MITCHAM INDUSTRIES INC
Form 10-Q
December 11, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2013

or

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

For the transition period from __________ to __________

Commission File Number: 000-25142

MITCHAM INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Texas	**76-0210849**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

8141 SH 75 South

P.O. Box 1175

Huntsville, Texas 77342

(Address of principal executive offices, including Zip Code)

(936) 291-2277

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 12,797,576 shares of common stock, $0.01 par value, were outstanding as of December 10, 2013.

MITCHAM INDUSTRIES, INC.

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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, 2013	January 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,209	$ 15,150
Restricted cash	710	801
Accounts receivable, net	25,012	23,131
Current portion of contracts and notes receivable	1,127	2,096
Inventories, net	8,490	6,188
Prepaid income taxes	1,975	5,591
Deferred tax asset	1,976	1,842
Prepaid expenses and other current assets	4,232	3,079
Total current assets	67,731	57,878
Seismic equipment lease pool and property and equipment, net	106,631	119,608
Intangible assets, net	3,447	3,989
Goodwill	4,320	4,320
Deferred tax asset	6,409	4,296
Other assets	34	316
Total assets	$ 188,572	$ 190,407
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 8,469	$ 6,921
Current maturities long-term debt	110	145
Deferred revenue	497	539
Accrued expenses and other current liabilities	2,505	1,875
Total current liabilities	11,581	9,480
Non-current income taxes payable	376	376
Long-term debt, net of current maturities	3,140	4,238
Total liabilities	15,097	14,094

Shareholders equity:				
Preferred stock, $1.00 par value; 1,000 shares authorized; none issued and outstanding				
Common stock, $0.01 par value; 20,000 shares authorized; 13,872 and 13,763 shares issued at October 31, 2013 and January 31, 2013, respectively		139		138
Additional paid-in capital		117,599		116,506
Treasury stock, at cost (1,075 and 926 shares at October 31, 2013 and January 31, 2013, respectively)		(7,075)		(4,860)
Retained earnings		59,334		56,348
Accumulated other comprehensive income		3,478		8,181
Total shareholders equity		173,475		176,313
Total liabilities and shareholders equity	$	188,572	$	190,407

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

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MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended October 31, 2013	For the Three Months Ended October 31, 2012	For the Nine Months Ended October 31, 2013	For the Nine Months Ended October 31, 2012
Revenues:				
Equipment leasing	$ 7,900	$ 11,062	$ 34,435	$ 42,952
Lease pool equipment sales	3,169	1,873	6,188	7,409
Seamap equipment sales	5,537	4,495	16,422	22,301
Other equipment sales	3,669	1,143	11,416	3,622
Total revenues	20,275	18,573	68,461	76,284
Cost of sales:				
Direct costs - equipment leasing	1,465	1,663	3,857	6,308
Direct costs - lease pool depreciation	7,216	8,308	22,021	25,139
Cost of lease pool equipment sales	1,119	1,341	2,080	3,752
Cost of Seamap and other equipment sales	5,522	2,907	16,653	12,445
Total cost of sales	15,322	14,219	44,611	47,644
Gross profit	4,953	4,354	23,850	28,640
Operating expenses:				
General and administrative	6,086	5,854	18,173	16,907
Provision for (recovery of) doubtful accounts	1,048		1,048	(443)
Depreciation and amortization	371	362	1,124	1,031
Total operating expenses	7,505	6,216	20,345	17,495
Operating (loss) income	(2,552)	(1,862)	3,505	11,145
Other income (expenses):				
Interest, net	(37)	79	120	(22)
Other, net	(517)	(395)	222	(964)
Total other income (expenses)	(554)	(316)	342	(986)
(Loss) income before income taxes	(3,106)	(2,178)	3,847	10,159
Benefit (provision) for income taxes	478	956	(861)	3,477

Net (loss) income	$ (2,628)	$ (1,222)	$ 2,986	$ 13,636
Net (loss) income per common share:				
Basic	$ (0.21)	$ (0.10)	$ 0.23	$ 1.07
Diluted	$ (0.21)	$ (0.10)	$ 0.23	$ 1.03
Shares used in computing net income per common share:				
Basic	12,767	12,771	12,766	12,687
Diluted	12,767	12,771	13,180	13,264

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

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MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in thousands)

(unaudited)

