going to the Investor Relations section of the Company's web site at [www.MitchamIndustries.com](http://www.MitchamIndustries.com) or via a recorded instant replay until April 25th. Information on how to access the replay was provided in yesterday's press release.

Information reported on this call speaks only as of today April 11, 2007, and therefore, you are advised that time-sensitive information may no longer be accurate as of the times of any replay.

Before we begin, let me remind you that certain statements made by management during this call may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements regarding the Company's future, including without limitation, the Company's expected future financial position, results of operations, cash flows, financing plans, growth margins, business strategy, budgets, projected costs and expenses, capital expenditures, competitive positions, product offerings, access to capital and growth opportunities are forward-looking statements. These forward-looking statements are based on management's current expectations and include known and

unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the Company's actual future results or performance to materially differ from any future results or performance expressed or implied by those statements.

These risks and uncertainties include the risk factors disclosed by the Company from time to time in its filings with the SEC, including in its annual report on Form 10-K for the year ended January 31, 2007. Furthermore as we start this call, please refer to the statement regarding forward-looking statements incorporated in the press release issued yesterday; and please note that the contents of the conference call this morning are covered by those statements.

I will now turn the call over to Bill Mitcham.

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

Thank you, Karen, and good morning, everyone, and thank you for dialing in. We're very pleased to welcome you to our conference call today to discuss our fiscal 2007 fourth quarter and year end results. Going forward, we expect to host conference calls on a regular basis.

This morning, I will provide you with highlights of the quarter and year. Rob will then discuss the financial details; and I will return with some final comments before we take questions.

Although the fourth quarter earnings were clearly a disappointment, the quarter was not a bad quarter. As Rob will tell you later the total revenues increased 10%, but more importantly our core business short-term leasing was up 53% to \$6.8 million. Overall it was a good quarter and overall it was a very good year for us and a year in which we believe we have positioned ourselves for an even better fiscal 2008 and beyond.

2007 was a year in which we continue to see rising demand from our customers; and one in which we had several notable accomplishments which I will briefly describe.

In September we announced a signing of a new exclusive equipment lease agreement for Sercel's next-generation 3 component digital sensor unit or DSU 3428 XL. This product is an integrated package of station electronics with Nims XL (indiscernible) and can be used with Sercel's 408 UL or 428 XL data acquisition systems.

For the contractor and the oil company, this sensor offers compelling technology. It is more cost-effective, less labor-intensive and consumes significantly less power than similar products available in the industry. It addresses today's industry requirements for very high density, high channel count surveys, and we believe the Sercel sensor will be a core technology of the future. As part of our agreement with Sercel, we will be expanding our DSU 3 lease pool over the next few years and look forward to offering this equipment to contractors and oil companies operating around the globe.

We own the only rental pool available for this equipment and recently took delivery of 5000 channels -- sorry, 5000 stations or 15,000 channels. We put the equipment to work almost immediately upon delivery and have continued to experience strong demand and interest. We are seeing growing interest in this technology in almost all geographic regions around the world. In fact, the DSU 3 equipment is working on its third job or its third contract today and has been there since January, scheduled to work through the middle of May.

In August, we acquired the Sercel Marine Streamer for our lease pool of marine equipment. This system offers flexible architecture, lower power consumption, and fully distributable electronics enabling it to be tailored to the changing demands of complex 2-D and 3-D marine surveys. Although we already had digital streamer technology in our rental fleet the acquisition of the Sercel Seal System was another step in the expansion of our deepwater long offset marine capabilities.

In March, we signed an exclusive manufacturing agreement with Sercel for our Seemap subsidiary to the manufacture of weight collars for both fluid seal and Sentinel solid streamer technology from (indiscernible). Seemap -- which we acquired in July of 2005 -- has a long history of manufacturing and providing premier marine seismic technology solutions.

Also in fiscal 2007, we saw a strong start to our operations in our Russian office in Ufa, Bashkortostan; and that continues today as we serve our contractor clients throughout Russia and Central Asia from that location. As part of our overall strategy, our goal was to enter Russia when that market was not only robust but relatively stable and sustainable. Ufa is a highly industrialized city with a population of over one million people which is also the Russian base of operations for OEO GO impulse and a Sercel Service Center.

Ufa is an ideal location from which to supply the winter operations in the Western Siberian oil and gas provinces and the summer operation in Russia's Volga region as well as the Central Asian states such as Kazakhstan and Uzbekistan.

For the winter season currently winding down, we have committed approximately 10,000 channels of acquisition equipment to this market with almost 100% utilization. And we have plans to increase that channel count over the next few years. We also believe that our location in Ufa, from our location in Ufa, we can readily support activity in other areas such as Eastern Europe and the Middle East.

We introduced GunLink 4000 System to the market this year -- or last year. Our GunLink product line manufactured by our Seamap subsidiary is utilized on seismic vessels to coordinate and control the energy sources used in marine seismic surveys. We believe this product is now well positioned in the marketplace. However we had some design issues early on with the product and it is one of several issues that negatively impacted our fourth quarter and annual results.

As we previously disclosed in our third quarter press release, we discovered a design issue with a version of the GunLink 4000 System specifically configured to operate with a recently introduced airgun designed by another manufacturer. Along with our customer and assistance from the airgun manufacturer, we investigated the issue and now completed the design changes and corrected the problem.

