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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended October 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

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**MITCHAM INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

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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)

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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 | <input type="checkbox"/>   | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input checked="" type="checkbox"/> |

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: 12,423,909 shares of common stock, \$0.01 par value, were outstanding as of December 5, 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)

|  | October 31, 2011  | January 31, 2011  |
|--|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |
| Current assets:  |                   |                   |
| Cash and cash equivalents  | \$ 15,906         | \$ 14,647         |
| Restricted cash  | 98                | —                 |
| Accounts receivable, net   | 27,426            | 17,832            |
| Current portion of contracts receivable  | 2,508             | 3,582             |
| Inventories, net   | 5,784             | 4,813             |
| Prepaid income tax   | —                 | 325               |
| Deferred tax asset   | 2,120             | 1,427             |
| Prepaid expenses and other current assets  | 2,747             | 2,128             |
| Total current assets   | 56,589            | 44,754            |
| Seismic equipment lease pool and property and equipment, net   | 115,213           | 79,095            |
| Intangible assets, net   | 4,924             | 5,358             |
| Goodwill   | 4,320             | 4,320             |
| Prepaid foreign income tax   | 3,498             | 3,053             |
| Long-term portion of contracts receivable, net   | —                 | 1,355             |
| Other assets   | 39                | 36                |
| Total assets   | <u>\$ 184,583</u> | <u>\$ 137,971</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                   |                   |
| Current liabilities:   |                   |                   |
| Accounts payable   | \$ 20,995         | \$ 5,203          |
| Current maturities – long-term debt  | 2,033             | 3,177             |
| Income taxes payable   | 2,145             | 1,276             |
| Deferred revenue   | 1,790             | 778               |
| Accrued expenses and other current liabilities   | 5,704             | 5,165             |
| Total current liabilities  | 32,667            | 15,599            |
| Non-current income taxes payable   | 4,608             | 3,482             |
| Deferred tax liability   | 146               | 832               |
| Long-term debt, net of current maturities  | 4,221             | 23,343            |
| Total liabilities  | 41,642            | 43,256            |
| 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; 13,349 and 10,872 shares issued at October 31, 2011 and January 31, 2011, respectively | 133               | 109               |
| Additional paid-in capital   | 111,059           | 77,419            |
| Treasury stock, at cost (925 shares at October 31, 2011 and January 31, 2011)  | (4,857)           | (4,843)           |
| Retained earnings  | 29,132            | 14,976            |
| Accumulated other comprehensive income   | 7,474             | 7,054             |
| Total shareholders' equity   | 142,941           | 94,715            |
| Total liabilities and shareholders' equity   | <u>\$ 184,583</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 INCOME**  
(in thousands, except per share data)  
(unaudited)

|  | For the Three Months<br>Ended October 31, |                | For the Nine Months<br>Ended October 31, |                 |
|--|---|----------------|--|-----------------|
|  | 2011                                      | 2010           | 2011                                     | 2010            |
| <b>Revenues:</b>   |   |                |  |                 |
| Equipment leasing  | \$ 17,411                                 | \$ 8,074       | \$ 46,458                                | \$ 24,133       |
| Lease pool equipment sales                                   | 2,442                                     | 976            | 3,103                                    | 1,498           |
| Seamap equipment sales                                       | 6,198                                     | 4,249          | 21,081                                   | 17,230          |
| Other equipment sales  | 1,969                                     | 6,674          | 5,158                                    | 8,767           |
| Total revenues   | <u>28,020</u>                             | <u>19,973</u>  | <u>75,800</u>                            | <u>51,628</u>   |
| <b>Cost of sales:</b>  |   |                |  |                 |
| Direct costs—equipment leasing                               | 2,365                                     | 895            | 6,348                                    | 2,485           |
| Direct costs—lease pool depreciation                         | 7,223                                     | 5,289          | 20,016                                   | 15,556          |
| Cost of lease pool equipment sales                           | 519                                       | 385            | 723                                      | 634             |
| Cost of Seamap and other equipment sales                     | 3,568                                     | 7,425          | 12,230                                   | 15,376          |
| Total cost of sales  | <u>13,675</u>                             | <u>13,994</u>  | <u>39,317</u>                            | <u>34,051</u>   |
| <b>Gross profit</b>  | <u>14,345</u>                             | <u>5,979</u>   | <u>36,483</u>                            | <u>17,577</u>   |
| <b>Operating expenses:</b>                                   |   |                |  |                 |
| General and administrative                                   | 4,961                                     | 3,937          | 15,403                                   | 12,286          |
| Provision for doubtful accounts                              | 679                                       | —              | 187                                      | 797             |
| Depreciation and amortization                                | 304                                       | 296            | 921                                      | 871             |
| Total operating expenses                                     | <u>5,944</u>                              | <u>4,233</u>   | <u>16,511</u>                            | <u>13,954</u>   |
| <b>Operating income</b>                                      | <u>8,401</u>                              | <u>1,746</u>   | <u>19,972</u>                            | <u>3,623</u>    |
| <b>Other income (expenses):</b>                              |   |                |  |                 |
| Gain from bargain purchase in business combination           | —   | —              | —  | 1,304           |
| Interest, net  | (25)                                      | (90)           | (295)                                    | (302)           |
| Other, net   | 680                                       | (553)          | 8  | (618)           |
| Total other income (expenses)                                | <u>655</u>                                | <u>(643)</u>   | <u>(287)</u>                             | <u>384</u>      |
| <b>Income before income taxes</b>                            | <u>9,056</u>                              | <u>1,103</u>   | <u>19,685</u>                            | <u>4,007</u>    |
| Provision for income taxes                                   | (2,293)                                   | (376)          | (5,529)                                  | (1,032)         |
| <b>Net income</b>  | <u>\$ 6,763</u>                           | <u>\$ 727</u>  | <u>\$ 14,156</u>                         | <u>\$ 2,975</u> |
| <b>Net income per common share:</b>                          |   |                |  |                 |
| Basic  | <u>\$ 0.55</u>                            | <u>\$ 0.07</u> | <u>\$ 1.28</u>                           | <u>\$ 0.30</u>  |
| Diluted  | <u>\$ 0.52</u>                            | <u>\$ 0.07</u> | <u>\$ 1.21</u>                           | <u>\$ 0.29</u>  |
| <b>Shares used in computing net income per common share:</b> |   |                |  |                 |
| Basic  | 12,381                                    | 9,916          | 11,091                                   | 9,854           |
| Diluted  | 12,982                                    | 10,203         | 11,689                                   | 10,122          |

