

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2011

or

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

For the transition period from _____ to _____

Commission File Number: 000-25142

MITCHAM INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of
incorporation or organization)

76-0210849

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

8141 SH 75 South

P.O. Box 1175

Huntsville, Texas 77342

(Address of principal executive offices, including Zip Code)

(936) 291-2277

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant 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 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 Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 12,413,909 shares of common stock, \$0.01 par value, were outstanding as of September 6, 2011.

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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)

	<u>July 31, 2011</u>	<u>January 31, 2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,897	\$ 14,647
Restricted cash	102	—
Accounts receivable, net	21,208	17,832
Current portion of contracts receivable	3,380	3,582
Inventories, net	5,597	4,813
Prepaid income tax	711	325
Deferred tax asset	1,396	1,427
Prepaid expenses and other current assets	3,395	2,128
Total current assets	<u>49,686</u>	<u>44,754</u>
Seismic equipment lease pool and property and equipment, net	101,563	79,095
Intangible assets, net	5,231	5,358
Goodwill	4,320	4,320
Prepaid foreign income tax	3,434	3,053
Long-term portion of contracts receivable, net	—	1,355
Other assets	40	36
Total assets	<u>\$ 164,274</u>	<u>\$ 137,971</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,961	\$ 5,203
Current maturities — long-term debt	2,662	3,177
Income taxes payable	408	1,276
Deferred revenue	1,790	778
Accrued expenses and other current liabilities	8,594	5,165
Total current liabilities	<u>20,415</u>	<u>15,599</u>
Non-current income taxes payable	4,445	3,482
Deferred tax liability	84	832
Long-term debt, net of current maturities	1,084	23,343
Total liabilities	<u>26,028</u>	<u>43,256</u>
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; 13,339 and 10,872 shares issued at July 31, 2011 and January 31, 2011, respectively	133	109
Additional paid-in capital	110,773	77,419
Treasury stock, at cost (925 shares at July 31, 2011 and January 31, 2011)	(4,857)	(4,843)
Retained earnings	22,369	14,976
Accumulated other comprehensive income	9,828	7,054
Total shareholders' equity	<u>138,246</u>	<u>94,715</u>
Total liabilities and shareholders' equity	<u>\$ 164,274</u>	<u>\$ 137,971</u>

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

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

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2011	2010	2011	2010
Revenues:				
Equipment leasing	\$ 12,272	\$ 6,493	\$ 29,047	\$ 16,059
Lease pool equipment sales	326	159	661	522
Seamap equipment sales	6,534	7,200	14,883	12,981
Other equipment sales	2,146	1,303	3,189	2,093
Total revenues	<u>21,278</u>	<u>15,155</u>	<u>47,780</u>	<u>31,655</u>
Cost of sales:				
Direct costs — equipment leasing	1,826	846	3,983	1,590
Direct costs — lease pool depreciation	6,703	5,355	12,793	10,267
Cost of lease pool equipment sales	107	100	204	249
Cost of Seamap and other equipment sales	4,429	4,199	8,662	7,951
Total cost of sales	<u>13,065</u>	<u>10,500</u>	<u>25,642</u>	<u>20,057</u>
Gross profit	<u>8,213</u>	<u>4,655</u>	<u>22,138</u>	<u>11,598</u>
Operating expenses:				
General and administrative	5,794	4,162	10,442	8,349
Provision for (recovery of) doubtful accounts	(492)	797	(492)	797
Depreciation and amortization	312	296	617	575
Total operating expenses	<u>5,614</u>	<u>5,255</u>	<u>10,567</u>	<u>9,721</u>
Operating income (loss)	2,599	(600)	11,571	1,877
Other (expenses) income:				
Gain from bargain purchase in business combination	—	—	—	1,304
Interest, net	(95)	(118)	(270)	(212)
Other, net	(336)	437	(672)	(65)
Total other (expenses) income	<u>(431)</u>	<u>319</u>	<u>(942)</u>	<u>1,027</u>
Income (loss) before income taxes	2,168	(281)	10,629	2,904
(Provision) benefit for income taxes	<u>(868)</u>	<u>135</u>	<u>(3,236)</u>	<u>(656)</u>
Net income (loss)	<u>\$ 1,300</u>	<u>\$ (146)</u>	<u>\$ 7,393</u>	<u>\$ 2,248</u>
Net income (loss) per common share:				
Basic	<u>\$ 0.12</u>	<u>\$ (0.01)</u>	<u>\$ 0.71</u>	<u>\$ 0.23</u>
Diluted	<u>\$ 0.11</u>	<u>\$ (0.01)</u>	<u>\$ 0.67</u>	<u>\$ 0.22</u>
Shares used in computing net income per common share:				
Basic	10,970	9,838	10,447	9,824
Diluted	11,615	9,838	11,043	10,081

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

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

	For the Six Months Ended July 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 7,393	\$ 2,248
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,479	10,970
Stock-based compensation	937	770
Gain from bargain purchase in business combination	—	(1,304)
Provisions for doubtful accounts	—	797
Provision for inventory obsolescence	63	104
Gross profit from sale of lease pool equipment	(457)	(273)
Excess tax benefit from exercise of non-qualified stock options and restricted shares	(394)	(3)
Deferred tax benefit	(109)	(1,258)
Changes in non-current income taxes payable	694	281
Changes in working capital items, net of effects from business combination:		
Accounts receivable	(2,753)	1,225
Contracts receivable	1,718	1,363
Inventories	(565)	1,353
Prepaid expenses and other current assets	(1,119)	(196)
Income taxes receivable and payable	(1,272)	550
Accounts payable, accrued expenses, other current liabilities and deferred revenue	2,023	1,516
Net cash provided by operating activities	<u>19,638</u>	<u>18,143</u>
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(30,461)	(6,957)
Purchases of property and equipment	(253)	(80)
Sale of used lease pool equipment	661	522
Payment for earn-out provision (Note 3)	(155)	—
Acquisition of AES, net of cash acquired	—	(2,100)
Net cash used in investing activities	<u>(30,208)</u>	<u>(8,615)</u>
Cash flows from financing activities:		
Net payments on line of credit	(20,900)	(6,050)
Proceeds from equipment notes	37	—
Payments on borrowings	(2,000)	(120)
Net purchases of short-term investments	(101)	(52)
Proceeds from issuance of common stock upon exercise of options	739	244
Net proceeds from public offering of common stock (Note 8)	30,994	—
Excess tax benefit from exercise of non-qualified stock options and restricted shares	394	3
Net cash provided by (used in) financing activities	<u>9,163</u>	<u>(5,975)</u>
Effect of changes in foreign exchange rates on cash and cash equivalents	<u>657</u>	<u>83</u>
Net change in cash and cash equivalents	<u>(750)</u>	<u>3,636</u>
Cash and cash equivalents, beginning of period	<u>14,647</u>	<u>6,130</u>
Cash and cash equivalents, end of period	<u>\$ 13,897</u>	<u>\$ 9,766</u>
Supplemental cash flow information:		
Interest paid	\$ 497	\$ 314
Income taxes paid	\$ 3,529	\$ 1,220
Purchases of seismic equipment held for lease in accounts payable at end of period	\$ 7,524	\$ 10,010

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, 2011 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, 2011. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of July 31, 2011, the results of operations for the three and six months ended July 31, 2011 and 2010, and the cash flows for the six months ended July 31, 2011 and 2010, 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, 2012.

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. 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. \$2,100,000), 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. Principal payments on the notes totaling Cdn \$750,000 were made in March of 2011, with the remaining balance payable due in March 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 are entitled to additional cash payments should AES attain certain levels of revenues during the 24-month period following the acquisition, as specified in the agreement. In April 2011, the Company paid Cdn \$150,000 pursuant to the earn-out provision. The sellers may be entitled to up to an additional Cdn \$450,000 if certain conditions are met.

The Company hired an outside consulting firm, The BVA Group L.L.C. (“BVA”), to assess the fair value of the assets and liabilities acquired in the AES acquisition. 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.

Upon the initial determination that the transaction had resulted in a bargain purchase, management and BVA reviewed the assets and liabilities acquired and the assumptions utilized in estimating their fair value. Certain revisions were made to these estimates, which resulted in a reduction in, but not the elimination of, the gain from bargain purchase. In this review management noted that the information used in determining the fair value of the assets was the

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same information used to estimate the fair value of the contingent consideration portion of the purchase price. Further revisions to the estimates were not deemed to be appropriate.

Management then undertook a review to determine what factors might contribute to a bargain purchase and if it were reasonable for a bargain purchase to occur. In this review, management noted that at the time the transaction was negotiated with the owners of AES, the oil services industry had recently experienced a decline and there was uncertainty as to the speed or depth of a recovery. Management believed that this situation was particularly difficult on small companies, such as AES, who had limited access to capital and liquidity. Furthermore, it appeared to management that the owners of AES were motivated to complete a transaction for personal financial reasons. Management also noted that there was a limited market for companies such as AES. Based upon all of these factors, management concluded that the occurrence of bargain purchase was reasonable. Accordingly, a gain of \$1,304,000 was recorded as of the date of acquisition and no goodwill resulted from the transaction.

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

The pro forma effect on the revenues, net income and earnings per share, assuming the acquisition occurred February 1, 2010, are not material.

4. Restricted Cash

In connection with certain contracts, SAP had pledged approximately \$102,000 in short-term time deposits as of July 31, 2011 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 14 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.

