

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

FORM 10-K

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

For the fiscal year ended January 31, 2018

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: 000-13490

Mitcham Industries, Inc.
(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

8141 SH 75 South
P.O. Box 1175
Huntsville, Texas

(Address of principal executive offices)

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

77342

(Zip Code)

936-291-2277

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock - \$0.01 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

If an emerging growth company indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2017, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$45,734,094 based on the closing sale price as reported on the National Association of Securities Dealers Automated Quotation System National Market System.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at April 10, 2018</u>
Common Stock, \$0.01 par value per share	12,089,399 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement of Mitcham Industries, Inc. for the 2018 Annual Meeting of Shareholders, which will be filed within 120 days of January 31, 2018, are incorporated by reference into Part III of this Annual Report on Form 10-K

MITCHAM INDUSTRIES, INC.
ANNUAL REPORT ON FORM 10-K

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K (this “Form-10-K”) may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe,” “expect,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would,” “could” or other similar expressions are intended to identify forward-looking statements, which 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 of 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. Known material factors that could cause our actual results to differ from those in the forward-looking statements are described in Item 1A - “Risk Factors.” Readers are cautioned not to place reliance on forward-looking statements, which speak only as the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

Mitcham Industries, Inc. (“MII” and, together with its consolidated subsidiaries, “Mitcham,” the “Company”, we”, “us” and “our”), a Texas corporation, was incorporated in 1987. We provide technology to the oceanographic, hydrographic, defense, seismic and maritime security industries. Headquartered in Huntsville, Texas, Mitcham has a global presence with operating locations in the United States, Canada, Australia, Singapore, Russia, Hungary, Colombia and the United Kingdom. We operate in two business segments, Marine Technology Products and Equipment Leasing. Our Marine Technology Products segment was previously known as Equipment Manufacturing and Sales. Effective January 31, 2018 we changed the name of this segment to more accurately reflect its operations.

Our worldwide Marine Technology Products Segment includes (a) Seemap Pte Ltd and Seemap (UK) Ltd, collectively (“Seemap”) which designs, manufactures and sells specialized marine seismic equipment, (b) Klein Marine Systems, Inc. (“Klein”), which designs, manufactures and sells high performance side scan sonar and water-side security systems and (c) the equipment sales activities of our Australian subsidiary, Seismic Asia Pacific Pty Ltd. (“SAP”). In February 2018, Seemap significantly expanded its offerings with the acquisition from a third party of intellectual property related to marine seismic sensors and streamer technology.

We acquired Klein effective December 31, 2015. Klein has over 48 years of experience with the development and manufacture of high performance side scan sonar systems. Our side scan sonar systems are deployed by navies, port authorities, other governmental organizations, marine survey companies and universities worldwide. Klein operates from a single facility in Salem, New Hampshire.

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 MII, 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”), SAP, Mitcham Seismic Eurasia LLC (“MSE”), Mitcham Europe Ltd. (“MEL”) and Mitcham Marine Leasing Pte. Ltd. (“MML”). We believe we are the largest independent provider of exploration equipment to the seismic industry.

Historically, our business was primarily focused on our Equipment Leasing segment, specifically the short-term rental of land seismic equipment used in the exploration for oil and gas. In recent periods, however, there have been a number of developments that have had an adverse effect on that business. These developments include the following:

- Uncertainty in prices for oil and natural gas and the resulting decline in exploration activity by oil and gas companies.
- An excess of rental equipment or equipment capacity in the seismic industry.
- Increased competition for the sale or rental of seismic equipment, particularly land seismic equipment.
- Decreased pricing for the purchase or rental of seismic equipment.
- Financial difficulties encountered by many of our customers in the seismic industry.

Accordingly, we have developed a strategy to emphasize our Marine Technology Products Segment and to revise our approach to our Equipment Leasing segment. This strategy is based on the following vision for Mitcham:

- We will become known as a provider of innovative technology and products to the oceanographic, hydrographic, seismic, defense and maritime security industries.
- We will leverage our various technologies, products and services to create new products and address new markets. We will seek out opportunities to add new technologies and products.
- We will retain Mitcham’s position as a leading provider of equipment to the seismic industry, but do so in innovative ways by working together with our customers and suppliers. This revised business model will enable us to manage the financial risk to our shareholders while continuing to serve the needs of our customers.
- We will create an organization that facilitates cross-fertilization of our existing technologies and market presence. We will, wherever possible, leverage our engineering, sales, operations, manufacturing and administrative resources. Cooperation among business units and sharing of resources will be a primary focus.

For additional information about our business segments, including related financial information, see Note 15 to our consolidated financial statements and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K.

Our equipment is utilized in a variety of geographic regions throughout the world, which are described under "--Customers, Sales, Backlog and Marketing."

Marine Technology Products Segment –

Seamap designs, manufactures and sells a broad range of products for the oceanographic, hydrographic and marine seismic industries. Seamap's primary products include the GunLink™ seismic source acquisition and control systems, commonly referred to as "energy source 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 March 2018, Seamap introduced the SeaLink™ product line of marine sensors and solid streamer systems. These new products are based on technology that was acquired in February 2018. (see Note 20 - Subsequent Event to our consolidated financial statements).

Klein primarily designs, manufactures and sells advanced side scan sonar systems and waterside security systems for the oceanographic, hydrographic, defense and maritime security 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 15 to our consolidated financial statements.

Equipment Leasing Segment –

We own a variety of technologically advanced equipment acquired from the leading seismic manufacturers. Our lease pool includes many types of equipment, from a number of equipment manufacturers, 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. We have relationships with a variety of different manufacturers of seismic equipment. Under certain of the relationships we acquire equipment at a significant discount and then share resulting rental revenues with the manufacturer of the equipment. We believe these type arrangements share risks and benefits among all parties and mitigate our exposure

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. 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.

As the seismic equipment market has declined in recent periods we have reduced our lease pool of equipment by limiting purchases of additional equipment and by selling equipment that we have deemed to be excess. We expect our investment in lease pool equipment in future periods to remain materially lower than it has been historically. We may in the future sell additional lease pool equipment. Proceeds from any such sales could be used to reinvest in other lease pool equipment or could be redeployed in other parts of our business.

Seismic Technology

Data generated from digital seismic recording systems and peripheral equipment is used in a variety of marine and land applications, including hydrographic surveys, civil engineering operations, mining surveys and in the search for and development of oil and gas reserves. In addition, marine seismic sensors can be used in a number of military and security applications, such as anti-submarine warfare. Users of seismic technology include marine and land seismic contractors, marine survey operators, research institutes and governmental entities.