Changes were implemented in all versions of the GunLink 4000 product to ensure compatibility and the production process. The resolution of this problem, along with efforts to the customer requirements, resulted in unexpected pretax costs of approximately \$1.7 million for the year of which \$1.4 million occurred in the fourth quarter.

In addition to these charges, two GunLink 4000 orders were affected deferring approximately \$2 million in revenues that we had expected in the third quarter to future quarters. One of those orders shipped last month in March and the other was converted to a GunLink 2000 order and is expected to be delivered later this year. Also approximately \$2.4 million of Seamap product sales that were expected to occur in the fourth quarter were deferred to the first quarter of fiscal 2008.

The affected orders consisted of two GunLink 2000 systems and other ancillary equipment and they were deferred due to production delays as well as postponements in the availability of the customers' vessel for installation.

It is also worth noting that four GunLink 2000 units produced by Seamap in the fourth quarter were sold to us here at Mitcham for use in the marine lease pool on a very favorable new 12-month lease contract that began on March 1. Our fourth quarter consolidated results do not include revenues from the sale of these GunLink 2000 units which amounted to approximately \$1 million, as the sale is classified as an intercompany transaction.

As I said this contract began March 1 and along with other marine equipment provided by us, it will generate a little over \$2.5 million of lease revenue during the lease period.

So combining these items reduced fourth quarter revenues and operating income by approximately \$3.4 million and \$2.3 million respectively. Had these revenues not been pushed out of the quarter, revenue growth would have been approximately 44% in the fourth quarter.

Before I turn the call over to Rob I just want to say one more time we are extremely confident that the GunLink 4000 problems are behind us. We are very pleased with Seamap and our backlog at Seamap was about \$17 million at January 31, 2007, including \$13 million for GunLink orders. Now I'll turn the call over to Rob Capps, our Chief Financial Officer, who will give you a detailed review of our financial results and then I will return with some final remarks.

**Rob Capps - Mitcham Industries - CFO**

Thanks, Bill, and good morning, everyone.

I will start this morning by reviewing the operating results. First the fourth quarter, and then I will move on and do the full year and after that I will just make a few comments about the balance sheet.

First for the fourth quarter, the total revenues for the quarter were up about 10% to \$11.1 million from \$10.1 million a year ago. Approximately 76% of those revenues came from our equipment leasing segment, for the balance of 24% coming from our Seamap segment. We look at our capital in two segments. The equipment leasing segment includes our core leasing business but it also includes some equipment sales.

Included within this segment are opportunistic sales on leasable equipment, sales of new seismic equipment and from other manufacturers and sales by our Seismic Asia-Pacific or SAP subsidiaries that is located in Brisbane, Australia. We will occasionally sell equipment from our lease (indiscernible) specific customer demand and on the rental outlook for that particular equipment. We will also act as a reseller of new seismic equipment acquired from other manufacturers from time to time.

Our SAP subsidiary regularly sells new hydrographic and oceanographic equipment to customers in Australia and throughout the Pacific Rim. Of course our Seamap segment consists of the sales of marine seismic equipment that they design and manufacture.

Now our core revenues for equipment leasing, as Bill said -- and this excludes equipment sales -- increased 43% in the fourth quarter to \$6.8 million from \$4.4 million a year ago. This was driven by rising demand for seismic equipment -- 53% -- I'm sorry. This was driven by rising demand for seismic equipment, our expansion into new geographic markets and the growth of our lease pool.

We purchased over \$25 million of new lease equipment for our lease pool in 2007, with about \$15 million of that being acquired in the fourth quarter. And therefore that did not significantly contribute to fourth quarter leasing revenues. Sales of new seismic equipment and SAP equipment also benefited from the strong demand indictment with revenues rising 45% to \$1.4 million. Sales of lease pool equipment were down 89% to about \$300,000. This is because of strong rental demand for equipment which has made us less inclined to sell assets from our lease pool.

Now in spite of the issues Bill mentioned earlier, Seamap equipment sales for the fourth quarter increased 39% to \$2.6 million from last year's fourth quarter due to increased demand for Seamap product including the BuoyLink and GunLink productlines.

Our overall gross profit for the fourth quarter was \$4.7 million or 42.8% of revenues, compared to 47.5% of revenues in the fourth quarter of last year. This decline in gross profit margin was due primarily to costs associated with the resolution of the design issue of the new GunLink 4000 System.

General and administrative costs for the fourth quarter increased to \$4.3 million from \$2.8 million in the same period last year mainly due to higher expenses for stock-based compensation, which has increased to \$447,000 from only \$81,000 last year in the fourth quarter and increased expenses for Sarbanes-Oxley 404 compliance, which I will talk more about in the moment.

In February of 2006 we adopted the new accounting standard FAS 123R which requires the expensing of stock options. Effective with our year end on January 31, 2007, we became an accelerated filer with the SEC and therefore we are required for the first time to evaluate and report on our system's internal control under Section 404 of the Sarbanes-Oxley Act.

Now in recent quarters we have had an income tax of benefit which arises from the recognition of deferred tax assets. These deferred tax assets arose primarily from net operating losses carryforwards and prior periods and book tax differences related to fixed assets. Our fourth quarter tax benefit was \$639,000 which compares to a tax benefit of \$3 million in last year's fourth quarter.