*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 Nine Months<br>Ended October 31, |                 |
|---|--|-----------------|
|   | 2011                                     | 2010            |
| <b>Cash flows from operating activities:</b>  |  |                 |
| Net income  | \$ 14,156                                | \$ 2,975        |
| Adjustments to reconcile net income to net cash provided by operating activities:     |  |                 |
| Depreciation and amortization   | 21,038                                   | 16,586          |
| Stock-based compensation  | 1,133                                    | 941             |
| Gain from bargain purchase in business combination                                    | —  | (1,304)         |
| Provisions for doubtful accounts  | 1,281                                    | 797             |
| Provision for inventory obsolescence  | 73                                       | 63              |
| Gross profit from sale of lease pool equipment  | (2,380)                                  | (864)           |
| Excess tax benefit from exercise of non-qualified stock options and restricted shares | (394)                                    | (3)             |
| Deferred tax benefit  | (763)                                    | (1,335)         |
| Changes in non-current income taxes payable   | 822                                      | 144             |
| Changes in working capital items, net of effects from business combination:           |  |                 |
| Accounts receivable   | (10,794)                                 | 609             |
| Contracts receivable  | 2,590                                    | (2,376)         |
| Inventories   | (972)                                    | 833             |
| Prepaid expenses and other current assets   | (625)                                    | (952)           |
| Income taxes receivable and payable   | 1,167                                    | 1,833           |
| Costs incurred and estimated profit in excess of billings on uncompleted contract     | —  | 573             |
| Prepaid foreign income tax  | (419)                                    | (221)           |
| Accounts payable, accrued expenses, other current liabilities and deferred revenue    | 2,447                                    | 1,996           |
| Net cash provided by operating activities   | <u>28,360</u>                            | <u>20,295</u>   |
| <b>Cash flows from investing activities:</b>  |  |                 |
| Purchases of seismic equipment held for lease   | (40,957)                                 | (16,049)        |
| Purchases of property and equipment   | (1,084)                                  | (262)           |
| Sale of used lease pool equipment   | 3,103                                    | 1,498           |
| Payment for earn-out provision (Note 4)   | (148)                                    | —               |
| Acquisition of AES, net of cash acquired  | —  | (2,100)         |
| Net cash used in investing activities   | <u>(39,086)</u>                          | <u>(16,913)</u> |
| <b>Cash flows from financing activities:</b>  |  |                 |
| Net payments on line of credit  | (17,700)                                 | (4,250)         |
| Proceeds from equipment notes   | 37                                       | 3,672           |
| Payments on borrowings  | (2,647)                                  | (122)           |
| Net purchases of short-term investments   | (101)                                    | (15)            |
| Proceeds from issuance of common stock upon exercise of options                       | 788                                      | 244             |
| Net proceeds from public offering of common stock (Note 9)                            | 31,028                                   | —               |
| Excess tax benefit from exercise of non-qualified stock options and restricted shares | 394                                      | 3               |
| Net cash provided by (used in) financing activities                                   | <u>11,799</u>                            | <u>(468)</u>    |
| <b>Effect of changes in foreign exchange rates on cash and cash equivalents</b>       | <u>186</u>                               | <u>477</u>      |
| <b>Net change in cash and cash equivalents</b>  | <u>1,259</u>                             | <u>3,391</u>    |
| <b>Cash and cash equivalents, beginning of period</b>                                 | <u>14,647</u>                            | <u>6,130</u>    |
| <b>Cash and cash equivalents, end of period</b>                                       | <u>\$ 15,906</u>                         | <u>\$ 9,521</u> |
| <b>Supplemental cash flow information:</b>  |  |                 |
| Interest paid   | \$ 574                                   | \$ 465          |
| Income taxes paid   | \$ 4,206                                 | \$ 1,716        |
| Purchases of seismic equipment held for lease in accounts payable at end of period    | \$ 18,484                                | \$ 9,621        |

*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 October 31, 2011, the results of operations for the three and nine months ended October 31, 2011 and 2010, and the cash flows for the nine months ended October 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”), its wholly owned Hungarian subsidiary, Mitcham Europe Ltd. (“MEL”) and its branch operations in Colombia and Peru, provides full-service equipment leasing, sales and service to the seismic industry worldwide. The Company, through its wholly owned Australian subsidiary, Seismic Asia Pacific Pty Ltd. (“SAP”), provides seismic, oceanographic and hydrographic leasing and sales worldwide, primarily in Southeast Asia and Australia. The Company, through its wholly owned subsidiary, Seamap International Holdings Pte, Ltd. (“Seamap”), designs, manufactures and sells a broad range of proprietary products for the seismic, hydrographic and offshore industries with manufacturing, support and sales facilities based in Singapore and the United Kingdom. All material intercompany transactions and balances have been eliminated in consolidation.

**3. New Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board (“FASB”) issued an update to Accounting Standards Codification (“ASC”) 820, Fair Value Measurements. This Accounting Standards Update (“ASU”) clarifies the application of certain fair value measurement requirements and requires, among other things, expanded disclosures for Level 3 fair value measurements and the categorization by level for items for which fair value is required to be disclosed in accordance with ASC 825, Financial Instruments. The guidance will be applied prospectively and is effective for the Company for interim and annual periods beginning on February 1, 2012. Early adoption is not permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated condensed financial statements.