5. Balance Sheet

	<u>July 31,</u> <u>2011</u>	<u>January 31,</u> <u>2011</u>
	(in thousands)	
Accounts receivable:		
Accounts receivable	\$ 23,878	\$ 20,498
Allowance for doubtful accounts	(2,670)	(2,666)
Total accounts receivable, net	<u>\$ 21,208</u>	<u>\$ 17,832</u>
Contracts receivable:		
Contracts receivable	\$ 3,380	\$ 4,937
Less current portion of contracts receivable	(3,380)	(3,582)
Long-term portion of contracts receivable, net	<u>\$ —</u>	<u>\$ 1,355</u>

Contracts receivable consisted of \$3,380,000 due from two customers as of July 31, 2011 and \$4,937,000 due from two customers as of January 31, 2011. Contracts receivable at July 31, 2011 and January 31, 2011 consisted of contracts bearing interest at an average of approximately 9% per year and with remaining repayment terms from nine to 11 months. These contracts are collateralized by the equipment sold and are considered collectable; thus, no allowances have been established for them.

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	<u>July 31, 2011</u>	<u>January 31, 2011</u>
	(in thousands)	
Inventories:		
Raw materials	\$ 2,620	\$ 2,440
Finished goods	2,996	1,888
Work in progress	809	1,215
	<u>6,425</u>	<u>5,543</u>
Less allowance for obsolescence	(828)	(730)
Total inventories, net	<u>\$ 5,597</u>	<u>\$ 4,813</u>
	<u>July 31, 2011</u>	<u>January 31, 2011</u>
	(in thousands)	
Seismic equipment lease pool and property and equipment:		
Seismic equipment lease pool	\$ 204,724	\$ 166,883
Land and buildings	366	366
Furniture and fixtures	7,195	6,761
Autos and trucks	693	663
	<u>212,978</u>	<u>174,673</u>
Accumulated depreciation and amortization	(111,415)	(95,578)
Total seismic equipment lease pool and property and equipment, net	<u>\$ 101,563</u>	<u>\$ 79,095</u>

6. Goodwill and Other Intangible Assets

	<u>Weighted Average Remaining Life at 07/31/11</u>	<u>July 31, 2011</u>			<u>January 31, 2011</u>		
		<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u> (in thousands)	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u> (in thousands)	<u>Net Carrying Amount</u>
Goodwill		<u>\$ 4,320</u>			<u>\$ 4,320</u>		
Proprietary rights	8.9	\$ 3,607	\$ (1,239)	\$ 2,368	\$ 3,523	\$ (1,101)	\$ 2,422
Customer relationships	6.6	2,516	(446)	2,070	2,396	(274)	2,122
Patents	6.6	758	(134)	624	721	(82)	639
Trade name	6.6	206	(37)	169	197	(22)	175
Amortizable intangible assets		<u>\$ 7,087</u>	<u>\$ (1,856)</u>	<u>\$ 5,231</u>	<u>\$ 6,837</u>	<u>\$ (1,479)</u>	<u>\$ 5,358</u>

As of July 31, 2011, the Company had goodwill of \$4,320,000, all of which was allocated to the Seamap segment. No impairment has been 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 \$167,000 and \$164,000 for the three months ended July 31, 2011 and 2010, respectively and \$339,000 and \$295,000 for the six months ended July 31, 2011 and 2010, respectively. As of July 31, 2011, future estimated amortization expense related to amortizable intangible assets was estimated to be:

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For fiscal years ending January 31 (in thousands):

2012	\$ 349
2013	699
2014	699
2015	699
2016	699
2017 and thereafter	2,086
Total	<u>\$ 5,231</u>

7. Long-Term Debt and Notes Payable

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

	<u>July 31, 2011</u>	<u>January 31, 2011</u>
Revolving line of credit	\$ 750	\$ 21,650
Equipment note	1,875	3,066
MCL notes	835	1,550
SAP equipment notes	286	254
	<u>3,746</u>	<u>26,520</u>
Less current portion	(2,662)	(3,177)
Long-term debt	<u>\$ 1,084</u>	<u>\$ 23,343</u>

On July 27, 2010, the Company entered into an amended credit agreement with First Victoria Bank (the "Bank") that provides for borrowings of up to \$35,000,000 on a revolving basis through May 31, 2012. In July 2011, the agreement was amended to extend the maturity date to May 31, 2013. 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 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 any lease pool assets that are to be purchased with proceeds from the facility. The revolving credit facility and any term loan are collateralized by essentially all of the Company's domestic assets. Interest is payable monthly at the prime rate plus 50 basis points, which was 3.75% at July 31, 2011. Up to \$7,000,000 of available borrowings under the revolving facility may be utilized to secure letters of credit. The credit agreement contains certain financial covenants that require, among other things, for 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; have quarterly earnings before interest, taxes, depreciation and amortization ("EBITDA") of not less than \$2,000,000; all with which the Company complied as of July 31, 2011. The credit agreement also provides that the Company may not incur or maintain indebtedness in excess of \$1,000,000 without the prior written consent of the Bank, except for borrowings related to the credit agreement. The Company was in compliance with each of these provisions as of and for the quarter ended July 31, 2011. The Company's average borrowings under the revolving credit agreement for the six months ended July 31, 2011 and 2010 were approximately \$17,628,000 and \$17,578,000, respectively.

In October 2010, the Company entered into a \$3.6 million secured promissory note with a supplier in connection with the purchase of certain lease pool equipment. The note is repayable in 18 monthly installments, bears interest at 8% annually and is secured by the equipment purchased. The Company received the consent of the Bank for this transaction, as required by the terms of the revolving line of credit.

In March of 2010, MCL entered into two promissory notes related to the purchase of AES (See Note 3). The notes bear interest at 6.0% per year with the first of two equal installments paid in March of 2011 and the balance due in March of 2012.

During the year ended January 31, 2010, SAP entered into two notes payable to finance the purchase of certain equipment, which are secured by the equipment purchased. One of these notes bears interest at 7.4% and is due in 2014. The other note bears interest at 8.35% and is due in March 2013.

8. Public Offering of Common Stock

In June 2011, the Company completed a public offering of 2,300,000 shares of its common stock, par value \$0.01. After deducting underwriting discounts and commissions and expenses of the offering, net proceeds to the Company were approximately \$31.0 million.

9. Comprehensive Income

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Net income (loss)	\$ 1,300	\$ (146)	\$ 7,393	\$ 2,248
Gain (loss) from foreign currency translation adjustment	65	(884)	2,774	998
Comprehensive income (loss)	<u>\$ 1,365</u>	<u>\$ (1,030)</u>	<u>10,167</u>	<u>\$ 3,246</u>

The gain from foreign currency translation adjustment for the three and six months ended July 31, 2011 resulted primarily from the increases in the value of the Canadian, Australian and Singapore dollars compared to the United States dollar.

10. Income Taxes

Current income taxes payable of \$408,000 and \$1,276,000 at July 31, 2011 and January 31, 2011, respectively, consists entirely of foreign 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, 2008. In connection with the refund request resulting from a net operating loss carryback, the Company's United States federal income tax returns for the years ended January 31, 2009 and 2010 were reviewed by the IRS. The result of this review was a decrease in taxable income of approximately \$370,000, which resulted in an additional refund of \$66,000 and an alternative minimum tax credit carryforward of \$54,000.

The Company is subject to examination by taxing authorities throughout the world, including foreign jurisdictions such as Australia, Canada, Colombia, 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 2003. With respect to ongoing audits, the Company's Canadian income tax returns for the years ended January 31, 2004, 2005 and 2006 have been examined by Canadian tax authorities. Assessments for those years and for the effect of certain matters in subsequent years totaling approximately \$8,600,000 including penalties and interest, have been issued. The issues involved relate primarily to the deductibility of depreciation charges and whether those deductions should be taken in Canada or in the United States. Accordingly, the Company has filed requests for competent authority assistance with the Canadian Revenue Agency ("CRA") and with the IRS seeking to avoid potential double taxation. In addition, the Company has filed a protest with the CRA and the Province of Alberta. In connection with this protest, the Company has been required to make prepayments totaling approximately \$3,400,000 against the assessment.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as reductions in income tax expense.

The effect of any uncertain tax positions for which resolution is reasonably possible within the next twelve months is not material.

11. 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. The following table presents the calculation of basic and diluted weighted average common shares used in the earnings per share calculation for the three and six months ended July 31, 2011 and 2010:

	Three Months Ended July 31,		For the Six Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Basic weighted average common shares outstanding	10,970	9,838	10,447	9,824
Stock options	629	239	578	256
Unvested restricted stock	16	3	18	1
Total weighted average common share equivalents	645	242	596	257
Diluted weighted average common shares outstanding	11,615	10,080	11,043	10,081

For the three months ended July 31, 2010, diluted weighted average common shares were anti-dilutive and were therefore not considered in calculating diluted loss per share for that period.

12. Stock-Based Compensation

Total compensation expense recognized for stock-based awards granted under the Company's various equity incentive plans during the three and six months ended July 31, 2011 was approximately \$721,000 and \$937,000, respectively, and, during the three and six months ended July 31, 2010 was approximately \$497,000 and \$770,000, respectively. Additionally, during the three months ended July 31, 2011, accrued compensation expense applicable to the year ended January 31, 2011 totaling approximately \$302,000 was paid by issuing fully vested common stock and options to purchase common stock. During the three months ended July 31, 2011, options to purchase 70,000 shares of common stock were granted to non-employee members of the Company's Board of Directors.