Our fourth quarter EBITDA was \$2.3 million, and dropped to 21% of revenues from 44% of revenues in the same period last year. Our adjusted EBITDA which excludes the stock-based compensation expense was \$2.8 million or 25% of revenues, down from about 45% of revenues in the same period last year.

Now I remind you that EBITDA and adjusted EBITDA are not GAAP measures and are reconciled to reported net income in note A of the financial tables in our earnings release last night.

Now, for the full year total revenues grew about 41% to \$48.9 million. Our revenue mix for the year was approximately 77% from the equipment leasing segment and 23% from the Seemap segment. Our core revenue from equipment leasing, excluding equipment sales, grew almost 13% to \$24.9 million while combined sales of new seismic and SAP equipment increased 160% to \$8.4 million.

Lease pool equipment declined 18% to \$4.3 million as strong demand and heavy utilization limited the situations in which we felt it advantageous to sell the equipment from our lease pool.

Seemap equipment sales for 2007 rose to \$11.2 million from \$4 million in fiscal 2006. And we acquired Seemap in July 2005 so to contribute only seven months to last fiscal year compared to 12 full months in this year. The gross profits for fiscal 2007 declined to 47.2% of revenues compared to 51.2% of revenues in fiscal 2006. Once again, this decline in gross profit is due primarily to the unexpected cost associated with the GunLink 4000 design issue we've talked about.

General and administrative costs for fiscal 2007 rose to \$15 million from \$9.4 million in fiscal 2006. That's due to the inclusion of Seemap for a full year as well as increased expenses related to stock-based compensation and the Sarbanes-Oxley compliance. The effect of adopting SFAS 123R in February 2006 was approximately \$1.6 million of expenses recognized related to stock-based compensation in 2007. This compares to only \$150,000 in 2006.

I mentioned a moment ago we also incurred additional expenses related to Sarbanes-Oxley 404 compliance that were not incurred in fiscal 2006. These expenses amounted to about \$600,000 in fiscal 2007. Depreciation expense other than our lease build [depreciation] increased substantially as well which reflects a full year's amortization of intangibles acquired with Seemap versus only seven months last year.

Our fiscal 2007 tax benefit was \$1.8 million which compares to a tax benefit of \$3 million for fiscal 2006. Now as of January 31, 2007, we have recognized substantially all the tax benefit from these deferred tax assets that have generated these benefits in the past. Accordingly, we expect an effective tax rate for fiscal 2008 of approximately 34%.

Now EBITDA for 2007 was \$15.5 million or 32% of revenue compared to \$17 million or 49% of revenue fiscal 2006. Adjusted EBITDA which includes stock-based compensation was \$17.2 million or 35% of revenues compared to \$17.2 million or 50% of revenues in fiscal 2006 as a decline in EBITDA and tested EBITDA as a percentage of revenue, plus the increased portion of our business coming from the Seemap segment which generally will have a lower end of margin. Once again I will remind you that EBITDA and adjusted EBITDA are not GAAP measures and they are reconciled to net income in our press release -- (indiscernible) to our press release yesterday.

Let me just mention a couple or three balance sheet items and I will turn things back over to Bill. As of year end at January 31 we had long-term debt at \$1.5 million. That yields a debt-to-total capital ratio of about 2.5%. Our cash and cash equivalents at that point was \$12.6 million. We had working capital of \$13.7 million.

That really concludes the items I wanted to bring to your attention and, with that, I'll turn it back over to Bill.

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

Thank you, Rob.

Aside from this being our first earnings conference call in quite some time, we would also like to start providing some financial guidance so hopefully we can all be on the same page. Given the seasonality or lumpiness of the seismic business we are more comfortable -- lumpiness is a Gary Owens term -- we are more comfortable giving annual guidance.

So please realize the following guidance is based on our core short-term leasing business as well as our current expectation of sales of GunLink and BuoyLink system. Now systems sales are fairly high dollars so any incremental change can have a meaningful impact on our top and bottom-line results.

That said and based on our current backlog of business and our fiscal 2008 operating plan, we expect total revenues for our fiscal year ending January 31, 2008, to range between \$55 and \$60 million. We expect operating income for fiscal 2008 to range between \$12.5 million and \$13.5 million. Again as Rob said we have now recognized substantially all of our referred tax benefits and, therefore, project an effective tax rate of approximately 34% for fiscal '08.

In closing, I'd just ask you to focus your attention in terms of Mitcham on the long-term opportunities for this company rather than getting too caught up in the short-term results. Our business is dictated by long-term industry trends. The trend of growth in customer demand for seismic equipment and not just more equipment but more advanced equipment, this past year, we have added 25 million of equipment to our lease pool to include the latest state-of-the-art land and marine technology. As well we have expanded our operational footprint internationally to better service the market.

Remember, we don't expand our lease pool on speculation. We expand because we have customers requiring or requesting the equipment and the expansion meets our stringent requirements for return on our invested capital.

Along with our customers and equipment suppliers, we are always looking for opportunities to work together in greater partnership to develop newer and develop and deploy newer technology. Our ability to provide 24 hour worldwide service continues to be a big advantage in securing new contracts that might otherwise go unfilled.

All in all fiscal [2000] was a good year. I think 2008 will be an even better year. That concludes my formal remarks and we are ready to take questions.