Principles of seismic technology are the same for land and for marine environments. However, the operational issues and therefore the equipment utilized are quite different. Essentially all of the products in our marine technology products segment are for use in marine environments. The majority of our equipment leasing segment involves land based operations.

Oil and gas companies have begun to utilize time lapse (“4-D”) seismic techniques for producing oil and gas fields. 4-D surveys involve periodically acquiring seismic data over the same area. These techniques allow the oil and gas company to monitor and analyze the production from existing properties and optimize production and reserve recovery.

Seismic surveys utilizing 2-D, 3-D or 4-D techniques require essentially the same equipment. The manner in which the equipment is deployed and the resulting data analyzed differs, however. Accordingly, our equipment can generally be utilized in 2-D, 3-D and 4-D seismic surveys.

In certain applications, specialized seismic recording devices are deployed vertically within a well bore. Multiple recording channels, or “levels,” are generally deployed within a given well and are referred to as “downhole” or “VSP” (vertical seismic profiling) tools. These applications are used to provide additional data points in a traditional seismic survey, to monitor and analyze reservoir properties, and to monitor and analyze fluid treatment operations, as well as a variety of other uses.

Side Scan Sonar Technology

A side scan sonar (sound navigation and ranging) system is a specialized system used for detecting objects underwater by transmitting sound energy to the right and left of the host vehicle and processing the return signals (echoes) that have bounced off the seafloor or other objects into two dimensional, photo like, images of the ocean bottom. Basic side scan sonar systems do not provide depth information nor do they penetrate the seafloor bottom. However, side scan sonar models are available that incorporate bathymetry elements (the study of underwater depth of lake or ocean floors). These systems do provide bathymetric (depth) information that is co-registered with side scan data. Sub-seafloor bottom profiling can also be used in concert with side scan sonar technology to look below the seabed into the stratum layers.

Users of side scan sonar technology include governmental and military organizations, port and harbor authorities, fire and police departments, offshore oil and gas operators and contractors, universities and scientific organizations, mining companies, marine survey companies and marine salvage operators. Applications that utilize side scan sonar technology include the following:

- Preplanned shipping route surveys
- Mine counter measures and mine-like object detection
- Environmental assessments
- Hydrographic surveys
- Waterside security
- Dredging operations
- Pipeline and cable surveys
- Bridge scour monitoring
- Search and recovery
- Underwater construction surveys
- Pipeline and cable route surveys
- Marine research
- Archaeology surveys
- Marine life and habitat monitoring
- Mining surveys
- Treasure hunting
- Marine salvage operations

Business and Operations

Marine Technology Products Segment –

Through our Marine Technology Products Segment, we develop, manufacture and sell a range of proprietary products for the oceanographic, hydrographic, seismic, defense and maritime security industries.

Seamap's primary products include: (1) the GunLink seismic source acquisition and control systems, which are designed to provide operators of marine seismic surveys more precise monitoring and control of energy sources; (2) the BuoyLink RGPS tracking system, which is used to provide precise positioning of marine seismic energy sources and streamers; (3) Digishot™ energy source controller; and (4) Sleeve Gun energy sources. The Digishot and Sleeve Gun product lines were acquired in May 2014. Seamap's other products include streamer weight collars, depth transducers, pressure transducers, air control valves and source array systems. In addition to selling complete products, Seamap provides spare and replacement parts related to the products it sells. Seamap also provides certain services related to its products. These include repair services, engineering services, training, field service operations and umbilical terminations.

In March 2018, Seamap introduced the SeaLink product line of marine sensors and solid streamer systems. These products are based on intellectual property that Seamap acquired in February 2018 from the bankrupt estate of Hydrosience Technology, Inc. (the "Hydrosience Acquisition") (see Note 20 - Subsequent Event to our consolidated financial statements). We believe these new products significantly expand the product offerings of Seamap and increase our addressable market. We further believe that certain aspects of this technology are complementary to Klein's product offerings.

Marine seismic contractors and geotechnical and hydrographic survey companies are generally Seamap's customers. These contractors operate vessels used to conduct seismic surveys in shallow and deep water marine environments. Seamap's customers operate in all areas of the world.

We maintain a Seamap facility in the United Kingdom which includes engineering, training, sales and field service operations. Our Seamap facility in Singapore includes engineering, assembly, sales, repair and field service operations. In connection with the Hydrosience Acquisition, we are expanding our operations in Singapore to provide for the manufacture and repair of these new products.

Klein is a supplier of side scan sonar equipment and waterside security and surveillance systems. Products are marketed to governmental and commercial customers through an internal sales organization and a network of distributors and representatives around the world. Sales, engineering, production and administrative operations are performed from Klein's facility in Salem, New Hampshire.

Klein offers an extensive product line of side scan sonar systems and related products. The product line includes multi-beam and single-beam sonar systems with varying levels of capability. These products are utilized in a number of applications including portable search and recovery, shallow and deep water surveys, naval mine warfare, underwater object detection and bathymetry. These products can be deployed from vessels of varying size, including autonomous underwater vehicles and autonomous surface vehicles.

Klein's HarborGuard® Integrated Waterside Surveillance and Security System (the "HarborGuard system") combines radar, video and other surveillance technology to provide security for a variety of waterside installations. The HarborGuard system is currently used by a number of military, commercial and local government agencies for offshore platform, port, harbor and bridge security and surveillance applications.

Components for our products are sourced from a variety of suppliers located in Asia, Europe and the United States. Products are generally assembled, tested and shipped from our facilities in Singapore and New Hampshire.

SAP sells equipment, consumables, systems integration, engineering hardware and software maintenance support services to the seismic, hydrographic, oceanographic, environmental and defense industries throughout Southeast Asia and Australia. SAP is a manufacturer's representative for an array of equipment lines, including Klein and Seamap.

Equipment Leasing Segment –

Equipment Leasing. We own a comprehensive lease pool of seismic equipment for short-term rental to our customers, who are primarily seismic data acquisition contractors and oil field service providers (in the case of downhole equipment). We lease this equipment multiple times until the earlier of the end of its useful life or its sale. Our customers generally lease seismic equipment to supplement their own inventory of recording channels and related equipment.