In June 2011, the FASB issued an update to ASC 220, Presentation of Comprehensive Income. This ASU provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either (i) a single statement that presents the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; or (ii) a two-statement approach which presents the components of net income and total net income in a first statement, immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option in current GAAP that permits the presentation of other comprehensive income in the statement of changes in equity was eliminated. Per the ASU, the guidance will be applied retrospectively and is effective for the Company for interim and annual periods beginning on February 1, 2012, with early adoption permitted. However, subsequent to the issuance of this ASU, the FASB issued a notice that it will discuss at a future meeting whether to delay the effective date of certain provisions in this ASU related to the presentation of reclassification adjustments. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated condensed financial statements.

In September 2011, the FASB issued an update to ASC 350, Intangibles - Goodwill and Other. This ASU amends current goodwill impairment testing guidance by providing entities with an option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The ASU will become effective for the Company’s interim and annual goodwill impairment tests performed for the Company’s fiscal years beginning on February 1, 2012; however, early adoption is permitted. This guidance is not expected to have a material impact on the Company’s consolidated condensed financial statements.

**4. Acquisition**

On March 1, 2010, MCL acquired all of the capital stock of AES for a total purchase price of Cdn \$4,194,000 (approximately U.S. \$3,984,000). AES manufactures, sells and leases “heli-pickers” and associated equipment that is utilized in the deployment and retrieval of seismic equipment by helicopters. The Company made this acquisition to expand the type of equipment available to its customers and to expand the markets in which it operates. The consideration consisted of cash paid at closing in the amount of Cdn \$2,200,000 (approximately U.S. \$2,100,000), 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 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.



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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, is not material.

## 5. Restricted Cash

In connection with certain contracts, SAP has pledged approximately \$98,000 in short-term time deposits as of October 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 11 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.

## 6. Balance Sheet

|  | October 31,<br>2011 | January 31,<br>2011 |
|--|---------------------|---------------------|
|  | (in thousands)      |                     |
| <b>Accounts receivable:</b>                    |                     |                     |
| Accounts receivable                            | \$ 31,352           | \$ 20,498           |
| Allowance for doubtful accounts                | (3,926)             | (2,666)             |
| Total accounts receivable, net                 | <u>\$ 27,426</u>    | <u>\$ 17,832</u>    |
| <b>Contracts receivable:</b>                   |                     |                     |
| Contracts receivable                           | \$ 2,508            | \$ 4,937            |
| Less current portion of contracts receivable   | (2,508)             | (3,582)             |
| Long-term portion of contracts receivable, net | <u>\$ —</u>         | <u>\$ 1,355</u>     |

Contracts receivable consisted of \$2,508,000 due from two customers as of October 31, 2011 and \$4,937,000 due from two customers as of January 31, 2011. Contracts receivable at October 31, 2011 consisted of contracts bearing interest at an average of approximately 9% per year and with remaining repayment terms from six to eight months. These contracts are collateralized by the equipment sold and are considered collectable; thus, no allowances have been established for them.



|  | October 31,<br>2011 | January 31,<br>2011 |
|--|---------------------|---------------------|
|  | (in thousands)      |                     |
| <b>Inventories:</b>  |                     |                     |
| Raw materials  | \$ 2,583            | \$ 2,440            |
| Finished goods   | 3,155               | 1,888               |
| Work in progress   | 903                 | 1,215               |
|  | <u>6,641</u>        | <u>5,543</u>        |
| Less allowance for obsolescence                                    | (857)               | (730)               |
| Total inventories, net   | <u>\$ 5,784</u>     | <u>\$ 4,813</u>     |
|  |                     |                     |
|  | October 31,<br>2011 | January 31,<br>2011 |
|  | (in thousands)      |                     |
| <b>Seismic equipment lease pool and property and equipment:</b>    |                     |                     |
| Seismic equipment lease pool                                       | \$ 217,640          | \$ 166,883          |
| Land and buildings   | 366                 | 366                 |
| Furniture and fixtures   | 7,966               | 6,761               |
| Autos and trucks   | 677                 | 663                 |
|  | <u>226,649</u>      | <u>174,673</u>      |
| Accumulated depreciation and amortization                          | (111,436)           | (95,578)            |
| Total seismic equipment lease pool and property and equipment, net | <u>\$ 115,213</u>   | <u>\$ 79,095</u>    |

## 7. Goodwill and Other Intangible Assets

|                               | Weighted<br>Average<br>Remaining<br>Life at<br>10/31/11 | October 31, 2011            |   |                           | January 31, 2011            |   |                           |
|-------------------------------|---|-----------------------------|---|---------------------------|-----------------------------|---|---------------------------|
|                               |   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization<br>(in thousands) | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization<br>(in thousands) | Net<br>Carrying<br>Amount |
| Goodwill                      |   | <u>\$ 4,320</u>             |   |                           | <u>\$ 4,320</u>             |   |                           |
| Proprietary rights            | 8.7   | \$ 3,573                    | \$ (1,295)                                    | \$ 2,278                  | \$ 3,523                    | \$ (1,101)                                    | \$ 2,422                  |
| Customer relationships        | 6.3   | 2,416                       | (503)   | 1,913                     | 2,396                       | (274)   | 2,122                     |
| Patents                       | 6.3   | 728                         | (152)   | 576                       | 721                         | (82)  | 639                       |
| Trade name                    | 6.3   | 198                         | (41)  | 157                       | 197                         | (22)  | 175                       |
| Amortizable intangible assets |   | <u>\$ 6,915</u>             | <u>\$ (1,991)</u>                             | <u>\$ 4,924</u>           | <u>\$ 6,837</u>             | <u>\$ (1,479)</u>                             | <u>\$ 5,358</u>           |

As of October 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 \$173,000 and \$164,000 for the three months ended October 31, 2011 and 2010, respectively, and \$512,000 and \$459,000 for the nine months ended October 31, 2011 and 2010, respectively. As of October 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                | \$ 170         |
| 2013                | 679            |
| 2014                | 679            |
| 2015                | 679            |
| 2016                | 679            |
| 2017 and thereafter | 2,038          |
| Total               | <u>\$4,924</u> |

### 8. Long-Term Debt and Notes Payable

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

|                          | October 31,<br>2011 | January 31,<br>2011 |
|--------------------------|---------------------|---------------------|
| Revolving line of credit | \$ 3,950            | \$ 21,650           |
| Equipment note           | 1,263               | 3,066               |
| MCL notes                | 797                 | 1,550               |
| SAP equipment notes      | 244                 | 254                 |
|                          | <u>6,254</u>        | <u>26,520</u>       |
| Less current portion     | (2,033)             | (3,177)             |
| Long-term debt           | <u>\$ 4,221</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 certain lease pool assets that have been 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 October 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; and have quarterly earnings before interest, taxes, depreciation and amortization (“EBITDA”) of not less than \$2,000,000. 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 October 31, 2011. The Company’s average borrowings under the revolving credit agreement for the nine months ended October 31, 2011 and 2010 were approximately \$12,725,000 and \$15,138,000, 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 4). 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.

