MITCHAM INDUSTRIES INC
Form 10-Q
December 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2014

or

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

For the transition period from __________ to __________

Commission File Number: 000-25142

MITCHAM INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

8141 SH 75 South

P.O. Box 1175

Huntsville, Texas 77342

(Address of principal executive offices, including Zip Code)

(936) 291-2277

(Registrant s telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 12,084,056 shares of common stock, $0.01 par value, were outstanding as of December 9, 2014.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	October 31, 2014	January 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,069	$ 15,162
Restricted cash		81
Accounts receivable, net	30,430	29,514
Contracts and notes receivable	3,338	1,005
Inventories, net	11,158	8,338
Prepaid income taxes	1,317	2,177
Deferred tax asset	1,562	1,968
Prepaid expenses and other current assets	9,866	3,915
Total current assets	66,740	62,160
Seismic equipment lease pool and property and equipment, net	112,803	129,573
Intangible assets, net	11,905	3,201
Goodwill	5,661	4,320
Deferred tax asset	8,217	6,133
Other assets	1,902	32
Total assets	$ 207,228	$ 205,419
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,489	$ 10,745
Current maturities long-term debt	2,421	75
Deferred revenue	179	35
Accrued expenses and other current liabilities	4,605	1,583
Total current liabilities	13,694	12,438
Non-current income taxes payable		408
Long-term debt, net of current maturities	32,141	22,125
Total liabilities	45,835	34,971
Shareholders equity:		

Preferred stock, $1.00 par value; 1,000 shares authorized; none issued and outstanding				
Common stock, $0.01 par value; 20,000 shares authorized; 14,012 and 13,907 shares issued at October 31, 2014 and January 31, 2014, respectively		140		139
Additional paid-in capital		119,496		118,156
Treasury stock, at cost (1,928 and 1,075 shares at October 31, 2014 and January 31, 2014, respectively)		(16,851)		(7,075)
Retained earnings		61,109		61,116
Accumulated other comprehensive loss		(2,501)		(1,888)
Total shareholders equity		161,393		170,448
Total liabilities and shareholders equity	$	207,228	$	205,419

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

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MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended October 31,		For the Nine Months Ended October 31,	
	2014	2013	2014	2013
Revenues:				
Equipment leasing	$ 14,285	$ 7,900	$ 38,672	$ 34,435
Lease pool equipment sales	475	3,169	2,861	6,188
Seamap equipment sales	5,791	5,537	19,560	16,422
Other equipment sales	2,355	3,669	7,090	11,416
Total revenues	22,906	20,275	68,183	68,461
Cost of sales:				
Direct costs equipment leasing	2,343	1,465	4,700	3,857
Direct costs lease pool depreciation	8,634	7,216	26,195	22,021
Cost of lease pool equipment sales	193	1,119	1,016	2,080
Cost of Seamap and other equipment sales	4,729	5,522	14,785	16,653
Total cost of sales	15,899	15,322	46,696	44,611
Gross profit	7,007	4,953	21,487	23,850
Operating expenses:				
General and administrative	6,159	6,086	18,951	18,173
Provision for doubtful accounts		1,048		1,048
Depreciation and amortization	654	371	1,566	1,124
Total operating expenses	6,813	7,505	20,517	20,345
Operating income (loss)	194	(2,552)	970	3,505
Other (expenses) income:				
Interest, net	(147)	(37)	(347)	120
Other, net	(387)	(517)	(140)	222
Total other (expenses) income	(534)	(554)	(487)	342
(Loss) income before income taxes	(340)	(3,106)	483	3,847
(Provision) benefit for income taxes	(57)	478	(490)	(861)

Net (loss) income	$ (397)	$ (2,628)	$ (7)	$ 2,986
Net (loss) income per common share:				
Basic	$ (0.03)	$ (0.21)	$ (0.00)	$ 0.23
Diluted	$ (0.03)	$ (0.21)	$ (0.00)	$ 0.23
Shares used in computing net income per common share:				
Basic	12,476	12,767	12,631	12,766
Diluted	12,476	12,767	12,631	13,180