We maintain a master lease agreement with each of our customers that outlines the general terms and conditions of our leases. Individual transactions are generally documented through an "equipment lease schedule" that incorporates the terms and conditions of the master lease agreement. Individual leases generally have terms of two to six months, or a few days to two weeks in the case of downhole equipment, and are typically renewable following the initial rental period. Our equipment lease rates vary according to an item's expected useful life, utilization, initial cost and the term of the lease. We provide maintenance of our leased equipment during the lease term for malfunctions due to failure of material and parts and provide replacement equipment, as necessary. In addition, we occasionally provide field

technical support services when requested by our customers. The customer is responsible for the cost of repairing equipment damages, other than normal wear and tear. In the case of lost or destroyed equipment, the customer is required to reimburse us for the replacement cost of the equipment, at a price specified in the lease agreement, or to provide acceptable replacement equipment. The customer is also normally responsible for the costs of shipping the equipment from and to one of our facilities and is responsible for all taxes, other than income taxes, related to the lease of the equipment. The customer is required to obtain and maintain insurance for the replacement value of the equipment and a specified minimum amount of general liability insurance, depending on the location of the operations. It is our general practice to lease our seismic equipment on a monthly or daily rate, depending on the circumstances.

Upon completion of a lease, the equipment must generally be returned to one of our facilities where it is inspected, tested, repaired, if necessary, and staged for another project. While the customer is normally responsible for the costs of shipping and repairs, during this time the equipment is not available for lease to another customer. Therefore, managing this process and the utilization of the equipment is an important aspect of our operations.

We maintain facilities for the inspection, testing and repair of land seismic equipment in Huntsville, Texas; Calgary, Alberta; Ufa, Bashkortostan, Russia; Bogota, Colombia; Budapest, Hungary; Brisbane, Australia and Singapore. We maintain marine equipment inspection, testing and repair facilities in Huntsville, Texas and Singapore. We believe that this broad network of support facilities helps us effectively utilize our equipment and reduce costs associated with these operations. However, due to the decline in our leasing business in recent periods, we have significantly reduced the scope of our operations in some locations.

Lease Pool Equipment Sales. On occasion, we sell used equipment from our lease pool, normally in response to specific customer demand, declining demand for rental of specific equipment or to redeploy capital. Used equipment sold from our lease pool can have a wide range of gross margins depending upon the amount of depreciation that has been recorded on the item. When used equipment is sold from our lease pool, the net book value plus any cost associated with the sale is recorded to cost of goods sold. Sales of our lease pool equipment typically occur as opportunities arise and do not have a significant seasonal aspect. Under the terms of our lease agreements, customers are responsible for lost or destroyed equipment. Charges for such lost equipment are at prices specified in the particular lease agreement and are reflected as lease pool equipment sales in the accompanying financial statements.

Key Agreements

SAP has a number of manufacturer's representation agreements for certain product lines, including: acoustic positioning systems, GPS systems, heave compensators and attitude sensors, hydrographic data acquisition systems, magnetometers, tide gauges and current meters, radio positioning equipment, side scan sonar and sub-bottom profiling systems, underwater communications and location devices, echo sounders and transducers.

Klein has a number of agreements for the distribution or representation of its products. These agreements are generally cancellable upon a notice period of from one to three months.

Seamap has an agreement with Petroleum Geo-Services ASA ("PGS") for the manufacture and sale of a customized and proprietary marine energy source controller, ("PGS SourceLink") that is based on our GunLink 4000 product.

Customers, Sales, Backlog and Marketing

During our fiscal year ending January 31, 2018 ("fiscal 2018"), two customers accounted for approximately 27% of our consolidated revenues. During our fiscal year ending January 31, 2017 ("fiscal 2017"), two customers accounted for approximately 24% of our consolidated revenues and during our fiscal year ending January 31, 2016 ("fiscal 2016"), one customer accounted for approximately 11% of our consolidated revenues. No other customer accounted for 10% or more of our revenues during these periods. See Item 1A-"Risk Factors." Due to the nature of our sales, the significance of any one customer can vary significantly from year to year.

As of January 31, 2018, our Marine Technology Products segment had a backlog of orders amounting to approximately \$2.7 million, compared to \$12.5 million as of January 31, 2017. We expect all of these orders to be fulfilled during our fiscal year ending January 31, 2019 ("fiscal 2019"). We do not maintain a backlog of orders relating to our Equipment Leasing segment.

We participate in both domestic and international trade shows and expositions to inform the appropriate industries of our products and services and we advertise in major trade journals.

A summary of our revenues from customers by geographic region is as follows (in thousands)

	Year Ended January 31,		
	2018	2017	2016
United States	\$ 11,346	\$ 6,252	\$ 7,316
Europe(1)	11,835	14,577	16,437
Canada	807	1,891	1,354
Latin America(2)	1,354	2,983	3,283
Asia/South Pacific	16,768	10,348	16,623
Eurasia(3)	332	3,120	3,659
Other(4)	5,834	1,828	3,147
Total Non-United States	36,930	34,747	44,503
Total	<u>\$ 48,276</u>	<u>\$ 40,999</u>	<u>\$ 51,819</u>

- (1) Includes the United Kingdom
(2) Includes South America and Mexico
(3) Comprised of the Russian Federation and the Commonwealth of Independent States (“CIS”)
(4) Includes Africa and The Middle East

The net book value of our seismic equipment lease pool and property and equipment in our various geographic locations is as follows (in thousands):

Location of property and equipment	As of January 31,		
	2018	2017	2016
United States	\$ 4,973	\$ 16,510	\$ 26,913
Europe(1)	6,557	7,730	18,499
Canada	2,134	8,525	13,985
Latin America(2)	2,390	2,317	3,074
Singapore	4,793	5,321	6,408
Australia	737	1,462	2,611
Russia	1,316	1,973	2,026
Total Non-United States	17,927	27,328	46,603
Total	<u>\$ 22,900</u>	<u>\$ 43,838</u>	<u>\$ 73,516</u>

- (1) Includes the United Kingdom
(2) Includes South America and Mexico

For information regarding the risks associated with our foreign operations, see Item 1A – “Risk Factors.”

Competition

Marine Technology Products –

We compete with a number of other manufacturers of marine seismic, hydrographic and oceanographic equipment. Some of these competitors may have substantially greater financial resources than our own. We generally compete for sales of equipment on the basis of (1) technical capability, (2) reliability, (3) price, (4) delivery terms and (5) service.

Equipment Leasing –

Our major competitors include the seismic equipment manufacturers who sell equipment on financed terms, offer leases with purchase options and offer short term rentals of their products. In addition, some seismic contractors might have excess equipment available for lease from time to time. We face lesser competition from several companies that engage in seismic equipment leasing, but this competition has historically been fragmented and our competitors have not had as extensive a seismic equipment lease pool nor as wide geographic presence

as we do. We compete for seismic equipment leases on the basis of (1) price, (2) delivery terms, (3) availability of desired equipment and (4) location of equipment. We believe that our infrastructure and broad geographic presence also provide a major competitive advantage by contributing to our operational efficiencies.

We compete in the used equipment sales market with a broad range of seismic equipment owners, including seismic data acquisition contractors, who use and eventually dispose of seismic equipment. Some of these competitors may have substantially greater financial resources than our own.

