MITCHAM INDUSTRIES INC
Form 10-Q
September 08, 2016
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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 July 31, 2016

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: 001-13490

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

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: 12,089,758 shares of common stock, $0.01 par value, were outstanding as of September 7, 2016.

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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)

	July 31, 2016	January 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,496	$ 3,769
Accounts and contracts receivable, net of allowance for doubtful accounts of $5,828 and $5,821 at July 31, 2016 and January 31, 2016, respectively	13,112	19,775
Inventories, net	13,091	12,944
Prepaid income taxes	1,391	2,523
Prepaid expenses and other current assets	1,544	1,685
Total current assets	32,634	40,696
Seismic equipment lease pool and property and equipment, net	60,965	73,516
Intangible assets, net	10,083	10,466
Goodwill	4,155	4,155
Prepaid income taxes	1,019	
Deferred tax asset		586
Long-term receivables	4,967	4,972
Other assets	28	368
Total assets	$ 113,851	$ 134,759
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,687	$ 3,543
Current maturities long-term debt	3,220	3,218
Deferred revenue	351	326
Accrued expenses and other current liabilities	3,405	5,369
Total current liabilities	8,663	12,456
Long-term debt, net of current maturities	6,262	17,266
Total liabilities	14,925	29,722
Shareholders equity:		

Preferred stock, $1.00 par value; 1,000 shares authorized; 320 issued and outstanding	7,117	
Common stock, $0.01 par value; 20,000 shares authorized; 14,019 shares issued at July 31, 2016 and January 31, 2016	140	140
Additional paid-in capital	121,097	120,664
Treasury stock, at cost (1,929 and 1,928 shares at July 31, 2016 and January 31, 2016, respectively)	(16,856)	(16,854)
Retained earnings (accumulated deficit)	(2,895)	13,188
Accumulated other comprehensive loss	(9,677)	(12,101)
Total shareholders equity	98,926	105,037
Total liabilities and shareholders equity	$ 113,851	$ 134,759

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 July 31, 2016	For the Three Months Ended July 31, 2015	For the Six Months Ended July 31, 2016	For the Six Months Ended July 31, 2015
Revenues:				
Equipment leasing	$ 1,634	$ 4,516	$ 5,242	$ 15,695
Lease pool and other equipment sales	1,275	295	2,210	652
Equipment manufacturing and sales	5,754	2,743	12,942	8,349
Total revenues	8,663	7,554	20,394	24,696
Cost of sales:				
Direct costs equipment leasing	785	1,051	1,537	2,418
Direct costs lease pool depreciation	6,675	7,581	13,548	15,219
Cost of lease pool and other equipment sales	348	147	799	361
Cost of equipment manufacturing and sales	3,097	1,384	7,118	4,731
Total cost of sales	10,905	10,163	23,002	22,729
Gross (loss) profit	(2,242)	(2,609)	(2,608)	1,967
Operating expenses:				
General and administrative	5,426	4,964	10,739	9,860
Provision for doubtful accounts		600		600
Depreciation and amortization	647	631	1,299	1,268
Total operating expenses	6,073	6,195	12,038	11,728
Operating loss	(8,315)	(8,804)	(14,646)	(9,761)
Other (expense) income:				
Interest, net	(164)	(166)	(428)	(387)
Other, net	(612)	325	(161)	1,111
Total other (expense) income	(776)	159	(589)	724
Loss before income taxes	(9,091)	(8,645)	(15,235)	(9,037)
Benefit (provision) for income taxes	(435)	2,797	(734)	2,952
Net loss	$ (9,526)	$ (5,848)	$ (15,969)	$ (6,085)

Preferred stock dividends	(114)		(114)	
Net loss available to common shareholders	$ (9,640)	$ (5,848)	$ (16,083)	$ (6,085)
Net loss per common share:				
Basic	$ (0.80)	$ (0.49)	$ (1.33)	$ (0.51)
Diluted	$ (0.80)	$ (0.49)	$ (1.33)	$ (0.51)
Shares used in computing net loss per common share:				
Basic	12,070	12,037	12,065	12,028
Diluted	12,070	12,037	12,065	12,028

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

(in thousands)

(unaudited)

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2016	2015	2016	2015
Net loss available to common shareholders	$ (9,640)	$ (5,848)	$ (16,083)	$ (6,085)
Change in cumulative translation adjustment	(237)	(4,393)	2,424	(1,646)
Comprehensive loss attributable to common shareholders	$ (9,877)	$ (10,241)	$ (13,659)	$ (7,731)

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 Six Months Ended July 31, 2016	2015
Cash flows from operating activities:		
Net loss	$ (15,969)	$ (6,085)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	14,910	16,555
Stock-based compensation	433	519
Provision for inventory obsolescence	43	90
Provision for doubtful accounts, net of charge offs		600
Gross profit from sale of lease pool equipment	(1,456)	(216)
Excess tax benefit from exercise of non-qualified stock options and restricted shares		(72)
Deferred tax benefit	(375)	(3,301)
Changes in working capital items:		
Trade accounts and contracts receivable	8,769	5,338
Inventories	181	(3,349)
Prepaid expenses and other current assets	(673)	3,892
Income taxes payable	658	(640)
Accounts payable, accrued expenses, other current liabilities and deferred revenue	(4,014)	(661)
Foreign exchange gains net of losses	577	(1,020)
Net cash provided by operating activities	3,084	11,650
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(583)	(1,874)
Purchases of property and equipment	(77)	(171)
Sale of used lease pool equipment	2,169	399
Net cash provided by (used in) investing activities	1,509	(1,646)
Cash flows from financing activities:		
Net payments on revolving line of credit	(9,400)	(10,500)
Payments on term loan and other borrowings	(1,612)	(1,609)
Net proceeds from short-term investments		113
Net proceeds from preferred stock offering	7,117	
Preferred stock dividends	(114)	
Excess tax benefit from exercise of non-qualified stock options and restricted shares		72

Net cash used in financing activities	(4,009)	(11,924)
Effect of changes in foreign exchange rates on cash and cash equivalents	(857)	(455)
Net change in cash and cash equivalents	(273)	(2,375)
Cash and cash equivalents, beginning of period	3,769	5,175
Cash and cash equivalents, end of period	$ 3,496	$ 2,800
Supplemental cash flow information:		
Interest paid	$ 504	$ 397
Income taxes paid	$ 529	$ 1,203
Purchases of seismic equipment held for lease in accounts payable at end of period	$ 148	$ 234

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, 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 subsidiaries, Seamap International Holdings Pte, Ltd. (Seamap) and Klein Marine Systems, Inc. (Klein), designs, manufactures and sells a broad range of proprietary products for the seismic, hydrographic and offshore industries with product sales and support facilities based in New Hampshire, Singapore and the United Kingdom. All intercompany transactions and balances have been eliminated in consolidation.

2. Basis of Presentation

The condensed consolidated balance sheet as of January 31, 2016 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 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, 2016. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of July 31, 2016, the results of operations for the three and six months ended July 31, 2016 and 2015, and the cash flows for the six months ended July 31, 2016 and 2015, 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, 2017.

