

MITCHAM INDUSTRIES INC  
Form 10-Q  
June 03, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended April 30, 2015**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 000-25142**

**MITCHAM INDUSTRIES, INC.**

**(Exact name of registrant as specified in its charter)**

**Texas**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**76-0210849**  
**(I.R.S. Employer**  
**Identification No.)**

**8141 SH 75 South**

**P.O. Box 1175**

**Huntsville, Texas 77342**

**(Address of principal executive offices, including Zip Code)**

**(936) 291-2277**

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 12,084,056 shares of common stock, \$0.01 par value, were outstanding as of June 2, 2015.

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**MITCHAM INDUSTRIES, INC.**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****MITCHAM INDUSTRIES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)****(unaudited)**

	<b>April 30, 2015</b>	<b>January 31, 2015</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,227	\$ 5,175
Restricted cash		184
Accounts receivable, net	27,746	23,693
Contracts and notes receivable	3,201	3,639
Inventories, net	12,508	11,451
Prepaid income taxes	1,551	1,018
Deferred tax asset	2,265	2,427
Prepaid expenses and other current assets	3,360	6,562
<b>Total current assets</b>	<b>56,858</b>	<b>54,149</b>
Seismic equipment lease pool and property and equipment, net	95,769	100,087
Intangible assets, net	10,716	10,831
Goodwill	5,620	5,594
Deferred tax asset	9,326	8,922
Other assets	28	28
<b>Total assets</b>	<b>\$ 178,317</b>	<b>\$ 179,611</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,676	\$ 2,399
Current maturities long-term debt	3,219	3,218
Deferred revenue	661	710
Accrued expenses and other current liabilities	4,151	3,673
<b>Total current liabilities</b>	<b>11,707</b>	<b>10,000</b>
Long-term debt, net of current maturities	17,356	23,137
<b>Total liabilities</b>	<b>29,063</b>	<b>33,137</b>
Shareholders equity:		

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Preferred stock, \$1.00 par value; 1,000 shares authorized; none issued and outstanding		
Common stock, \$0.01 par value; 20,000 shares authorized; 14,012 and 14,012 shares issued at April 30, 2015 and January 31, 2015, respectively	140	140
Additional paid-in capital	120,057	119,787
Treasury stock, at cost (1,928 and 1,928 shares at April 30, 2015 and January 31, 2015, respectively)	(16,851)	(16,851)
Retained earnings	51,687	51,924
Accumulated other comprehensive loss	(5,779)	(8,526)
Total shareholders' equity	149,254	146,474
Total liabilities and shareholders' equity	\$ 178,317	\$ 179,611

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

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## MITCHAM INDUSTRIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended April 30,	
	2015	2014
<b>Revenues:</b>		
Equipment leasing	\$ 11,186	\$ 16,161
Lease pool equipment sales	227	1,101
Seamap equipment sales	5,066	6,060
Other equipment sales	663	2,410
Total revenues	17,142	25,732
<b>Cost of sales:</b>		
Direct costs - equipment leasing	1,367	1,226
Direct costs - lease pool depreciation	7,638	8,695
Cost of lease pool equipment sales	97	394
Cost of Seamap and other equipment sales	3,464	4,174
Total cost of sales	12,566	14,489
<b>Gross profit</b>	4,576	11,243
<b>Operating expenses:</b>		
General and administrative	4,896	6,119
Depreciation and amortization	637	352
Total operating expenses	5,533	6,471
<b>Operating (loss) income</b>	(957)	4,772
<b>Other (expenses) income:</b>		
Interest, net	(221)	(115)
Other, net	786	189
Total other income	565	74
<b>(Loss) income before income taxes</b>	(392)	4,846

Benefit (provision) for income taxes	155	(1,109)
<b>Net (loss) income</b>	<b>\$ (237)</b>	<b>\$ 3,737</b>
<b>Net (loss) income per common share:</b>		
Basic	\$ (0.02)	\$ 0.29
Diluted	\$ (0.02)	\$ 0.29
<b>Shares used in computing net (loss) income per common share:</b>		
Basic	12,018	12,749
Diluted	12,018	13,102

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



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**Table of Contents****MITCHAM INDUSTRIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)****(unaudited)**

	<b>For the Three Months Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
Net (loss) income	\$ (237)	\$ 3,737
Change in cumulative translation adjustment	2,747	1,270
Comprehensive income	\$ 2,510	\$ 5,007

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

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## MITCHAM INDUSTRIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Three Months Ended	
	April 30,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (237)	\$ 3,737
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	8,307	9,082
Stock-based compensation	281	399
Provision for inventory obsolescence	45	20
Gross profit from sale of lease pool equipment	(129)	(707)
Excess tax benefit from exercise of non-qualified stock options and restricted shares	(12)	
Deferred tax benefit	(347)	(801)
Changes in working capital items:		
Accounts receivable	(2,839)	404
Contracts and notes receivable		64
Inventories	(850)	175
Prepaid expenses and other current assets	3,277	1,343
Income taxes payable	(533)	378
Accounts payable, accrued expenses, other current liabilities and deferred revenue	253	(36)
Foreign exchange gains net of losses	(778)	
Net cash provided by operating activities	6,438	14,058
<b>Cash flows from investing activities:</b>		
Purchases of seismic equipment held for lease	(73)	(9,129)
Purchases of property and equipment	(88)	(87)
Sale of used lease pool equipment	227	1,101
Net cash provided by (used in) investing activities	66	(8,115)
<b>Cash flows from financing activities:</b>		
Net payments on revolving line of credit	(5,000)	(7,000)
Payments on term loan and other borrowings	(952)	(34)
Net proceeds from short-term investments	184	85
Proceeds from issuance of common stock upon exercise of options		36
Purchase of treasury stock		(2,173)

Excess tax benefit from exercise of non-qualified stock options and restricted shares	12	
Net cash used in financing activities	(5,756)	(9,086)
Effect of changes in foreign exchange rates on cash and cash equivalents	304	(338)
Net change in cash and cash equivalents	1,052	(3,481)
Cash and cash equivalents, beginning of period	5,175	15,162
Cash and cash equivalents, end of period	\$ 6,227	\$ 11,681

**Supplemental cash flow information:**

Interest paid	\$ 228	\$ 136
Income taxes paid	\$ 796	\$ 1,555
Purchases of seismic equipment held for lease in accounts payable at end of period	\$ 1,331	\$ 1,361

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

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**MITCHAM INDUSTRIES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1. Organization**

Mitcham Industries, Inc. (for purposes of these notes, 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, Seemap International Holdings Pte, Ltd. (Seemap), 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.