Suppliers

We obtain parts, components and services from a number of suppliers to our manufacturing operation. These suppliers are located in various geographic locations. No critical items are obtained on a sole-source basis.

We have several suppliers of seismic equipment for our lease pool. We acquire the majority of our seismic lease pool equipment from the Sercel subsidiaries of Compagnie Generale de Geophysique (“Sercel”) and Geospace Technologies Corporation (“Geospace”). However, we also acquire lease pool equipment from a number of other suppliers. Management believes that our current relationships with our suppliers are satisfactory and that we will be able to make satisfactory alternative agreements in the event of interruption of supply. For fiscal 2018, 2017 and 2016, approximately 26%, 45%, and 53%, respectively, of our revenues were generated from the rental of products we acquired from Sercel. For additional information regarding the risk associated with our suppliers, see Item 1A - “Risk Factors.”

Employees

As of January 31, 2018, we employed approximately 197 people full-time, none of whom were represented by a union or covered by a collective bargaining agreement. We consider our employee relations to be satisfactory.

Intellectual Property

The products designed, manufactured and sold by our Marine Technology Products segment utilize significant intellectual property that we have developed or have licensed from others. Our internally developed intellectual property consists of product designs and trade secrets. In connection with the acquisition of the Digishot and Sleeve Gun product lines from ION in May 2014, we acquired certain United States and foreign patents related to energy source controllers and other technology. We believe these acquired intellectual property rights will allow us to incorporate certain design features and functionality in future versions of our GunLink product line. We believe the pertinent patents to have a valid term through at least 2023.

In connection with the acquisition of Klein in December 2015, we acquired certain intellectual property consisting primarily of product designs and trade secrets.

We own intellectual property relating to the design and manufacture of Heli-pickers. This intellectual property includes United States, Canadian, Australian and United Kingdom patents.

For additional information regarding the risks associated with our intellectual property, see Item 1A-“Risk Factors.”

Environmental Regulation

We are subject to stringent governmental laws and regulations, both in the United States and other countries, pertaining to worker safety and health, the handling, storage, transportation and disposal of hazardous materials, chemicals and other materials used in our manufacturing processes or otherwise generated from our operations, or otherwise relating to the protection of the environment and natural resources. We have established and implemented environmental procedures for the management of these chemicals and materials as well as the handling and recycling or disposal of wastes resulting from our operations. Compliance with these laws and regulations may, among other things, require the acquisition of permits for air emissions and water discharges resulting from our manufacturing processes, impose specific safety and health criteria addressing worker protection, result in capital expenditures to limit or prevent emissions and discharges, obligate us to use more stringent precautions for disposal of certain wastes, or incur substantial costs to remediate releases of hazardous materials to the environment. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations, and the issuance of injunctive relief. We may be subject to strict, joint and several liability as well as natural resource damages resulting from spills or releases of chemicals or other regulated materials and wastes at our facilities or at offsite locations. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by spills or releases that may affect them. As a result of such actions, we could be required to remove previously disposed wastes, remediate environmental contamination, and undertake measures to prevent future contamination, the costs of which could be significant.

In addition, certain regulations in the United States and foreign jurisdictions address the manner in which certain hazardous materials, such as electric storage batteries, can be transported. These regulations may limit our ability, and that of our customers, to transport equipment

necessary for seismic operations, particularly by air. These limitations may significantly increase the time and cost required to transport such equipment.

The trend in environmental regulation has been to place more restrictions and limitations on activities that may affect the environment and thus any changes in environmental laws and regulations that result in more stringent and costly waste handling, storage, transport, disposal or cleanup requirements could have a material adverse effect on our operations and financial position. Increased regulation of the environment can also have an indirect adverse effect on our operations. For instance, the adoption of laws or implementing regulations with regard to climate-change that have the effect of lowering the demand for carbon-based fuels or decreasing the performance of oil or natural gas exploration or production activities by energy companies could reduce demand for our products and, as a result, have a material adverse effect on our business. Moreover, the implementation of new or more restrictive regulatory initiatives in response to significant spills by oil and natural gas operators, such as occurred following the Deepwater Horizon incident in April 2010, may delay or decrease the pace of exploration or production activities, which may result in a similar decrease in demand for our products and have a material adverse effect on our business.

We are also subject to federal, state and foreign worker safety and health laws and regulations. These laws and regulations obligate us to organize and/or disclose information about hazardous materials used or produced in our operations and to provide this information to employees, state and legal governmental authorities and citizens. We do not believe that compliance with existing applicable environmental, worker safety and health laws and regulations will have a material adverse impact on our business; however, we cannot give any assurance that this will continue in the future. For additional information regarding the risk associated with environmental matters, see Item 1A – “Risk Factors.”

Website Access to Our Periodic SEC Reports

Our internet address is <http://www.mitchamindustries.com>. We file and furnish Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, with the SEC, which are available free of charge through our website as soon as reasonably practicable after such reports are filed with or furnished to the SEC. Materials we file with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding our company that we file and furnish electronically with the SEC.

We may from time to time provide important disclosures to investors by posting them in the investor relations section of our website, as allowed by SEC rules. Information on our website is not incorporated by reference into this Form 10-K and you should not consider information on our website as part of this Form 10-K.

Item 1A. Risk Factors

The risks described below could materially and adversely affect our business, financial condition and results of operations and the actual outcome of matters as to which forward-looking statements are made in this Form 10-K. The risk factors described below are not the only risks we face. Our business, financial condition and results of operations may also be affected by additional factors that are not currently known to us or that we currently consider immaterial or that are not specific to us, such as general economic conditions.

You should refer to the explanation of the qualifications and limitations on forward-looking statements included under “Cautionary Statements About Forward-Looking Statements” of this Form 10-K. All forward-looking statements made by us are qualified by the risk factors described below.

Our revenues are subject to fluctuations that are beyond our control, which could materially adversely affect our results of operations in a given financial period.

Projects awarded to and scheduled by our customers can be delayed or cancelled due to factors that are outside of their control, which can affect the demand for our products and services. These factors include the following:

- inclement weather conditions;
- difficulties in obtaining permits and licenses;
- labor or political unrest;
- delays in obtaining access rights;
- availability of required equipment;
- security concerns;
- budgetary or financial issues; and

- delays in payments to our customers from their clients.

A limited number of customers account for a significant portion of our revenues and the loss of one of these customers could harm our results of operations.