**9. 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.

**10. 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<br>October 31, |                | Nine Months Ended<br>October 31, |                |
|--|-----------------------------------|----------------|----------------------------------|----------------|
|  | 2011                              | 2010           | 2011                             | 2010           |
|  | (in thousands)                    |                | (in thousands)                   |                |
| Net income   | \$ 6,763                          | \$ 727         | \$14,156                         | \$2,975        |
| (Loss) gain from foreign currency translation adjustment | (2,354)                           | 1,048          | 420                              | 2,046          |
| Comprehensive income                                     | <u>\$ 4,409</u>                   | <u>\$1,775</u> | <u>14,576</u>                    | <u>\$5,021</u> |

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

**11. Income Taxes**

Current income taxes payable of \$2,145,000 at October 31, 2011 consists of approximately \$1,010,000 of domestic federal and state taxes and \$1,135,000 of foreign taxes. Current income taxes payable of \$1,276,000 at January 31, 2011 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, Hungary, Peru, Russia, Singapore, and the United Kingdom. With few exceptions, the Company and its subsidiaries are no longer subject to foreign income tax examinations for tax years before 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 \$8,400,000, 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 \$3,500,000 against the assessment.

The effective tax rate for the three and nine months ended October 31, 2011 was approximately 25.3% and 28.1%, respectively. These rates are less than the federal statutory rate of 34% primarily due to the effect of lower tax rates in certain foreign jurisdictions and the determination that earnings from these jurisdictions have been permanently reinvested outside of the United States. The effective tax rate for the three and nine months ended October 31, 2010 was 34.1% and 25.8%, respectively. The effective rate for the nine month period was less than the federal statutory rate primarily due to the effect of the non-taxable gain from bargain purchase in business combination recognized in the period (Note 4).

## 12. 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 nine months ended October 31, 2011 and 2010:

|  | <b>Three Months<br/>Ended October 31,</b> |               | <b>For the Nine Months<br/>Ended October 31,</b> |               |
|--|---|---------------|--|---------------|
|  | <b>2011</b>                               | <b>2010</b>   | <b>2011</b>                                      | <b>2010</b>   |
|  | (in thousands)                            |               | (in thousands)                                   |               |
| Basic weighted average common shares outstanding   | 12,381                                    | 9,916         | 11,091   | 9,854         |
| Stock options                                      | 586                                       | 268           | 581  | 261           |
| Unvested restricted stock                          | 15  | 19            | 17   | 7             |
| Total weighted average common share equivalents    | 601                                       | 287           | 598  | 268           |
| Diluted weighted average common shares outstanding | <u>12,982</u>                             | <u>10,203</u> | <u>11,689</u>                                    | <u>10,122</u> |

## 13. Stock-Based Compensation

Total compensation expense recognized for stock-based awards granted under the Company's various equity incentive plans during the three and nine months ended October 31, 2011 was approximately \$196,000 and \$1.1 million, respectively, and, during the three and nine months ended October 31, 2010 was approximately \$171,000 and \$941,000, respectively. Additionally, during the nine months ended October 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 nine months ended October 31, 2011, options to purchase 70,000 shares of common stock were granted to non-employee members of the Company's Board of Directors.

## 14. Segment Reporting

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

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

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

|                   | <b>As of October 31, 2011</b> | <b>As of January 31, 2011</b> |
|-------------------|-------------------------------|-------------------------------|
|                   | <b>Total Assets</b>           | <b>Total Assets</b>           |
|                   | (in thousands)                |                               |
| Equipment Leasing | \$ 160,111                    | \$ 118,929                    |
| Seamap            | 24,870                        | 19,569                        |
| Eliminations      | (398)                         | (527)                         |
| Consolidated      | <u>\$ 184,583</u>             | <u>\$ 137,971</u>             |

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Results for the three months ended October 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 | \$21,822        | \$15,724        | \$ 5,690                | \$ 823          | \$ 6,007                   | \$ 491          |
| Seamap            | 6,743           | 4,338           | 2,811                   | 887             | 3,149                      | 576             |
| Eliminations      | (545)           | (89)            | (100)                   | 36              | (100)                      | 36              |
| Consolidated      | <u>\$28,020</u> | <u>\$19,973</u> | <u>\$ 8,401</u>         | <u>\$ 1,746</u> | <u>\$ 9,056</u>            | <u>\$ 1,103</u> |

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

|                   | Revenues        |                 | Operating income |                 | Income before taxes |                |
|-------------------|-----------------|-----------------|------------------|-----------------|---------------------|----------------|
|                   | 2011            | 2010            | 2011             | 2010            | 2011                | 2010           |
| Equipment Leasing | \$54,719        | \$34,398        | \$11,671         | \$(1,373)       | \$11,717            | \$ (575)       |
| Seamap            | 22,009          | 17,421          | 8,534            | 4,881           | 8,201               | 4,467          |
| Eliminations      | (928)           | (191)           | (233)            | 115             | (233)               | 115            |
| Consolidated      | <u>\$75,800</u> | <u>\$51,628</u> | <u>\$19,972</u>  | <u>\$ 3,623</u> | <u>\$19,685</u>     | <u>\$4,007</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 the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “believe,” “expect,” “plan” “intend,” “foresee,” “should,” “could,” or similar expressions, are intended to identify forward-looking statements, which generally are not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- decline in the demand for seismic data and our services;
- the effect of changing economic conditions and fluctuations in oil and natural gas prices on exploration activities;
- the effect of uncertainty in financial markets on our customers’ and our ability to obtain financing;
- loss of significant customers;
- increased competition;
- loss of key suppliers;
- seasonal fluctuations that can adversely affect our business;
- defaults by customers on amounts due us;
- possible impairment of our long-lived assets due to technological obsolescence or changes in anticipated cash flow generated from those 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.