**2. Basis of Presentation**

The condensed consolidated balance sheet as of January 31, 2015 for 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, 2015. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of April 30, 2015, the results of operations for the three months ended April 30, 2015 and 2014, and the cash flows for the three months ended April 30, 2015 and 2014, 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, 2016.

**3. New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers: (Topic 606)*, to provide guidance on revenue recognition on contracts with customers to transfer goods or services or on contracts for the transfer of nonfinancial assets. ASU 2014-09 requires that revenue recognition on contracts with customers depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective during the fiscal year ended January 31, 2018. The Company does not believe the adoption will have a material effect on its financial statements.

**4. Restricted Cash**

As of January 31, 2015, Seemap had pledged approximately \$184,000 in short-term time deposits to secure performance obligations in connection with certain contracts. As of April 30, 2015, the amount of security had been released as the contractual obligations had been fulfilled.

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.

**Table of Contents****5. Balance Sheet**

	<b>April 30, 2015</b>	<b>January 31, 2015</b>
	(in thousands)	
<b>Accounts receivable:</b>		
Accounts receivable	\$ 34,188	\$ 30,032
Allowance for doubtful accounts	(6,442)	(6,339)
 Total accounts receivable, net	 \$ 27,746	 \$ 23,693

Contracts and notes receivable consisted of \$3.2 million, due from two customers as of April 30, 2015 and \$3.6 million due from three customers as of January 31, 2015. Notes receivable of \$2,370,000 at April 30, 2015 relate to promissory notes issued by a customer in settlement of a trade account receivable. The balance of contracts receivable at April 30, 2015 and January 31, 2015 consisted of contracts bearing interest at an average of approximately 2.2% and 1.9% respectively and with remaining repayment terms from one to ten months at April 30, 2015. These contracts are collateralized by the equipment sold and are considered collectable, thus no allowances have been established for them.

	<b>April 30, 2015</b>	<b>January 31, 2015</b>
	(in thousands)	
<b>Inventories:</b>		
Raw materials	\$ 6,319	\$ 6,718
Finished goods	5,754	4,466
Work in progress	1,252	1,017
	13,325	12,201
Less allowance for obsolescence	(817)	(750)
 Total inventories, net	 \$ 12,508	 \$ 11,451

	<b>April 30, 2015</b>	<b>January 31, 2015</b>
	(in thousands)	
<b>Seismic equipment lease pool and property and equipment:</b>		
Seismic equipment lease pool	\$ 249,236	\$ 243,211
Land and buildings	366	366
Furniture and fixtures	9,563	9,399
Autos and trucks	732	722
	259,897	253,698

Accumulated depreciation and amortization	(164,128)	(153,611)
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Total seismic equipment lease pool and property and equipment, net	\$ 95,769	\$ 100,087
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**Table of Contents****6. Goodwill and Other Intangible Assets**

	Weighted Average Remaining Life at 4/30/2015	April 30, 2015			January 31, 2015		
		Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Amount
Goodwill		\$ 5,620			\$ 5,594		
Proprietary rights	7.7	\$ 6,285	\$ (2,384)	\$ 3,901	\$ 6,121	\$ (2,240)	3,881
Customer relationships	5.6	6,805	(1,873)	4,932	6,613	(1,583)	5,030
Patents	6.4	2,306	(603)	1,703	2,243	(505)	1,738
Trade name	6.5	295	(115)	180	284	(102)	182
Amortizable intangible assets		\$ 15,691	\$ (4,975)	\$ 10,716	\$ 15,261	\$ (4,430)	\$ 10,831

As of April 30, 2015, the Company had goodwill of \$5.6 million, all of which was allocated to the Seamap segment. No impairment was recorded against the goodwill account during the three months ended April 30, 2015.

Amortizable intangible assets are amortized over their estimated useful lives of eight to 15 years using the straight-line method. Aggregate amortization expense was \$423,000 and \$160,000 for the three months ended April 30, 2015 and 2014, respectively. As of April 30, 2015, future estimated amortization expense related to amortizable intangible assets was estimated to be:

For fiscal years ending January 31 (in thousands):	
2016	\$ 1,332
2017	1,694
2018	1,673
2019	1,359
2020	1,331
2021 and thereafter	3,327
Total	\$ 10,716

**7. Long-Term Debt and Notes Payable**

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

April 30, 2015	January 31, 2015
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Revolving line of credit	\$ 12,000	\$ 17,000
Term credit facility	8,400	9,200
Other equipment notes	175	155
	20,575	26,355
Less current portion	(3,219)	(3,218)
Long-term debt	\$ 17,356	\$ 23,137

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).

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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 April 30, 2015, the base rate margin was 175 basis points and the Eurodollar margin was 275 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 three months ended April 30, 2015.

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, and transactions with affiliates and lines of business. The events of default include a change in control provision.

On August 22, 2014, the Company's wholly-owned subsidiary, Seemap Pte Ltd., entered into a \$15.0 million credit facility (the Seemap Credit Facility) with The Hongkong and Shanghai Banking Corporation Limited (HSBC-Singapore). The facility consists of a \$10.0 million term loan, a \$3.0 million revolving credit facility, and a \$2.0 million banker's guarantee facility.

The term loan portion of the Seemap Credit Facility provides for eleven quarterly principal payments of \$800,000 and a final payment of the remaining \$1.2 million on or before August 22, 2017. Interest on the term facility is payable quarterly at LIBOR plus 2.75%. Under the Seemap Credit Facility, Seemap may borrow up to \$3.0 million for a period of one to three months to be utilized for working capital and other general corporate purposes. Borrowings under the revolving credit facility bear interest at LIBOR plus 3.00%. Borrowings under this arrangement are secured by essentially all of the assets of Seemap Pte Ltd. and the Company's guarantee.

The Seemap Credit Facility contains financial covenants that require Seemap to maintain a minimum shareholder's equity of S\$15 million and a minimum ratio of EBITDA to debt of not less than 125% for each fiscal year. The Company was in compliance with each of these provisions as of April 30, 2015.

The Seemap Credit Facility contains customary representations and warranties, conditions precedent to credit extensions, affirmative and negative covenants and events of default. The negative covenants include restrictions on liens, additional indebtedness, acquisitions, fundamental changes, dispositions of property, restricted payments, and transactions with affiliates. The Seemap Credit Facility also requires the Company, as guarantor, to comply with financial covenants contained in the Credit Agreement.