We typically lease and sell significant amounts of seismic equipment to a relatively small number of customers, the composition of which changes from year to year as leases are initiated and concluded and as customers' equipment needs vary. Therefore, at any one time, a large portion of our revenues may be derived from a limited number of customers. In fiscal 2018, 2017 and 2016, our single largest customer, accounted for approximately 14%, 14% and 11%, respectively, of our consolidated revenues. Together, our five largest customers accounted for approximately 43% of our consolidated revenues in fiscal 2018. There has been consolidation among certain of our customers and this trend may continue. This consolidation could result in the loss of one or more of our customers and could result in a decrease in the demand for our equipment.

The financial soundness of our customers could materially affect our business and operating results.

If our customers experience financial difficulties or their own customers delay payment to them, they may not be able to pay, or may delay payment of, accounts receivable owed to us. Disruptions in the financial markets or other macro-economic issues could exacerbate financial difficulties for our customer. Any inability of customers to pay us for services could adversely affect our financial condition and results of operations.

As of January 31, 2018, we had approximately \$10.5 million of customer accounts and contracts receivable, of which approximately \$6.2 million was over 90 days past due. For fiscal 2018, 2017 and 2016, we had net charges of approximately \$1.0 million, \$750,000 and \$2.2 million, respectively, to our provision for doubtful accounts. Significant payment defaults by our customers in excess of the allowance would have a material adverse effect on our financial position and results of operations.

We derive a substantial amount of our revenues from foreign operations and sales, which pose additional risks including economic, political and other uncertainties.

We conduct operations on a global scale. For fiscal 2018, 2017 and 2016, approximately 76%, 85%, and 86%, respectively, of our revenues were attributable to operations in foreign countries.

Our international operations are subject to a number of risks inherent to any business operating in foreign countries, and especially those with emerging markets. As we continue to increase our presence in such countries, our operations will encounter the following risks, among others:

- government instability, which can cause investment in capital projects by our potential clients to be withdrawn or delayed, reducing or eliminating the viability of some markets for our services;
- potential expropriation, seizure, nationalization or detention of assets;
- difficulty in repatriating foreign currency received in excess of local currency requirements;
- import/export quotas and evolving export license requirements;
- civil uprisings, riots and war, which can make it unsafe to continue operations, adversely affect both budgets and schedules and expose us to losses;
- availability of suitable personnel and equipment, which can be affected by government policy, or changes in policy, which limit the importation of qualified crewmembers or specialized equipment in areas where local resources are insufficient;
- decrees, laws, regulations, interpretation and court decisions under legal systems, which are not always fully developed and which may be retroactively applied and cause us to incur unanticipated and/or unrecoverable costs as well as delays which may result in real or opportunity costs;
- terrorist attacks, including kidnappings of our personnel or those of our customers;
- political and economic uncertainties in certain countries which cause delays or cancellation of oil and gas exploration projects;
- the United States or foreign countries could enact legislation or impose regulations or other restrictions, including unfavorable labor regulations, tax policies or economic sanctions (including current or additional economic sanctions relating to the dispute between Russia and the Ukraine), which could have an adverse effect on our ability to conduct business in or expatriate profits from the countries in which we operate; and
- environmental conditions and regulatory controls or initiatives in some countries, which may not be consistently applied or enforced.

We cannot predict the nature and the likelihood of any such events. However, if any of these or other similar events should occur, it could have a material adverse effect on our financial condition and results of operation.

The sale or transfer of certain equipment to a location outside the United States may require prior approval in the form of an export license issued by the United States Department of Commerce or Department of State. These transactions may otherwise be subject to tariffs and import/export restrictions from the United States or other governments. The delay in obtaining required governmental approvals could affect our ability to conclude a sale or timely commence a project, and the failure to comply with all such controls could result in fines and other penalties.

We are subject to taxation in many foreign jurisdictions and the final determination of our tax liabilities involves the interpretation of the statutes and requirements of taxing authorities worldwide. Our tax returns are subject to routine examination by taxing authorities, and these examinations may result in assessments of additional taxes, penalties and/or interest.

Our overall success as a global business depends, in part, upon our ability to succeed in differing economic, social and political conditions. We may not continue to succeed in developing and implementing policies and strategies that are effective in each location where we do business, which could negatively affect our profitability.

Due to the international scope of our business activities, our results of operations may be significantly affected by currency fluctuations.

Many of our foreign operations are conducted in currencies other than U.S. dollars. Those currencies include the Canadian dollar, the Australian dollar, the Singapore dollar, the Russian ruble, the Euro, and the British pound sterling. These internationally-sourced revenues are subject to the risk of taxation policies, expropriation, political turmoil, civil disturbances, armed hostilities, and other geopolitical hazards as well as foreign currency exchange controls (in which payment could not be made in U.S. dollars) and fluctuations.

For example, in connection with the ongoing political turmoil in Ukraine, the United States, the European Union and other countries have imposed significant sanctions measures against Russia targeting the energy, defense and financial sectors of Russia's economy as well as specific Russian officials and businesses that they own. At least partly due to these sanctions, there has been a dramatic decline in the price for oil, which is a major export for Russia. These current events have negatively affected the Russian economy and have negatively affected the value of the Russian ruble relative to the U.S. dollar. While revenues attributable to our operations in Russia were not material in fiscal 2018 and 2017, continuing fluctuations in the rates at which the U.S. dollar are exchanged into Russian rubles may result in both foreign currency transaction and translation losses. As the dollar strengthens or weakens relative to the ruble, our ruble-denominated revenue and expenses decline or increase respectively, when translated into U.S. dollars for financial reporting purposes.

For accounting purposes, balance sheet accounts of our operating subsidiaries are translated at the current exchange rate as of the end of the accounting period. Statement of operations items are translated at average currency exchange rates. The resulting translation adjustment is recorded as a separate component of comprehensive income within shareholders' equity. This translation adjustment has in the past been, and may in the future be, material because of the significant amount of assets held by our international subsidiaries and the fluctuations in the foreign exchange rates.

We are subject to risks associated with the intellectual property of our Marine Technology Products segment.

We rely on a combination of patent, copyright, trademark and trade secret laws, and restrictions on disclosure to protect our intellectual property. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners and control access to and distribution of our design information, documentation and other proprietary information. These intellectual property protection measures may not be sufficient to prevent wrongful misappropriation of our technology. In addition, these measures will not prevent competitors from independently developing technologies that are substantially equivalent or superior to our technology. The laws of many foreign countries may not protect intellectual property rights to the same extent as the laws of the United States. Failure to protect proprietary information could result in, among other things, loss of competitive advantage, loss of customer orders and decreased revenues. Monitoring the unauthorized use of our products is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. If competitors are able to use our technology, our ability to compete effectively could be impaired.