13. 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; Bogota, Colombia; and Lima, Peru.

The Seemap 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 July 31, 2011	As of January 31, 2011
	Total Assets	Total Assets
	(in thousands)	
Equipment Leasing	\$ 137,214	\$ 118,929
Seemap	27,513	19,569
Eliminations	(453)	(527)
Consolidated	\$ 164,274	\$ 137,971

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Results for the three months ended July 31, 2011 and 2010 were as follows (in thousands):

	Revenues		Operating income (loss)		Income (loss) before taxes	
	2011	2010	2011	2010	2011	2010
Equipment Leasing	\$ 14,744	\$ 7,955	\$ 632	\$ (3,234)	\$ 424	\$ (3,000)
Seamap	6,816	7,253	2,162	2,595	1,939	2,680
Eliminations	(282)	(53)	(195)	39	(195)	39
Consolidated	<u>\$ 21,278</u>	<u>\$ 15,155</u>	<u>\$ 2,599</u>	<u>\$ (600)</u>	<u>\$ 2,168</u>	<u>\$ (281)</u>

Results for the six months ended July 31, 2011 and 2010 were as follows (in thousands):

	Revenues		Operating income		Income (loss) before taxes	
	2011	2010	2011	2010	2011	2010
Equipment Leasing	\$ 32,897	\$ 18,674	\$ 5,981	\$ (2,196)	\$ 5,710	\$ (1,066)
Seamap	15,266	13,083	5,723	3,994	5,052	3,891
Eliminations	(383)	(102)	(133)	79	(133)	79
Consolidated	<u>\$ 47,780</u>	<u>\$ 31,655</u>	<u>\$ 11,571</u>	<u>\$ 1,877</u>	<u>\$ 10,629</u>	<u>\$ 2,904</u>

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.

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 Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Section 27A of the Securities Act of 1933, as amended. This information includes, without limitation, statements concerning:

- our future financial position and results of operations;
- international and economic instability;
- planned capital expenditures;
- our business strategy and other plans for future operations;
- the future mix of revenues and business;
- our relationship with suppliers;
- our liquidity and access to capital;
- the effect of seasonality on our business;
- future demand for our services; and
- general conditions in the energy industry and seismic service industry.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can-not assure you that these expectations will prove to be correct. When used in this Form 10-Q, the words “anticipate,” “believe,” “estimate,” “expect,” “may” and similar expressions, as they relate to our company and management, are intended to identify forward-looking statements. The actual results of future events described in these forward-looking statements could differ materially from the results described in the forward-looking statements due to risks and uncertainties including, but are not limited to, those summarized below:

- decline in the demand for seismic data and our services;
- the effect of 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;
- seasonal fluctuations that can adversely affect our business;
- defaults by customers on amounts due us;
- possible impairment of our long-lived assets;
- inability to obtain funding or to obtain funding under acceptable terms;
- intellectual property claims by third parties;
- resolution of pending tax audits;
- risks associated with our manufacturing operations; and
- risks associated with our foreign operations, including foreign currency exchange risk.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We operate in two segments, equipment leasing (“Equipment Leasing”) and equipment manufacturing. Our equipment leasing operations are conducted from our Huntsville, Texas headquarters and from our locations in Calgary, Canada; Brisbane, Australia; Ufa, Bashkortostan, Russia; Bogota, Colombia; and Lima, Peru. Our Equipment Leasing segment includes the operations of our Mitcham Canada, Ltd. (“MCL”), Absolute Equipment Solutions, Inc. (“AES”), Seismic Asia Pacific Pty. Ltd. (“SAP”), and Mitcham Seismic Eurasia LLC (“MSE”) subsidiaries and our branch operations in Peru and Colombia. We acquired AES effective March 1, 2010. Our equipment manufacturing segment is conducted by our Seamap subsidiaries and therefore is referred to as our “Seamap” segment. Seamap operates from its locations near Bristol, United Kingdom and in Singapore.

Management believes that the performance of our Equipment Leasing segment is indicated by revenues from equipment leasing and by the level of our investment in lease pool equipment. Management further believes that the performance of our Seamap segment is indicated by revenues from equipment sales and by gross profit from those

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sales. Management monitors EBITDA and Adjusted EBITDA, both as defined in the following table, as key indicators of our overall performance and liquidity.

The following table presents certain operating information by operating segment.

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Revenues:				
Equipment Leasing	\$ 14,744	\$ 7,955	\$ 32,897	\$ 18,674
Seamap	6,816	7,253	15,266	13,083
Inter-segment sales	(282)	(53)	(383)	(102)
Total revenues	<u>21,278</u>	<u>15,155</u>	<u>47,780</u>	<u>31,655</u>
Cost of sales:				
Equipment Leasing	10,215	7,181	19,336	13,615
Seamap	2,937	3,411	6,556	6,623
Inter-segment costs	(87)	(92)	(250)	(181)
Total cost of sales	<u>13,065</u>	<u>10,500</u>	<u>25,642</u>	<u>20,057</u>
Gross profit	<u>8,213</u>	<u>4,655</u>	<u>22,138</u>	<u>11,598</u>
Operating expenses:				
General and administrative	5,794	4,162	10,442	8,349
Provision for (recovery of) doubtful accounts	(492)	797	(492)	797
Depreciation and amortization	312	296	617	575
Total operating expenses	<u>5,614</u>	<u>5,255</u>	<u>10,567</u>	<u>9,721</u>
Operating income (loss)	<u>\$ 2,599</u>	<u>\$ (600)</u>	<u>\$ 11,571</u>	<u>\$ 1,877</u>
EBITDA (1)	\$ 9,313	\$ 5,516	\$ 24,378	\$ 12,782
Adjusted EBITDA (1)	\$ 10,034	\$ 6,013	\$ 25,315	\$ 13,552
Reconciliation of Net income to EBITDA and Adjusted EBITDA				
Net income (loss)	\$ 1,300	\$ (146)	\$ 7,393	\$ 2,248
Interest expense, net	95	118	270	212
Depreciation and amortization	7,050	5,679	13,479	10,970
Provision (benefit) for income taxes	868	(135)	3,236	656
Gain from bargain purchase	—	—	—	(1,304)
EBITDA (1)	9,313	5,516	24,378	12,782
Stock-based compensation	721	497	937	770
Adjusted EBITDA (1)	<u>\$ 10,034</u>	<u>\$ 6,013</u>	<u>\$ 25,315</u>	<u>\$ 13,552</u>

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Reconciliation of Net cash provided by operating activities to EBITDA				
Net cash provided by operating activities	\$ 9,049	\$ 8,354	\$ 19,638	\$ 18,143
Stock-based compensation	(721)	(497)	(937)	(770)
Changes in trade accounts and contracts receivable	(2,647)	(1,489)	1,035	(2,588)
Interest paid	191	154	497	314
Taxes paid, net of refunds	2,150	761	3,529	1,220
Gross profit from sale of lease pool equipment	219	59	457	273
Changes in inventory	236	(587)	565	(1,353)
Changes in accounts payable, accrued expenses and other current liabilities and deferred revenue	(792)	(608)	(2,023)	(1,554)
Other	1,628	(631)	1,617	(903)
EBITDA (1)	<u>\$ 9,313</u>	<u>\$ 5,516</u>	<u>\$ 24,378</u>	<u>\$ 12,782</u>

(1) EBITDA is defined as net income (loss) before (a) interest expense, net of interest income, (b) provision for (or benefit from) income taxes (c) depreciation, amortization and impairment and (d) the gain from bargain purchase. Adjusted EBITDA excludes stock-based compensation. We consider EBITDA and Adjusted EBITDA to be important indicators for the performance of our business, but not measures of performance calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"). We have included these non-GAAP financial measures because management utilizes this information for assessing our performance and liquidity and as indicators of our ability to make capital expenditures, service debt and finance working capital requirements. The covenants of our revolving credit agreement require us to maintain a minimum level of EBITDA. Management believes that EBITDA and Adjusted EBITDA are measurements that are commonly used by analysts and some investors in evaluating the performance and liquidity of companies such as us. In particular, we believe that it is useful to our analysts and investors to understand this relationship because it excludes transactions not related to our core cash operating activities. We believe that excluding these transactions allows investors to meaningfully trend and analyze the performance and liquidity of our core cash operations. EBITDA and Adjusted EBITDA are not measures of financial performance or liquidity under GAAP and should not be considered in isolation or as alternatives to cash flow from operating activities or as alternatives to net income as indicators of operating performance or any other measures of performance derived in accordance with GAAP. In evaluating our performance as measured by EBITDA, management recognizes and considers the limitations of this measurement. EBITDA and Adjusted EBITDA do not reflect our obligations for the payment of income taxes, interest expense or other obligations such as capital expenditures. Accordingly, EBITDA and Adjusted EBITDA are only two of the measurements that management utilizes. Other companies in our industry may calculate EBITDA or Adjusted EBITDA differently than we do and EBITDA and Adjusted EBITDA may not be comparable with similarly titled measures reported by other companies.