The Company's average borrowings under the Credit Agreement, the predecessor revolving credit facility and the Seemap Credit Facility for the three months ended April 30, 2015 and 2014 were approximately \$24.4 million and \$19.0 million, 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.

#### **8. Income Taxes**

Prepaid taxes of approximately \$1.6 million at April 30, 2015 consisted of approximately \$1.5 million of foreign taxes and approximately \$100,000 of domestic federal and state taxes. Prepaid income taxes of approximately \$1.0 million at January 31, 2015 consisted of approximately \$900,000 of foreign taxes and approximately \$100,000 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, 2012.

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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 2010.

The provision for income taxes for the three months ended April 30, 2015 includes certain foreign withholding taxes. These taxes can distort the relationship between income or loss before income taxes and the provision for income taxes. Also, a valuation against the deferred tax assets of the Company for approximately \$125,000 has been recorded for the three months ended April 30, 2015. This valuation is the result of net operating losses in the United Kingdom which are not expected to be utilized within the carryover period. Accordingly, the effective tax rates for these periods differ significantly from the federal statutory rate of 34%. The Company has determined that earnings from certain foreign jurisdictions have been permanently reinvested outside of the United States.

**9. 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:

	<b>Three Months Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
	(in thousands)	
Basic weighted average common shares outstanding	12,018	12,749
Stock options	50	316
Unvested restricted stock	33	37
Total weighted average common share equivalents	83	353
Diluted weighted average common shares outstanding	12,101	13,102

For the three months ended April 30, 2015, 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.

**10. Treasury Stock**

In April 2013, the Company's Board of Directors authorized the repurchase of up to 1.0 million shares of the Company's common stock through December 31, 2014. These shares are reflected as treasury stock in the accompanying financial statements. As of January 31, 2015, the Company has purchased a total of 1.0 million shares under this program, representing the total amount of shares authorized for repurchase.

In the fourth quarter of our fiscal year ended January 31, 2015 ( fiscal 2015 ), the Company's Board of Directors authorized the repurchase of up to an additional 1.0 million shares of our common stock. As of June 3, 2015, we had not purchased any shares pursuant to this additional authorization.

#### **11. Stock-Based Compensation**

Total compensation expense recognized for stock-based awards granted under the Company's equity incentive plan during the three months ended April 30, 2015 and 2014 was approximately \$281,000 and \$399,000, respectively.

**Table of Contents****12. 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 Seemap segment is engaged in the design, manufacture and sale of state-of-the-art seismic and offshore telemetry systems. Manufacturing, support and sales facilities are maintained in the United Kingdom and Singapore.

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

	<b>As of April 30, 2015</b>	<b>As of January 31, 2015</b>
	<b>Total Assets</b>	<b>Total Assets</b>
	(in thousands)	
Equipment Leasing	\$ 146,151	\$ 148,985
Seemap	32,489	30,982
Eliminations	(323)	(356)
Consolidated	\$ 178,317	\$ 179,611

Results for the three months ended April 30, 2015 and 2014 were as follows (in thousands):

	<b>Revenues</b>		<b>Operating (loss) income</b>		<b>(Loss) income before taxes</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Equipment Leasing	\$ 12,076	\$ 19,672	\$ (881)	\$ 3,278	\$ (179)	\$ 3,523
Seemap	5,115	6,197	(109)	1,500	(246)	1,329
Eliminations	(49)	(137)	33	(6)	33	(6)
Consolidated	\$ 17,142	\$ 25,732	\$ (957)	\$ 4,772	\$ (392)	\$ 4,846

Sales from the Seemap 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 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;

the impact of economic and trade sanctions imposed on Russia by the United States and the European Union in response to the political unrest in Ukraine; and

other 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, 2015.*

*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.*



**Table of Contents****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.

	<b>For the Three Months Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
	(in thousands)	
<b>Revenues:</b>		
Equipment Leasing	\$ 12,076	\$ 19,672
Seamap	5,115	6,197
Inter-segment sales	(49)	(137)
<b>Total revenues</b>	<b>17,142</b>	<b>25,732</b>
<b>Cost of sales:</b>		
Equipment Leasing	9,660	11,948
Seamap	2,988	2,672
Inter-segment costs	(82)	(131)
<b>Total cost of sales</b>	<b>12,566</b>	<b>14,489</b>
<b>Gross profit</b>	<b>4,576</b>	<b>11,243</b>
<b>Operating expenses:</b>		
General and administrative	4,896	6,119
Depreciation and amortization	637	352
<b>Total operating expenses</b>	<b>5,533</b>	<b>6,471</b>
<b>Operating (loss) income</b>	<b>\$ (957)</b>	<b>\$ 4,772</b>

<b>EBITDA <sup>(1)</sup></b>	\$	8,136	\$	14,043
<b>Adjusted EBITDA <sup>(1)</sup></b>	\$	7,658	\$	14,378
<b>Reconciliation of Net (loss) income to EBITDA and Adjusted EBITDA</b>				
Net (loss) income	\$	(237)	\$	3,737
Interest expense, net		221		115
Depreciation and amortization		8,307		9,082
(Benefit) provision for income taxes		(155)		1,109
EBITDA <sup>(1)</sup>		8,136		14,043
Non-cash foreign exchange gains		(759)		(64)
Stock-based compensation		281		399
Adjusted EBITDA <sup>(1)</sup>	\$	7,658	\$	14,378
<b>Reconciliation of Net cash provided by operating activities to EBITDA</b>				
Net cash provided by operating activities	\$	6,438	\$	14,058
Stock-based compensation		(281)		(399)
Changes in trade accounts, contracts and notes receivable		2,839		(468)
Interest paid		228		136
Taxes paid, net of refunds		796		1,555
Gross profit from sale of lease pool equipment		129		707
Changes in inventory		850		(175)
Changes in accounts payable, accrued expenses and other current liabilities and deferred revenue		(253)		36
Changes in prepaid expenses and other current assets		(3,277)		(1,343)
Other		667		(64)
EBITDA <sup>(1)</sup>	\$	8,136	\$	14,043

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(1) EBITDA is defined as net income before (a) interest expense, net of interest income, (b) provision for (or benefit from) income taxes and (c) depreciation, amortization and impairment. Adjusted EBITDA excludes non-cash foreign exchange gains and losses and 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 ( U.S. 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 the predecessor revolving credit facility, the Credit Agreement and the Seamap Credit Facility (as defined below) each contain financial covenants that are based upon EBITDA or Adjusted 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 U.S. 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 U.S. 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 April 30, 2015 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, net of accumulated depreciation. 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. We also produce, sell, and lease 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 or January through March or April. During the months in which the weather is warmer, certain areas are not

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accessible to trucks, earth vibrators and other heavy equipment because of unstable terrain. In other areas of the world, such as South America, Southeast Asia and the Pacific Rim, periods of heavy rain can impair seismic operations. These periods of heavy rain often occur during the months of February through May in parts of South America. We are able, in some cases, to transfer our equipment from one region to another in order to accommodate seasonal demand and to increase our equipment utilization.