For additional information regarding known material factors that could cause our actual results to differ materially from our projected results, please see (1) Part II, “Item 1A. Risk Factors” and elsewhere in this report and (2) Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2011.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement after the date they are made, whether as the result of new information, future events or otherwise.

### ***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; Budapest, Hungary; Bogota, Colombia; and Lima, Peru. Our Equipment Leasing segment includes the operations of our Mitcham Canada, ULC. (“MCL”), Absolute Equipment Solutions, Inc. (“AES”), Seismic Asia Pacific Pty. Ltd. (“SAP”), Mitcham Europe Ltd (“MEL”) and Mitcham Seismic Eurasia LLC (“MSE”) subsidiaries and our branch operations in Peru and Colombia. We acquired AES effective March 1, 2010 and established MEL in August 2011. Our equipment manufacturing segment is conducted by our Seemap subsidiaries and, therefore, is referred to as our “Seemap” segment. Seemap 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 Seemap segment is indicated by revenues from equipment sales and by gross profit from those sales. Management monitors EBITDA and Adjusted EBITDA, both as defined in the following table, as key indicators of our overall performance and liquidity.

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The following table presents certain operating information by operating segment.

|   | For the Three<br>Months<br>Ended October 31, |                 | For the Nine Months<br>Ended October 31, |                 |
|---|--|-----------------|--|-----------------|
|   | 2011   | 2010            | 2011                                     | 2010            |
|   | (in thousands)                               |                 | (in thousands)                           |                 |
| <b>Revenues:</b>  |  |                 |  |                 |
| Equipment Leasing   | \$21,822                                     | \$15,724        | \$54,719                                 | \$34,398        |
| Seamap  | 6,743  | 4,338           | 22,009                                   | 17,421          |
| Inter-segment sales   | (545)  | (89)            | (928)                                    | (191)           |
| Total revenues  | <u>28,020</u>                                | <u>19,973</u>   | <u>75,800</u>                            | <u>51,628</u>   |
| <b>Cost of sales:</b>   |  |                 |  |                 |
| Equipment Leasing   | 11,636                                       | 12,076          | 30,972                                   | 25,691          |
| Seamap  | 2,485  | 2,043           | 9,041                                    | 8,666           |
| Inter-segment costs   | (446)  | (125)           | (696)                                    | (306)           |
| Total cost of sales   | <u>13,675</u>                                | <u>13,994</u>   | <u>39,317</u>                            | <u>34,051</u>   |
| <b>Gross profit</b>   | <u>14,345</u>                                | <u>5,979</u>    | <u>36,483</u>                            | <u>17,577</u>   |
| <b>Operating expenses:</b>  |  |                 |  |                 |
| General and administrative  | 4,961  | 3,937           | 15,403                                   | 12,286          |
| Provision for doubtful accounts                                   | 679  | —               | 187                                      | 797             |
| Depreciation and amortization                                     | 304  | 296             | 921                                      | 871             |
| Total operating expenses  | <u>5,944</u>                                 | <u>4,233</u>    | <u>16,511</u>                            | <u>13,954</u>   |
| <b>Operating income</b>   | <u>\$ 8,401</u>                              | <u>\$ 1,746</u> | <u>\$19,972</u>                          | <u>\$ 3,623</u> |
| <b>EBITDA <sup>(1)</sup></b>                                      | \$16,640                                     | \$ 6,809        | \$41,018                                 | \$19,591        |
| <b>Adjusted EBITDA <sup>(1)</sup></b>                             | \$16,836                                     | \$ 6,980        | \$42,151                                 | \$20,532        |
| <b>Reconciliation of Net income to EBITDA and Adjusted EBITDA</b> |  |                 |  |                 |
| Net income  | \$ 6,763                                     | \$ 727          | \$14,156                                 | \$ 2,975        |
| Interest expense, net   | 25   | 90              | 295                                      | 302             |
| Depreciation and amortization                                     | 7,559  | 5,616           | 21,038                                   | 16,586          |
| Provision for income taxes  | 2,293  | 376             | 5,529                                    | 1,032           |
| Gain from bargain purchase  | —  | —               | —  | (1,304)         |
| EBITDA <sup>(1)</sup>   | <u>16,640</u>                                | <u>6,809</u>    | <u>41,018</u>                            | <u>19,591</u>   |
| Stock-based compensation  | <u>196</u>                                   | <u>171</u>      | <u>1,133</u>                             | <u>941</u>      |
| Adjusted EBITDA <sup>(1)</sup>                                    | <u>\$16,836</u>                              | <u>\$ 6,980</u> | <u>\$42,151</u>                          | <u>\$20,532</u> |

|  | For the Three<br>Months<br>Ended October 31, |         | For the Nine Months<br>Ended October 31, |          |
|--|--|---------|--|----------|
|  | 2011   | 2010    | 2011                                     | 2010     |
|  | (in thousands)                               |         | (in thousands)                           |          |
| <b>Reconciliation of Net cash provided by operating activities to EBITDA</b>                     |  |         |  |          |
| Net cash provided by operating activities  | \$ 8,722                                     | \$2,152 | \$28,360                                 | \$20,295 |
| Stock-based compensation   | (196)  | (171)   | (1,133)                                  | (941)    |
| Changes in trade accounts and contracts receivable   | 7,169  | 4,355   | 8,204                                    | 1,767    |
| Interest paid  | 77   | 151     | 574                                      | 465      |
| Taxes paid , net of refunds  | 677  | 496     | 4,206                                    | 1,716    |
| Gross profit from sale of lease pool equipment   | 1,923  | 591     | 2,380                                    | 864      |
| Changes in inventory   | 407  | 520     | 972                                      | (833)    |
| Changes in accounts payable, accrued expenses and other current liabilities and deferred revenue | (424)  | (442)   | (2,447)                                  | (1,996)  |
| Other  | (1,715)                                      | (843)   | (98)                                     | (1,746)  |
| EBITDA <sup>(1)</sup>  | \$16,640                                     | \$6,809 | \$41,018                                 | \$19,591 |