In our Equipment Leasing segment, we lease seismic data acquisition equipment primarily to seismic data acquisition companies conducting land, transition zone and marine seismic surveys worldwide. We provide short-term leasing of seismic equipment to meet a customer's requirements. All active leases at July 31, 2011 were for a term of less than one year. Seismic equipment held for lease is carried at cost, net of accumulated depreciation. We acquire some marine lease pool equipment from our Seemap segment. These amounts are reflected in the accompanying condensed consolidated financial statements at the cost to our Seemap segment. From time to time, we sell lease pool equipment to our customers. These sales are usually transacted when we have equipment for which we do not have near term needs in our leasing business and if the proceeds from the sale exceed the estimated present value of future lease income from that equipment. We also occasionally sell new seismic equipment that we acquire from other companies and sometimes provide financing on those sales. AES produces, sells, and leases equipment used to deploy and retrieve seismic equipment with helicopters. In addition to conducting seismic equipment leasing operations, SAP sells equipment, consumables, systems integration, engineering hardware and software maintenance support services to the seismic, hydrographic, oceanographic, environmental, and defense industries throughout Southeast Asia and Australia.

Seismic equipment leasing is normally susceptible to weather patterns in certain geographic regions. In Canada and Russia, a significant percentage of the seismic survey activity occurs in winter months, from December through March or April. During the months in which the weather is warmer, certain areas are not accessible to trucks, earth vibrators and other heavy equipment because of unstable terrain. In other areas of the world, such as Southeast Asia and the Pacific Rim, periods of heavy rain, known as monsoons, can impair seismic operations. We are able, in many cases, to transfer our equipment from one region to another in order to deal with seasonal demand and to increase our equipment utilization.

Our Seemap segment designs, manufactures and sells a variety of products used primarily in marine seismic

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applications. Seemap's primary products include (1) the GunLink seismic source acquisition and control systems, which provide marine operators more precise control of their exploration systems, and (2) the BuoyLink RGPS tracking system used to provide precise positioning of seismic sources and streamers (marine recording channels that are towed behind a vessel).

Business Outlook

Our revenues are directly related to the level of worldwide oil and gas exploration activities and the profitability and cash flows of oil and gas companies and seismic contractors, which, in turn, are affected by expectations regarding the supply and demand for oil and natural gas, energy prices and exploration and development costs. Land seismic data acquisition activity levels are measured in terms of the number of active recording crews, known as the "crew count," and the number of recording channels deployed by those crews, known as "channel count." Because an accurate and reliable census of active crews does not exist, it is not possible to make definitive statements regarding the absolute levels of seismic data acquisition activity. Furthermore, a significant number of seismic data acquisition contractors are either private or state-owned enterprises and information about their activities is not available in the public domain.

There has been a general trend in the industry towards high-density, complex seismic surveys calling for higher channel counts. This can require seismic contractors to deploy more equipment on these surveys. We believe that this trend has resulted, and will continue to result, in additional demand for rental equipment.

In recent months, we believe there has been a general increase in oil and gas exploration activity which has resulted in an increase in our business activity. In particular, we have seen increased activity in Russia and Canada, although activity in these regions is generally limited to the winter season, South America and the United States. We also have seen increased activity in marine seismic exploration and, most recently, increased activity from our customers in Eastern Europe.

In our opinion, the general increase in oil prices from the lows experienced in 2008 and 2009 have contributed to this increased activity, as has the recovery of the global economy and financial markets. However, the duration and extent of this recovery remains uncertain. We believe recent fiscal issues within the United States and the European Union have contributed to this uncertainty.

Much of the activity in the United States is taking place within various so called "shale plays." The higher level of activity is indicated by increased bid activity in our business and higher activity reported by certain seismic contractors. We believe that similar exploration prospects in other parts of the world, particularly Eastern Europe, could provide significant opportunities for our business.

We have recently seen a significant increase in seismic exploration activity, and demand for our equipment, in South America, especially Colombia. In response to these developments, in the first half of fiscal 2012 we have added a significant amount of new equipment and deployed much of that equipment to our branch operation in Colombia. In addition, we have recently seen an increase in inquiries for our equipment from customers in Eastern Europe. We believe that much of this increased demand results from activity surrounding shale gas prospects in Eastern Europe and from activity in parts of North Africa and Turkey. In order to take advantage of these opportunities and to increase utilization of our lease pool, we are in the process of establishing a new operating facility in Hungary. We believe that Hungary provides a geographically strategic location from which to serve the European, North African and Middle East markets.

Despite the positive trends discussed above, the magnitude and breadth of the recovery in exploration activity is uncertain. The oil and gas industry in general, and the seismic industry specifically, have historically been subject to significant cyclical and uncertainty. Uncertainty about the breadth and sustainability of the global economic recovery, we believe, contributes to this unsettled situation in the energy industry.

In the aftermath of the Deepwater Horizon disaster in the Gulf of Mexico, the rate of seismic exploration activity in the U.S. Gulf of Mexico has been adversely affected. Certain marine seismic survey projects that we had been providing rental equipment for in the U.S. Gulf of Mexico at the time of the Deepwater Horizon incident have since been cancelled or delayed but these cancellations and delays have not had a material adverse effect on our results of operations or financial condition. A permit was recently issued for a seismic exploration survey in the U.S. Gulf of Mexico, and it is our understanding that this survey will commence in early 2012. There is no assurance that this recent issuance of a permit in mid-2011 indicates a trend or that we will benefit from any resumption of exploration activity in the U.S. Gulf of Mexico.

The market for products sold by Seemap and the demand for the leasing of marine seismic equipment is dependent upon activity within the offshore, or marine, seismic industry, including the re-fitting of existing seismic vessels and the equipping of new vessels. The ability of our customers to build or re-fit vessels is dependent in part on their ability to obtain appropriate financing. Although there was a decline in marine seismic activity during

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fiscal 2010, there has been a rebound in such activity in fiscal 2011 and early fiscal 2012. Many marine contractors have retired older vessels and, therefore, decreased the total capacity within the marine seismic industry. However, there are indications that some of these contractors are seeking to upgrade technology in order to operate more efficiently. There have also been announcements recently of intentions by some contractors to add new-build vessels to their fleets. Certain of our existing and potential customers have continued to express interest in our GunLink and BuoyLink products. Some of this interest involves the upgrade of exiting GunLink and BuoyLink products to newer versions or systems with greater functionality.

We have made significant additions to our lease pool over the past five years, totaling over \$150 million. This has, we believe, resulted in an increase in the revenue generating capacity of our equipment leasing segment. These additions have been in response to the industry trends towards higher channel counts, as discussed above, the geographic expansion of our leasing operations and the increased breadth of our product offerings. In the six months ended July 31, 2011, we added approximately \$34.8 million of new lease pool equipment, including Sercel 428 land recording systems, Unite cable-free systems and additional marine equipment. Much of the land recording equipment that we acquired in the first six months of fiscal 2012 has been deployed in South America. Despite the significant lease pool additions so far this year, we believe there is demand for additional equipment, including three-component digital recording systems, traditional land recording systems, cable-free land recording systems and certain marine equipment. Accordingly, we expect to add more than \$30 million in additional lease pool equipment during the balance of fiscal 2012. To help finance the acquisition of this equipment, in June 2011, we completed a public offering of our common stock that resulted in net proceeds to us of approximately \$31.0 million.

In the past few years, we have expanded our lease pool by acquiring different types of equipment or equipment that can be used in different types of seismic applications. For example, we added a variety of marine seismic equipment to our lease pool and have purchased downhole seismic equipment that can be utilized in a wide array of applications, some of which are not related to oil and gas exploration. These applications include 3-D surface seismic surveys, well and reservoir monitoring, analysis of fluid treatments of oil and gas wells and underground storage monitoring. We recently have added new cable free recording technology to our lease pool of ground recording equipment. In the future, we may seek to further expand the breadth of our lease pool, which could increase the amount we expend on the acquisition of lease pool equipment.

We also have expanded the geographic breadth of our operations by acquiring or establishing operating facilities in new locations. Most recently, in fiscal 2010 we established branch operations in Peru and in Colombia and are in the process of establishing a facility in Hungary during fiscal 2012. With the recent increases in business activity in South America, we expect to significantly expand our operations in South America. This expansion is expected to include the opening of an expanded repair facility in Colombia. We are also considering enhancing our marine leasing activities by expanding our operations in Singapore. We may seek to further expand our operations to additional locations in the future either through establishing "green field" operations or by acquiring existing operations. We are studying a variety of such opportunities but have made no specific plans at this time.

A significant portion of our revenues are generated from foreign sources. For the three months ended July 31, 2011 and 2010, revenues from international customers totaled approximately \$17.2 million and \$13.2 million, respectively, representing 81% and 87% of consolidated revenues in those periods, respectively. For the six months ended July 31, 2011 and 2010, revenues from international customers totaled approximately \$38.6 million and \$27.9 million, respectively, representing 81% and 88% of consolidated revenues in those periods, respectively. The majority of our transactions with foreign customers are denominated in United States, Australian, Canadian and Singapore dollars and Russian rubles. We have not entered, nor do we intend to enter, into derivative financial instruments for hedging or speculative purposes. We do not believe that entering into derivative instruments for hedging purposes would be cost effective.

Our revenues and results of operations have not been materially impacted by inflation or changing prices in the three or six month periods ending July 31, 2011 and 2010, except as described above.

Results of Operations

Revenues for the three-month periods ended July 31, 2011 and 2010 were approximately \$21.3 million and \$15.2 million, respectively. The increase was due primarily to increased leasing revenues. Revenues for the six-month periods ended July 31, 2011 and 2010 were approximately \$47.8 million and \$31.7 million, respectively. The increase in the six-month period resulted primarily from higher leasing revenues and increased Seemap sales. The increased revenues reflect the increased activity within the seismic industry as discussed above. For the three months ended July 31, 2011, we generated operating income of approximately \$2.6 million as compared to an operating loss of approximately \$600,000 for the three months ended July 31, 2010. For the six months ended July

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31, 2011, we generated operating income of \$11.6 million as compared to approximately \$1.9 million in the six months ended July 31, 2010. The increase in operating profit was due primarily to the increase in revenues. A more detailed explanation of these variations follows.