	For the Three Months Ended October 31,		For the Nine Months Ended October 31,	
	2013	2012	2013	2012
Net (loss) income	$ (2,628)	$ (1,222)	$ 2,986	$ 13,636
Change in cumulative translation adjustment	1,488	508	(4,703)	363
Comprehensive (loss) income	$ (1,140)	$ (714)	$ (1,717)	$ 13,999

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

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MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Nine Months Ended October 31, 2013	2012
Cash flows from operating activities:		
Net income	$ 2,986	$ 13,636
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,242	26,270
Stock-based compensation	839	1,323
Provision for doubtful accounts, net of charge offs	1,048	(636)
Provision for inventory obsolescence	70	178
Gross profit from sale of lease pool equipment	(4,108)	(3,657)
Excess tax benefit from exercise of non-qualified stock options and restricted shares	(44)	(441)
Deferred tax provision	(2,495)	(3,524)
Changes in non-current income taxes payable		(5,003)
Changes in working capital items:		
Accounts receivable	(4,569)	17,662
Contracts and notes receivable	1,277	(761)
Inventories	(2,827)	(623)
Prepaid expenses and other current assets	(1,449)	(1,341)
Income taxes payable	3,382	(7,672)
Prepaid foreign income tax		3,519
Accounts payable, accrued expenses, other current liabilities and deferred revenue	1,338	(2,801)
Net cash provided by operating activities	18,690	36,129
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(13,308)	(35,531)
Purchases of property and equipment	(452)	(795)
Sale of used lease pool equipment	6,188	7,409
Net cash used in investing activities	(7,572)	(28,917)
Cash flows from financing activities:		
Net payments on revolving line of credit	(1,000)	650
Proceeds from equipment notes		180
Payments on borrowings	(105)	(1,528)
Net purchases of short-term investments	30	
Proceeds from issuance of common stock upon exercise of options	275	331

Purchase of treasury stock	(2,200)	
Excess tax benefit from exercise of non-qualified stock options and restricted shares	44	441
Net cash (used in) provided by financing activities	(2,956)	74
Effect of changes in foreign exchange rates on cash and cash equivalents	897	1,417
Net change in cash and cash equivalents	9,059	8,703
Cash and cash equivalents, beginning of period	15,150	15,287
Cash and cash equivalents, end of period	$ 24,209	$ 23,990
Supplemental cash flow information:		
Interest paid	$ 206	$ 447
Income taxes (refunded) paid	$ (74)	$ 8,222
Purchases of seismic equipment held for lease in accounts payable at end of period	$ 5,208	$ 835

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, 2013 for Mitcham Industries, Inc. (for purposes of these notes, the Company) has been derived from audited consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company s Annual Report on Form 10-K for the year ended January 31, 2013. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of October 31, 2013, the results of operations for the three and nine months ended October 31, 2013 and 2012, and the cash flows for the nine months ended October 31, 2013 and 2012, have been included in these financial statements. The foregoing interim results are not necessarily indicative of the results of operations to be expected for the full fiscal year ending January 31, 2014.

2. Organization

The Company was incorporated in Texas in 1987. The Company, through its wholly-owned Canadian subsidiary, Mitcham Canada, ULC. (MCL), its wholly-owned Russian subsidiary, Mitcham Seismic Eurasia LLC (MSE), its wholly- owned Hungarian subsidiary, Mitcham Europe Ltd. (MEL), its wholly-owned Singaporean subsidiary, Mitcham Marine Leasing Pte Ltd. (MML), and its branch operations in Colombia and Peru, provides full-service equipment leasing, sales and service to the seismic industry worldwide. The Company, through its wholly-owned Australian subsidiary, Seismic Asia Pacific Pty Ltd. (SAP), provides seismic, oceanographic and hydrographic leasing and sales worldwide, primarily in Southeast Asia and Australia. The Company, through its wholly-owned subsidiary, Seamap International Holdings Pte, Ltd. (Seamap), designs, manufactures and sells a broad range of proprietary products for the seismic, hydrographic and offshore industries, with manufacturing, support and sales facilities based in Singapore and the United Kingdom. All material intercompany transactions and balances have been eliminated in consolidation.