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 October 31, 2014	For the Three Months Ended October 31, 2013	For the Nine Months Ended October 31, 2014	For the Nine Months Ended October 31, 2013
Net (loss) income	$ (397)	$ (2,628)	$ (7)	$ 2,986
Change in cumulative translation adjustment	(2,160)	1,488	(613)	(4,703)
Comprehensive loss	$ (2,557)	$ (1,140)	$ (620)	$ (1,717)

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

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MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Nine Months Ended October 31, 2014	2013
Cash flows from operating activities:		
Net (loss) income	$ (7)	$ 2,986
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	27,866	23,242
Stock-based compensation	1,006	839
Provision for doubtful accounts, net of charge offs		1,048
Provision for inventory obsolescence	44	70
Gross profit from sale of lease pool equipment	(1,845)	(4,108)
Excess tax benefit from exercise of non-qualified stock options and restricted shares		(44)
Deferred tax benefit	(1,742)	(2,495)
Changes in working capital items:		
Accounts receivable	(1,076)	(4,569)
Contracts and notes receivable	(2,632)	1,277
Inventories	630	(2,827)
Prepaid expenses and other current assets	(7,449)	(1,449)
Income taxes payable	(331)	3,382
Accounts payable, accrued expenses, other current liabilities and deferred revenue	2,079	1,338
Net cash provided by operating activities	16,543	18,690
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(15,079)	(13,308)
Acquisition of business	(14,500)	
Purchases of property and equipment	(375)	(452)
Sale of used lease pool equipment	2,861	6,188
Net cash used in investing activities	(27,093)	(7,572)
Cash flows from financing activities:		
Net proceeds from (payments on) revolving line of credit	2,500	(1,000)
Net proceeds from term loan	10,000	
Payments on borrowings	(74)	(105)
Net proceeds from short-term investments	85	30
Proceeds from issuance of common stock upon exercise of options	99	275
Purchase of treasury stock	(9,776)	(2,200)

Excess tax benefit from exercise of non-qualified stock options and restricted shares				44
Net cash provided by (used in) financing activities		2,834		(2,956)
Effect of changes in foreign exchange rates on cash and cash equivalents		1,623		897
Net change in cash and cash equivalents		(6,093)		9,059
Cash and cash equivalents, beginning of period		15,162		15,150
Cash and cash equivalents, end of period	$	9,069	$	24,209
Supplemental cash flow information:				
Interest paid	$	576	$	206
Income taxes paid	$	836	$	(74)
Purchases of seismic equipment held for lease in accounts payable at end of period	$	3,438	$	5,208

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

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MITCHAM INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization

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

2. Basis of Presentation

The condensed consolidated balance sheet as of January 31, 2014 for the Company has been derived from audited consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company s Annual Report on Form 10-K for the year ended January 31, 2014. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of October 31, 2014, the results of operations for the three and nine months ended October 31, 2014 and 2013, and the cash flows for the nine months ended October 31, 2014 and 2013, 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, 2015. As of February 1, 2014, MML, MEL, Mitcham Holdings, Ltd. (MHL) and our branch operations in Colombia changed their functional currencies to the U.S. dollar due to changes in the economic environment for these entities. Had these changes not been made, other income would have been approximately $588,000 less than as reported.

3. New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11*, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists*, to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carry forward, a similar tax loss, or a tax credit carry forward exists. ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry forward, a similar tax loss, or a tax credit carry forward, with certain exceptions. ASU 2013-11 was effective in the nine months ended October 31, 2014. The adoption of this standard did not have a material effect on the Company s financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers: (Topic 606)*, to provide guidance on revenue recognition on contracts with customers to transfer goods or services or on contracts for the transfer of nonfinancial assets. ASU 2014-09 requires that revenue recognition on contracts with customers depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective during the fiscal year ended January 31, 2017. The Company does not believe the adoption will have a material effect on its financial statements.