(1) EBITDA is defined as net income 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 October 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 Seamap segment. These amounts are reflected in the accompanying condensed consolidated financial statements at the cost to our Seamap 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 Seamap segment designs, manufactures and sells a variety of products used primarily in marine seismic applications. Seamap'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 that has resulted in an increase in our business activity. In particular, we have seen increased activity in South America, the United States, Russia and Canada, although activity in Russia and Canada is generally limited to the winter season. We also have seen increased activity in marine seismic exploration and 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 oil and gas exploration 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 many 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 nine months of fiscal 2012 we have added a significant amount of new equipment and deployed much of that equipment to our branch operation in Colombia. We also have recently expanded our operations in Colombia by increasing the size of our facility and adding additional personnel. In recent months we have 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 have established 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 oil and gas exploration activity is uncertain. The oil and gas industry in general, and the seismic industry specifically, have historically been subject to significant cyclicity and uncertainty. Uncertainty about the breadth and sustainability of the global economic recovery and on-going fiscal issues in the United States and the European Union, we believe, contribute 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 calendar 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.

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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 fiscal 2010, there has been a rebound in such activity in fiscal 2011 and 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 \$160 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 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 nine months ended October 31, 2011, we added approximately \$56.2 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 nine months of fiscal 2012 has been deployed in South America. We have made commitments to purchase about \$14.3 of additional lease pool equipment, consisting primarily of three-component land recording systems. We expect to take delivery of this additional equipment during the fourth quarter of fiscal 2012. Accordingly, we expect additions to our lease pool during fiscal 2012 to amount to approximately \$70.5 million. 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 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 Colombia and established a facility in Hungary during fiscal 2012. With the recent increases in business activity in South America, we have significantly expanded our operations in South America. We also plan to enhance 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 but we have made no specific plans at this time.

A significant portion of our revenues are generated from foreign sources. For the three months ended October 31, 2011 and 2010, revenues from international customers totaled approximately \$19.9 million and \$15.9 million, respectively, representing 71% and 80% of consolidated revenues in those periods, respectively. For the nine months ended October 31, 2011 and 2010, revenues from international customers totaled approximately \$58.5 million and \$43.8 million, respectively, representing 77% and 85% 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 nine month periods ending October 31, 2011 and 2010, except as described above.

### ***Results of Operations***

Revenues for the three-month periods ended October 31, 2011 and 2010 were approximately \$28.0 million and \$20.0 million, respectively. The increase was due primarily to increased leasing revenues. Revenues for the nine-month periods ended October 31, 2011 and 2010 were approximately \$75.8 million and \$51.6 million, respectively. The increase in the nine-month period resulted primarily from higher leasing revenues and increased Seemap sales. The increased revenues reflect the increased activity within the seismic industry and the expansion of our operations as discussed above. For the three months ended October 31, 2011, we generated operating

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income of approximately \$8.4 million as compared to approximately \$1.7 million for the three months ended October 31, 2010. For the nine months ended October 31, 2011, we generated operating income of \$20.0 million as compared to approximately \$3.6 million in the nine months ended October 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:

|                                     | <b>Three Months Ended<br/>October 31,</b> |                 | <b>Nine Months Ended<br/>October 31,</b> |                 |
|-------------------------------------|---|-----------------|--|-----------------|
|                                     | <b>2011</b>                               | <b>2010</b>     | <b>2011</b>                              | <b>2010</b>     |
|                                     | (\$ in thousands)                         |                 | (\$ in thousands)                        |                 |
| <b>Revenue:</b>                     |   |                 |  |                 |
| Equipment leasing                   | \$17,411                                  | \$ 8,074        | \$46,458                                 | \$24,133        |
| Lease pool equipment sales          | 2,442                                     | 976             | 3,103                                    | 1,498           |
| New seismic equipment sales         | 611                                       | 5,156           | 1,013                                    | 5,451           |
| SAP equipment sales                 | 1,358                                     | 1,518           | 4,145                                    | 3,316           |
|                                     | 21,822                                    | 15,724          | 54,719                                   | 34,398          |
| <b>Cost of sales:</b>               |   |                 |  |                 |
| Direct costs-equipment leasing      | 2,365                                     | 895             | 6,348                                    | 2,485           |
| Lease pool depreciation             | 7,404                                     | 5,327           | 20,217                                   | 15,674          |
| Cost of lease pool equipment sales  | 519                                       | 385             | 723                                      | 634             |
| Cost of new seismic equipment sales | 336                                       | 4,188           | 559                                      | 4,271           |
| Cost of SAP equipment sales         | 1,012                                     | 1,281           | 3,125                                    | 2,627           |
|                                     | 11,636                                    | 12,076          | 30,972                                   | 25,691          |
| <b>Gross profit</b>                 | <b>\$10,186</b>                           | <b>\$ 3,648</b> | <b>\$23,747</b>                          | <b>\$ 8,707</b> |
| <b>Gross profit %</b>               | <b>47%</b>                                | <b>23%</b>      | <b>43%</b>                               | <b>25%</b>      |

Equipment leasing revenues increased approximately 116% in the third quarter of fiscal 2012 from the third quarter of fiscal 2011. Factors contributing to this increase include higher activity levels in South America and the United States, increased marine leasing activity, increased demand from customers in Europe and improved demand for our downhole seismic equipment. We believe that the additions that we have made to our lease pool over the last twelve months, as well as improved utilization of our lease pool enabled us to meet the increased demand for our equipment. Specifically, the 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 93% in the first nine months of fiscal 2012 from the first nine months of fiscal 2011. Contributing to the increase between the nine-month periods were the factors discussed above, as well as a stronger winter season in Canada and the addition of equipment to our lease pool from AES. Our first fiscal quarter has historically been the strongest quarter for our leasing business due to very high seasonal demand in Canada and Russia. However, leasing revenues in the third quarter of fiscal 2012 exceeded those for the first quarter of fiscal 2012, despite significantly lower leasing revenues from Canada and Russia during the third quarter. This improvement resulted from increased leasing revenues in South America and the United States and increased marine leasing revenues.