Historically, our first fiscal quarter has produced the highest leasing revenues, due in large part to the effect of the Canadian and Russian winter seasons discussed above. With the expansion of our land leasing operations into other geographic areas, such as South America and Europe, and marine leasing, we have seen a lessening of the seasonal variation in our leasing business in some years. We expect to continue to experience seasonal fluctuations, but such fluctuations may not be as great or as predictable as in the past.

Our Equipment Leasing segment can also experience periodic fluctuations in activity levels due to matters unrelated to seasonal or weather factors. These factors include the periodic shift of seismic exploration activity from one geographic area to another and difficulties encountered by our customers due to permitting and other logistical challenges.

Our Seemap segment designs, manufactures and sells a variety of products used primarily in marine seismic applications. Seemap's primary products include (1) the GunLink seismic source acquisition and control systems which provide marine operators more precise control of their exploration systems, and (2) the BuoyLink RGPS tracking system used to provide precise positioning of seismic sources and streamers (marine recording channels that are towed behind a vessel). In May 2014, Seemap purchased two product lines from ION Geophysical Corporation (ION). These product lines consist of the Digishot energy source controller and the Sleeve Gun energy sources (collectively the ION Source Products). Seemap's business is generally not impacted by seasonal conditions, as is the case with our land leasing operations. However, Seemap may experience significant fluctuations in its business in the future. The timing of deliveries and sales is often dependent upon the availability of the customer's vessel for delivery and installation of the equipment. Given the relatively large size of some orders, this can result in significant variations in revenues from period to period.

## ***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 supply and demand for oil and natural gas, energy prices and finding 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. The level of marine seismic data acquisition activity is indicated by the number of seismic vessels in operation around the world. Because an accurate and reliable census of active crews and active vessels 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.

In recent months there has been a dramatic decline in worldwide oil prices. In response to this, many oil and gas companies have reduced exploration budgets. This has in turn resulted in the cancellation or postponement of many seismic exploration projects which has had, and is expected to continue to have, a negative impact on our business. The downturn in seismic exploration activity has resulted in an excess of equipment within the industry, both land and marine. In response to this reduced activity and excess capacity, many seismic contractors are attempting to reduce costs, including, in the case of marine contractors, retiring older vessels. The industry has also experienced

consolidation recently, particularly among land contractors. Vessel retirements and consolidation among contractors can have a short-term negative effect on the demand for our services and equipment. However, we believe such actions are beneficial to the industry in general and benefit us in the long-term.

We believe it likely that the recent lower level of oil prices and general slowdown in seismic exploration projects will continue at least through our fiscal year ending January 31, 2016 ( fiscal 2016 ). Therefore, we expect lower levels of leasing revenue in fiscal 2016 as compared to fiscal 2015. However, we are not able to quantify the magnitude of such reduction at this time. Although we believe the overall level of seismic exploration activity is reduced and much uncertainty remains, we think activity varies among geographic regions.

North America, particularly Canada, appears to be most affected by the recent decline in activity. Industry sources estimate that approximately 15 land seismic crews operated in Canada during the 2014-2015 winter season, as compared to more than 40 crews during that period three years ago. This had a material negative effect on our revenues in the first quarter of fiscal 2016. While overall activity is expected to be reduced in North America in fiscal 2016, we are aware of certain significant projects that are planned. However, there can be no certainty that these planned projects will proceed or that we will have the opportunity to provide equipment for any such projects.

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We expect land seismic exploration activity in Latin America to be reduced in fiscal 2016, as compared to fiscal 2015. Certain large projects that occurred in fiscal 2015 are not expected to repeat in fiscal 2016. Parts of Latin America, such as Colombia, continue to be difficult areas in which to operate for our customers due to logistical, regulatory and security issues. Lower oil prices have introduced additional uncertainty regarding the economic viability of some projects, including those in Mexico.

The general level of activity within the seismic industry in Russia has been relatively robust from our perspective recently. However, economic issues caused by the decline in oil prices and the devaluation of the ruble versus the U.S. dollar have created difficulties and uncertainty. These factors have caused us to renegotiate certain contracts. These renegotiated contracts provide for lower pricing than did the original contracts, thereby negatively affecting our revenues. It is uncertain how these factors will impact our business in Russia and the Commonwealth of Independent States over the balance of fiscal 2016. However, we do expect normal seasonal variations in our revenues in Russia.

Our land leasing activity in Europe has increased over the past three years. Despite the overall decline in seismic exploration activity, we believe there are continued opportunities in Europe for our services and equipment.

We believe there are other areas of opportunity for our land leasing business, including the Middle East, North Africa, Asia, India and the Pacific Rim. We have been active in most of these regions in recent years; however, the level of activity has varied. Based on discussion with our customers and other industry participants, we understand there are significant projects planned in these areas in fiscal 2016. There can be no assurance, however, that those projects will proceed on schedule, or at all, or that we will have the opportunity to participate in any such projects.

Marine leasing activity has declined significantly over the past three years. We believe this is due in large part to an excess of equipment in the marine seismic market. As marine contractors have sought to reduce costs by retiring older vessels an excess of used equipment has become available, thereby reducing the demand for rental equipment. We believe this excess of available equipment will continue through fiscal 2016. However, during the fourth quarter of fiscal 2015, we began to experience an increase in inquiries for the rental of certain marine equipment. While this is an encouraging development, it is unclear what effect this will have on our revenues from the rental of marine equipment over the balance of fiscal 2016.

Revenue from the rental of downhole seismic tools increased over the prior three fiscal years. However, recently we have seen a softening of demand for downhole seismic tools. This equipment is most often used in applications related to the development of oil and gas properties, such as frac monitoring or reservoir monitoring programs. Accordingly, the degree to which current oil prices and exploration activity influence demand for these products can be different from that for our other equipment.