3. New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to address how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU No. 2016-15 will be effective during the fiscal year ended January 31, 2019. The Company is currently evaluating the impact of ASU No. 2016-15 on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation -Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, to reduce complexity in accounting standards involving several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU No. 2016-09 will be effective during the fiscal year ended January 31, 2018. The Company is currently evaluating the impact of ASU No. 2016-09 on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to provide guidance on recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements, specifically differentiating between different types of leases. ASU No. 2016-02 will be effective during the fiscal year ended January 31, 2019. The Company is currently evaluating the impact of ASU No. 2016-02 on its financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations: (Topic 805)*, to provide guidance on the simplification of the accounting for adjustments made to provisional amounts recognized in a business combination, eliminating the requirement to retrospectively account for those adjustments. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendment requires that the acquirer record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendment further requires presentation separately on the face of the income statement or disclosure in the notes to the financial statements of the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 was effective during the three months ended April 30, 2016. The adoption of this standard did not have a material effect on the Company s financial statements.

In August 2015, the FASB issued ASU No. 2015-15, *Interest-Imputation of Interest: (Subtopic 835-30)*, to provide guidance on measurement of debt issuance costs associated with line-of-credit arrangements. ASU 2015-15 allows debt issuance costs associated with line-of-credit arrangements to be deferred and presented as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement. ASU 2015-15 was effective during the three months ended April 30, 2016. The adoption of this standard did not have a material effect on the Company s financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory: (Topic 330)*, to provide guidance on measurement of inventory. ASU 2015-11 requires that inventories utilizing the first-in, first-out (FIFO) method be measured at lower of cost or net realizable value. ASU 2015-11 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.

In May 2014, the FASB issued 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. In April 2016, the FASB also issued ASU No. 2016-10, Revenue from Contracts with Customers: (Topic 606) *Identifying Performance Obligations and Licensing,* to give guidance on identifying performance obligations and licensing implementation related to revenue contracts with customers. In May 2016, the FASB further issued ASU No. 2016-12, Revenue from Contracts with Customers: (Topic 606) *Narrow-Scope Improvements and Practical Expedients,* to give guidance on assessing collectibility, presentation of sales taxes, non-cash consideration, and completed contracts and contract modifications at transition. ASU 2014-09, ASU 2016-10 and ASU 2016-12 will be effective during the fiscal year ended January 31, 2019. The Company does not believe the adoption will have a material effect on its financial statements.

4. Acquisition

In December 2015, the Company purchased Klein, a designer, manufacturer and worldwide distributor of sonar and waterside security systems to military and commercial customers, for $10 million in cash. Klein s product lines consist of single and multi-beam side scan sonar systems. The Company made this acquisition to expand the product offerings available to customers, gain access to additional technology, expand the markets in which it operates and to reduce the Company s dependence on the cyclical energy industry.

The Company estimated fair values for assets acquired utilizing management estimates with the assistance of an independent appraisal firm. The value of tangible property was estimated using a combination of cost and sales comparison approaches. The value of identifiable intangible assets was estimated generally using an income approach. This approach utilized inputs that are not observable in the market and thus represents a Level 3 fair value measurement. Key assumptions include management s estimates of revenue and costs associated with various intangible assets and the discount rate applied to those revenues and costs.

The following is a summary of the amounts recognized for assets acquired and liabilities assumed at the date of acquisition (in thousands):

Working capital	$ 2,572
Property, plant and equipment	3,416
Intangible assets	2,350
Goodwill	1,662

Intangible assets include trade names of approximately $760,000, which have an indefinite useful life and are not amortizable. The weighted average useful life of other acquired intangibles was 9.5 years.

The goodwill associated with this acquisition is deductible for tax purposes.

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Pro Forma Results of Operations

The following consolidated pro forma results of operations for the three and six months ended July 31, 2015 assumes the acquisition of Klein occurred as of the beginning of the period and reflects the full results of operations for the period presented. The consolidated pro forma results have been prepared for comparative purposes only and do not purport to indicate the results of operations that would actually have occurred had the combinations been in effect on the dates indicated, or that may occur in the future.

(In thousands, except per share amounts)	Three Months Ended July 31, 2015	Six Months Ended July 31, 2015
	(unaudited)	
Revenues	$ 8,361	$ 28,061
Net loss	$ (6,901)	$ (7,571)
Loss per share:		
Basic	$ (0.57)	$ (0.63)
Diluted	$ (0.57)	$ (0.63)

5. Balance Sheet

	July 31, 2016	January 31, 2016
	(in thousands)	
Accounts receivable	$ 21,154	$ 27,691
Contracts receivable	2,753	2,877
	23,907	30,568
Less long-term portion	(4,967)	(4,972)
Current accounts and contracts receivable	18,940	25,596
Less allowance for doubtful accounts	(5,828)	(5,821)
Current portion of accounts and contracts receivable, net of allowance for doubtful accounts	$ 13,112	$ 19,775

Contracts receivable consisted of $2.8 million and $2.9 million due from three customers as of July 31, 2016 and January 31, 2016, respectively. The balance of contracts receivable at July 31, 2016 and January 31, 2016 consisted of contracts bearing interest at an average rate of approximately 2.2% and 2.4%, respectively, and with remaining repayment terms from one to 40 months and one to 40 months, respectively. These contracts are collateralized by the equipment sold. The Company has entered into structured payment arrangements with four customers, which extend the payment of their accounts and contracts receivable balances resulting in long-term accounts receivable with two customers totaling $3.7 million and long-term contracts receivable with two customers totaling $1.3 million. Payments terms for long-term receivables are structured to be completed by the end of fiscal 2018.

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	July 31, 2016	January 31, 2016
	(in thousands)	
Inventories:		
Raw materials	7,620	$ 7,314
Finished goods	5,004	4,967
Work in progress	1,405	1,563
	14,029	13,844
Less allowance for obsolescence	(938)	(900)
Total inventories, net	$ 13,091	$ 12,944

In December of 2015, the Company acquired $3.3 million of inventory in connection with the purchase of Klein. See Note 4 to our consolidated financial statements.

	July 31, 2016	January 31, 2016
	(in thousands)	
Seismic equipment lease pool and property and equipment:		
Seismic equipment lease pool	$ 232,693	$ 230,923
Land and buildings	3,379	3,375
Furniture and fixtures	9,625	9,405
Autos and trucks	683	694
	246,380	244,397
Accumulated depreciation and amortization	(185,415)	(170,881)
Total seismic equipment lease pool and property and equipment, net	$ 60,965	$ 73,516

As of January 31, 2016, the Company completed an annual review of long-lived assets noting that the undiscounted future cash flows exceeded their carrying value and no impairment has been recorded. There have been no negative significant changes to the environment since January 31, 2016 that would indicate additional impairment analysis is necessary as of July 31, 2016.

6. Goodwill and Other Intangible Assets

	Weighted Average Life at 7/31/16	July 31, 2016 Gross Carrying Amount	July 31, 2016 Accumulated Amortization	July 31, 2016 Net Carrying Amount	January 31, 2016 Gross Carrying Amount	January 31, 2016 Accumulated Amortization	January 31, 2016 Net Carrying Amount

			(in thousands)			(in thousands)	
Goodwill		$ 4,155			$ 4,155		
Proprietary rights	6.5	$ 6,013	$ (2,845)	3,168	$ 5,959	$ (2,645)	3,314
Customer relationships	5.3	4,905	(1,403)	3,502	4,633	(1,006)	3,627
Patents	6.3	1,688	(498)	1,190	1,592	(369)	1,223
Trade name	9.8	891	(23)	868	883	(17)	866
Customer backlog	0.4	20	(12)	8	20	(2)	18
Developed technology	9.4	1,430	(83)	1,347	1,430	(12)	1,418
Amortizable intangible assets		$ 14,947	$ (4,864)	$ 10,083	$ 14,517	$ (4,051)	$ 10,466

In December of 2015, the Company acquired $1.7 million in goodwill and $2.4 million in other intangible assets in connection with the purchase of Klein. See note 4 to our consolidated financial statements. The remaining $2.5 million of goodwill is allocated to Seamap.