Revenues and Cost of Sales*Equipment Leasing*

Revenue and cost of sales from our Equipment Leasing segment were as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2011	2010	2011	2010
	(\$ in thousands)		(\$ in thousands)	
Revenue:				
Equipment leasing	\$ 12,272	\$ 6,493	\$ 29,047	\$ 16,059
Lease pool equipment sales	326	159	661	522
New seismic equipment sales	127	234	402	295
SAP equipment sales	2,019	1,069	2,787	1,798
	14,744	7,955	32,897	18,674
Cost of sales:				
Direct costs-equipment leasing	1,826	846	3,983	1,590
Lease pool depreciation	6,658	5,395	12,813	10,347
Cost of lease pool equipment sales	107	100	204	249
Cost of new seismic equipment sales	88	72	223	83
Cost of SAP equipment sales	1,536	768	2,113	1,346
	10,215	7,181	19,336	13,615
Gross profit	\$ 4,529	\$ 774	\$ 13,561	\$ 5,059
Gross profit %	31%	10%	41%	27%

Equipment leasing revenues increased approximately 89% in the second quarter of fiscal 2012 from the second quarter of fiscal 2011. Factors contributing to this increase include higher activity levels in South America and North America, increased marine leasing activity and, to a lesser extent, increased demand in Europe. The additional equipment that we deployed in South America during the first and second quarter of fiscal 2012 enabled us to take advantage of the growing demand in that area. Equipment leasing revenues increased approximately 81% in the first six months of fiscal 2012 from the first six months of fiscal 2011. A number of factors contributed to this significant increase. These factors include increased demand in the United States, a stronger winter season in Canada, the addition of equipment to our lease pool from AES, increased activity in South America, increased rentals of downhole equipment and increased marine equipment rentals. Our first fiscal quarter has historically been the strongest quarter for our leasing business due to very high seasonal demand in Canada and Russia. In Canada, we experienced very high demand and utilization of our lease pool during the first quarter of fiscal 2012. In Russia, while we did experience essentially full utilization for much of the first quarter of fiscal 2012, the winter season there was unusually short and leasing revenues in the fiscal 2012 first quarter were slightly less than in the first quarter of fiscal 2011.

From time to time, we sell equipment from our lease pool based on specific customer demand and as opportunities present themselves in order to redeploy our capital in other lease pool assets. Accordingly, these transactions tend to occur sporadically and are difficult to predict. Often, the equipment that is sold from our lease pool has been in service, and therefore depreciated, for some period of time. Accordingly, the equipment sold may have a relatively low net book value at the time of the sale, resulting in a relatively high gross margin from the transaction. The amount of the margin on a particular transaction varies greatly based primarily upon the age of the equipment. The gross profit from sales of lease pool equipment for the three months ended July 31, 2011 and 2010 was approximately \$219,000 and \$59,000, respectively. For the six months ended July 31, 2011 and 2010, sales of lease pool equipment generated gross profit of approximately \$457,000 and \$273,000, respectively.

Periodically, we sell new seismic equipment that we acquire from others. On occasion, these sales may be structured with a significant down payment and the balance financed over a period of time at a market rate of

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interest. These sales are also difficult to predict and do not follow any seasonal patterns. Also, AES regularly sells equipment that it produces. The gross profit from sales of new seismic equipment for the three months ended July 31, 2011 and 2010 was approximately \$39,000 and \$162,000, respectively. For the six months ended July 31, 2011 and 2010, sales of new seismic equipment generated gross profit of approximately \$179,000 and \$212,000, respectively.

SAP regularly sells new hydrographic and oceanographic equipment and provides system integration services to customers in Australia and throughout the Pacific Rim. The increase in sales by SAP in the three and six months ended July 31, 2011 versus the comparable periods in the prior fiscal year resulted primarily from increased sales of hydrographic and oceanographic equipment throughout the Pacific Rim and from revenue generated from a support contract with the Australian government. For the second quarter ended July 31, 2011, SAP generated gross profit of approximately \$483,000 from these transactions as compared to approximately \$301,000 in the fiscal quarter ended July 31, 2010. For the six months ended July 31, 2011, the gross profit from SAP equipment sales amounted to approximately \$674,000, as compared to approximately \$452,000 in the six months ended July 31, 2010. The sales of hydrographic and oceanographic equipment by SAP are generally not related to oil and gas exploration activities and are often made to governmental entities. Accordingly, these sales are not impacted by global economic and financial issues to the same degree as are other parts of our business.

Direct costs related to equipment leasing for the three months ended July 31, 2011 increased approximately 116% over the same period in the prior year. In the six months ended July 31, 2011, direct costs increased approximately 151% over the same period one year ago. These increases are attributable to support activities related to the generally higher leasing activity in the fiscal 2012 period, the cost of redeploying equipment to different geographic regions and costs to sub-lease certain equipment.

For the three months ended July 31, 2011, lease pool depreciation increased approximately 23% over the three months ended July 31, 2010. In the six months ended July 31, 2011, lease pool depreciation increased approximately 24% over the six months ended July 31, 2010. The increase in lease pool depreciation resulted from the additions we made to our lease pool in fiscal 2011 and, to a lesser extent, in fiscal 2012. When newly acquired lease pool equipment is placed in service (first deployed on a rental contract) we begin to depreciate that equipment on a straight-line basis over estimated depreciable lives ranging from three to seven years. Therefore, in periods of lower equipment utilization, we experience depreciation expense that is disproportionate to our equipment leasing revenues.

Overall, our Equipment Leasing segment generated gross profit of approximately \$4.5 million in the second quarter of fiscal 2012 as compared to approximately \$774,000 in the second quarter of fiscal 2011. In the first six months of fiscal 2012, the Equipment Leasing segment generated gross profit of approximately \$13.6 million as compared to approximately \$5.1 million in the first six months of fiscal 2011. These increases are attributable primarily to the increase in leasing revenues in the fiscal 2012 periods, despite higher depreciation and direct costs.

Seamap

Revenues and cost of sales for our Seamap segment were as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2011	2010	2011	2010
	(\$ in thousands)		(\$ in thousands)	
Equipment sales	\$ 6,816	\$ 7,253	\$ 15,266	\$ 13,083
Cost of equipment sales	2,937	3,411	6,556	6,623
Gross profit	\$ 3,879	\$ 3,842	\$ 8,710	\$ 6,460
Gross profit %	57%	53%	57%	49%

The sale of Seamap products, while not generally impacted by seasonal factors, can vary significantly from quarter to quarter due to customer delivery requirements. In the three months ended July 31, 2011, Seamap shipped one GunLink 4000 system and one BuoyLink system. During the three months ended July 31, 2010, we shipped two GunLink 4000 systems. The balance of revenues in both periods relates to the sale of certain other equipment, such as streamer weight collars, and providing on-going support and repair services, as well as spare parts sales. In the six months ended July 31, 2011, we shipped a total of three GunLink 4000 systems, versus four for the comparable period in the prior year. Changes in product prices did not contribute materially to the difference in sales between the fiscal 2012 and fiscal 2011 periods, except as described below.

The gross profit from the sale of Seamap equipment for the six months ended July 31, 2011 was higher than that for the six months ended July 31, 2010 due to changes in product mix and due to a discount provided in the

three months ended April 30, 2010 to a particular customer. This non-recurring discount reflected certain volume purchase commitments made by that customer.

Operating Expenses

General and administrative expenses for the quarter ended July 31, 2011 were approximately \$5.8 million, compared to approximately \$4.2 million for the quarter ended July 31, 2010. For the six months ended July 31, 2011, general and administrative expenses were approximately \$10.4 million, compared to approximately \$8.3 million in the six months ended July 31, 2010. The increases reflect higher stock-based compensation expense in the fiscal 2012 periods and generally higher costs related to the increased level of activity. Specific areas of increased costs include personnel costs, including incentive compensation amounts, professional fees and travel costs. Approximately 50% of our general and administrative expenses are incurred by our foreign subsidiaries in currencies other than the U.S. dollar. Due to the decline in the value of the U.S. dollar against most other currencies with which we deal, our reported general and administrative expenses in the fiscal 2012 periods have increased over the comparable periods in fiscal 2011. The change in currency exchange rates between the fiscal 2012 and 2011 periods caused our reported general and administrative expense to increase approximately 6% for the three months ended July 31, 2011 and approximately 5% for the six months ended July 31, 2011, as compared to the comparable periods in the prior fiscal year.

In the three months ended July 31, 2011 we recovered approximately \$492,000 related to an account receivable that we had previously reserved as uncollectable. In the three months ended July 31, 2010 we provided for approximately \$797,000 in accounts receivable from certain customers that we determined at the that time to be uncollectable.

Other Income (Expense)

We completed the acquisition of AES on March 1, 2010. The fair value of the assets and liabilities we acquired, as determined by a third-party appraisal, exceeded the total consideration we paid by approximately \$1.3 million. Accordingly, we recorded a gain from the bargain purchase as of the acquisition date.