The market for products sold by Seamap 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. Our Seamap business has benefited from equipping new-build vessels and from re-equipping older vessels with newer, more efficient technology. In addition, as Seamap has expanded its installed base of products, including the product lines purchased in fiscal 2015, our business for replacements, spare parts, repair and support services has expanded. The overall decline in seismic exploration activity has had, and can be expected to continue to have, an impact on the demand from Seamap's products and services. However, we believe the expansion of our product offerings and the desire for customers to upgrade to newer, more efficient technology will mitigate this impact to some extent. We also believe that Seamap has been successful in penetrating new markets recently, partially due to the product lines purchased from ION in fiscal 2015. For example, we expect to deliver digital source controllers to a new customer in China in the second quarter of fiscal 2016. We continue to have discussions with existing and potential customers regarding new products and enhancement to existing products in order to better meet the needs of the marine seismic industry.

We have entered into engineering services agreements with one customer for the design of certain product features.

In June 2013, we entered into a manufacturing arrangement with Petroleum Geo-Services ASA ( PGS ), one of the largest marine seismic contractors in the world. Under this arrangement, we manufacture and sell to PGS a customized and proprietary marine energy source controller that is based on our GunLink 4000 product (the PGS SourceLink ). We have previously collaborated with PGS to develop PGS SourceLink. We expect PGS SourceLink will be deployed on the majority of PGS fleet of seismic vessels; however, current industry conditions will likely result in a delay in the complete deployment of the new products. The deployment will take place over a period of several years. We currently have orders for two PGS SouceLink systems to be installed on new build vessels. These orders are projected to be delivered in the third quarter of fiscal 2016 and the first quarter of fiscal 2017.

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The oil and gas industry, in general, and the seismic industry, in particular, have historically been cyclical businesses. If worldwide oil and gas prices should remain at current depressed levels or decline from current levels, we could see further declines in the level of our business and our income from operations.

In response to the decline in demand for our equipment and what we believe to be an excess of equipment in the market, we reduced the additions to our lease pool in fiscal 2015 and expect to reduce additions further in fiscal 2016. During the first quarter of fiscal 2016, we added approximately \$1.3 million of equipment to our lease pool, as compared to approximately \$2.8 million in the first quarter of fiscal 2015. We expect additions to our lease pool for all of fiscal 2016 to total approximately \$5.0 million. We expect any such additions will be limited to maintenance of our existing equipment or additional ancillary items that will enhance our ability to lease existing equipment. However, should industry conditions change, or unusual opportunities present themselves, we could revise our planned leased pool additions.

Historically, there have been two or three primary manufacturers of land seismic equipment. Recently, the industry has seen the emergence of additional entities seeking to introduce new equipment, particularly wireless recording equipment. Accordingly, significant competition among these new and existing manufacturers has developed. This competition has, we believe, led to pricing pressure for the manufacturers of equipment. While we benefit from lower prices for new equipment, this situation has also begun to have a negative impact on the pricing for our products and services. We have not been able to determine the magnitude of this impact on our results to date.

We believe one of our key competitive advantages is our broad geographic footprint and ability to operate in a number of areas. We have accomplished this over the past several years by establishing subsidiaries and branch operations such that we now operate in nine countries. In response to a decline in activity in some regions, we have taken steps to reduce costs such as by reducing personnel. We will continue to monitor our costs in relation to our activity, but at this time we have no plans to eliminate any of our operating locations. Should industry conditions improve, or should particular opportunities arise, we may seek to expand our operating locations either by establishing green field operations or by acquiring other businesses.

A significant portion of our revenues are generated from foreign sources. For the three months ended April 31, 2015 and 2014, revenues from international customers totaled approximately \$12.5 million and \$23.1 million, respectively. These amounts represent 73% and 90% of consolidated revenues in each of those respective periods. The majority of our transactions with foreign customers are denominated in United States, Australian and Canadian dollars and Russian rubles. We have not entered, nor do we intend to enter, into derivative financial instruments for hedging or speculative purposes.

Our revenues and results of operations have not been materially impacted by inflation or changing prices in the past three fiscal years, except as may be described above.

## ***Results of Operations***

Revenues for the three months ended April 30, 2015 and 2014 were approximately \$17.1 million and \$25.7 million, respectively. The decrease between the two periods was primarily due to lower equipment leasing revenues, lower Seemap sales and lower other equipment sales. For the three months ended April 30, 2015, we generated an operating loss of approximately \$1.0 million, compared to operating income of approximately \$4.8 million for the three months ended April 30, 2014. The decrease in operating profit in the three months ended April 30, 2015 as compared to the same period a year ago was due primarily to the lower revenues discussed above, partially offset by lower lease pool depreciation and lower general and administrative expenses. A more detailed explanation of these variations follows.





**Table of Contents****Revenues and Cost of Sales***Equipment Leasing*

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

	<b>Three Months Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
	(\$ in thousands)	
<b>Revenue:</b>		
Equipment leasing	\$ 11,186	\$ 16,161
Lease pool equipment sales	227	1,101
New seismic equipment sales	121	597
SAP equipment sales	542	1,813
	12,076	19,672
<b>Cost of sales:</b>		
Direct costs-equipment leasing	1,367	1,226
Lease pool depreciation	7,671	8,692
Cost of lease pool equipment sales	97	394
Cost of new seismic equipment sales	94	263
Cost of SAP equipment sales	431	1,373
	9,660	11,948
<b>Gross profit</b>	<b>\$ 2,416</b>	<b>\$ 7,724</b>
<b>Gross profit %</b>	<b>20%</b>	<b>39%</b>

Equipment leasing revenues decreased approximately 31% in the first quarter of fiscal 2016 from the first quarter of fiscal 2015 due primarily to lower land leasing revenues in Canada and Latin America. These decreases were partially offset by higher land leasing revenues in the United States, Europe and the Pacific Rim. As discussed above, seismic exploration activity in Canada during the 2014-2015 winter season, which includes our first quarter of fiscal 2016, was dramatically lower than in previous years. Our land leasing revenues in the United States during the first quarter of fiscal 2016 benefited from a large project in Alaska. This project was substantially completed as of April 30, 2015.

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. 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 April 30, 2015 and 2014 was approximately \$129,000 and \$707,000, respectively. Demand for used lease pool equipment is depressed by the same factors affecting leasing services; however, we expect to continue to sell lease pool equipment from time to time.