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS) [Pierre Conner] with Capital One Southcoast.

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### Pierre Conner - Capital One Southcoast - Analyst

Thanks for having the conference call. Appreciate it. First questions are around GunLink. And so, I appreciate the commentary you feel like you are confident that you have gotten all that resolution of the design issue behind you. Was there anything that came through in that, that is going to change your expectation of future margins?

In other words is there going to be another processing step or something in the ability that changes what, how you expect the margins to come once you start delivering on a regular basis?

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### Bill Mitcham - Mitcham Industries - President and CEO

No. I don't think it is going to change the margins any -- well. I will tell you this. As you know we are in the process of moving all of manufacturing to Singapore. Certainly we expect once we're in Singapore that the margins will improve. But I don't know what that will be.

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### Pierre Conner - Capital One Southcoast - Analyst

But directionally, they should expand as opposed to changing anything in the process that should contract them?

**Bill Mitcham** - *Mitcham Industries - President and CEO*

Absolutely.

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**Pierre Conner** - *Capital One Southcoast - Analyst*

Great. What about the increase in the backlog there on -- and I'm assuming that the backlog is all made up of 4000 -- so correct me if I'm wrong there. And then tell me what you see, you know we are all very familiar about the increase in marine. So what do you -- what's on the fringes here on the order and interest level? Has anything changed as a result of having to make changes in the design here, Billy, in terms of inquiries or from customers on GunLink 4000?

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

First let me answer your first one, that the backlog is not entirely made up of 4000s. It's a blend of equipment of 4000s and 2000s and of course those will be delivered throughout the year, but in terms of going forward we've -- certainly the marine bases in terms of number of boats coming out and on order, we have inquiries today for delivery in 2008 for boats that are coming out in 2008 and 2009.

So I don't see the metrics of that changing negatively, for sure.

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**Pierre Conner** - *Capital One Southcoast - Analyst*

Okay, good. Two for Rob. In the or maybe, Billy, in the guidance number of revenues and I apologize if I didn't quite understand. But what was your assumption for experienced equipment sales within that \$55 to \$60 million? I imagined it's lower obviously but can you give us that clarity of that number?

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**Rob Capps** - *Mitcham Industries - CFO*

We really just prefer to give the guidance at the total revenue line instead. I will say you're right. It's certainly lower. We expect to see lower experienced equipment sales going forward for the same reason we saw decline in the past year. We would rather lease it than sell it.

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**Pierre Conner** - *Capital One Southcoast - Analyst*

That's fine. I understand. And the second one, Rob, was on the -- I know you are going to do some work on try to evaluate utilization/channel counts. And so I open that up to see if you've got some perspective you could share with us on, okay, we had so many thousand channels in '07 fiscal at this utilization level. Do you have any of that kind of metric yet?

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**Rob Capps** - *Mitcham Industries - CFO*

Well, it's really not in a position we would like to share something like that. Some of that is a bit competitive and a bit imprecise as we have discussed. So we are really not prepared to talk about from a quantitative standpoint those sort of metrics.

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**Pierre Conner** - *Capital One Southcoast - Analyst*

But from a qualitative perspective I think you shared before, though, that you feel that there's opportunity for utilization to actually increase and --?



**Rob Capps** - *Mitcham Industries - CFO*

Absolutely right. Yes; you're absolutely right about that. We do think we can increase utilization and we think there are more opportunities to do that. So we (MULTIPLE SPEAKERS) from that. No doubt about it.

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**Pierre Conner** - *Capital One Southcoast - Analyst*

I'm going to let some other guys. I'm sorry to jump into -- .

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

Let me just say we've discussed this and we are -- we are real close to finalizing our test and repair facility in Singapore. Certainly not having to move equipment all the way back to this side of the world will help improve our utilization. So we will expect to have that in by the middle of the year.

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**Pierre Conner** - *Capital One Southcoast - Analyst*

Good. All right. Excellent, guys. Very much appreciate the detail and the conference call.

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**Operator**

(indiscernible)

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**Unidentified Speaker**

Great call this morning, Bill, by the way. Just wondering you hit on Russia and a couple of regions. Just wondering, Bill, if you could give us kind of what you are seeing now as far as Russia, Canada, Australia, a little color on each of the regions as well as maybe how many channels you've got over in Russia now?

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

Sure. Russia as we said earlier, we have about 10,000 channels there. That is a mix of some older equipment, of about 3500 channels of MRX, another 3500, 3000, 3500 of 388 and then, somewhere about that same amount 3000, 4000 in 4 '08.

We've had a fairly good winter there. We were hoping to have more channels. I think we will see that in the next year. I hope to have 12 to 15,000 channels next year.

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**Unidentified Company Representative**

Which was limited by the demand.

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

Yes. So Russia has been good. I don't know the exact number of channels that we had in the Canadian market but we have about 60,000 -- somewhere in the neighborhood of 60,000 channels. And we probably have -- what do we have in Australia? We have about 5000 channels in the Pacific Rim in Australia so the balance of that was in -- most of that was in this hemisphere between the lower 48, Canada and some in South America.

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**Unidentified Speaker**

And then on the GunLink side. Bill, sounds like -- will you continue to do these contracts like you've done on the other channel side? Sort of going forward, specific contracts? With Sercel, etc., as far as sort of winding up what your needs are?