3. Restricted Cash

The Company has pledged approximately $622,000 in short-term deposits as of October 31, 2013 as collateral to secure letters of credit related to import bonds posted with various foreign customs authorities. Also, in connection with certain contracts, SAP has pledged approximately $88,000 in short-term time deposits as of October 31, 2013 to secure performance obligations under those contracts. The amount of security will be released as the contractual obligations are performed over the remaining terms of the contracts, which is estimated to be in the quarter ending January 31, 2014.

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

4. Balance Sheet

	October 31, 2013	January 31, 2013
	(in thousands)	
Accounts receivable:		
Accounts receivable	$ 29,028	$ 26,505
Allowance for doubtful accounts	(4,016)	(3,374)
Total accounts receivable, net	$ 25,012	$ 23,131
Contracts and notes receivable:		
Contracts receivable	$ 858	$ 904
Notes receivable	269	1,471
Less current portion	(1,127)	(2,096)
Long-term portion	$	$ 279

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Contracts receivable consisted of $858,000 due from two customers as of October 31, 2013 and $904,000 due from two customers as of January 31, 2013. Notes receivable of $269,000 at October 31, 2013 and $1,471,000 at January 31, 2013 relate to promissory notes issued by a customer in settlement of a trade account receivable. As of October 31, 2013, the amounts due pursuant to these agreements bear interest at an average of approximately 8.7% per year and have remaining repayment terms of five to 11 months. These agreements are collateralized by seismic equipment and are considered collectable; thus, no allowances have been established for them.

	October 31, 2013	January 31, 2013
	(in thousands)	
Inventories:		
Raw materials	$ 4,354	$ 3,103
Finished goods	4,248	3,531
Work in progress	1,056	627
	9,658	7,261
Less allowance for obsolescence	(1,168)	(1,073)
Total inventories, net	$ 8,490	$ 6,188

	October 31, 2013	January 31, 2013
	(in thousands)	
Seismic equipment lease pool and property and equipment:		
Seismic equipment lease pool	$ 238,164	$ 241,395
Land and buildings	366	366
Furniture and fixtures	8,943	8,899
Autos and trucks	799	748
	248,272	251,408
Accumulated depreciation and amortization	(141,641)	(131,800)
Total seismic equipment lease pool and property and equipment, net	$ 106,631	$ 119,608

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5. Goodwill and Other Intangible Assets

	Weighted Average Remaining Life at 10/31/2013	October 31, 2013 Gross Carrying Amount	October 31, 2013 Accumulated Amortization (in thousands)	October 31, 2013 Net Carrying Amount	January 31, 2013 Gross Carrying Amount	January 31, 2013 Accumulated Amortization (in thousands)	January 31, 2013 Net Carrying Amount
Goodwill		$ 4,320			$ 4,320		
Proprietary rights	6.7	$ 3,537	$ (1,814)	$ 1,723	$ 3,503	$ (1,625)	1,878
Customer relationships	4.3	2,302	(1,055)	1,247	2,402	(876)	1,526
Patents	4.3	693	(318)	375	724	(264)	460
Trade name	4.3	189	(87)	102	197	(72)	125
Amortizable intangible assets		$ 6,721	$ (3,274)	$ 3,447	$ 6,826	$ (2,837)	$ 3,989

As of October 31, 2013, the Company had goodwill of $4,320,000, all of which was allocated to the Seamap segment. No impairment was recorded against the goodwill account during the three months ended October 31, 2013.

Amortizable intangible assets are amortized over their estimated useful lives of eight to 15 years using the straight-line method. Aggregate amortization expense was $164,000 and $169,000 for the three months ended October 31, 2013 and 2012, respectively, and $493,000 and $506,000 for the nine months ended October 31, 2013 and 2012, respectively. As of October 31, 2013, future estimated amortization expense related to amortizable intangible assets was estimated to be:

For fiscal years ending January 31 (in thousands):	
2014	$ 163
2015	655
2016	655
2017	655
2018	655
2019 and thereafter	664
Total	$ 3,447

6. Long-Term Debt and Notes Payable

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

	October 31, 2013	January 31, 2013

Revolving line of credit	$	3,000	$	4,000
Other equipment notes		250		383
		3,250		4,383
Less current portion		(110)		(145)
Long-term debt	$	3,140	$	4,238

On August 2, 2013, the Company entered into a $50.0 million, three-year revolving credit facility, as described below (the Credit Agreement). The Credit Agreement replaced a predecessor revolving credit facility with First Victoria National Bank. The Credit Agreement is a three-year, secured revolving facility in the maximum principal amount of $50.0 million, among the Company, as borrower, HSBC Bank USA, N.A., as administrative agent and several banks and other financial institutions from time to time as lenders thereunder (initially consisting of HSBC Bank USA, N.A. and First Victoria National Bank) as lenders.