Net interest expense for the three months ended July 31, 2011 amounted to approximately \$95,000, consisting of interest expense related primarily to our revolving credit agreement of approximately \$207,000 offset by interest income of approximately \$112,000. For the six months ended July 31, 2011, net interest expense was approximately \$270,000, consisting of interest expense of approximately \$503,000 offset by interest income of approximately \$233,000. Net interest expense for the three months ended July 31, 2010 amounted to approximately \$118,000, consisting of interest expense related to our revolving credit agreement of approximately \$190,000 offset by interest income of approximately \$72,000. For the six months ended July 31, 2010, net interest expense was approximately \$212,000, consisting of interest expense of approximately \$339,000 offset by interest income of approximately \$127,000. Interest expense in the fiscal 2012 periods was higher during the comparable periods in fiscal 2011 primarily due to interest charges related to the supplier equipment note we entered into in October 2010. However, the majority of interest expense in all periods relates to borrowings under our revolving credit facility. These borrowings were used to finance purchases of lease pool equipment as previously discussed. During the quarter ended July 31, 2011, we repaid essentially all amounts outstanding under the revolving credit facility with the net proceeds from our June 2011 offering of common stock. Interest income is derived from the temporary investment of cash balances and from finance charges related to equipment sales transactions with deferred payment provisions.

Other expenses of approximately \$336,000 for the three months ended July 31, 2011 and other income of approximately \$437,000 for the three months ended July 31, 2010 relate primarily to foreign exchange losses and gains incurred by our foreign subsidiaries. These losses and gains relate primarily to changes in the local functional currency balances of cash and accounts receivable denominated in U.S. dollars. These changes occur as the value of the United States dollar fluctuates versus the local currency. For the six months ended July 31, 2011 and 2010, these changes resulted in net exchange losses of approximately \$672,000 and \$65,000, respectively.

Provision for Income Taxes

Our tax provision for the three months ended July 31, 2011 was approximately \$868,000, which indicates an effective tax rate of approximately 40%. This is greater than the U.S. statutory rate of 34% due the effect of withholding taxes in certain foreign jurisdictions and the effect of dividends paid from our foreign subsidiaries to the U.S. parent. For the six months ended July 31, 2011, our effective tax rate was approximately 30%, which reflects the lower tax rates in foreign jurisdictions in which a significant amount of our earnings are generated. For the three months ended July 31, 2010, our tax benefit was \$135,000, which is an effective tax rate of approximately 48%. Our effective tax rate for the six months ended July 31, 2010 was approximately 23%. However, this six month period included a gain arising from the purchase of AES. The gain from the bargain purchase is not taxable

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and, therefore, reduced our effective tax rate for the period. Absent the effect of this item, our effective tax rate for the six months ended July 31, 2010 would have been approximately 41%. This rate is higher than the United States statutory rate of 34% due primarily to estimated potential penalties and interest arising from uncertain tax positions. Pursuant to accounting standards, we have estimated and recorded the potential effect on our liabilities for income taxes should specific uncertain tax positions be resolved not in our favor. We are further required to estimate and record potential penalties and interest that could arise from these positions.

Liquidity and Capital Resources

As of July 31, 2011, we had working capital of approximately \$29.3 million, including cash and cash equivalents and restricted cash of approximately \$14.0 million, as compared to working capital of approximately \$29.2 million, including cash and cash equivalents and restricted cash of approximately \$14.6 million, at January 31, 2011. While our working capital and cash positions did not change materially between these two dates, there were significant changes that occurred during the six months ended July 31, 2011, which are discussed below.

In June 2011, we completed a public offering of 2.3 million shares of our common stock, resulting in net proceeds to us of approximately \$31.0 million. The proceeds were used to repay essentially all amounts outstanding under our revolving credit facility and to fund the purchase of lease pool equipment. Borrowings under our revolving credit facility had been used primarily for the purchase of lease pool equipment.

Net cash provided by operating activities was approximately \$19.6 million in the first six months of fiscal 2012 as compared to approximately \$18.1 million in the same six months in fiscal 2011. This increase resulted primarily from the increase in net income in the fiscal 2012 period and the effect of higher non-cash depreciation expenses in the fiscal 2012 period, offset by higher tax payments and increased accounts receivable.

Net cash flows used in investing activities for the six months ended July 31, 2011 included purchases of seismic equipment held for lease totaling approximately \$30.5 million, as compared to approximately \$7.0 million in the first six months of fiscal 2011. There was approximately \$7.5 million in accounts payable at July 31, 2011 related to lease pool purchases. At January 31, 2011, there was approximately \$3.2 million in accounts payable related to lease pool purchases. Accordingly, additions to our lease pool amounted to approximately \$34.8 million in the first six months of fiscal 2012, as compared to approximately \$12.1 million in the first six months of fiscal 2011. As of July 31, 2011, we had outstanding commitments for the purchase of approximately \$5.4 million of lease pool equipment, and subsequent to July 31, 2011 we have made commitments to purchase approximately \$23.0 million of lease pool equipment. We currently estimated that additions to our lease pool will total between \$65 million and \$70 million for all of fiscal 2012. We expect to fund these acquisitions with a combination of cash on hand, cash flow generated from operating activities and proceeds from our revolving credit facility.

In the first six months of fiscal 2012, proceeds from the sale of lease pool equipment amounted to approximately \$661,000, as compared to approximately \$522,000 in the same six months in fiscal 2011. We generally do not seek to sell our lease pool equipment, but may do so from time to time. In particular, we may sell lease pool equipment in response to specific demand from customers if the selling price exceeds the estimated present value of projected future leasing revenue from that equipment.

Net cash provided by financing activities was approximately \$9.2 million in the first six months of fiscal 2012 and net cash used by financing activities was approximately \$6.0 million in the first six months of fiscal 2011. The fiscal 2012 period reflects approximately \$31.0 million in net proceeds from the public offering of common stock that was completed in June 2011. During the six months ended July 31, 2011, we made net repayments of approximately \$20.9 million under our revolving credit agreement. During this period, we also made installment payments of approximately \$750,000 related to the notes given to the sellers of AES and installment payments of approximately \$1.3 million pursuant to the promissory note issued in October 2010 related to the purchase of certain equipment. During the six months ended July 31, 2010 our net repayments on our line of credit were approximately \$6.0 million. During the six months ended July 31, 2011, we received approximately \$739,000 upon the exercise of stock options versus approximately \$244,000 during the six months ended July 31, 2010.

In July 2011, we amended our \$35.0 million revolving credit agreement with First Victoria National Bank (the "Bank"), to extend the maturity of the facility from May 31, 2012 to May 31, 2013. Amounts available for borrowing are determined by a borrowing base. The borrowing base is computed based upon eligible accounts receivable and eligible lease pool assets. Based upon a calculation of the borrowing base, \$35.0 million of borrowings under the facility were available to us as of July 31, 2011, less any outstanding amounts as described below. However, at any time prior to maturity, we can convert any or all outstanding balances into a series of 48-month notes. Amounts converted into these notes are due in 48 equal monthly installments. The agreement also provides that up to \$7.0 million of the available borrowing may be used to secure letters of credit. The revolving credit facility is secured by essentially all of our domestic assets. Interest is payable monthly at the prime rate plus

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50 basis points. The credit agreement provides that we may not incur or maintain indebtedness in excess of \$1.0 million without the written consent of the Bank, except for borrowings related to the credit agreement. As of September 2, 2011, we had approximately \$2.9 million outstanding under the facility and \$1.0 million of the facility had been reserved to support outstanding letters of credit. Accordingly, approximately \$31.1 million was available for borrowing under the facility as of that date. The revolving credit agreement contains certain financial covenants that require us, among other things, 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 produce EBITDA of not less than \$2.0 million.

As indicated by the following chart, we were in compliance with all financial covenants as of July 31, 2011:

Description of Financial Covenant	Required Amount	Actual as of July 31, 2011 or for the period then ended
Ratio of debt to shareholder's equity	Not more than 0.7:1.0	0.03:1.0
Ratio of current assets to current liabilities	Not less than 1.25:1.0	2.43:1.0
Quarterly EBITDA	Not less than \$2.0 million	\$9.3 million

Under the terms of the revolving credit facility we may convert any outstanding balances into a series of 48-month notes. We do not currently anticipate utilizing this option, but if we were to do so we would be required to make monthly payments to amortize those notes. As of July 31, 2011, there was approximately \$750,000 outstanding under this facility. If we were to convert the entire amount into 48-month notes, our required monthly principal payments would be approximately \$16,000. We would also be required to make monthly interest payments on the remaining principal balance at the then prime rate, 3.25% at July 31, 2011, plus 50 basis points. Our average borrowing levels under our revolving credit facility were approximately \$17.6 million for the six months ended July 31, 2011 and 2010.

In October 2010, in connection with the purchase of certain lease pool equipment, we entered into a secured promissory note with a supplier in the amount of approximately \$3.6 million. The note is repayable in 18 monthly installments, bears interest at 8% annually and is secured by the equipment purchased. Pursuant to the terms of our revolving credit agreement we sought and received the consent of the Bank for this transaction.

On March 1, 2010, we acquired AES for a total purchase price of approximately \$4.0 million. The consideration consisted of approximately \$2.1 million of cash at closing, approximately \$1.4 million in promissory notes, a post-closing working capital adjustment payment of approximately \$184,000 and approximately \$300,000 in deferred cash payments. The promissory notes bear interest at 6% annually, payable semi-annually. The principal amount of the notes is repayable in two equal installments. The first of these installments was paid on March 1, 2011, with the remaining payment due March 1, 2012. The deferred cash payments will be made upon the expiration of certain indemnity periods. The deferred cash payment bears interest at 6% annually. We may offset amounts due pursuant to the promissory notes or the deferred cash payments against indemnity claims due from the sellers. In addition, the sellers may be entitled to additional cash payments should AES attain certain levels of revenues during the 24-month period following the closing. In April 2011, we made a payment of approximately \$150,000 pursuant to this provision of the agreement. The sellers may be entitled to additional payments of up to approximately \$450,000.