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

Are you talking about the contracts for channel count that we have with Sercel or providing Sercel with services?

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**Unidentified Speaker**

No. The prior. The contracts you have with them. Is that still going forward? Will we see some of those in place?

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

Yes. We have a contract in place. We have two contracts in place with them right now. One of them runs to the end of 2008 and actually the other one we are finalizing an extension on it. So yes. I mean to the extent that we need to; and then, certainly, we are going to continue to work with Sercel and other manufacturers.

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**Unidentified Speaker**

And then lastly for Rob or you, Bill. Looks like on the guidance that you've got the new opt margins, look to be quite a bit better than what they were this prior year. Is that your expectation that some of these costs that you just experienced with Sarbanes, etc., some of those won't be seen in this upcoming year?

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**Rob Capps** - *Mitcham Industries - CFO*

Yes. I think it is a combination of things. It's probably most importantly it is just the margins from the Seemap side will be much obviously, because we won't have these onetime costs. Plus, we think we will see some margin improvement, but also the Sarbanes cost will certainly be less this next year. It was a combination of those things.

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**Unidentified Speaker**

Perfect. Thanks.

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**Operator**

[Terese Fabian] with Sidoti (technical difficulty) & Co.

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**Terese Fabian** - *Sidoti & Co. - Analyst*

I would like to talk a little bit about the Marines seismic market. We understand the market is strong, but can you talk a little bit more about the level of control equipment that is required? Do vessel owners mix and match their systems? Do they get back-up systems?

And what your level of confidence is on sales into this market? That's one question.

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

When you are talking about mixing and matching systems, I'm not quite sure, but in terms of companies buying complete streamer systems, whether they are Sercel or others, I mean, Sercel does not manufacture a gun control system. And there's a lot of old technology out there. Technology hasn't changed in terms of gun controllers in 15 years.

So we are right at the heart of the change. Especially the GCS 90 has not had any upgrades in 15 years and it's no longer supported. And so when people go (indiscernible) Sercel quotes a system they generally come to us for a quote as well as other companies that supply systems. Marine type systems. But so in terms of mixing and matching you could go to Sercel, and you can buy the guns, you can buy everything but the controller and that's where we come in.

So you've got vessels that are announced. You've got retrofits and rebuilds going out into 2009. We've got quotes for delivery out into 2008. We've got solid backlog through the end of this year and, again, are [quoting] into 2008. So we are quite pleased with where we are. Where we are positioned in the marine side of the business.

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**Terese Fabian** - *Sidoti & Co. - Analyst*

That's great. Now my other question is very short which is, what was involved in the production delays on the GunLink 2000 system in the fourth quarter? And is that something that can recur?

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**Rob Capps** - *Mitcham Industries - CFO*

This is Rob. The issues were just availability of some components so to complete the system and then one of the vessels wasn't available for installations, we couldn't make delivery. That's a customer-driven issue. So can those things happen again? I'm sure they can. That's just -- but we think we can control those a bit more effectively going forward because of the way we are contracting with the customers and requiring them to take delivery at a certain point in time.

We can do that because of the strong demand and the production issues we have just to get stuff out the door. We can't afford to have customers delaying things. So we make them commit to specified delivery dates now.

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**Terese Fabian** - *Sidoti & Co. - Analyst*

That's very helpful. Thank you. I will save my other question for later.

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**Operator**

Tyson Bauer with Wealth Monitors.

**Tyson Bauer** - *Wealth Monitors - Analyst*

Good outlook, gentlemen, and thanks for taking the time to do a conference call (inaudible) some exposure. I also hear you are going on a road show next week so, hopefully, that goes well for you.

Two quick questions. One, can you give a little more detail to that \$1.4 million expense on those delayed GunLink deliveries or resolving those issues? You talked about ensuring your customer relationship. What was involved with that \$1.4 million?

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**Rob Capps** - *Mitcham Industries - CFO*

It's a variety of things, Tyson. It was caused to actually send people out to the vessels. It was caused to replace some equipment to give the customers additional equipment so they could keep operating. So things of that nature. We certainly had because of the design changes we had some retrofits. And so we had some changes to inventory. Some inventory we had to refurbish so it's a variety of things like that.

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**Tyson Bauer** - *Wealth Monitors - Analyst*

And none of those are expenses that are reimbursable by the actual gun manufacturer?

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**Rob Capps** - *Mitcham Industries - CFO*

No.

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**Tyson Bauer** - *Wealth Monitors - Analyst*

Second question. You talked about, assume you are getting the Sercel new technology products in, you are basically have them out the door almost immediately. Yet we are not seeing a whole lot of lease sales from the pool because of the strong demand. Can you give us a sense of that blend of what you would characterize as new technology in your lease pool, compared to older technology. And where've you been finding the homes for some of that older technology that you have no need for trying to sell that?

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**Rob Capps** - *Mitcham Industries - CFO*

As Bill said, our total channel count is round 60,000 channels. The new DSU3 that we talked about, that we just took delivery on late in the year, there's about 15,000 channels of that. And of the balance, it's a variety of Sercel, 408 is the biggest piece by far, as well as older equipment from Sercel and I/O and like that.

We see demand really all over the place for that equipment. I think that it's not necessarily limited to any one geographic area necessarily.