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On January 31, 2016 the Company completed the annual review of goodwill and other intangible assets. Based on a review of qualitative factors, the Company recorded an impairment of the goodwill associated with its Seamap reporting unit in the amount of $3.0 million. Also at January 31, 2016, the Company recorded impairment of approximately $600,000 related to certain identifiable intangible assets related to its leasing reporting unit. There have been no significant changes to the environment to indicate additional impairment is necessary as of July 31, 2016.

Amortizable intangible assets are amortized over their estimated useful lives of three to 15 years using the straight-line method (for customer relationships, the straight-line method is not materially different from other methods that estimate run off of the underlying customer base). Aggregate amortization expense was $378,000 and $430,000 for the three months ended July 31, 2016 and 2015, respectively, and $779,000 and $853,000 for the six months ended July 31, 2016 and 2015, respectively. As of July 31, 2016, future estimated amortization expense related to amortizable intangible assets was estimated to be:

For fiscal years ending January 31 (in thousands):	
2017	$ 1,037
2018	1,470
2019	1,470
2020	1,470
2021	1,295
2022 and thereafter	3,341
Total	$ 10,083

7. Long-Term Debt and Notes Payable

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

	July 31, 2016	January 31, 2016
Revolving line of credit	$ 5,000	$ 14,400
Term credit facility	4,400	6,000
Other equipment notes	82	84
	9,482	20,484
Less current portion	(3,220)	(3,218)
Long-term debt	$ 6,262	$ 17,266

The Company has a secured, revolving credit facility, as described below (the Credit Agreement). The Credit Agreement is a secured revolving facility in the maximum principal amount of $20.0 million and a maturity of August 31, 2017, 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).

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 and wholly owned subsidiary of the 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 July 31, 2016, the base rate margin was 250 basis points and the Eurodollar margin was 350 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 July 31, 2016.

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, Seamap Singapore, entered into a $15.0 million credit facility (the Seamap 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 Seamap 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 Seamap Credit Facility, Seamap Singapore 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 Seamap Singapore and the Company s guarantee.

The Seamap Credit Facility contains financial covenants that require Seamap Singapore to maintain a minimum shareholder s equity of S$15 million and a minimum ratio of debt to EBITDA of not less than 125% for each fiscal year. The Company was in compliance with each of these provisions as of and for the year ended January 31, 2016.

The Seamap 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 Seamap 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 and the Seamap Credit Facility for the six months ended July 30, 2016 and 2015 were approximately $16.4 million and $20.5 million, respectively.

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

8. Income Taxes

Effective January 31, 2016 the Company has adopted the provisions of ASU 2015-17 on a prospective basis. Accordingly, all net deferred tax assets are classified as long-term assets as of July 31, 2016 and January 31, 2016 in the accompanying Consolidated Balance Sheets. Amounts for prior periods have not been restated. The provisions of this pronouncement have been adopted in order to simplify the presentation of deferred income taxes.

Prepaid taxes of approximately $1.4 million at July 31, 2016 consisted of approximately $1.2 million of foreign taxes and approximately $195,000 of domestic federal and state taxes. Prepaid income taxes of approximately $2.5 million at January 31, 2016 consisted of approximately $2.3 million of foreign taxes and approximately $182,000 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, 2013.

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. The Company and its subsidiaries are no longer subject to foreign income tax examinations for tax years before the fiscal year ended Jan 31, 2011.

The provision for income taxes for the six months ended July 31, 2016 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 $20.2 million and $16.7 million has been recorded as of July 31, 2016 and January 31, 2016, respectively. These deferred tax assets relate primarily to net operating loss carryforwards in the United States and other jurisdictions. The valuation allowances were determined based on management s judgment as to the likelihood that these deferred tax assets would be realized. The judgment was based on an evaluation of available evidence, both positive and negative. Accordingly, the effective tax rates for these periods differ significantly from the federal statutory rate of 34%. The Company has determined that certain earnings from foreign jurisdictions have been permanently reinvested outside of the United States through the six months ended July 31, 2016.

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For the six months ended July 31, 2016, the Company did not recognize any tax expense or benefit related to uncertain tax positions. For the fiscal year ended January 31, 2016, the Company recognized tax benefits of approximately $92,000 related to the resolution of uncertain tax positions and reversed approximately $144,000 of penalties and interest related to these matters.

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:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Basic weighted average common shares outstanding	12,070	12,037	12,065	12,028
Stock options			5	25
Unvested restricted stock	49	39	51	36
Total weighted average common share equivalents	49	39	56	61
Diluted weighted average common shares outstanding	12,119	12,076	12,121	12,089

For the three months ended July 31, 2016 and 2015 and the six months ended July 31, 2016 and 2016, 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. Related Party Transaction

On June 8, 2016, the Company issued 320,000 shares of 9.00% Series A Cumulative Preferred Stock (the Preferred Stock) par value $1.00 per share, pursuant to an underwriting agreement, dated June 2, 2016, by and between the Company and Ladenburg Thalmann & Co. Inc. The Co-Chief Executive Officer and Co-President of Ladenburg Thalmann & Co. Inc is the Non-Executive Chairman of the Company s board of directors. The underwriter received underwriting discounts and commissions totaling $440,000 in connection with this offering. In addition, the underwriter received a structuring fee equal to 0.50% of the gross proceeds from this offering, or $40,000. The Non-Executive Chairman of the Company received no portion of these commissions, discounts and fees.

11. 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. The Company purchased a total of 1.0 million shares under this program, representing the total amount of shares authorized for repurchase. These shares are reflected as treasury stock in the accompanying financial statements.

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 the Company s common stock through December 31, 2015. The Company did not purchase any shares pursuant to this additional authorization.

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12. Stock-Based Compensation

Total compensation expense recognized for stock-based awards granted under the Company s equity incentive plan during the three and six months ended July 31, 2016 was approximately $186,000 and $433,000, respectively, and, during the three and six months ended July 31, 2015 was approximately $238,000 and $519,000, respectively.

13. Segment Reporting

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

The Equipment Manufacturing and Sales 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 New Hampshire, the United Kingdom and Singapore.

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

	As of July 31, 2016 Total Assets	As of January 31, 2016 Total Assets
	(in thousands)	
Equipment Leasing	$ 76,570	$ 95,932
Equipment Manufacturing and Sales	37,578	39,059
Eliminations	(297)	(232)
Consolidated	$ 113,851	$ 134,759

Results for the three months ended July 31, 2016 and 2015 were as follows (in thousands):

	Revenues		Operating loss		Loss before taxes	
	2016	2015	2016	2015	2016	2015
Equipment Leasing	$ 2,909	$ 4,811	$ (7,077)	$ (7,200)	$ (7,552)	$ (7,152)
Equipment Manufacturing and Sales	5,758	2,787	(421)	(740)	(734)	(629)
Corporate expenses			(832)	(897)	(832)	(897)
Eliminations	(4)	(44)	15	33	27	33
Consolidated	$ 8,663	$ 7,554	$ (8,315)	$ (8,804)	$ (9,091)	$ (8,645)

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Results for the six months ended July 31, 2016 and 2015 were as follows (in thousands):

	Revenues		Operating loss		Loss before taxes	
	2016	2015	2016	2015	2016	2015
Equipment Leasing	$ 7,452	$ 16,347	$ (12,746)	$ (7,232)	$ (12,335)	$ (6,483)
Equipment Manufacturing and Sales	12,978	8,462	(219)	(698)	(1,186)	(723)
Corporate expenses			(1,702)	(1,877)	(1,702)	(1,877)
Eliminations	(36)	(113)	21	46	(12)	46
Consolidated	$ 20,394	$ 24,696	$ (14,646)	$ (9,761)	$ (15,235)	$ (9,037)

Sales from the Equipment Manufacturing and Sales segment to the Equipment Leasing Segment are eliminated in 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;

uncertainties regarding our foreign operations, including political, economic and currency risks;

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 further 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, 2016.