Pursuant to our exclusive equipment lease agreement with Sercel, we have agreed to purchase certain amounts of equipment through December 31, 2011. In order to fulfill the required purchases under the agreement, we will be required to place orders for approximately \$10.0 million of additional equipment through December 31, 2011. We anticipate meeting these requirements. Should we fail to meet these obligations, Sercel will have the right to terminate the agreement, including our exclusive referral arrangement. We are negotiating an amendment and extension to this agreement; however, there can be no assurance that we will successfully conclude these negotiations.

We believe that the working capital requirements, contractual obligations and expected capital expenditures discussed above, as well as our other liquidity needs for the next twelve months, can be met from cash flows provided by operations and from amounts available under our revolving credit facility discussed above. However,

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we may seek other sources of capital, such as debt or equity financing, in order to fund additional purchases of lease pool equipment and our continued global expansion.

As of July 31, 2011, we had deposits in foreign banks consisting of both United States dollar and foreign currency deposits equal to approximately \$13.5 million. These funds may generally be transferred to our accounts in the United States without restriction. However, the transfer of these funds may result in withholding taxes payable to foreign taxing authorities. Any such withholding taxes generally may be credited against our federal income tax obligations in the United States. Additionally, the transfer of funds from our foreign subsidiaries to the United States may result in currently taxable income in the United States.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk, which is the potential loss arising from adverse changes in market prices and rates. We have not entered, or intend to enter, into derivative financial instruments for hedging or speculative purposes.

Foreign Currency Risk

We operate in a number of foreign locations, which gives rise to risk from changes in foreign exchange rates. To the extent possible, we attempt to denominate our transactions in foreign locations in United States dollars. For those cases in which transactions are not denominated in United States dollars, we are exposed to risk from changes in exchange rates to the extent that non-United States dollar revenues exceed non-United States dollar expenses related to those operations. Our non-United States dollar transactions are denominated primarily in Canadian dollars, Australian dollars, Singapore dollars and Russian rubles. As a result of these transactions, we generally hold cash balances that are denominated in these foreign currencies. At July 31, 2011, our consolidated cash and cash equivalents included foreign currency denominated amounts equivalent to approximately \$4.2 million in United States dollars. A 10% increase in the value of the United States dollar as compared to the value of each of these currencies would result in a loss of approximately \$0.4 million in the United States dollar value of these deposits, while a 10% decrease would result in an equal amount of gain. We do not currently hold or issue foreign exchange contracts or other derivative instruments as we do not believe it is cost efficient to attempt to hedge these exposures.

Some of our foreign operations are conducted through wholly-owned foreign subsidiaries that have functional currencies other than the United States dollar. We currently have subsidiaries whose functional currencies are the Canadian dollar, British pound sterling, Australian dollar, Russian ruble and the Singapore dollar. Assets and liabilities from these subsidiaries are translated into United States dollars at the exchange rate in effect at each balance sheet date. The resulting translation gains or losses are reflected as accumulated other comprehensive income (loss) in the shareholders' equity section of our consolidated balance sheets. Approximately 56% of our net assets are impacted by changes in foreign currencies in relation to the United States dollar.

Interest Rate Risk

As of July 31, 2011, there was approximately \$750,000 outstanding under our revolving credit agreement. This agreement contains a floating interest rate based on the prime rate plus 50 basis points, which was 3.75% as of July 31, 2011. Assuming the outstanding balance remains unchanged, a change of 100 basis points in the prime rate would result in an increase in annual interest expense of approximately \$8,000. As we repaid essentially all amounts outstanding under the agreement in June 2011, annual interest expense under the agreement could be significantly higher. We have not entered into interest rate hedging arrangements in the past, and have no plans to do so. Due to fluctuating balances in the amount outstanding under this debt agreement we do not believe such arrangements to be cost effective.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified

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in the rules and forms of the SEC. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of July 31, 2011 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended July 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. *Legal Proceedings*

From time to time, we are a party to legal proceedings arising in the ordinary course of business. We are not currently a party to any legal proceedings, individually or collectively, that we believe could have a material adverse effect on our results of operations or financial condition.

Item 1A. *Risk Factors*

Our income tax liability may increase as a result of an assessment by taxing authorities in the United States or foreign jurisdictions.

The Canadian Revenue Agency (“CRA”) has proposed an increase of approximately \$8.6 million, including interest and penalties, in our Canadian income tax liability for tax years ending December 31, 2004, 2005, and 2006. The issues involved relate to the deductibility of certain expenses and whether those deductions should be taken in Canada or the United States.

To avoid double taxation as a result of this proposed adjustment, we have filed requests for competent authority assistance with the CRA and with the U.S. Internal Revenue Service (the “IRS”) seeking guidance regarding the proper treatment of these deductions. In addition, we have filed an appeal of the assessment with the CRA and the Province of Alberta, which has been stayed pending resolution of the competent authority process. There is no guarantee that the CRA and the IRS will reach an agreement on the treatment of the deductions. If they do not reach an agreement, we may be required to pursue arbitration under the tax treaty between the United States and Canada or other administrative remedies in order to receive the requested relief from double taxation. If the CRA and the IRS reach an agreement in response to our competent authority request, there is no guarantee that the agreement will avoid economic double taxation in all cases. Moreover, resolution of our competent authority request may take several years, during which time interest may continue to accrue on the assessment.

In certain circumstances we may decide to withdraw our request for competent authority assistance and continue to pursue our appeal of the assessment. However, there is no guarantee that the CRA or the courts will sustain our appeal and we may ultimately be required to pay the increased tax liability. Any increase in our tax liability as a result of the assessment or the result of the competent authority, treaty, or arbitration proceedings, beyond the amounts we have provided in our financial statements, would negatively affect the results of our operations and could negatively affect the value of our common stock.

Other than the risk factor set forth above, the Risk Factors included in our Annual Report on Form 10-K for the year ended January 31, 2011 have not materially changed.

Our business, results of operations and financial position are subject to a number of risks. In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended January 31, 2011 which could materially affect our business, financial condition or future results. The risks described in this Form 10-Q and in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

- (a) Not applicable.
- (b) Not applicable.

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(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the quarter ended July 31, 2011:

<u>Period</u>	<u>(a)</u> <u>Total</u> <u>number of</u> <u>shares</u> <u>purchased</u>	<u>(b)</u> <u>Average</u> <u>price</u> <u>paid per</u> <u>share</u>	<u>(c)</u> <u>Total number of</u> <u>shares</u> <u>purchased as</u> <u>part of publicly</u> <u>announced</u> <u>plans or</u> <u>programs</u>	<u>(d)</u> <u>Maximum</u> <u>number of</u> <u>shares that may</u> <u>yet be</u> <u>purchased</u> <u>under the plans</u> <u>or programs(1)</u>
May 1-31, 2011	—	—	—	—
June 1-30, 2011	—	—	—	—
July 1-31, 2011	925 ⁽²⁾	14.16	—	—
Total	<u>925</u>	<u>\$ 14.16</u>	<u>—</u>	<u>—</u>

(1) In connection with the lapsing of restrictions on restricted shares granted by our Company under our Stock Awards Plan (the “Plan”), we adopted a policy that enables employees the ability to surrender shares to cover the associated tax liability. We are unable to determine at this time the total amount of securities or the approximate dollar value of those securities that could potentially be surrendered to us pursuant to the Plan.

(2) These shares represent shares surrendered to us by a participant in the Plan to settle the personal tax liability that resulted from the lapsing of restrictions on Plan awards.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. (Removed and Reserved)

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibits

The exhibits required to be filed pursuant to the requirements of Item 601 of Regulation S-K are set forth in the Exhibit Index accompanying this Form 10-Q and are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MITCHAM INDUSTRIES, INC.

Date: September 8, 2011

/s/ Robert P. Capps

Robert P. Capps
Executive Vice President-Finance
and Chief Financial Officer
(Duly Authorized Officer and Chief Accounting Officer)

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Each exhibit identified below is part of this Form 10-Q. Exhibits filed (or furnished in the case of Exhibit 32.1 and Exhibits 101) with this Form 10-Q are designated by the cross symbol (†). All exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

<u>Exhibit Number</u>	<u>Document Description</u>	<u>Report or Registration Statement</u>	<u>SEC File or Registration Number</u>	<u>Exhibit Reference</u>
3.1	Amended and Restated Articles of Incorporation of Mitcham Industries, Inc.	Incorporated by reference to Mitcham Industries, Inc.'s Registration Statement on Form S-8, filed with the SEC on August 9, 2001.	333-67208	3.1
3.2	Third Amended and Restated Bylaws of Mitcham Industries, Inc.	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on August 2, 2010.	000-25142	3.1(i)
10.1†	Third Amendment to Loan Agreement dated July 27, 2011 between Mitcham Industries, Inc. and First Victoria National Bank			
10.2	Mitcham Industries, Inc. Stock Awards Plan (As Amended and Restated Effective July 28, 2011)	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on August 3, 2011		10.1
31.1†	Certification of Billy F. Mitcham, Jr., Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended			
31.2†	Certification of Robert P. Capps, Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended			
32.1†	Certification of Billy F. Mitcham, Jr., Chief Executive Officer, and Robert P. Capps, Chief Financial Officer, under Section 906 of the Sarbanes Oxley Act of 2002, 18 U.S.C. § 1350			
101.INS†*	XBRL Instance Document			
101.SCH†*	XBRL Taxonomy Extension Schema Document			
101.CAL†*	XBRL Taxonomy Extension Calculation of Linkbase Document			
101.LAB†*	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE†*	XBRL Taxonomy Extension Presentation Linkbase Document			

* In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act except as expressly set forth by specific reference in such filing.