We regularly sell new seismic equipment, including heli-picker equipment that we produce. Heli-picker equipment sales are generally concentrated in the fourth quarter of our fiscal year. The gross profit from sales of new seismic equipment for the three months ended April 30, 2015 and 2014 was not material. SAP regularly sells new hydrographic and oceanographic equipment and provides system integration services to customers in Australia and throughout the Pacific Rim. For the three months ended April 30, 2015, SAP generated gross profit of approximately \$111,000 from these transactions as compared to approximately \$440,000 for the three months ended April 30, 2014. Sales of equipment by SAP can vary significantly from period to period based upon the delivery requirements of customers, which often times are governmental agencies in the Pacific Rim. We expect sales of new hydrographic and oceanographic equipment for the balance of fiscal 2016 to be at a higher level than that of the first quarter of fiscal 2016.

Direct costs related to equipment leasing were approximately 12% and 8% of leasing revenues in the three months ended April 30, 2015 and 2014, respectively. A significant portion of direct costs are generally fixed and therefore do not fluctuate with the level of leasing revenues. The increase in the absolute amount of direct costs in the fiscal 2016 period reflects the cost to sub-lease certain equipment for specific projects. In recent periods we have, in some cases, sub-leased equipment from another supplier to address temporary equipment needs rather than purchase equipment.

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For the three months ended April 30, 2015, lease pool depreciation decreased approximately 12% from the same period in the prior fiscal year. The decrease reflects our reduced purchases of lease pool equipment in recent periods and the effect of some equipment becoming fully depreciated.

Overall, our Equipment Leasing segment generated gross profit of approximately \$2.4 million, 20% of segment revenues, in the first quarter of fiscal 2016, as compared to a gross profit of approximately \$7.7 million, 39% of segment revenues, in the first quarter of fiscal 2015.

*Seamap*

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

	<b>Three Months Ended April 30,</b>	
	<b>2015</b>	<b>2014</b>
	(\$ in thousands)	
Equipment sales	\$ 5,115	\$ 6,197
Cost of equipment sales	2,988	2,672
<b>Gross profit</b>	<b>\$ 2,127</b>	<b>\$ 3,525</b>
Gross profit %	42%	57%

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 April 30, 2015, we did not ship any digital source controller or RGPS positioning systems. However, in that period we did ship a significant order that had been delayed from the fourth quarter of fiscal 2015. This order included a number of items provided by third parties and accordingly carried a lower gross profit margin than our typical orders. In the three months ended April 30, 2014, we shipped one digital source controller system and one RGPS positioning system. Revenues during both periods included after-market sales, such as spare parts, repairs, support and training. Due to the general decline in marine seismic activity we have experienced a decline in demand for these after-market services. We believe it is likely that this softness in demand will continue throughout the balance of fiscal 2016.

The gross profit margin from the sale of Seamap equipment varies between the fiscal 2016 and fiscal 2015 periods primarily due to the effect of the lower margin order in the first quarter of fiscal 2016 discussed above.

***Operating Expenses***

General and administrative expenses for the three months ended April 30, 2015 were approximately \$4.9 million, compared to approximately \$6.1 million for the three months ended April 30, 2014. Included in general and administrative expenses for the three months ended April 30, 2015 and 2014 is stock-based compensation expense of approximately \$281,000 and \$399,000, respectively. The reduction in these expenses reflects significantly lower provisions for incentive compensation and the effect of reduced headcount, as well as the effect of efforts to control such costs in general.

Depreciation and amortization includes depreciation of equipment, furniture and fixtures and the amortization of intangible assets. These costs increased to approximately \$637,000 in the three months ended April 30, 2015, as

compared to approximately \$352,000 in the three months ended April 30, 2014. This increase relates primarily to the amortization of intangible assets related to the ION Source Products we acquired in May of 2014.

***Other Income (Expense)***

Net interest expense for the three months ended April 30, 2015 was approximately \$221,000, as compared approximately \$115,000 for the three months ended April 30, 2014. This reflects higher average interest rates and higher average borrowings including our term loan facility at Seemap and increased costs associated with the facility, including commitment fees and costs.

Other income and other expense relate primarily to foreign exchange losses and gains incurred by our foreign subsidiaries and branches. Certain of these entities have functional currencies other than the U.S. dollar but in many cases hold U.S. dollar cash balances and have accounts receivable and accounts payable, including inter-company obligations, denominated in U.S. dollars. As the U.S. dollar fluctuates in value against each subsidiary's functional currency, the subsidiary can incur a foreign exchange gain or loss, although the value of these amounts in our consolidated financial statements may not have changed materially. In the three months ended April 30,

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2015, we had net foreign exchange gains of approximately \$759,000, compared to approximately \$64,000 in the three months ended April 30, 2014. These net gains in the fiscal 2016 period resulted primarily from the recovery of the Russian ruble versus the U.S. dollar and offset comparable losses we incurred in the fourth quarter of fiscal 2015. Others of our operations have a functional currency of the U.S. dollar but have assets and liabilities denominated in other currencies. The net foreign exchange gains and losses from these operations were not material in the first quarter of fiscal 2016 or in the first quarter of fiscal 2015.

***Provision for Income Taxes***

Our tax provision for the three months ended April 30, 2015 indicates an effective rate of approximately 40%. This is higher than the United States statutory rate due to the effect of foreign withholding taxes, a valuation allowance against certain deferred tax assets and is partially offset by lower tax rates in certain foreign jurisdictions. For the three months ended April 30, 2014, our tax provision indicates an effective rate of approximately 23%. This tax rate differs from the United States statutory rate primarily due to the effect of lower tax rates in foreign jurisdictions, partially offset by the effect of foreign withholding taxes.

**Liquidity and Capital Resources**

Our principal source of liquidity and capital in recent periods has been cash flows provided by operating activities, our Credit Agreement and our Seamap Credit Facility. The principal factor that has affected our cash flow from operating activities is the level of oil and gas exploration and development activities as discussed above.

We believe that our liquidity needs for the next 12 months will be met from cash on hand, cash provided by operating activities and from proceeds of our Credit Agreement, taking into account the possible restrictions on funds from our foreign subsidiaries. However, should our needs for liquidity increase, such as for the purchase of additional lease pool equipment or to make an acquisition, we may seek to issue other debt or equity securities. We have on file with the SEC a shelf registration statement pursuant to which we may issue from time to time up to \$150 million in common stock, warrants, preferred stock, debt securities or any combination thereof. We currently have no plans to issue any such securities.