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 and sales (Equipment Manufacturing and Sales). Through our Equipment Leasing Segment, we believe we are the largest independent provider of exploration equipment to the seismic industry. Our worldwide Equipment Manufacturing and Sales Segment includes the Seamap business, which designs, manufactures and sells specialized seismic marine equipment and Klein Marine Systems, Inc. (Klein), which designs, manufactures and sells high performance side scan sonar systems.

Our Equipment Leasing segment is primarily engaged in the leasing of seismic equipment to companies in the oil and gas industry throughout the world. We conduct our leasing business through the Company, our wholly-owned subsidiaries and our branch in Colombia. We also sell new and used seismic equipment from time to time. The subsidiaries that conduct our leasing business are Mitcham Canada ULC (MCL), Seismic Asia Pacific Pty Ltd. (SAP), Mitcham Seismic Eurasia LLC (MSE), Mitcham Europe Ltd. (MEL) and Mitcham Marine Leasing Pte. Ltd. (MML).

Our Equipment Manufacturing and Sales segment is engaged in the design, production and sale of marine seismic equipment and oceanographic and hydrographic equipment. The operations of this segment are conducted through our wholly-owned subsidiaries, Seamap (UK) Ltd. (Seamap UK), Seamap Pte. Ltd. (Seamap Singapore and, together with Seamap UK, Seamap), Klein and SAP.

The following table presents certain operating information by operating segment.

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2016	**2015**	**2016**	**2015**
	(in thousands)		(in thousands)	
Revenues:				
Equipment Leasing	$ 2,909	$ 4,811	$ 7,452	$ 16,347
Equipment Manufacturing and Sales	5,758	2,787	12,978	8,462
Inter-segment sales	(4)	(44)	(36)	(113)
Total revenues	8,663	7,554	20,394	24,696
Cost of sales:				
Equipment Leasing	7,809	8,811	15,885	18,063
Equipment Manufacturing and Sales	3,116	1,429	7,174	4,825
Inter-segment costs	(20)	(77)	(57)	(159)
Total cost of sales	10,905	10,163	23,002	22,729
Gross (loss) profit	**(2,242)**	**(2,609)**	**(2,608)**	**1,967**
Operating expenses:				
General and administrative	5,426	4,964	10,739	9,860

Provision for doubtful accounts		600		600
Depreciation and amortization	647	631	1,299	1,268
Total operating expenses	6,073	6,195	12,038	11,728
Operating loss	$ (8,315)	$ (8,804)	$ (14,646)	$ (9,761)

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EBITDA (1)	$ (1,574)	$ (231)	$ 103	$ 7,905
Adjusted EBITDA (1)	$ (597)	$ 764	$ 1,568	$ 8,519
Reconciliation of Net income to EBITDA and Adjusted EBITDA				
Net loss	$ (9,526)	$ (5,848)	$ (15,969)	$ (6,085)
Interest expense, net	164	166	428	387
Depreciation and amortization	7,353	8,248	14,910	16,555
(Benefit) provision for income taxes	435	(2,797)	734	(2,952)
EBITDA (1)	(1,574)	(231)	103	7,905
Non-cash foreign exchange losses and (gains)	493	672	319	(87)
Stock-based compensation	186	238	433	519
Cost of lease pool sales	298	85	713	182
Adjusted EBITDA (1)	$ (597)	$ 764	$ 1,568	$ 8,519
Reconciliation of Net cash provided by operating activities to EBITDA				
Net cash provided by operating activities	$ 1,335	$ 5,212	$ 3,084	$ 11,650
Stock-based compensation	(186)	(238)	(433)	(519)
Provision for doubtful accounts		(600)		(600)
Provision for inventory obsolescence		(45)	(43)	(90)
Changes in trade accounts, contracts and notes receivable	(5,960)	(8,177)	(8,769)	(5,338)
Interest paid	166	169	504	397
Taxes paid, net of refunds	378	407	529	1,203
Gross profit from sale of lease pool equipment	965	87	1,456	216
Changes in inventory	116	2,499	(181)	3,349
Changes in accounts payable, accrued expenses and other current liabilities and deferred revenue	1,970	914	4,014	661
Changes in prepaid expenses and other current assets	423	(615)	673	(3,892)
Foreign exchange gains net of losses	(696)	242	(577)	1,020
Other	(85)	(86)	(154)	(152)
EBITDA (1)	$ (1,574)	$ (231)	$ 103	$ 7,905

(1) EBITDA is defined as net income before (a) interest income and interest expense, (b) provision for (or benefit from) income taxes and (c) depreciation and amortization. Adjusted EBITDA excludes non-cash foreign exchange gains and losses, non-cash costs of lease pool equipment sales, certain non-recurring contract settlement costs, impairment of intangible assets and stock-based compensation. This definition of Adjusted EBITDA is consistent with the definition in the Credit Agreement. We consider EBITDA and Adjusted EBITDA to be important indicators for the performance of our business, but not measures of performance or liquidity calculated in accordance with accounting principles generally accepted in the United States of America (GAAP). We have included these non-GAAP financial measures because management utilizes this information for assessing our performance and liquidity, and as indicators of our ability to make capital expenditures, service debt and finance working capital requirements. The Credit Agreement contains financial covenants based on 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 of our core cash operations. EBITDA and Adjusted EBITDA are not measures of financial performance or liquidity under GAAP and should not be considered in isolation or as alternatives to cash flow from operating activities or as alternatives to net income as indicators of operating performance or any other measures of performance derived in accordance with GAAP. In evaluating our performance as measured by EBITDA, management recognizes and considers the limitations of this measurement. EBITDA and Adjusted EBITDA do not reflect our obligations for the payment of income taxes, interest expense or other obligations such as capital expenditures. Accordingly, EBITDA and Adjusted EBITDA are only two of the measurements that management utilizes. Other companies in our industry may calculate EBITDA or Adjusted EBITDA differently than we do and EBITDA and Adjusted EBITDA may not be comparable with similarly titled measures reported by other companies.

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We own a variety of technologically advanced equipment acquired from the leading seismic manufacturers. Our lease pool includes many types of equipment used in seismic data acquisition, including various electronic components of land, transition zone and marine seismic data acquisition systems, geophones and cables, peripheral equipment, survey and other equipment. The majority of our seismic equipment lease pool is provided by the Sercel subsidiaries of Compagnie Generale de Geophysique (Sercel) and Geospace Technologies Corporation (Geospace). However, we also purchase equipment from a number of other equipment manufacturers.