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

Let me just add to that. This is Bill. We have probably 30,000 channels -- roughly 30,000 channels of the 60,000 or 408 and even though some of them, we started buying 408 in 1999, 2000. But -- and Sercel has just recently come out with a new system called the 428 which is a much improved version of the 408. It is a much faster, you can move the date around a lot quicker and a lot more in real-time.

But other than that, there's well over a million channels of 408 in the world today. So even though it is seven years old it's not anywhere close to being obsolete technology. And the 428, you can use 428 front ends and 408 channels. So you can upgrade your 408 if you will and I mean, in our core businesses is renting equipment. We don't go to a customer with the intent of trying to sell them something.

Our sales of used equipment, older technology equipment are very opportunistic. And we do them sometimes, we make that sales sometimes because that's they are going to buy it from somebody so if they're going to buy from somebody it might as well be us.

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**Tyson Bauer** - *Wealth Monitors - Analyst*

Very good. One quick follow up then. If you looked at your revenues as far as your annual projection, if you looked at it as leasing versus nonleasing revenue, are we getting to the point where we are reaching that 50-50 plateau? Or are we looking at a situation where nonleasing revenue may overcome and overtake the leasing revenues?

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**Rob Capps** - *Mitcham Industries - CFO*

Again, I don't want to get too specific about that. But you make the point that our nonleasing revenues have become a greater portion for total revenues in the past. And there may still be some of that going forward but I'd really rather not get too specific about that and leave the guidance at the top line.

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**Tyson Bauer** - *Wealth Monitors - Analyst*

You can say at least generally that both are seeing significant demand. It's not one leading the other?

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**Rob Capps** - *Mitcham Industries - CFO*

Absolutely correct on that.

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**Tyson Bauer** - *Wealth Monitors - Analyst*

All right. Thank you.

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**Operator**

[Brian Black] with [Lamb Partners].

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**Brian Black** - *Lamb Partners - Analyst*

I want to understand a couple of things. One is when you talk about improvements and utilization, which are tough to quantify, but you see opportunities to do that in part through moving the facility to Singapore. You've given us '08 guidance which, obviously, we can look at what the margins implied by that is, but if you look out beyond '08 what do you see as the opportunity, ultimately, as far as operating margins for this business once you have sort of, you've completed the transition to Singapore?

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**Rob Capps** - *Mitcham Industries - CFO*

Let me clarify a couple of things. The Singapore operation -- there's two things happening there. One is moving manufacturing operations from the UK to Singapore, related to the Seemap operations, primarily the GunLink business. So that has one impact and we think it will improve margins to some extent going forward.

The other issue that Bill talked about which impacts utilization of the lease pool is having a repair facility in Singapore where today we need to bring equipment back over to either to Texas or to Calgary to go through our repair process. We have that facility in Singapore, we aren't going to bring it this far. So that means we can get it turned around and back out on lease much more quickly. So that will improve utilization.

I think you can see from the numbers that the margin, the incremental margin from the leasing business, if you exclude depreciation, was around 90% historically. A little bit over, a little bit less than on the year. So that's what leads us to believe that -- or to say that by increasing innovation that means we can certainly -- we can certainly have a big impact on our earnings because a lot of that drops to the bottom line.

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**Brian Black** - *Lamb Partners - Analyst*

Right. I guess I'm just -- the core incremental margin stays the same prior to making the two changes in Singapore with the repair facility and the manufacturing of Seemap. So what additional kind of pickup do you get once both of those changes are made?

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**Rob Capps** - *Mitcham Industries - CFO*

Again, I can't (indiscernible) and quantify those at this point. I mean we, I think on a manufacturing side we are talking about a few percentage points. We are not talking about a sea change there. Something of that magnitude.

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**Brian Black** - *Lamb Partners - Analyst*

Okay. Then just a kind of housekeeping item or two. What do you think the -- does the run rate depreciation that we saw for the fourth quarter is that okay to approximate for each quarter during the fiscal year '08?

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

I don't want to get too specific that there is certainly a bit of an uptick you would expect from all of the equipment we bought in the fourth quarter.

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**Brian Black** - *Lamb Partners - Analyst*

But you started depreciating all of it, even if you weren't getting sales from that 15,000?

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**Rob Capps** - *Mitcham Industries - CFO*

Yes but we didn't buy it all first of the fourth quarter. It didn't come in the door until December 22nd to make up a date. We don't depreciate until that point in time. But, clearly, it will be increased depreciation from the new equipment. Having said that, we also will see other equipment come off depreciation so we will counter that. So you won't see a full pickup from that additional amount.

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**Brian Black** - *Lamb Partners - Analyst*

But it is unlikely to be dramatically different from the \$2.5 million.

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**Rob Capps** - *Mitcham Industries - CFO*

Yes, that's probably fair to say.

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**Brian Black** - *Lamb Partners - Analyst*

Then as far as the tax questions or just to clarify, you will become in fiscal year '08 a cash taxpayer at the rate of 34 or that's the GAAP --?

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**Rob Capps** - *Mitcham Industries - CFO*

That's the deferred rate. So we will be a deferred tax provision at the 34% but cash rate will be much less than that -- probably in the 10 to 15% range.

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**Brian Black** - *Lamb Partners - Analyst*

And that 10 to 15, does that carry into fiscal year '09 or it starts to catch up by then?