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 October 31, 2011 and 2010 was approximately \$1.9 million and \$591,000, respectively. For the nine months ended October 31, 2011 and 2010, sales of lease pool equipment generated gross profit of approximately \$2.4 million and \$864,000, respectively. The increase in the fiscal 2012 periods resulted primarily from the sale of land recording equipment to a customer in the Pacific Rim.

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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 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 October 31, 2011 and 2010 was approximately \$275,000 and \$968,000, respectively. For the nine months ended October 31, 2011 and 2010, sales of new seismic equipment generated gross profit of approximately \$454,000 and \$1.2 million, respectively. In the third quarter of fiscal 2011, we sold a new land recording system to a customer in Eastern Europe for approximately \$4.8 million.

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 nine months ended October 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 fiscal quarter ended October 31, 2011, SAP generated gross profit of approximately \$346,000 from these transactions as compared to approximately \$237,000 in the fiscal quarter ended October 31, 2010. For the nine months ended October 31, 2011, the gross profit from SAP equipment sales amounted to approximately \$1.0 million as compared to approximately \$689,000 in the nine months ended October 31, 2010.

Direct costs related to equipment leasing for the three months ended October 31, 2011 increased approximately 164% over the same period in the prior year. In the nine months ended October 31, 2011, direct costs increased approximately 155% over the same period one year ago. These increases are attributable to support activities related to the significantly higher leasing activity in the fiscal 2012 periods, the cost of redeploying equipment to different geographic regions and costs to sub-lease certain equipment. In the three and nine months ended October 31, 2011 direct costs were 13.6% of leasing revenues as compared to 11.1% and 10.3% in the three and nine months ended October 31, 2010, respectively.

For the three months ended October 31, 2011, lease pool depreciation increased approximately 39% over the three months ended October 31, 2010. In the nine months ended October 31, 2011, lease pool depreciation increased approximately 30% over the nine months ended October 31, 2010. The increase in lease pool depreciation resulted from the additions we made to our lease pool in fiscal 2011 and 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 \$10.2 million in the third quarter of fiscal 2012 as compared to approximately \$3.6 million in the third quarter of fiscal 2011. In the first nine months of fiscal 2012, the Equipment Leasing segment generated gross profit of approximately \$23.7 million as compared to approximately \$8.7 million in the first nine 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 from our Seamap segment were as follows:

|                         | Three Months Ended<br>October 31, |                | Nine Months Ended<br>October 31, |                 |
|-------------------------|-----------------------------------|----------------|----------------------------------|-----------------|
|                         | 2011                              | 2010           | 2011                             | 2010            |
|                         | (\$ in thousands)                 |                | (\$ in thousands)                |                 |
| Equipment sales         | \$6,743                           | \$4,338        | \$22,009                         | \$17,421        |
| Cost of equipment sales | 2,485                             | 2,043          | 9,041                            | 8,666           |
| Gross profit            | <u>\$4,258</u>                    | <u>\$2,295</u> | <u>\$12,968</u>                  | <u>\$ 8,755</u> |
| Gross profit %          | 63%                               | 53%            | 59%                              | 50%             |

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 October 31, 2011, Seamap shipped one GunLink 4000 system and one BuoyLink system. During the three months ended October 31, 2010, we did not ship any major 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. We shipped a total of four GunLink 4000 systems in each of the nine-month periods ended October 31,

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2011 and 2010. The increase in sales in the fiscal 2012 nine-month period is attributable to increased sales of other equipment and “after-market” sales consisting of support, repairs and spare parts sales. Changes in product prices did not contribute materially to the difference in sales between the fiscal 2012 and fiscal 2011 periods.

The gross profit from the sale of Seamap equipment for the three and nine months ended October 31, 2011 was higher than that for the three and nine months ended October 31, 2010 due primarily to changes in product mix and improved production efficiency.

### ***Operating Expenses***

General and administrative expenses for the quarter ended October 31, 2011 were approximately \$5.0 million, compared to approximately \$3.9 million for the quarter ended October 31, 2010. For the nine months ended October 31, 2011, general and administrative expenses were approximately \$15.4 million, compared to approximately \$12.3 million in the nine months ended October 31, 2010. The increases reflect 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 47% 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 2% for the three months ended October 31, 2011 and approximately 4% for the nine months ended October 31, 2011, as compared to the comparable periods in the prior fiscal year.

In the three months ended October 31, 2011 we recorded a provision for doubtful accounts of \$679,000, net of recoveries. The additional provision is related to collection uncertainties for certain customers and the increased level of leasing activity. For the nine months ended October 31, 2011 the provision for doubtful accounts net of recoveries amounted to \$187,000, compared to \$797,000 for the nine months ended October 31, 2010.

### ***Other Income (Expense)***

Net interest expense for the three months ended October 31, 2011 amounted to approximately \$25,000, consisting of interest expense of approximately \$92,000 offset by interest income of approximately \$67,000. For the nine months ended October 31, 2011, net interest expense was approximately \$295,000, consisting of interest expense of approximately \$595,000 offset by interest income of approximately \$300,000. Net interest expense for the three months ended October 31, 2010 amounted to approximately \$90,000, consisting of interest expense of approximately \$131,000 offset by interest income of approximately \$41,000. For the nine months ended October 31, 2010, net interest expense was approximately \$302,000, consisting of interest expense of approximately \$470,000 offset by interest income of approximately \$168,000. 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 income of approximately \$680,000 for the three months ended October 31, 2011 and other expense of approximately \$553,000 for the three months ended October 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 nine months ended October 31, 2011, these changes resulted in net exchange gain of approximately \$8,000 and an exchange loss of approximately \$618,000 for the nine months ended October 31, 2010.

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.