We lease our equipment on a short-term basis, generally for two to six months, to seismic contractors who need equipment for a particular seismic survey. Certain equipment that is used in vertical seismic profiling, or downhole operations, is generally leased to oil field service companies and often for shorter periods, ranging from a few days to two weeks. Short-term leasing agreements enable our customers to achieve operating and capital investment efficiencies. A typical seismic crew uses a wide variety of equipment to perform seismic data acquisition surveys. Our customers may lease a small amount of equipment to expand an existing crew s capabilities or a complete seismic data acquisition system to equip an entire crew. Demand for short-term seismic equipment leases is affected by many factors, including: (1) the highly variable size and technological demands of individual seismic surveys, (2) seasonal weather patterns and sporadic demand for seismic surveys in certain regions, (3) the term of the lease and (4) the cost of seismic equipment. We believe these factors allow seismic contractors to use short-term seismic equipment leasing as a cost-effective alternative to purchasing additional equipment. Our equipment lease rates vary according to an item s expected useful life, utilization, acquisition cost and the term of the lease. From time to time, we sell used equipment from our lease pool in response to specific demand or to dispose of older equipment.

In our Equipment Manufacturing and Sales segment, Seamap designs, manufactures and sells a broad range of proprietary products for the seismic, hydrographic and offshore industries. Seamap s primary products include the GunLink seismic source acquisition and control systems, commonly referred to as energy source controllers or air gun controllers , which provide operators of marine seismic surveys more precise control of energy sources, and the BuoyLink RGPS tracking system, which is used to provide precise positioning of seismic sources and streamers. In May 2014, Seamap acquired two product lines from ION Geophysical Corporation (ION), Digishot® energy source controllers and Sleeve Gun energy sources. These intellectual property rights will allow us to incorporate certain design features and new functionality in future versions of our GunLink product line. We believe the pertinent patents to have a valid term through at least 2023. We believe that Seamap is the primary provider of energy source controllers.

Klein primarily designs, manufactures and sells advanced side scan sonar systems and waterside security systems for the oceanographic, hydrographic and defense industries on a world-wide basis. Klein s family of side scan sonar products are used in a variety of applications including hydrographic surveys, naval mine counter measure operations, search and recovery operations, ocean bottom profiling and other underwater object detection operations.

SAP sells equipment, consumables, systems integration, engineering hardware and software maintenance support services to companies in the seismic, hydrographic, oceanographic, environmental and defense industries throughout Southeast Asia and Australia. SAP is a distributor for a number of manufacturers of products, including Klein and occasionally Seamap.

Seamap and Klein have overlapping customer bases and it is not uncommon for a marine survey vessel to be equipped with products from Seamap and from Klein. We expect that in the future we will have opportunities to package products from Seamap and Klein in response to requests from customers.

The technologies underlying the products of Seamap and Klein are similar, as are the engineering disciplines and challenges. We anticipate significant engineering collaboration between Seamap and Klein and plan to jointly develop new products.

The manufacturing processes of Seamap and Klein are similar. While we expect to maintain separate manufacturing operations, we do believe there will be opportunities for collaboration. Such collaboration might include using common suppliers, outsourcing specific functions between the operations and common support and repair activities.

For information regarding our operating results and total assets by segment, see Note 13 to our consolidated financial statements.

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Business Outlook

The revenues of our Equipment Leasing segment and to a large degree our Equipment Manufacturing and Sales segment are 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. We are attempting to reduce our dependence on oil and gas exploration activity. With the addition of Klein we have expanded our Equipment Manufacturing and Sales segment. Many of the opportunities being pursued within this segment, for both Klein products and Seamap products, relate to applications within the hydrographic and oceanographic industry and are not related to oil and gas exploration. However, the activity within the oil and gas exploration industry remains an important factor to our business.

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 years there has been a significant decline in worldwide oil prices, reaching their lowest levels since 2009. Prices in recent weeks have increased from pricing lows, however, much uncertainty remains and oil prices could remain low for an extended period of time. In response to this, many oil and gas companies have dramatically reduced exploration budgets. This has in turn resulted in the cancellation or postponement of many seismic exploration projects. In addition, some customers have requested pricing concessions and/or other arrangements designed to reduce their operating costs. Together, reduced activity levels and profit margins have had, and are expected to continue to have, a negative impact on our business. The downturn in seismic exploration activity has resulted in an excess of both land and marine equipment within the industry. In response to this reduced activity and excess capacity, many seismic contractors are attempting to reduce cost, including, in the case of marine contractors, retiring older vessels and cold stacking other vessels, which entails taking vessels out of service temporarily. 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 the balance of our fiscal year ending January 31, 2017 (fiscal 2017). Therefore, we expect lower levels of leasing revenue in fiscal 2017 as compared to our fiscal year ended January 31, 2016 (fiscal 2016). 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. Recently, we have received increases in the number of enquiries from existing and potential customers, particularly in some geographic regions, as more fully discussed below. The ultimate impact of the current industry downturn on us will depend upon its length and other factors, many of which remain beyond our control. We do not currently believe this situation will result in any impairment of our lease pool. However, at January 31, 2016, we recorded an impairment of approximately $3.6 million related to intangible assets.

Certain of our customers have experienced delays in payments from their customers or other financial distress. As a result, they have delayed payments to us beyond the originally agreed to terms. We have negotiated extended payment terms or other settlement agreements with some of these customers. In some cases, we have restructured amounts due into secured notes. We have provided an allowance for doubtful accounts for amounts we estimate to be uncollectable. However, further delays in customer payments could have a material adverse effect on our cash flows and financial position.

North America, particularly Canada, appears to be most affected by the recent decline in activity. Industry sources estimate that approximately five land seismic crews operated in Canada during the 2015-2016 winter season, as compared to approximately 15 crews during the 2014-2015 winter season and more than 40 crews during that period four years ago. This had a material negative effect on our revenues in the first six months of fiscal 2017 as compared to the same period in fiscal 2016. We expect the level of activity in the United States to remain weak during fiscal 2017. However, we have recently received inquiries related to projects planned in Canada and the United States during the last half of fiscal 2017 and the first quarter of the next fiscal year. We believe this is an indication of possible renewed activity. 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.

We expect land seismic exploration activity in Latin America to remain subdued during fiscal 2017. We have provided equipment to some projects thus far in fiscal 2017 and have bid other projects scheduled for the last half of fiscal 2017. There is no certainty that those projects will proceed or proceed within the time frames currently anticipated. 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. We do not believe that any significant land seismic activity will commence in Mexico during fiscal 2017.

Economic issues caused by the decline in oil prices and the devaluation of the ruble versus the U.S. dollar have created significant difficulties and uncertainty within the Russian market. As a consequence, many seismic programs scheduled for the 2015-2016 winter season were cancelled. It is uncertain how these factors will impact our business in Russia and the Commonwealth of Independent States over the balance of fiscal 2017 and beyond, however, certain of our customers have indicated that they expect additional exploration activity in the 2016-2017 winter season. Limitations on our ability to temporarily import equipment into Russia due to the effect of sanctions imposed by the United States and European Union, as well as restrictions under our Credit Agreement, could adversely impact our ability to satisfy the demands of our customers in this region.

We have experienced ongoing activity in Europe over the past two years, including the first half of fiscal 2017. We expect some level of activity to continue through the balance of fiscal 2017. However, overall exploration activity in this region has been impacted by the depressed market conditions within the oil and gas industry. Despite the overall decline in seismic exploration activity, we believe there are continued opportunities in Europe for our services and equipment and we had enquiries for additional projects within this region.