Amounts available for borrowing under the Credit Agreement are determined by a borrowing base. The borrowing base is determined primarily based upon the appraised value of the Company s domestic lease pool equipment and certain accounts receivable. The Credit Agreement is collateralized by essentially all of the Company s domestic assets (other than real estate) and 65% of the capital stock of Mitcham Holdings, Ltd., a foreign holding company that holds the capital stock of the Company s foreign subsidiaries.

The Credit Agreement provides interest at a base rate, or for Eurodollar borrowings, in both cases plus an applicable margin. As of October 31, 2013, the base rate margin was 150 basis points and the Eurodollar margin was 250 basis points. The Company has agreed to pay a commitment fee on the unused portion of the Credit Agreement of 0.375% to 0.5%. Up to $10.0 million of available borrowings under the Credit Agreement may be utilized to secure letters of credit. The Credit Agreement contains certain financial covenants that require, among other things, that the Company maintain a leverage ratio, which is calculated at the end of each quarter, of no greater than 2.00 to 1.00 on a trailing four quarter basis and a fixed charge coverage ratio, which also is calculated at the end of each quarter, of no less than 1.25 to 1.00 on a trailing four quarter basis. In addition, should adjusted EBITDA, as defined in the Credit Agreement, for any trailing four quarter period be less than $22.0 million, the ratio of capital expenditures to adjusted EBITDA for that four quarter period may not be greater than 1.0 to 1.0. The Credit Agreement also includes restrictions on additional indebtedness in excess of $5.0 million. The Company was in compliance with each of these provisions as of and for the nine months ended October 31, 2013.

The Credit Agreement contains customary representations, warranties, conditions precedent to credit extensions, affirmative and negative covenants and events of default. The negative covenants include restrictions on liens, additional indebtedness in excess of $5.0 million, acquisitions, fundamental changes, dispositions of property, restricted payments, transactions with affiliates and lines of business. The events of default include a change in control provision.

The Company s average borrowings under the Credit Agreement and the predecessor revolving credit facility for the nine months ended October 31, 2013 and 2012 were approximately $3,031,000 and $14,084,000, respectively.

From time to time, certain subsidiaries have entered into notes payable to finance the purchase of certain equipment, which are pledged as security for the notes payable.

7. Income Taxes

Prepaid taxes of approximately $2.0 million at October 31, 2013 consisted of approximately $400,000 of foreign taxes and approximately $1.6 million of domestic federal and state taxes. Prepaid income taxes of approximately $5.6 million at January 31, 2013 consisted of approximately $4.2 million of foreign taxes and approximately $1.4 million of domestic federal and state taxes.

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

In September 2013, the Internal Revenue Service (IRS) initiated an examination of the Company s federal income tax return for the fiscal year ended January 31, 2013. As of December 10, 2013, the IRS has not proposed any adjustments as a result of this examination.

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

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

As a result of the settlement, in the nine months ended October 31, 2012, the Company recognized the benefit of certain tax positions amounting to approximately $3.3 million and reversed previous estimates of potential penalties and interest amounting to approximately $1.9 million.

The effective tax rate for the nine months ended October 31, 2013 was approximately 22.4%. Without the effect of the $5.2 million tax benefit noted above, the effective tax rate for the nine months ended October 31, 2012 was 17.9%.

These rates are generally less than the federal statutory rate of 34% primarily due to the effect of lower tax rates in certain foreign jurisdictions. The Company has determined that earnings from these jurisdictions have been permanently reinvested outside of the United States.

8. Earnings per Share

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

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Basic weighted average common shares outstanding	12,767	12,771	12,766	12,687
Stock options	359	415	390	558
Unvested restricted stock	19	20	24	19
Total weighted average common share equivalents	378	435	414	577
Diluted weighted average common shares outstanding	13,145	13,206	13,180	13,264

For the three months ended October 31, 2013 and 2012, potentially dilutive common shares, underlying stock options and unvested restricted stock were anti-dilutive and were therefore not considered in calculating diluted loss per share for that period.