### ***Provision for Income Taxes***

Our tax provision for the three months ended October 31, 2011 was approximately \$2.3 million, which indicates an effective tax rate of approximately 25%. For the nine months ended October 31, 2011, our effective tax rate was approximately 28%. Our effective tax rate for the fiscal 2012 periods is less than the U.S. statutory rate primarily due to the effect of lower tax rates in foreign jurisdictions. A significant portion of these earnings have been permanently reinvested outside of the U.S., and therefore no U.S. taxes are provided for these earnings at the U.S. rate. For the three months ended October 31, 2010, our tax provision was \$376,000, which is an

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effective tax rate of approximately 34%. Our effective tax rate for the nine months ended October 31, 2010 was approximately 26%. However, this nine month period included a gain arising from the purchase of AES. The gain from the bargain purchase is not taxable and, therefore, reduced our effective tax rate for the period. Absent the effect of this item, our effective tax rate for the nine months ended October 31, 2010 would have been approximately 38%. 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. 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 have estimated and recorded potential penalties and interest that could arise from these positions.

### **Liquidity and Capital Resources**

As of October 31, 2011, we had working capital of approximately \$23.9 million, including cash and cash equivalents and restricted cash of approximately \$16.0 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. The decline in working capital resulted from the significant additions we made to our lease pool during the nine-month period and in spite of factors discussed below which produced additional working capital.

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 \$28.4 million in the first nine months of fiscal 2012 as compared to approximately \$20.3 million in the same nine 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 nine months ended October 31, 2011 included purchases of seismic equipment held for lease totaling approximately \$41.0 million, as compared to approximately \$16.0 million in the first nine months of fiscal 2011. There was approximately \$18.5 million in accounts payable at October 31, 2011 related to lease pool purchases. At January 31, 2011, there was approximately \$3.3 million in accounts payable related to lease pool purchases. Accordingly, additions to our lease pool amounted to approximately \$56.2 million in the first nine months of fiscal 2012, as compared to approximately \$20.7 million in the first nine months of fiscal 2011. As of October 31, 2011, we had outstanding commitments for the purchase of approximately \$14.3 million of lease pool equipment. Accordingly, we currently estimate that additions to our lease pool will total approximately \$70.5 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 nine months of fiscal 2012, proceeds from the sale of lease pool equipment amounted to approximately \$3.1 million, as compared to approximately \$1.5 million in the same nine 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 \$11.8 million in the first nine months of fiscal 2012 and net cash used by financing activities was approximately \$0.5 million in the first nine 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 nine months ended October 31, 2011, we made net repayments of approximately \$17.7 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 \$1.9 million pursuant to a promissory note issued in October 2010 related to the purchase of certain equipment. During the nine months ended October 31, 2010, our net repayments on our line of credit were approximately \$4.2 million. During the nine months ended October 31, 2011, we received approximately \$788,000 upon the exercise of stock options versus approximately \$244,000 during the nine months ended October 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 October 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

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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 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 December 5, 2011, we had approximately \$16.2 million outstanding under the facility and \$1.0 million of the facility had been reserved to support outstanding letters of credit. Accordingly, approximately \$17.8 million was available for borrowing under the facility as of that date. Subsequent to October 31, 2011 we borrowed approximately \$12.2 million under the revolving credit facility to fund the payment of certain invoices for the purchase of lease pool equipment. These invoices were included in accounts payable at October 31, 2011.

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 October 31, 2011:

| <u>Description of Financial Covenant</u>       | <u>Required Amount</u>      | <u>Actual as of October 31, 2011 or for the period then ended</u> |
|--|-----------------------------|---|
| Ratio of debt to shareholder's equity          | Not more than 0.7:1.0       | 0.04:1.0  |
| Ratio of current assets to current liabilities | Not less than 1.25:1.0      | 1.73:1.0  |
| Quarterly EBITDA                               | Not less than \$2.0 million | \$16.6 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 October 31, 2011, there was approximately \$4.0 million outstanding under this facility. If we were to convert the entire amount into 48-month notes, our required monthly principal payments would be approximately \$83,000. We would also be required to make monthly interest payments on the remaining principal balance at the then prime rate, 3.25% at October 31, 2011, plus 50 basis points. Our average borrowing levels under our revolving credit facility were approximately \$12.7 million and \$15.1 million for the nine months ended October 31, 2011 and 2010, respectively.

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. As of October 31, 2011 the outstanding balance on this obligation is approximately \$1.3 million.

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. Based upon amounts purchased to date and outstanding purchase commitments, 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.



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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, 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 October 31, 2011, we had deposits in foreign banks consisting of both United States dollar and foreign currency deposits equal to approximately \$14.6 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 October 31, 2011, our consolidated cash and cash equivalents included foreign currency denominated amounts equivalent to approximately \$5.6 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 \$0.6 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 55% of our net assets are impacted by changes in foreign currencies in relation to the United States dollar.

#### ***Interest Rate Risk***

As of October 31, 2011, there was approximately \$4.0 million 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 October 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 \$40,000. 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



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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 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 October 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 October 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*

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

#### ***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 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.

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

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

### 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: December 7, 2011

/s/ Robert P. Capps

Robert P. Capps

Executive Vice President-Finance and Chief Financial Officer

(Duly Authorized Officer and Chief Accounting Officer)

# **EXHIBIT INDEX**

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.

| <b><u>Exhibit Number</u></b> | <b><u>Document Description</u></b>   | <b><u>Report or Registration Statement</u></b>  | <b><u>SEC File or Registration Number</u></b> | <b><u>Exhibit Reference</u></b> |
|------------------------------|--|---|---|---------------------------------|
| 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  | Incorporated by reference to Mitcham Industries, Inc.'s Quarterly Report on Form 10-Q, filed with the SEC on September 7, 2011.   | 000-25142                                     | 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.

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended October 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

December 7, 2011

**CERTIFICATION**

I, Robert P. Capps, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended October 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

December 7, 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 October 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  
December 7, 2011

/s/ Robert P. Capps

Robert P. Capps  
Executive Vice President-Finance and Chief Financial Officer  
December 7, 2011