We believe there are other areas of opportunity for our land leasing business, including the Middle East, North Africa, Asia and the Pacific Rim. We have been active in each of these regions in recent years; however, the level of activity has varied. We have recently seen an increase in inquiries related to these regions and have bid several projects. While these are encouraging developments there can be no assurance that these projects will proceed 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 2017.

Over the past several months 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 the products in our Equipment Manufacturing and Sales segment is only partially dependent upon activity in the oil and gas industry. Many products are utilized in the hydrographic and oceanographic industries and, therefore, are not necessarily related to the energy industry. While the results of this segment have been negatively impacted by the downturn in the energy industry, the extent of the impact has not been as great as that experienced by our Leasing segment.

The market for products sold by Seamap is primarily dependent upon activity within the offshore, or marine, seismic industry, including the re-fitting of existing seismic vessels and the equipping of new vessels. However, these products are also utilized by hydrographic and geotechnical survey vessels whose activities are not limited to oil and gas related operations. 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 as evidenced by deliveries to new customers in China during 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, hydrographic and oceanographic industries.

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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 expect to make additional deliveries to PGS during the balance fiscal 2017 related to new build vessels and the re-equipping of existing vessels. We are also pursuing a number of opportunities in Asia for the equipping of hydrographic and geotechnical survey vessels. Some of these opportunities include products from both Seamap and Klein.

Demand for Klein s products and those sold by SAP is generally not dependent upon activity within the oil and gas industry. Customers for these products primarily consist of domestic and foreign governmental and military organizations and commercial entities involved in the hydrographic and oceanographic industries. We expect sales of Klein products to benefit from the recent and pending introduction of new products and new capabilities within existing products. We expect Klein to contribute in excess of $12.0 million in annual revenues in fiscal 2017. While demand for these products is not generally subject to seasonal variations, individual orders can be relatively significant and therefore significant fluctuations in revenues between quarterly periods is not unusual.

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 a material change 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 2017 and fiscal 2016. During fiscal 2016, we added approximately $2.4 million of equipment to our lease pool, as compared to approximately $11.8 million in fiscal 2015 and approximately $49.0 million in fiscal 2014. We expect lease pool additions in fiscal 2017 to be at a level below that in fiscal 2016. 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.

We continually monitor the composition of our lease pool in relation to general industry conditions and customer requirements. As a result of this, from time to time we may seek to reduce the amount of certain types of equipment in our lease pool or to completely divest ourselves of certain types of equipment. Sales of lease pool equipment are reflected in our consolidated results of operations as Lease pool equipment sales . We also analyze the demand for the types and amount of equipment within various geographic regions and will move equipment among our various locations as warranted. We have recently received a number of inquiries for the purchase of certain used equipment from our lease pool. We will evaluate each of these opportunities and may sell certain equipment from time to time.

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 had 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. As a result of reduced activity in Latin America, we have decided to close our branch operation in Peru. We believe that all opportunities within that region can be more efficiently managed from our branch in Colombia. We do not believe the impact of this closing will be material to our results of operations. 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 other 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 six months ended July 31 2016 and 2015, revenues from international customers totaled approximately $16.1 million and $19.5 million, respectively. These amounts represent 79% of consolidated revenues in those fiscal periods. The majority of our transactions with foreign customers are denominated in United States, Australian, Canadian and Singapore dollars and Russian rubles. We have not entered, nor do we intend to enter, into derivative financial instruments for hedging or speculative purposes.

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

Results of Operations

Revenues for the three months ended July 31, 2016 were approximately $8.7 million compared to approximately $7.6 million for the three months ended July 31, 2015. For the six months ended July 31, 2016 revenues were approximately $20.4 million, compared to approximately $24.7 million for the six months ended July 31, 2015. The increase in the three-month period is due to the addition of Klein, which offset the decline in leasing revenue between the periods. The decline in the fiscal 2017 six-month period compared to the prior year was primarily due to lower equipment leasing revenues, attributable to the industry trends discussed above. For the three months ended July 31, 2016, we generated an operating loss of approximately $8.3 million, compared to an operating loss of approximately $8.8 million for the three months ended July 31, 2015. For the six months ended July 31, 2016 our operating loss was approximately $14.6 million, compared to approximately $9.8 million for the six months ended July 31, 2015. The decrease in operating profit in the fiscal 2017 period 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. A more detailed explanation of these variations follows.

Revenues and Cost of Sales

Equipment Leasing

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	**2015**	**2016**	**2015**
	($ in thousands)		($ in thousands)	
Revenue:				
Equipment leasing	$ 1,634	$ 4,516	$ 5,242	$ 15,695
Lease pool equipment sales	1,263	172	2,169	399
Other equipment sales	12	123	41	253
	2,909	4,811	7,452	16,347
Cost of sales:				
Direct costs-equipment leasing	785	1,051	1,537	2,418
Lease pool depreciation	6,675	7,613	13,548	15,284
Cost of lease pool equipment sales	298	85	713	182

Cost of other equipment sales	51	62	87	179
	7,809	8,811	15,885	18,063
Gross loss	$ (4,900)	$ (4,000)	$ (8,433)	$ (1,716)

Equipment leasing revenues decreased approximately 64% in the second quarter of fiscal 2017 from the second quarter of fiscal 2016 and approximately 67% in the first six months of fiscal 2017 as compared to the first six months of fiscal 2016 due to lower land leasing revenues in essentially all geographic regions, although there was a small increase in revenues in Latin America between these periods. The regions with the biggest declines from the prior year were the United States and Russia. As discussed above, seismic exploration activity is generally very depressed. Our land leasing operations in the Western Hemisphere have been most affected by the decline in activity. Historically, our first quarter has been generated the largest leasing revenues due to the impact of seasonal activity in Canada and Russia. However, in the six months ended July 31, 2016 there was very little leasing activity in either Canada or Russia. Accordingly, we do not expect the same seasonal variations in our leasing revenues in fiscal 2017. From time to time, we sell equipment from our lease pool based on specific customer demand and as

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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 July 31, 2016 and 2015 was approximately $965,000 and $87,000, respectively. For the six months ended July 31, 2016 and 2015 the gross profit from the sale of lease pool equipment was approximately $1.5 million and $217,000, 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.

Direct costs related to equipment leasing were approximately 48% and 29% of leasing revenues in the three and six months ended July 31, 2016, respectively. This compares with approximately 23% and 15% for the three and six months ended July 31, 2015, respectively. A significant portion of direct costs are generally fixed and therefore do not fluctuate with the level of leasing revenues. For the three and six month periods ended July 31, 2016, lease pool depreciation decreased approximately 12% and 11%, respectively, from the same periods in the prior fiscal year. The decrease reflects the lower level of lease pool purchases and the effect of certain equipment becoming fully depreciated.