We may be subject to infringement claims and other intellectual property disputes as competition in the marketplace continues to intensify. In the future, we may be subject to litigation and may be required to defend against claimed infringements of the rights of others or to determine the scope and validity of the proprietary rights of others. Any such litigation could be costly and divert management's attention from operations. In addition, adverse determinations in such litigation could, among other things:

- result in the loss of our proprietary rights to use the technology;
- subject us to significant liabilities;
- require us to seek licenses from third parties;
- require us to redesign the products that use the technology; and
- prevent us from manufacturing or selling our products that incorporate the technology.

If we are forced to take any of the foregoing actions, our business may be seriously harmed. Any litigation to protect our intellectual property or to defend ourselves against the claims of others could result in substantial costs and diversion of resources and may not ultimately be successful.

Products we develop, manufacture and sell may be subject to performance or reliability risks.

The production of new products with high technology content involves occasional problems while the technology and manufacturing methods mature. If significant reliability or quality problems develop, including those due to faulty components, a number of negative effects on our business could result, including:

- costs associated with reworking the manufacturing processes;
- high service and warranty expenses;
- high inventory obsolescence expense;
- high levels of product returns;
- delays in collecting accounts receivable;
- reduced orders from existing customers; and
- declining interest from potential customers.

Although we maintain accruals for product warranties as we deem necessary, actual costs could exceed these amounts. From time to time, there may be interruptions or delays in the activation of products at a customer's site. These interruptions or delays may result from product performance problems or from aspects of the installation and activation activities, some of which are outside our control. If we experience significant interruptions or delays that cannot be promptly resolved, confidence in our products could be undermined, which could have a material adverse effect on our operations.

We are subject to risks related to the availability and reliability of component parts used in the manufacture of our products.

We depend on a limited number of suppliers for components of our products, as well as for equipment used to design and test our products. Certain components used in our products may be available from a sole source or limited number of vendors. If these suppliers were to limit or reduce the sale of such components to us, or if these suppliers were to experience financial difficulties or other problems that prevented them from supplying us with the necessary components, these events could have a material adverse effect on our business, financial condition and results of operations. These sole source and other suppliers are each subject to quality and performance issues, materials shortages, excess demand, reduction in capacity and other factors that may disrupt the flow of goods to us; thereby adversely affecting our business and customer relationships. Some of the sole source and limited source vendors are companies who, from time to time, may allocate parts to equipment manufacturers due to market demand for components and equipment. We have no guaranteed supply arrangements with our suppliers and there can be no assurance that our suppliers will continue to meet our requirements. Many of our competitors are much larger and may be able to obtain priority allocations from these shared vendors, thereby limiting or making our sources of supply unreliable for these components. If our supply arrangements are interrupted, there can be no assurance that we would be able to find another supplier on a timely or satisfactory basis. Any delay in component availability for any of our products could result in delays in deployment of these products and in our ability to recognize revenues.

If we are unable to obtain a sufficient supply of components from alternative sources, reduced supplies and higher prices of components will significantly limit our ability to meet scheduled product deliveries to customers. A delay in receiving certain components or the inability to receive certain components could harm our customer relationships and our results of operations.

Failures of components affect the reliability and performance of our products, can reduce customer confidence in our products, and may adversely affect our financial performance. From time to time, we may experience delays in receipt of components and may receive components that do not perform according to their specifications. Any future difficulty in obtaining sufficient and timely delivery of components could result in delays or reductions in product shipments that could harm our business. In addition, a consolidation among suppliers of these components or adverse developments in their businesses that affect their ability to meet our supply demands could adversely impact the availability of components that we depend on. Delayed deliveries from these sources could adversely affect our business.

We are subject to risks related to maintaining appropriate inventory levels.

We are exposed to risks relating to effectively maintaining inventory levels. Changes in product demand, product pricing, defective components and other factors can impact the appropriate level of inventories. We attempt to accurately predict these trends in order to avoid shortages, excesses or obsolete inventory. However, any of the factors above may adversely affect our operating results.

Our quarterly operating results may be subject to significant fluctuations.

Individual orders for many of our products can be relatively significant and delivery requirements can be sporadic. Accordingly, our operating results for a particular quarter can be materially impacted by the absence or presence of such significant orders.

The oil and gas industry in general and the seismic industry in particular are subject to cyclical fluctuations. Demand for many of our products and services depends upon spending levels by exploration and production companies for exploration, production, development and field management of oil and natural gas reserves.

These periodic fluctuations in our operating results could adversely affect our stock price.

We face competition for our products and services.

We have several competitors who provide similar products and services, many of which have substantially greater financial resources than our own. There are also several smaller competitors that, in the aggregate, generate significant revenues from the sale or lease of products similar to those we offer.

We rely on a small number of suppliers and disruption in vendor supplies could adversely affect our results of operations.

We purchase many of the components used in our manufacturing operations and the majority of our seismic equipment for our lease pool from a small number of suppliers. Should our relationships with our suppliers deteriorate, we may have difficulty in obtaining new technology required by our customers and maintaining our existing equipment in accordance with manufacturers' specifications. In addition, we may, from time to time, experience supply or quality control problems with suppliers, and these problems could significantly affect our ability to meet our lease commitments. Reliance on certain suppliers, as well as industry supply conditions, generally involve several risks, including the possibility of a shortage or a lack of availability of key products and increases in product costs and reduced control over delivery schedules; any of these events could adversely affect our future results of operations.

Trends in oil and natural gas prices affect the level of exploration, development, and production activity of certain of our customers and the demand for a portion of our services and products, which could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition.

Historically, the demand for certain of our products and services has been particularly sensitive to the level of exploration, development and production activity of, and the corresponding capital spending by, oil and gas companies. The level of exploration, development, and production activity is directly affected by trends in oil and natural gas prices, which historically have been volatile and are likely to continue to be volatile. During the period of depressed commodity prices in recent years many oil and gas exploration and production companies significantly reduced their levels of capital spending, including amounts dedicated to the leasing or purchasing our seismic equipment.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, and a variety of other economic factors that are beyond our control. Crude oil prices declined significantly in the second half of calendar 2014, and were negatively affected by a combination of factors, including weakening demand in Europe and Asia, increased production in the United States, and the decision in late November 2014 by the Organization of Petroleum Exporting Countries to keep production levels unchanged. Additionally, stronger economic performance in the United States has led to a strengthening in the U.S. dollar relative to most other currencies, contributing further to the fall in the U.S. dollar value of oil. Downward pressure on commodity prices continued into early 2016. During the course of fiscal 2017 and 2018, crude oil prices recovered somewhat and stabilized from much of the fluctuation of prior periods. Nevertheless, many oil and gas companies made downward revisions to their operating budgets and significantly reduced exploration spending. This had an adverse effect on our oil and gas related business, particularly our equipment leasing segment. We expect continued uncertainty regarding pricing, revenue and operating margins in our oil and gas related business in fiscal 2019. For more information, see Item 7- "Management's Discussion and Analysis of Financial Condition and Results of Operations - Business Environment and Results of Operations." Factors affecting the prices of oil and natural gas include, among other things:

- the level of prices, and expectations about future prices, for oil and natural gas;
- the level of supply and demand for oil and natural gas;
- the ability of oil and gas producers to raise equity capital and debt financing;
- worldwide political, military and economic conditions;
- limitations or disruptions in the transportation or storage of oil;
- the ability of the Organization of Petroleum Exporting Countries to set and maintain production levels and prices for oil;
- the rate of discovery of new oil and gas reserves and the decline of existing oil and gas reserves;
- the cost of exploring for, developing and producing oil and natural gas;

- the ability of exploration and production companies to generate funds or otherwise obtain capital for exploration, development and production operations;
- technological advances affecting energy exploration, production and consumption;
- compliance with new or emerging laws or regulatory initiatives relating to greenhouse gas emissions, hydraulic fracturing, or safety aspects of offshore exploration and production activities that may have a material adverse effect on our customers with respect to increased costs, delays or prohibitions in obtaining drilling permits;
- government regulations, including environmental laws and regulations and tax policies, regarding the exploration for, production and development of oil and natural gas reserves and the use of fossil fuels and alternative energy sources; and
- weather conditions, including large-scale weather events such as hurricanes that impact oil and gas operations over a wide area or impact prices.

Continued depressed commodity prices, or a further decline in existing commodity prices, could adversely affect demand for the services and equipment we provide, and therefore adversely affect our revenue and profitability. Further, perceptions of a long-term decrease in commodity prices by oil and gas companies could similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Lower levels of activity result in a corresponding decline in the demand for our products and services, which could have a material adverse effect on our revenue and profitability. Additionally, these factors may adversely impact our statement of financial position if they are determined to cause impairment of our goodwill or other intangible assets or of our other long-lived assets. Such a potential impairment charge could have a material adverse impact on our operating results.

Demand for seismic data is not assured.

Demand for certain of our products and services depends on the level of spending by oil and gas companies for exploration, production and development activities, as well as on the number of crews conducting land, transition zone and marine seismic data acquisition worldwide. The levels of such spending are influenced by:

- oil and gas prices and industry expectations of future price levels;
- the cost of exploring for, producing and delivering oil and gas;
- the availability of current geophysical data;
- the ability of oil and gas companies to generate funds or otherwise obtain capital for exploration operations;
- the granting of leases or exploration concessions and the expiration of such rights;
- changes to existing laws and regulations;
- domestic and foreign tax policies;
- merger and divestiture activity among oil and gas producers;
- expected rates of declining current production;
- technical advances affecting energy exploration, production, transportation and consumption;
- weather conditions, including hurricanes and monsoons that can affect oil and gas operations over a wide area as well as less severe inclement weather that can preclude or delay seismic acquisition surveys;
- the discovery rate of new oil and gas reserves; and
- local and international political and economic conditions.

The cyclical nature of the oil and gas industry can have a significant effect on our revenues and profitability. Historically, oil and natural gas prices, as well as the level of exploration and developmental activity, have fluctuated significantly. These fluctuations have in the past, and may in the future, adversely affect our business. We are unable to predict future oil and natural gas prices or the level of oil and gas industry activity. A prolonged low level of activity in the oil and gas industry will likely depress exploration and development activity, adversely affecting the demand for our products and services and our financial condition and results of operations.

Equipment in our lease pool may be subject to the intellectual property claims of others that could adversely affect our ability to generate revenue from the lease of the equipment.

Certain of the equipment in our lease pool is proprietary to us. Heli-pickers and associated equipment that is manufactured by us is subject to various patents, see Item 1 - "Business - Intellectual Property." We may be subject to infringement claims and other intellectual property disputes as competition in the marketplace continues to intensify. In the future, we may be subject to litigation and may be required to defend against claimed infringements of the rights of others or to determine the scope and validity of the proprietary rights of others. Any

such litigation could be costly and divert management's attention from operations. In addition, adverse determinations in such litigation could, among other things:

- result in the loss of our proprietary rights to use the technology;
- subject us to significant liabilities;
- require us to seek licenses from third parties; and
- prevent us from leasing or selling our products that incorporate the technology.

Additionally, the equipment that we acquire from other suppliers may be subject to the intellectual property infringement claims from third parties. We generally are indemnified by our suppliers against any claims that may be brought against us by third parties related to equipment they sold to us. However, such claims could affect our ability to acquire additional such products or to lease them in the future. The loss of this future revenue could adversely affect our business and would not generally be covered by the indemnities from our suppliers.

Capital requirements for our business strategy can be large. If we are unable to finance these requirements, we may not be able to maintain our competitive advantage or execute our strategy.

We have historically funded our capital requirements with cash generated from operations, cash reserves, issuance of preferred and common stock and short-term borrowings from commercial banks. Our capital requirements may continue to increase. If we were to expand our operations at a rate exceeding operating cash flow, or current demand or pricing of our services were to decrease substantially or if technical advances or competitive pressures required us to acquire new equipment faster than our cash flow could sustain, additional financing could be required. Access to global financial markets and the terms under which capital is available can be uncertain and volatile. Furthermore, due to the historically cyclical nature of the energy business in general, and the seismic industry in particular, capital for businesses in this industry can be even more difficult and expensive to obtain.

Due to these factors, we cannot be certain that funding will be available if and when needed and to the extent required, on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, we may be unable to grow our existing business, complete acquisitions or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our financial condition and results of operations.

Access to working capital and letters of credit may be limited.

From time to time, we may require access to working capital to finance inventory purchases or to provide letters of credit or bankers guarantees to certain customers. Historically, we have met this need by utilizing a revolving credit facility. In March 2017 we terminated our revolving Credit Agreement (as defined below) and have not replaced that facility. There is no assurance that we will be able to negotiate a replacement facility or facilities. In recent months, many commercial banks in the United States have undertaken to reduce their exposure to companies engaged in oil and gas related activities. This could further limit our ability to obtain working capital financing. Should we not have access to adequate working capital financing, we may not be able to pursue or complete some business opportunities.

Our operations and financial condition will be materially adversely affected if we are unable to continually obtain additional lease contracts.

Our seismic equipment leases typically have a term of two to six months and provide gross revenues that recover only a portion of our capital investment on the initial lease. Our ability to generate lease revenues and profits is dependent on obtaining additional lease contracts after the termination of an original lease. However, lease customers are under no obligation to, and frequently do not, continue to lease seismic equipment after the expiration of a lease. Although we have been successful in obtaining additional lease contracts with other customers after the termination of the original leases, there can be no assurance that we will continue to do so. Our failure to obtain additional leases or extensions beyond the initial lease term would have a material adverse effect on our operations and financial condition.