The following table sets forth selected historical information regarding cash flows from our Consolidated Statements of Cash Flows:

	<b>For the Three Months Ended</b>	
	<b>April 30,</b>	
	<b>2015</b>	<b>2014</b>
	(in thousands)	
Net cash provided by operating activities	\$ 6,438	\$ 14,058
Net cash provided by (used in) investing activities	66	(8,115)
Net cash used in financing activities	(5,756)	(9,086)
Effect of changes in foreign exchange rates on cash and cash equivalents	304	(338)
Net increase (decrease) in cash and cash equivalents	\$ 1,052	(3,481)

As of April 30, 2015, we had working capital of approximately \$45.2 million, including cash and cash equivalents of approximately \$6.2 million, as compared to working capital of approximately \$44.1 million, including cash and cash equivalents and restricted cash of approximately \$5.4 million, at January 31, 2015. The increase in working capital resulted primarily from operating activities during the first three months of fiscal 2016.

*Cash Flows from Operating Activities.* Net cash provided by operating activities was approximately \$6.4 million in the first three months of fiscal 2016 as compared to approximately \$14.1 million in the first three months in fiscal 2015. The decrease between the two periods resulted primarily from the change in net income between the periods. In the three months ended April 30, 2015, a significant amount of cash was provided related to decreases in prepaid expenses and other current assets. This relates to the recovery of value added taxes in certain foreign jurisdictions resulting from the importation of equipment.

*Cash Flows from Investing Activities.* Net cash flows used in investing activities for the three months ended April 30, 2015 included purchases of seismic equipment held for lease totaling approximately \$73,000, as

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compared to approximately \$9.1 million in the three months ended April 30, 2014. There was approximately \$1.3 million in accounts payable at April 30, 2015 related to lease pool purchases. At January 31, 2015, there was approximately \$100,000 in accounts payable related to lease pool purchases. Accordingly, additions to our lease pool amounted to approximately \$1.3 million in the first three months of fiscal 2016, as compared to approximately \$2.8 million in the first three months of fiscal 2015. We expect additions to our lease pool for all of fiscal 2016 to total approximately \$5.0 million. We expect to fund these acquisitions with a combination of cash on hand, cash flow generated from operating activities and borrowings under our Credit Agreement.

In the first three months of fiscal 2016, proceeds from the sale of lease pool equipment totaled approximately \$227,000 compared to approximately \$1.1 million in the first three months of fiscal 2015. We generally do not seek to sell our lease pool equipment on a regular basis, 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. Accordingly, cash flow from the sale of lease pool equipment is unpredictable.

*Cash Flows from Financing Activities.* Net cash used in financing activities was approximately \$5.8 million in the first three months of fiscal 2016 compared to approximately \$9.1 million in the first three months of fiscal 2015. Amounts in the fiscal 2016 period related primarily to the repayment of borrowings under the Credit Agreement and the Seamap Credit Facility. Amounts in the fiscal 2015 period related primarily to repayments of borrowings under the Credit Agreement and repurchases of our common stock. In April 2013, our Board of Directors authorized a share repurchase program for up to 1.0 million shares of our common stock, under which 1.0 million shares were repurchased as of January 31, 2015, and in January 2015 authorized the purchase of an additional 1.0 million shares. We did not repurchase any stock under the more recent program in the three months ended April 30, 2015. In the three months ended April 30, 2014, we purchased 158,400 shares of our common stock at a total cost of approximately \$2.2 million. We may make such additional purchases from time to time depending on market conditions, operating considerations, our liquidity position and other potential uses of capital.

In connection with the temporary importation of our lease pool equipment into some countries, we are required to post import bonds with the customs authorities of that country. In addition, from time to time we are required to provide performance bonds related to the sale and delivery on new equipment, primarily by Seamap. These bonds are normally provided by local insurance, surety companies or local banks. In some cases, the party issuing the bond requires that we post collateral to secure our obligations under the bonds. As of April 30, 2015, we had provided stand-by letters of credit totaling approximately \$1.3 million under the Credit Agreement and the Seamap Credit Facility, as defined below, related to such obligations.

On August 2, 2013, we entered into a syndicated \$50 million, secured, three-year revolving credit agreement (the Credit Agreement ) with HSBC Bank USA, N.A. ( HSBC ) as administrative agent. The Credit Agreement replaced our existing \$50 million revolving credit agreement with First Victoria National Bank. Proceeds from the Credit Agreement may be used for working capital and general corporate needs. Up to \$10.0 million of the Credit Agreement may be used to secure letters of credit.

The Credit Agreement provides for Eurodollar loans, which bear interest at the Eurodollar base rate, plus a margin of from 2.50% to 3.50% based on our leverage ratio and for ABR loans which bear interest at the applicable base rate plus a margin of from 1.50% to 2.50% based on our leverage ratio. As of April 30 2015, the margins for Eurodollar loans and ABR loans are 2.75% and 1.75%, respectively. We have agreed to pay a commitment fee on the unused portion of the Credit Agreement of from 0.375% to 0.50% based on our leverage ratio. As of April 30, 2015, the commitment fee rate is 0.375%.



Amounts available under the Credit Agreement are subject to a borrowing base which is determined based primarily on the appraised value of our domestic lease pool equipment and certain accounts receivable. The Credit Agreement is secured by essentially all of our domestic assets and 65% of the capital stock of Mitcham Holdings Ltd., which is the holding company for all of our foreign subsidiaries.

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, other than indebtedness to HSBC and its affiliates, 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.

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The Credit Facility contains certain financial covenants that require us to maintain a maximum ratio of debt to Adjusted EBITDA, a minimum ratio of fixed charges to Adjusted EBITDA and, in certain circumstances, a maximum ratio of capital expenditures to Adjusted EBITDA, all as defined in the Credit Agreement. As indicated by the following chart, we were in compliance with all financial covenants as of April 30, 2015:

<b>Description of Financial Covenant</b>	<b>Required Amount</b>	<b>Actual for the four quarters ended April 30, 2015</b>
Leverage Ratio	Not more than 2.00 to 1.00	0.88 to 1.00
Fixed Charge Coverage Ratio	Not less than 1.25 to 1.00	5.31 to 1.00
Capital Expenditures to Adjusted EBITDA Ratio	Not more than 1.0 to 1.0, when Adjusted EBITDA is less than \$22.0 million for trailing four quarters	not applicable, Adjusted EBITDA - \$23.9 million