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**Rob Capps** - *Mitcham Industries - CFO*

It will start to catch up and I don't have the number for you for '09 at this point. But at some point it'll catch up.

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**Operator**

(OPERATOR INSTRUCTIONS) (technical difficulty) with Benchmark Capital.

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**Unidentified Speaker**

On the \$13 million in the backlog that you talked about earlier, can you give us a breakdown of the 400s and 2000s, because I remember as of last quarter you had \$7 million in firm orders on the 4000 and if one got shifted out into a 2000 order -- I was just trying to get a feel for what the backlog looks like, on the 4000 right now?

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

I think it's weighted more towards the 2000s right now. We have four -- five, what do we have? Four or five in the pipeline for this year?

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**Rob Capps** - *Mitcham Industries - CFO*

I can't remember off the top of my head without looking at it.

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

I don't think -- well, I don't think, I know we don't have a production schedule in front of us. But clearly with the [unit] these people buying the 2000 there's a clear upgrade path for them to go to 4000 at any time and it's always at their choice. They don't lose anything. They buy at 2000 a day and want to upgrade in a year or two years to the 4000. But I don't have that production schedule in front of the.

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**Unidentified Speaker**

So you couldn't maybe tell me if it's up versus last quarter or roughly the same?

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**Rob Capps** - *Mitcham Industries - CFO*

You mean, the number 4000?

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**Unidentified Speaker**

Yes. You had about \$7 million last quarter.

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**Rob Capps** - *Mitcham Industries - CFO*

It's about the same and I mean, don't hold me to that. It could be up a bit. It's about the same. It's not markedly different.

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**Unidentified Speaker**

Rob, one second question. On the balance sheet I'm going to just assume it is a timing issue that you got a lot of orders in but the accounts payable jumped up. And you just received a lot of stuff towards the end of the quarter. Is that what that's due to?

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**Rob Capps** - *Mitcham Industries - CFO*

That's the equipment that we bought in the fourth quarter. We bought \$15 million in the fourth quarter and a lot of that came in right at the end. So we didn't pay for that until the next year. Till February.

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**Unidentified Speaker**

Great. Thank you.

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**Operator**

[Tamara Menukien] with [Greenwood Investments].

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**Tamara Menukien** - *Greenwood Investments - Analyst*

Thank you for having this conference call. I would like to clarify a few points and then I have also a couple of housekeeping questions. I guess I will start with the housekeeping one. On the income statement your provision for doubtful accounts is up, it seems significantly. I was wondering, what is the reason for that?

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**Rob Capps** - *Mitcham Industries - CFO*

We just felt appropriate to make a provision for some potential bad debts actually in the fourth quarter based on our ongoing analysis of that. So still a pretty small percentage of overall sales but we just thought that was appropriate in the circumstances.

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**Tamara Menukien** - *Greenwood Investments - Analyst*

Another question is, it seems like, well, your capital expenditures are up a lot -- about \$25 million -- and equipment leasing revenues increased only 13% in this fiscal year. I was wondering if 2008 is expected to increase a lot more than that?



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**Rob Capps** - *Mitcham Industries - CFO*

I think it is fair to say that would be correct because much of that equipment didn't come in until late in the year. I mean -- but a lot of it at the very end of the year. So we just didn't get the benefit of that full 25 million for the full year. So obviously we think we would see a much bigger impact on fiscal '08.

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**Tamara Menukien** - *Greenwood Investments - Analyst*

Then, fourth quarter last year, equipment leasing revenues were only \$4.4 million. And my understanding was that fourth quarter is usually seasonally the strongest quarter. Was there any reason why sales last year in the fourth quarter were so low?

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**Rob Capps** - *Mitcham Industries - CFO*

Actually the first quarter is usually the strongest seasonally at least and Bill, correct me if I'm wrong, but I don't think last year's fourth quarter was necessarily low. I think we had a very strong third quarter last year, which (MULTIPLE SPEAKERS)

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

(MULTIPLE SPEAKERS) Absolutely did. And if you go back one more fourth quarter you'll see that last year versus the previous year in terms of leases they were both about \$4 to \$4.5 million. So we've certainly had a much bigger fourth quarter this year. (indiscernible) demand. I mean it's the market but, also, we've always said that our first quarter was our best quarter followed by the fourth quarter being the second best quarter. And second and third quarter have always have been kind of our lowest quarters.

I think as you'll see over the last few quarters that a lot of what we've done is we've been able to move equipment around the world. We opened up the Russian market. We opened up Indonesia. We opened the Australian office. And so, we've been able to mitigate some of those slow times with equipment in other areas during after the first and fourth quarter.

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**Tamara Menukien** - *Greenwood Investments - Analyst*

So then my conclusion out of this is that 50% increase in revenues from this segment is not unreasonably high number. It can repeat again. Is that the correct assumption?

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

50% increase, you say?

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**Tamara Menukien** - *Greenwood Investments - Analyst*

50% increase from the equipment leasing revenues in the fourth quarter of this year. Is that a sustainable number at all?

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

I certainly think it increases and is a sustainable number. I don't know that it is a 50% increase but certainly we bought a lot of equipment and we -- because we have a demand for it. And I think you'll see that the leasing will increase throughout the year.