Equipment Manufacturing and Sales

Revenues and cost of sales from our Equipment Manufacturing and Sales segment were as follows:

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2016	**2015**	**2016**	**2015**
	($ in thousands)		($ in thousands)	
Revenues:				
Seamap	$ 2,208	$ 2,273	$ 7,126	$ 7,388
Klein	2,326		4,462	
SAP	1,332	514	1,813	1,074
Intra-segment sales	(108)		(423)	
	5,758	2,787	12,978	8,462
Cost of sales:				
Seamap	900	1,028	3,439	4,015
Klein	1,390		2,861	
SAP	934	401	1,297	810
Intra-segment sales	(108)		(423)	
	3,116	1,429	7,174	4,825
Gross profit	$ 2,642	$ 1,358	$ 5,804	$ 3,637
Gross profit margin	46%	49%	45%	43%

The sale of Seamap products, while not generally impacted by seasonal factors, can vary significantly from quarter to quarter due to customer delivery requirements. Seamap revenues were essentially flat in the second quarter and first six months of fiscal 2017 as compared to the same periods in the prior fiscal year, despite the general decline in the seismic industry. Due to the general decline in marine seismic activity we have experienced a decline in demand for after-market services such as spare parts and repairs. We believe it is likely that this relative softness in demand will continue throughout the balance of fiscal 2017. However, we do have certain deliveries currently scheduled for the balance of fiscal 2017. Accordingly, we expect Seamap revenues for the balance of fiscal 2017 to exceed those of the first six months.

We acquired Klein effective December 31, 2015. Therefore, our results for the three and six months ended July 31, 2015 did not include any amounts related to Klein. Demand for Klein s products relates primarily to activity within the hydrographic and oceanographic industries. Such demand is not subject to significant seasonal factors, but sales can vary significantly from quarter to quarter based on the requirements of specific projects. We do not believe that the revenue from Klein products for the three and six months ended July 31, 2016 is necessarily indicative of revenues for all of fiscal 2017, which we expect to total approximately $12.0 million.

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SAP s revenues are also attributable to activity within the hydrographic and oceanographic industry and can vary significantly from quarter to quarter based on the requirements of specific programs. In the three and six months ended July 31, 2016 sales of products by SAP included approximately $100,000 and $400,000, respectively, related to products acquired from Klein, which amounts have been eliminated in our consolidated results of operations. We do not believe that the revenue from SAP sales for the three and six months ended July 31, 2016 is necessarily indicative of revenue for all of fiscal 2017. We expect SAP s revenues for the balance of fiscal 2017 to exceed those of the first six months.

The gross profit margin from the Equipment Manufacturing and Sales segment varies between the fiscal 2017 and fiscal 2016 periods primarily due to changes in product mix and the effect of revenues from Klein. Klein products and Seamap products generally have similar gross profit margins, but both manufacturing operations have certain fixed costs which can negatively impact gross profit margins in periods of relatively lower revenues.

Operating Expenses

General and administrative expenses for the three months ended July 31, 2016 were approximately $5.4 million compared to approximately $5.0 million for the three months ended July 31, 2015. The three and six months ended July 31, 2016 period includes approximately $795,000 and $1.5 million, respectively, of general and administrative expenses related to the operations of Klein that were not present in the fiscal 2016 periods. Absent these additional costs, general and administrative expenses in the three and six months ended July 31, 2016 period declined by approximately 7% from the comparable fiscal 2015 periods. The reduction in these expenses reflects the effect of our efforts to control such costs.

Depreciation and amortization includes depreciation of equipment, furniture and fixtures and the amortization of intangible assets. These costs were approximately $647,000 and $1.3 million in the three and six months ended July 31, 2016, respectively, as compared to approximately $631,000 and $1.3 million in the three and six months ended July 31, 2015, respectively.

Other Income (Expense)

Net interest expense for the three and six months ended July 31, 2016 was approximately $164,000 and $428,000 respectively as compared to approximately $166,000 and $387,000 for the three and six months ended July 31, 2015, respectively. The increase reflects higher interest rates, partially offset by lower average borrowings.

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. Items of this nature are considered non-cash in our calculation of Adjusted EBITDA and resulted in a net loss of approximately $493,000 and $672,000 in the three months ended July 31, 2016 and 2015, respectively. These net gains in the fiscal 2017 period resulted primarily from the strengthening of the Russian ruble and the Singaporean dollar versus the U.S. dollar. Other 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 resulted in net loss of approximately $198,000 in the three months ended July 31, 2016 and a net gain of approximately $358,000 in the three months ended July 31, 2015.

Provision for Income Taxes

Our tax provision for the three and six months ended July 31, 2016 was approximately $435,000 and $734,000, respectively, despite a loss before income taxes. This is due to the effect of valuation allowances related to deferred tax assets and the effect of foreign withholding taxes. These deferred tax assets relate primarily to net operating loss carryforwards in the United States and other jurisdictions. Although we do not have a history of such loss carryovers expiring without being utilized and the earliest expiration of a loss carryforward in any jurisdiction is in 2021, we have a recent history of taxable losses in the United States and future earnings in this jurisdiction are uncertain. In order to fully utilize the deferred tax assets in the United States we must generate taxable income of approximately $45.0 million.

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, our Seamap Credit Facility (as defined below) and, in fiscal 2017, proceeds from the issuance of preferred stock. 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.

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We believe that our liquidity needs for the next 12 months will be met from cash on hand, cash provided by operating activities, proceeds from the issuance of preferred stock and from proceeds from our Credit Agreement, taking into account the possible restrictions on funds from our foreign subsidiaries. However, should our needs for liquidity increase, such as to make an acquisition, we may seek to issue debt or equity securities. As more fully discussed below, in June 2016, we completed a public offering of preferred stock which resulted in net proceeds to us of approximately $7.1 million. We have filed with the SEC a shelf registration statement pursuant to which we may issue from time to time up to $50 million in common stock, warrants, preferred stock, debt securities or any combination thereof, subject to annual limitations based on the value of our market capitalization.

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

	For the Six Months Ended July 31,	
	2016	**2015**
	(in thousands)	
Net cash provided by operating activities	$ 3,084	$ 11,650
Net cash provided by investing activities	1,509	(1,646)
Net cash used in financing activities	(4,009)	(11,924)
Effect of changes in foreign exchange rates on cash and cash equivalents	(857)	(455)
Net decrease in cash and cash equivalents	$ (273)	$ (2,375)

As of July 31, 2016, we had working capital of approximately $24.0 million, including cash and cash equivalents and restricted cash of approximately $3.5 million, as compared to working capital of approximately $28.2 million, including cash and cash equivalents and restricted cash of approximately $3.8 million, at January 31, 2016. The decrease in working capital resulted primarily from reductions in long-term debt during the first six months of fiscal 2017.

Cash Flows from Operating Activities. Net cash provided by operating activities was approximately $3.1 million in the first six months of fiscal 2017 as compared to approximately $11.6 million in the first six months in fiscal 2016. The decrease between the two periods resulted primarily from the change in net income between the periods which was attributable to the industry trends described above.

Cash Flows from Investing Activities. Net cash flows used in investing activities for the six months ended July 31, 2016 included purchases of seismic equipment held for lease totaling approximately $583,000, as compared to approximately $1.9 million in the six months ended July 31, 2015. Due to the decline in demand for our rental equipment, we have significantly curtailed our purchases of lease pool equipment in recent periods. We expect additions to our lease pool for all of fiscal 2017 to total less than $1.0 million. We expect to fund these acquisitions with a combination of cash on hand, cash flow generated from operating activities and borrowings under the Credit Agreement.

In the first six months of fiscal 2017, proceeds from the sale of lease pool equipment totaled approximately $2.2 million compared to approximately $399,000 in the first six months of fiscal 2016. From time to time we may seek to sell certain equipment from our lease pool. 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 in the first six months of fiscal 2017 consists primarily of approximately $9.4 million of net payments under the Credit Agreement and $1.6 million of payments pursuant to the Seamap Credit Facility.