In August 2014, our wholly-owned subsidiary, Seemap Pte Ltd. ( Seemap Singapore ), entered into a \$15.0 million credit facility with HSBC Singapore (the Seemap Credit Facility ). The facility consists of a \$10.0 million term loan, a \$3.0 million revolving credit facility, and a \$2.0 million banker s guarantee facility. The term facility provides for eleven quarterly principal payments of \$800,000 and a final payment of \$1,200,000 on or before August 22, 2017. Interest on the term facility is payable quarterly at LIBOR plus 2.75%. Under the revolving credit facility, Seemap Singapore may borrow up to \$3.0 million from time to time for working capital and other general corporate purposes. Borrowings under this facility bear interest at LIBOR plus 3.00%. Under the banker s guarantee facility HSBC Singapore will, from time to time as requested, issue banker s guarantees for performance, customs or bid bonds. The Seemap Credit Facility is secured by essentially all of the assets of Seemap Singapore and by a corporate guarantee by Mitcham Industries, Inc. The agreement contains customary representations, warranties, affirmative and negative covenants and events of default. The negative covenants include restrictions on Seemap Singapore related to liens, additional indebtedness, acquisitions, fundamental changes, dispositions of property, restricted payments, transactions with affiliates and lines of business. The agreement contains financial covenants that require Seemap Singapore to maintain a minimum net worth and a minimum ratio of debt to EBITDA, both as defined in the agreement.

As of June 2, 2015, borrowings of approximately \$9.5 million and letters of credit totaling approximately \$1.2 million were outstanding under the Credit Agreement. Under the Seemap Credit Facility the balance of the term loan was \$7.6 million and bankers guarantees totaling approximately \$118,000 were outstanding as of that date. No amounts were outstanding under the revolving credit of the Seemap Credit Facility. We believe that as of April 30, 2015, the borrowing base is sufficient to provide for borrowings of up to \$50.0 million. However, the financial covenants of the Credit Agreement provide that total debt, as defined, may not exceed 200% of Adjusted EBITDA for the trailing twelve-month period. For the twelve months ended April 30, 2015, Adjusted EBITDA was approximately \$23.9 million, indicating total allowable debt of approximately \$47.6 million, including amounts outstanding under the Seemap Credit Facility. Accordingly, amounts available to us under the Credit Agreement are limited to approximately \$39.2 million as of April 30, 2015. The amount available under the Credit Agreement may change throughout the balance of fiscal 2016 based on the level of Adjusted EBITDA and amounts outstanding under the Seemap Credit Facility. We do not currently foresee the need to utilize the Credit Agreement to the maximum allowable amount.

We have determined that the undistributed earnings of our foreign subsidiaries, other than branch operations in Colombia and Peru, have been permanently reinvested outside of the United States. These permanent investments include the purchase of lease pool equipment by certain of those subsidiaries and the acquisition of the ION Source Products. Accordingly, while there is generally no legal restriction on the distribution of such earnings, we do not

expect to have any such earnings available to satisfy obligations in the United States, such as the Credit Agreement. Should we in the future distribute these earnings to the United States, such distributions could be subject to foreign withholding taxes in certain cases and would likely result in additional federal income tax obligations in the United States. As of April 30, 2015, we had deposits in foreign banks consisting of both United States dollar and foreign currency deposits equal to approximately \$5.1 million. Approximately \$1.4 million may be distributed to the United States in repayment of inter-company obligations as of April 30, 2015 and therefore do not result in any of the adverse tax consequences discussed above.

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**Table of Contents****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, and do not 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 April 30, 2015, our consolidated cash and cash equivalents included foreign currency denominated amounts equivalent to approximately \$2.3 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 \$230,000 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 or branches 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 65% of our net assets as of April 30, 2015 were impacted by changes in foreign currencies in relation to the United States dollar.

***Interest Rate Risk***

As of April 30, 2015, there was \$12.0 million outstanding under the Credit Agreement and \$8.4 million outstanding under the Seemap Credit Facility. Both of these agreements provide for floating interest rates based on an applicable base rate, generally the prime rate, or Eurodollar rates, also known as LIBOR. Assuming the outstanding balance remains unchanged, a change of 100 basis points in the underlying base rate would result in an increase in annual interest expense of approximately \$204,000. In addition, changes in our leverage ratio, as defined in the Credit Agreement, could result in an increase to our interest expense. We have not entered into interest rate hedging arrangements in the past, and have no plans to do so in the future. Due to fluctuating balances in the amount outstanding under the Credit Agreement, we do not believe such arrangements to be cost effective.

**Item 4. *Controls and Procedures******Evaluation of Disclosure Controls and Procedures***

As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports

that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified 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 April 30, 2015 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 April 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**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 or is otherwise material.

**Item 1A. *Risk Factors***

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended January 31, 2015, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

(a) Not applicable.

(b) Not applicable.

(c) During the quarter ended April 30, 2015, we repurchased no shares of our common stock pursuant to the publicly announced repurchase program. The repurchase program of up to 1,000,000 shares was announced on January 20, 2015 and expires on December 31, 2015. Shares would be purchased in open market transactions within the safe harbor of Exchange Act Rule 10b-18.

**Item 3. *Defaults Upon Senior Securities***

Not applicable.

**Item 4. *Mine Safety Disclosures***

Not applicable.

**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.



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**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: June 3, 2015

/s/ Robert P. Capps  
Robert P. Capps  
Interim Co-Chief Operating Officer,  
Executive Vice President-Finance and Chief Financial  
Officer  
(Duly Authorized Officer and Chief Accounting  
Officer)



**Table of Contents****EXHIBIT INDEX**

Each exhibit identified below is part of this Form 10-Q. Exhibits filed with this Form 10-Q are designated by the cross symbol ( ) and exhibits furnished with this Form 10-Q are designated by the asterisk symbol (\*). All exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

<b>Exhibit Number</b>	<b>Document Description</b>	<b>Report or Registration Statement</b>	<b>SEC File or Registration Number</b>	<b>Exhibit Reference</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)
31.1	Certification of Guy Malden, Interim Co-Chief Operating 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, Interim Co-Chief Operating Officer and 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 Guy Malden, Interim Co-Chief Operating Officer, and Robert P. Capps, Interim Co-Chief Operating Officer and 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.DEF XBRL Taxonomy Extension  
Definition Linkbase Document

101.LAB XBRL Taxonomy Extension  
Label Linkbase Document

101.PRE XBRL Taxonomy Extension  
Presentation Linkbase Document