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**Operator**

Terese Fabian with Sidoti & Co.

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**Terese Fabian - Sidoti & Co. - Analyst**

I have a question on your guidance which I applaud. Are you going to be providing updates in the course of the year? I know you are not going to be doing quarterly, but for the fiscal year are you going to be providing updates as developments arise or the outlook changes?

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**Rob Capps - Mitcham Industries - CFO**

We are not technically undertaking at an obligation to update that, but certainly as circumstances change materially we would want to come out and correct that, if necessary. The answer is yes.

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**Terese Fabian - Sidoti & Co. - Analyst**

Good. I think that will be very helpful. Thank you.

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**Operator**

Pierre Conner with Capital One Southcoast.

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**Pierre Conner - Capital One Southcoast - Analyst**

I wanted to get to the question on the impact of the channel count coming in late. So right now, we are at 60,000 channels I believe you said. Can you remind us, Bill, what was your channel count going into fiscal '07?

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**Bill Mitcham - Mitcham Industries - President and CEO**

In the fiscal '07.

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**Rob Capps - Mitcham Industries - CFO**

This time last year.

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**Pierre Conner - Capital One Southcoast - Analyst**

Yes, this time last year.

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**Bill Mitcham - Mitcham Industries - President and CEO**

No, we really (MULTIPLE SPEAKERS)

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**Rob Capps** - *Mitcham Industries - CFO*

35 to 40,000, I think. Hopefully.

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**Pierre Conner** - *Capital One Southcoast - Analyst*

I was looking at that increase coming in -- the bulk of that if we did an average the bulk of that is coming in at the end of the year.

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

Yes. That's right.

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**Pierre Conner** - *Capital One Southcoast - Analyst*

Got it. Then one last follow-up still on the guidance question. Rob, what do you -- you know we have some Sarbanes-Oxley. We have some expenses. Just one last line item, what can you tell us where that G&A line ought to be? Maybe you could tell us on a percentage basis or something of that nature?

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**Rob Capps** - *Mitcham Industries - CFO*

Well just directionally at least. Certainly the Sarbanes stuff isn't going to be as high next year and how much lower? I don't know. I really don't know but I hope it would be half of that. And I think you know as -- we all know that it is kind of hard to get too precise as to where we think that is going to go. There's nothing fundamentally changing other than what we've talked about in the Sarbanes stuff. (MULTIPLE SPEAKERS) 123R expenses, you know, they will be continuing at some level.

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**Pierre Conner** - *Capital One Southcoast - Analyst*

There wasn't a particular lump of catch-up in the fourth quarter associated with the 123R.

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**Rob Capps** - *Mitcham Industries - CFO*

No. There was not. We have been doing that since early in the year.

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**Pierre Conner** - *Capital One Southcoast - Analyst*

Got it. That's what I wanted. Thanks for the follow-up. I appreciate it.

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**Operator**

Brian Black with Lamb Partners.

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**Brian Black** - *Lamb Partners - Analyst*

Just two quick follow ups. One is, what sort of assumptions are applied in the guidance for the channel count? In other words you are at 60. Are you assuming continued purchases or this is basically what you generate in revenue, based on just your current asset base?

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**Rob Capps** - *Mitcham Industries - CFO*

Essentially the current asset base. There are some minimal purchases assumed.

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**Brian Black** - *Lamb Partners - Analyst*

But as far as your plans that if the market remains as strong as it appears now, would you likely continue to increase the channel count over the course of the year?

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**Rob Capps** - *Mitcham Industries - CFO*

I mean if we see the opportunity to do that, we would. If we see a place to put it we will go buy some more.

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**Brian Black** - *Lamb Partners - Analyst*

And then -- .

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**Rob Capps** - *Mitcham Industries - CFO*

Now let me say that, we said we have committed to buy another 4,000 channels already this year and that certainly is implicit in our numbers. So I say there are some minimal purchases assumed in that. There is just -- It is not a \$25 million purchase assumed.

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**Brian Black** - *Lamb Partners - Analyst*

Right. And then the last thing is, can you give -- do you have some kind of order of magnitude sense for us on sales in Russia? We know the number of channels there and you gave us the mix of what types of products those are. You know, the sales or the trend. I mean, it's obviously a big market opportunity. And are you sort of at plan, ahead of plan as far as the growth of the Russian business?

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**Rob Capps** - *Mitcham Industries - CFO*

Well I think we are at plan given the equipment we have put there. I mean we, frankly, I think as Bill said we had hoped to have actually to get some more equipment there for this season but just because of demand elsewhere just weren't able to do that. So I think we see an opportunity to increase that significantly by putting more equipment there.

As Bill said we are essentially 100% utilized in that market during this winter season.

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**Operator**

At this time, we have no questions. I would now like to turn the conference back to management for closing remarks. Please go ahead.

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**Bill Mitcham** - *Mitcham Industries - President and CEO*

Thank you. I would just like to say and thank you very much for joining us. Great questions, great group of people and, certainly, we look forward to talking with you again next quarter.

### Operator

Ladies and gentlemen, this concludes the Mitcham Industries fourth quarter and year-end financial results conference call. If you'd like to listen to a replay of today's conference, please dial 303-590-3000. You can use access code 11087633. Thank you for your participation today. This concludes the conference. You may now disconnect.

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