In June 2016, we completed a public offering of 320,000 shares of 9.00% cumulative preferred stock (the Series A Preferred Stock). The Series A Preferred Stock has a liquidation preference of $25.00 per share, an annual dividend rate of 9.00%, has no maturity date, but may be redeemed at the option of the Company at any time after June 8, 2021 or upon a change of control of the Company. The Series A Preferred Stock is not convertible into shares of our common stock, except in limited situations arising from a change in control of the Company in which event the conversion would be subject to a limit on the maximum number of shares of common stock to be issued, and is not anticipated to grant holders with voting control of our Board of Directors. The net proceeds to us, after deducting underwriting discounts and offering costs, totaled approximately $7.1 million. We applied all net proceeds to amounts outstanding under the Credit Agreement. Annual dividend requirements for the Series A Preferred Stock total approximately $720,000.

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 of new equipment, primarily by Seamap. These bonds are normally provided by insurance companies, 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 July 31, 2016, we had provided stand-by letters of credit totaling approximately $844,000 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, secured, three-year revolving credit agreement (the Credit Agreement) with HSBC Bank USA, N.A. (HSBC) as administrative agent. The Credit Agreement, as amended, provides for borrowings of up to $30 million, subject to a borrowing base. 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.

In June 2016, we reduced the commitment under the Credit Facility to $20.0 million from $30.0 million by giving notice to the bank. We do not anticipate needs for amounts beyond $20.0 million and do not believe we could incur debt beyond that amount without violating certain provisions of the Credit Agreement. Therefore, we reduced the commitment, as is our right under the provisions of the Credit Agreement, in order to avoid commitment fees on amounts we are not likely to utilize.

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 July 31, 2016, the margins for Eurodollar loans and ABR loans are 3.50% and 2.50%, respectively. We have agreed to pay a commitment fee on the unused portion of the Credit Agreement of 0.375% to 0.50% based on our leverage ratio. As of July 31, 2016, the commitment fee rate is 0.5%.

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.

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. The following chart indicates each of these financial covenants as of July 31, 2016:

Description of Financial Covenant	Required Amount	Actual for the four quarters ended July 31, 2016
Leverage Ratio	Not more than 2.00 to 1.00	1.52 to 1.00
Fixed Charge Coverage Ratio	Not less than 1.25 to 1.00	1.38 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	0.12 to 1.00

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The Leverage Ratio is defined as the ratio of (a) the sum of funded debt, capital lease obligations and letters of credit to (b) Adjusted EBITDA. The Fixed Charge Coverage Ratio is defined as the ratio of (a) Adjusted EBITDA less the sum of (i) income tax expense and (ii) maintenance capital expenditures to (b) Fixed Charges. Fixed Charges is defined as the sum of interest expense and the current portion of long-term debt, excluding amounts due under the Credit Agreement.

We were in compliance with each of these covenants as of July 31, 2016 and expect to remain in compliance with each of these covenants for the balance of fiscal 2017.

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. The Credit Agreement also contains covenants that limit the use of proceeds from the facility, including letters of credit, to fund or support oil and gas exploration activities within Russia. These provisions could negatively impact our ability to conduct business within Russia.

In August 2014, our wholly-owned subsidiary, Seamap Pte Ltd. (Seamap Singapore), entered into a $15.0 million credit facility with HSBC Singapore (the Seamap Credit Facility). The facility consists of a $10.0 million term loan, an uncommitted $3.0 million revolving credit facility, and an uncommitted $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, Seamap 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 Seamap Credit Facility is secured by essentially all of the assets of Seamap 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 Seamap 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 Seamap Singapore to maintain a minimum net worth of S$15 million and a minimum ratio of debt to EBITDA of 125%, both measured as of the end of our fiscal year end. We were in compliance with these financial covenants as of January 31, 2016.

As indicated by the following chart, we were in compliance with all financial covenants as of January 31, 2016:

Description of Financial Covenant	Required Amount	Actual for the four quarters ended January 31, 2016
Shareholder s Equity	Not less than S$15.0 million	S$36.3 million
EBITDA to Debt Ratio	Not less than 1.25 to 1.00	1.56 to 1.00

As of September 7, 2016, borrowings of approximately $5.0 million and letters of credit totaling approximately $844,000 were outstanding under the Credit Agreement. Under the Seamap Credit Facility the balance of the term loan was $3.6 million and bankers guarantees totaling approximately $71,000 were outstanding as of that date. No amounts were outstanding under the revolving credit of the Seamap Credit Facility.

We believe that as of July 31, 2016, the borrowing base under the Credit Agreement was sufficient to provide for borrowings of up to $20.0 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 July 31, 2016, Adjusted EBITDA was approximately $6.7 million, indicating total allowable funded debt of approximately $13.4 million, including amounts outstanding under the Credit Agreement and the Seamap Credit Facility. The amount available under the Credit Agreement may change throughout the balance of fiscal 2017 based on the level of Adjusted EBITDA and amounts outstanding under the Credit Agreement and the Seamap Credit Facility. We expect Adjusted EBITDA for the trailing twelve-month period as of the end of our fiscal quarters for the balance of fiscal 2017 to be greater than as of July 31, 2016. We do not currently foresee the need to utilize the Credit Agreement to the maximum allowable amount.

We have determined that certain 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 July 31, 2016, we had deposits in foreign banks consisting of both United States dollar and foreign currency deposits equal to approximately $2.5 million. Approximately $2.5 million may be distributed to the United States in repayment of inter-company obligations as of July 31, 2016 and therefore do not result in any of the adverse tax consequences discussed above.

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 July 31, 2016, our consolidated cash and cash equivalents included foreign currency denominated amounts equivalent to approximately $1.6 million in United States dollars. A 10% increase in the value of the United States dollar as compared to the value of each of these currencies would result in a loss of approximately $160,000 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 39% of our net assets as of July 31, 2016 were impacted by changes in foreign currencies in relation to the United States dollar.

Interest Rate Risk

As of July 31, 2016, there was $5.0 million outstanding under the Credit Agreement and $4.4 million outstanding under the Seamap 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 $94,000. 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

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by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of July 31, 2016 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended July 31, 2016 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***

The risk factors included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2016 have not materially changed. 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.

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: September 8, 2016	By: /s/ Robert P. Capps Robert P. Capps Co-Chief Executive Officer, Executive Vice President-Finance and Chief Financial Officer (Duly Authorized Officer and Chief Accounting Officer)

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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.

Exhibit Number	Document Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
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)
3.3	Certificate of Designations of Mitcham Industries, Inc. setting forth the Designation, Maturity, Ranking, Dividends, Liquidity Preference, Redemption, Conversion Rights, Voting Rights, Information Rights and Preemptive Rights of Series A Cumulative Preferred Stock, dated June 8, 2016.	Incorporated by reference to Mitcham Industries, Inc. s Form 8-K filed with SEC on June 10, 2016.	001-13490	3.1
4.1	Form of Certificate representing 9.00% Series A Cumulative Preferred Stock	Incorporated by reference to Mitcham Industries, Inc. s Registration Statement on Form 8-A, filed with the SEC on June 2, 2016.	333-208177	4.1
31.1	Certification of Guy Malden, Co-Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended			
31.2	Certification of Robert P. Capps, Co-Chief Executive 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, Co-Chief Executive Officer, and Robert P. Capps, Co-Chief Executive 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