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4. Acquisition

In May 2014, the Company s wholly-owned subsidiary, Seamap Pte Ltd, purchased two product lines from ION Geophysical Corporation (ION) for $14.5 million in cash and a credit of $2.0 million against future sales or rentals. These product lines consist of the Digishot energy source controller and the Sleeve Gun energy sources, collectively the ION Source Products . The Company made this acquisition to expand the product offerings available to customers, gain access to additional technology and expand the markets in which it operates. The Company accounted for this transaction as a business combination and these operations are included in the Seamap segment. Based on an independent valuation study, the fair value of the consideration was determined to be approximately $15.6 million and was allocated as follows: $10.0 million to intangible assets, $3.6 million to inventory, $1.4 million to goodwill and $600,000 to furniture and fixtures. The goodwill is not deductible for tax purposes. Pro forma results of operations have not been presented as the business combination was not significant.

5. Restricted Cash

As of January 31, 2014, SAP had pledged approximately $81,000 in short-term time deposits to secure performance obligations in connection with certain contracts. As of April 30, 2014, the amount of security had been released as the contractual obligations had been fulfilled.

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

6. Balance Sheet

	October 31, 2014	January 31, 2014
	(in thousands)	
Accounts receivable:		
Accounts receivable	$ 34,136	$ 33,347
Allowance for doubtful accounts	(3,706)	(3,833)
Total accounts receivable, net	$ 30,430	$ 29,514

Contracts receivable consisted of $849,000, due from two customers as of October 31, 2014 and $1,005,000 due from three customers as of January 31, 2014. Notes receivable of $2,800,000 at October 31, 2014 relate to promissory notes issued by a customer in settlement of a trade account receivable. The balance of contracts and notes receivable at October 31, 2014 and January 31, 2014 consisted of contracts and notes bearing interest at an average of approximately 2.1% and with remaining repayment terms of one to 13 months. These contracts are collateralized by equipment and are considered collectable; therefore, no allowances have been established for them.

	October 31, 2014	January 31, 2014
	(in thousands)	

Inventories:		
Raw materials	$ 5,827	$ 4,599
Finished goods	5,649	4,159
Work in progress	529	612
	12,005	9,370
Less allowance for obsolescence	(847)	(1,032)
Total inventories, net	$ 11,158	$ 8,338

In May of 2014, the Company acquired $3.6 million of inventory in connection with the purchase of two product lines from ION. See Note 4 to our consolidated financial statements.

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	October 31, 2014	January 31, 2014
	(in thousands)	
Seismic equipment lease pool and property and equipment:		
Seismic equipment lease pool	$ 260,352	$ 261,644
Land and buildings	366	366
Furniture and fixtures	9,765	8,904
Autos and trucks	768	770
	271,251	271,684
Accumulated depreciation and amortization	(158,448)	(142,111)
Total seismic equipment lease pool and property and equipment, net	$ 112,803	$ 129,573

7. Goodwill and Other Intangible Assets

	Weighted Average Remaining Life at 10/31/2014	October 31, 2014 Gross Carrying Amount	October 31, 2014 Accumulated Amortization	October 31, 2014 Net Carrying Amount	January 31, 2014 Gross Carrying Amount	January 31, 2014 Accumulated Amortization	January 31, 2014 Net Carrying Amount
			(in thousands)			(in thousands)	
Goodwill		$ 5,661			$ 4,320		
Proprietary rights	8.1	$ 6,365	$ (2,177)	$ 4,188	$ 3,577	$ (1,900)	1,677
Customer relationships	6.0	7,105	(1,520)	5,585	2,159	(1,057)	1,102
Patents	6.8	2,404	(476)	1,928	650	(318)	332
Trade name	7.0	311	(107)	204	177	(87)	90
Amortizable intangible assets		$ 16,185	$ (4,280)	$ 11,905	$ 6,563	$ (3,362)	$ 3,201

As of October 31, 2014, the Company had goodwill of $5,661,000, all of which was allocated to the Seamap segment. No impairment was recorded against the goodwill account during the nine months ended October 31, 2014.