THIRD AMENDMENT TO LOAN AGREEMENT

THIS THIRD AMENDMENT TO LOAN AGREEMENT (the "Amendment") made and entered into on this the 27th day of July, 2011, by and between MITCHAM INDUSTRIES, INC., as "Borrower," and FIRST VICTORIA NATIONAL BANK, as "Lender," to amend, ratify and confirm that certain Loan Agreement (the "Loan Agreement") among the parties hereto dated the 24th day of September, 2008, governing the terms of a line of credit as therein described and evidenced by a promissory note of even date therewith in the original principal sum of \$25,000,000.00, as previously amended to govern a line of credit increased to \$35,000,000.00 (the "Loan").

In consideration of their mutual warranties, covenants and agreements contained herein, and in said Loan Agreement and Lender's renewal and extension of the existing line of credit to Borrower evidenced by the hereinafter described promissory note, Borrower and Lender hereby warrant, covenant and agree as follows:

1. Borrower acknowledges, represents, warrants, and agrees that Borrower is presently indebted to Lender in the amount of the current principal balance of \$3,250,000.00 owing on the promissory note described in Paragraph II.A. of the Loan Agreement and any accrued interest thereon, and that Borrower has no defenses, rights of set off, counterclaims, causes of action or any other bars to enforcement of the obligations governed by the Loan Agreement or this amendment thereto.

2. The Loan Agreement has been previously amended by First and Second Amendments to Loan Agreement dated March 24, 2010 and July 27, 2010.

3. Borrower is the Borrower under the Loan Agreement. All of the warranties of Borrower relating to Borrower's corporate existence, good standing and authority to enter into this transaction as set forth in the Loan Agreement are hereby renewed, restated and confirmed, both as of the date of the Loan Agreement and the date of this Amendment thereto.

4. Borrower will execute and deliver to Lender a promissory note of even date herewith (the "Promissory Note") in the amount of \$35,000,000.00 in the form attached hereto and made a part hereof as Exhibit A, being partly in renewal and extension of the principal balance of the promissory note dated July 27, 2010 executed by Borrower and payable to the

order of Lender in the original principal sum of \$35,000,000.00 and evidencing the line of credit governed by the Loan Agreement. Lender will advance to Borrower, according to the terms thereof and subject to the limitations expressed therein and in the Loan Agreement, as amended, the unadvanced portion of the principal of the Promissory Note remaining after renewal of the principal balance of the existing line of credit and the reservation of any amounts of the unadvanced portion of the Promissory Note which have been reserved for the purposes of funding draws on letters of credit issued at Borrower's request pursuant to Paragraph V.B of the Loan Agreement. Lender's obligation to make advances to Borrower under the Loan Agreement will hereafter be limited to the unadvanced and unreserved portion of the Promissory Note.

5. In addition to the other obligations of Borrower under the Loan Agreement, Borrower will pay to Lender a commitment fee in the amount of \$35,000.00 as consideration for the modification of the terms of the Loan set forth in this Amendment and in the Promissory Note described in Paragraph 4. The commitment fee will be due upon execution of this Amendment.

6. The Loan will continue to be governed by Paragraph V.B of the Loan Agreement as amended to read as follows:

"B. At Borrower's option, Lender will reserve for the purposes of funding amounts drawn on letters of credit issued by Lender or The Frost National Bank at Borrower's request and with Lender's approval up to \$7,000,000.00 of the amount of the Loan which would otherwise be available for advances hereunder. Amounts drawn on any such letters of credit will be advanced by Lender from the principal of the Loan upon draws made in accordance with the terms of the letter. The amounts either drawn or available to be drawn on any such letter of credit will reduce the amount of the principal of the Loan available to be advanced to Borrower and the aggregate amount of all advances on the loan, together with all amounts which may be drawn under any letters of credit will not exceed the original principal amount of the Note currently evidencing the line of credit extended to Borrower under this Agreement (\$35,000,000.00). Borrower will pay a fee of 1.0% of the face amount of each domestic letter of credit and 1.5% of the face amount of each foreign letter of credit for each year in which it will be in effect. Borrower will pay, in addition to the fees prescribed in the Loan Agreement for issuance of any letter of credit, any fees assessed by any other bank or other parties to the letter of credit transaction. Neither Lender nor The Frost National Bank will have any obligation to issue any letter of credit that is not acceptable to Lender as to form, term, and conditions."

7. The Loan will continue to be governed by Paragraph V.C of the Loan Agreement as amended to read as follows:

“C. Lender will, at Borrower’s request, renew, extend and rearrange any portion of the unpaid balance of the Loan as a separate, amortizing loan evidenced by a promissory note requiring monthly installments of principal and interest in amounts sufficient to repay the balance over a period of 48 months at an interest rate One-half of One percent (0.5%) over the prime rate published in the Wall Street Journal at the time of such renewal and rearrangement, adjusted annually thereafter, in the form attached hereto as Exhibit “B.” Any portion of the unpaid balance of the Loan which is so renewed and rearranged will be deducted from the amount of the Loan that is available to be advanced to Borrower hereunder, so that the total of all advances of principal of the Loan, the amounts drawn or which may be drawn under any letters of credit issued pursuant to Paragraph V. B, above, and the portion of the unpaid principal renewed and rearranged as a separate, amortizing loan will never exceed the original principal amount of the Note currently evidencing the line of credit extended to Borrower under this Agreement (\$35,000,000.00).”

8. Paragraph IV.A.4.1 of the Loan Agreement is hereby amended to read as follows:

“1. Maintain Borrower’s primary deposit accounts with Lender or such other depository institutions as are necessary to provide financial services required by Borrower in its operations and have been disclosed to Lender by Borrower as providing such services. “

9. The Loan shall be governed by and subject to all of the terms, covenants and conditions of the Loan Agreement, as amended, and by the terms of the promissory note described in paragraph 4 above, and be secured by all of the same liens, pledges, assignments and security interests as are provided in the Promissory Note and the Loan Agreement, as amended, and in the security documents referenced therein. Borrower hereby grants, renews and ratifies all such liens, pledges, assignments and security interests in favor of Lender as continuing security for the indebtedness of Borrower under the Loan Agreement, as amended.

10. Borrower and Lender hereby renew, ratify, and confirm all of the warranties, covenants and agreements contained in the Loan Agreement, as amended, except to the extent modified by the terms of this Amendment thereto. The Loan Agreement, as so amended, and the documents referenced therein constitute the sole and only agreement of the parties hereto and supersedes any prior oral understandings or agreements between the parties respecting the subject matter of this agreement. This Amendment, together with the Loan Agreement and all prior

amendments thereto, shall apply to and govern the extensions of credit described herein and all renewals, extensions and rearrangements of such indebtedness of Borrower to Lender.

EXECUTED on the date first hereinabove mentioned.

MITCHAM INDUSTRIES, INC.

By: /s/ Billy F. Mitcham, Jr.
Billy F. Mitcham, Jr.
Its President

BORROWER

FIRST VICTORIA NATIONAL BANK

By: /s/ HERSCHEL VANSICKLE
HERSCHEL VANSICKLE
Its SRVP

LENDER

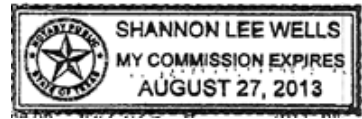
STATE OF TEXAS §

COUNTY OF WALKER §

This instrument was acknowledged before me on July 29, 2011, by Billy F. Mitcham, Jr., as President of Mitcham Industries, Inc., on behalf of said corporation.

By: /s/ Shannon Lee Wells
Notary Public, State of Texas

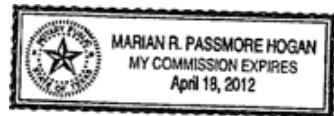
STATE OF TEXAS §



COUNTY OF VICTORIA §

This instrument was acknowledged before me on August 3, 2011, by HERSCHEL VANSICKLE, as SR VICE PRESIDENT of First Victoria National Bank, on behalf of said corporation.

By: /s/ MARIAN R. PASSMORE HOGAN
Notary Public, State of Texas



CERTIFICATION

I, Billy F. Mitcham, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended July 31, 2011 of Mitcham Industries, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer
September 8, 2011

CERTIFICATION

I, Robert P. Capps, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended July 31, 2011 of Mitcham Industries, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert P. Capps

Robert P. Capps
Executive Vice President-Finance
and Chief Financial Officer
September 8, 2011

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Mitcham Industries, Inc. (the "Company") on Form 10-Q for the quarterly period ended July 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Billy F. Mitcham, Jr., Chief Executive Officer of the Company, and Robert P. Capps, Executive Vice President-Finance and Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer
September 8, 2011

/s/ Robert P. Capps

Robert P. Capps
Executive Vice President-Finance
and Chief Financial Officer
September 8, 2011