9. Treasury Stock

In April 2013, the Company s Board of Directors authorized the repurchase of up to 1,000,000 shares of the Company s common stock through December 31, 2014. During the nine months ended October 31, 2013, the Company repurchased 147,900 shares of its common stock at an average price of approximately $14.82 per share. These shares are reflected as treasury stock in the accompanying financial statements. The Company expects that it will continue to purchase its shares from time to time in the open market or in privately negotiated purchase transactions as market and financial conditions warrant.

10. Stock-Based Compensation

Total compensation expense recognized for stock-based awards granted under the Company s equity incentive plan during the three and nine months ended October 31, 2013 was approximately $287,000 and $839,000, respectively, and, during the three and nine months ended October 31, 2012 was approximately $259,000 and $1.3 million, respectively.

11. Segment Reporting

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

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

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

	As of October 31, 2013 Total Assets	As of January 31, 2013 Total Assets
	(in thousands)	
Equipment Leasing	$ 168,343	$ 171,971
Seamap	20,236	18,578
Eliminations	(7)	(142)
Consolidated	$ 188,572	$ 190,407

Results for the three months ended October 31, 2013 and 2012 were as follows (in thousands):

	Revenues 2013	Revenues 2012	Operating (loss) income 2013	Operating (loss) income 2012	(Loss) income before taxes 2013	(Loss) income before taxes 2012
Equipment Leasing	$ 14,738	$ 14,078	$ (3,398)	$ (2,760)	$ (3,733)	$ (2,714)
Seamap	5,608	4,839	804	1,232	585	870
Eliminations	(71)	(344)	42	(334)	42	(334)
Consolidated	$ 20,275	$ 18,573	$ (2,552)	$ (1,862)	$ (3,106)	$ (2,178)

Results for the nine months ended October 31, 2013 and 2012 were as follows (in thousands):

	Revenues 2013	Revenues 2012	Operating income 2013	Operating income 2012	Income before taxes 2013	Income before taxes 2012
Equipment Leasing	$ 52,039	$ 53,983	$ 1,332	$ 2,954	$ 1,598	$ 2,378
Seamap	16,584	23,134	2,038	8,410	2,114	8,000
Eliminations	(162)	(833)	135	(219)	135	(219)
Consolidated	$ 68,461	$ 76,284	$ 3,505	$ 11,145	$ 3,847	$ 10,159

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

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q (this Form 10-Q) may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words anticipate, believe, expect, plan, intend, foresee, should, would, could, or other similar expressions a 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;

fluctuations due to circumstances beyond our control or that of our customers;

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;
- 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 of this Form 10-Q and (2) Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 31, 2013.

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 publically update or revise any forward-looking statement after the date they are made, whether as the result of new information, future events or otherwise.

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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; Singapore; Bogota, Colombia; and Lima, Peru. Our Equipment Leasing segment includes the operations of our Mitcham Canada, ULC. (MCL), Seismic Asia Pacific Pty. Ltd. (SAP), Mitcham Europe Ltd. (MEL), Mitcham Marine Leasing Pte Ltd. (MML) and Mitcham Seismic Eurasia LLC (MSE) subsidiaries and our branch operations in Peru and Colombia. Our equipment manufacturing segment is conducted by our Seamap subsidiaries and, therefore, is referred to as our Seamap segment. Seamap operates from its locations near Bristol, United Kingdom and in Singapore.

Management believes that the performance of our Equipment Leasing segment is indicated by revenues from equipment leasing and by the level of our investment in lease pool equipment. Management further believes that the performance of our Seamap segment is indicated by revenues from equipment sales and by gross profit from those sales. Management monitors EBITDA and Adjusted EBITDA, both as defined in the following table, as key indicators of our overall performance and liquidity.

The following table presents certain operating information by operating segment.

	For the Three Months Ended October 31,		For the Nine Months Ended October 31,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Revenues:				
Equipment Leasing	$ 14,738	$ 14,078	$ 52,039	$ 53,983
Seamap	5,608	4,839	16,584	23,134
Inter-segment sales	(71)	(344)	(162)	(833)
Total revenues	20,275	18,573	68,461	76,284
Cost of sales:				
Equipment Leasing	12,784	12,177	36,946	38,193
Seamap	2,651	2,052	7,962	10,065
Inter-segment costs	(113)	(10)	(297)	(614)
Total cost of sales	15,322	14,219	44,611 &n	