Amortizable intangible assets are amortized over their estimated useful lives of eight to 15 years using the straight-line method. Aggregate amortization expense was $458,000 and $164,000 for the three months ended October 31, 2014 and 2013, respectively, and $982,000 and $493,000 for the nine months ended October 31, 2014 and 2013, respectively. As of October 31, 2014, future estimated amortization expense related to amortizable intangible assets was estimated to be:

For fiscal years ending January 31 (in thousands):	
2015	$ 449

2016	1,795
2017	1,753
2018	1,732
2019	1,394
2020 and thereafter	4,782
Total	$ 11,905

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8. Long-Term Debt and Notes Payable

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

	October 31, 2014	January 31, 2014
Revolving line of credit	$ 24,500	$ 22,000
Term Loan	10,000	
Other equipment notes	62	200
	34,562	22,200
Less current portion	(2,421)	(75)
Long-term debt	$ 32,141	$ 22,125

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

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

The Credit Agreement provides interest at a base rate, or for Eurodollar borrowings, in both cases plus an applicable margin. As of October 31, 2014, the base rate margin was 175 basis points and the Eurodollar margin was 275 basis points. The Company has agreed to pay a commitment fee on the unused portion of the Credit Agreement of 0.375% to 0.5%. Up to $10.0 million of available borrowings under the Credit Agreement may be utilized to secure letters of credit. The Credit Agreement contains certain financial covenants that require, among other things, that the Company maintain a leverage ratio, which is calculated at the end of each quarter, of no greater than 2.00 to 1.00 on a trailing four quarter basis and a fixed charge coverage ratio, which also is calculated at the end of each quarter, of no less than 1.25 to 1.00 on a trailing four quarter basis. In addition, should Adjusted EBITDA, as defined in the Credit Agreement, for any trailing four quarter period be less than $22.0 million, the ratio of capital expenditures to Adjusted EBITDA for that four quarter period may not be greater than 1.0 to 1.0. The Credit Agreement also includes restrictions on additional indebtedness in excess of $5.0 million. The Company was in compliance with each of these provisions as of and for the nine months ended October 31, 2014.

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

On August 22, 2014, the Company s wholly-owned subsidiary, Seamap Pte Ltd., 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 may borrow up to $3.0 million for 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 Pte Ltd. and the Company s guarantee.

The Seamap Credit Facility contains financial covenants that require Seamap 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 nine months ended October 31, 2014.

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.

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The Company s average borrowings under the Credit Agreement, the predecessor revolving credit facility and the Seamap Credit Facility for the nine months ended October 31, 2014 and 2013 were approximately $24,225,000 and $3,031,000, respectively.

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

9. Income Taxes

Prepaid taxes of approximately $1.3 million at October 31, 2014 consisted of approximately $1.2 million of foreign taxes and approximately $100,000 of domestic federal and state taxes. Prepaid income taxes of approximately $2.2 million at January 31, 2014 consisted of approximately $600,000 of foreign taxes and approximately $1.6 million of domestic federal and state taxes.

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

In September 2013, the Internal Revenue Service (IRS) initiated an examination of the Company s federal income tax return for the fiscal year ended January 31, 2013. In May 2014, the IRS notified the Company that it will not propose any adjustments as a result of this examination.

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

In September, 2013 the IRS issued final regulations relating to guidance on applying rules to amounts paid to acquire, produce or improve tangible personal property as well as rules for materials and supplies. The new guidance is required to be applied no later than our tax year beginning February 1, 2014. These regulations are not expected to have a material impact on our financial statements.

The provision for income taxes for the three and nine months ended October 31, 2014 includes certain foreign withholding taxes. These taxes can distort the relationship between income or loss before income taxes and the provision for income taxes. Accordingly, the effective tax rates for these periods differ significantly from the federal statutory rate of 34%. The Company has determined that earnings from certain foreign jurisdictions have been permanently reinvested outside of the United States.

10. 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.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Basic weighted average common shares outstanding	12,476	12,767	12,631	12,766
Stock options	194	359	267	390
Unvested restricted stock	21	19	27	24
Total weighted average common share equivalents	215	378	294	414
Diluted weighted average common shares outstanding	12,691	13,145	12,925	13,180

For the three months ended October 31, 2014 and 2013 and the nine months ended October 31, 2014, 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.

11. Treasury Stock

In April 2013, the Company s Board of Directors authorized the repurchase of up to 1,000,000 shares of the Company s common stock through December 31, 2014. During the nine months ended October 31, 2014, the Company repurchased 852,100 shares of its common stock at an average price of approximately $11.46 per share. These shares are reflected as treasury stock in the accompanying financial statements. As of October 31, 2014, the Company has purchased a total of 1,000,000 shares under this program, representing the total amount of shares authorized for repurchase.

12. Stock-Based Compensation

Total compensation expense recognized for stock-based awards granted under the Company s equity incentive plan during the three and nine months ended October 31, 2014 was approximately $310,000 and $1,006,000, respectively, and during the three and nine months ended October 31, 2013 was approximately $287,000 and $839,000, 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; Bogota, Colombia; and Lima, Peru.

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

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

	As of October 31, 2014 Total Assets	As of January 31, 2014 Total Assets
	(in thousands)	
Equipment Leasing	$ 173,702	$ 183,911
Seamap	33,882	21,814
Eliminations	(356)	(306)
Consolidated	$ 207,228	$ 205,419

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Results for the three months ended October 31, 2014 and 2013 were as follows (in thousands):

	Revenues		Operating (loss) income		(Loss) income before taxes	
	2014	2013	2014	2013	2014	2013
Equipment Leasing	$ 17,115	$ 14,738	$ (188)	$ (3,398)	$ (1,071)	$ (3,733)
Seamap	5,827	5,608	337	804	686	585
Eliminations	(36)	(71)	45	42	45	42
Consolidated	$ 22,906	$ 20,275	$ 194	$ (2,552)	$ (340)	$ (3,106)

Results for the nine months ended October 31, 2014 and 2013 were as follows (in thousands):

	Revenues		Operating income		Income before taxes	
	2014	2013	2014	2013	2014	2013
Equipment Leasing	$ 48,623	$ 52,039	$ (1,737)	$ 1,332	$ (2,303)	$ 1,598
Seamap	20,032	16,584	2,827	2,038	2,906	2,114
Eliminations	(472)	(162)	(120)	135	(120)	135
Consolidated	$ 68,183	$ 68,461	$ 970	$ 3,505	$ 483	$ 3,847

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

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q (this Form 10-Q) may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words anticipate, believe, expect, plan, intend, foresee, should, would, could, or other similar expressions a identify forward-looking statements, which generally are not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below*:*

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

inability to obtain funding or to obtain funding under acceptable terms;

intellectual property claims by third parties;

risks associated with our manufacturing operations;

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, (2) Part II, Item 1A. Risk Factors of the Quarterly Report on Form 10-Q for the period ended April 30, 2014, and (3) Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 31, 2014.

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

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

Overview

We operate in two segments, equipment leasing (Equipment Leasing) and equipment manufacturing. Our equipment leasing operations are conducted from our Huntsville, Texas headquarters and from our locations in Calgary, Canada; Brisbane, Australia; Ufa, Bashkortostan, Russia; Budapest, Hungary; Singapore; Bogota, Colombia; and Lima, Peru. Our Equipment Leasing segment includes the operations of our Mitcham Canada, ULC. (MCL), Seismic Asia Pacific Pty. Ltd. (SAP), Mitcham Europe Ltd. (MEL), Mitcham Marine Leasing Pte Ltd. (MML) and Mitcham Seismic Eurasia LLC (MSE) subsidiaries and our branch operations in Peru and Colombia. Our equipment manufacturing segment is conducted by our Seamap subsidiaries and, therefore, is referred to as our Seamap segment. Seamap operates from its locations near Bristol, United Kingdom and in Singapore.

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

The following table presents certain operating information by operating segment.

	For the Three Months Ended October 31,		For the Nine Months Ended October 31,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Revenues:				
Equipment Leasing	$ 17,115	$ 14,738	$ 48,623	$ 52,039
Seamap	5,827	5,608	20,032	16,584
Inter-segment sales	(36)	(71)	(472)	(162)
Total revenues	22,906	20,275	68,183	68,461
Cost of sales:				
Equipment Leasing	12,998	12,784	37,164	36,946
Seamap	2,982	2,651	9,884	7,962
Inter-segment costs				