Our failure to attract and retain key personnel could adversely affect our operations.

Our success is dependent on, among other things, the services of certain key personnel. In September of 2015, Robert P. Capps, Executive Vice President-Finance and Chief Financial Officer, and Guy Malden, Executive Vice President-Marine Systems, assumed the additional roles of Co-Chief Executive Officers. In these roles, Mr. Capps and Mr. Malden are responsible for all day-to-day operations in close coordination with the Board of Directors. The loss of the services of Mr. Capps or Mr. Malden for an extended period of time or the loss of other personnel could have a material adverse effect on our operations.

The high fixed costs of our operations could adversely affect our results of operations.

Our business has high fixed costs. In periods of significant downtime these fixed costs do not decline as rapidly as our revenues. As a result, any significant downtime or low productivity caused by reduced demand could adversely affect our results of operations.

Our long-lived assets may be subject to impairment.

We periodically assess our long-lived assets, including goodwill, other intangible assets and our lease pool of equipment, for impairment. If we expect significant sustained decreases in oil and natural gas prices in the future, we may be required to write down the value of our long-lived assets if the future cash flows anticipated to be generated from these assets falls below net book value. Declines in oil and natural gas prices, if sustained, could result in future impairments. If we are forced to write down the value of our long-lived assets, these noncash asset impairments could negatively affect our results of operations in the period in which they are recorded. In fiscal 2018 and 2016 we recognized charges for impairment of approximately \$1.4 million and \$3.6 million, respectively, related to certain intangible assets. See the discussion included in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Long-Lived Assets."

Our deferred tax assets are subject to impairment.

As of January 31, 2018 we had deferred tax assets before valuation allowances of approximately \$21.2 million, including approximately \$11.6 million in the United States. The majority of these amounts relate to net operating loss carryforwards. In order to utilize these amounts we must generate taxable income in the relevant jurisdictions sufficient to utilize these carryovers. Based on an evaluation of all available positive and negative evidence regarding the likelihood of realizing these deferred tax assets, as of January 31, 2018 we have recorded a valuation allowance of approximately \$21.2 million related to the deferred tax assets. See the discussion included in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Income Taxes."

Recently enacted changes to the U.S. federal income tax laws could adversely affect our financial position and results of operation.

On December 22, 2017, the United States enacted legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act contains (i) significant changes to corporate taxation, including reduction of the corporate tax rate from 35% to 21%, (ii) limitations on the deductibility of interest expense, business entertainment expenses, and executive compensation, and (iii) significant changes to U.S. international taxation, including a one-time repatriation tax on undistributed earnings of foreign subsidiaries, the exemption from U.S. tax of certain foreign earnings upon their distribution to U.S. corporate shareholders, and the addition of a base erosion and anti-abuse tax. We continue to examine the impact the Tax Act may have on us, and it could have an adverse effect on our financial condition and results of operation.

As a company subject to compliance with the Foreign Corrupt Practices Act (the "FCPA") and the UK Bribery Act of 2010 (the "UK Bribery Act"), our business may suffer because our efforts to comply with these laws could restrict our ability to do business in foreign markets relative to our competitors who are not subject to them. Any determination that we or our foreign agents or partners have violated the FCPA or the UK Bribery Act may adversely affect our business and operations.

We and our local partners operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We may be subject to competitive disadvantages to the extent that our competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence or using other methods that U.S. law and regulations prohibit us from using.

As a U.S. corporation, we are subject to the regulations imposed by the FCPA, which generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. In particular, we may be held liable for actions taken by our strategic or local partners even though our partners are not subject to the FCPA. Any such violations could result in substantial civil and/or criminal penalties and might adversely affect our business, results of operations or financial condition. In addition, our ability to continue to work in such foreign markets could be adversely affected if we were found to have violated certain U.S. laws, including the FCPA.

The UK Bribery Act, which became effective in 2011, is broader in scope than the FCPA and applies to public and private sector corruption and contains no facilitating payments exception as is contained in the FCPA.

We are subject to a variety of environmental laws and regulations that could increase our costs of compliance and impose significant liabilities.

We are subject to stringent governmental laws and regulations relating to worker safety and health, protection of the environment and the handling of chemicals and materials used in our manufacturing processes as well as the recycling and disposal of wastes generated by those processes. These laws and regulations may impose joint and several strict liability and failure to comply with such laws and regulations could result in the assessment of administrative, civil and criminal penalties, imposition of investigatory and remedial obligations, and issuance of orders enjoining some or all of our operations. These laws and regulations could require us to acquire permits to conduct regulated activities, install and maintain costly equipment and pollution control technologies, conduct remediation of contaminated soils and groundwater, implement specific health and safety criteria for worker protection, or undertake measures to prevent future contamination or incur other significant environmental-related expenses. Public interest in the protection of the environment has increased dramatically in recent years. If the trend of more expansive and stricter environmental laws and regulations continues, we may be required to increase our capital expenditures and operating expenses, in addition to possibly decreasing the performance of exploration or production activities by

energy companies, which could have a material adverse effect on our business. In addition, increased environmental regulation of oil and natural gas exploration and production activities in any of the countries in which our customers operate could cause them to incur increased costs or curtail operations, which in turn could result in decreased demand for our services and have a material adverse effect on our business.

Climate change laws and regulations restricting emissions of “greenhouse gases” could result in reduced demand for oil and natural gas, thereby adversely affecting our business, while the physical effects of climate change could disrupt our manufacturing of seismic equipment and cause us to incur significant costs in preparing for or responding to those effects.

In response to findings that emissions of carbon dioxide, methane and other greenhouse gases (“GHGs”) present an endangerment to the public health and the environment, the U.S. Environmental Protection Agency (the “EPA”) has adopted regulations under existing provisions of the federal Clean Air Act that, among other things, require preconstruction and operating permits for certain large stationary sources. Facilities required to obtain preconstruction permits for their GHG emissions also will be required to meet “best available control technology” standards that will be established by the states or, in some cases, by the EPA on a case-by-case basis. In addition the EPA has adopted regulations requiring monitoring and annual reporting of GHG emissions from certain sources, including, among others, certain onshore and offshore oil and natural gas production facilities. In the absence of federal climate legislation, a number of state cap and trade programs have emerged. In May 2016, the EPA finalized new regulations that set methane emission standards for new and modified oil and natural gas production and natural gas processing and transmission facilities. However, substantial uncertainty exists with respect to the future implementation of these rules, as well as the potential for additional regulatory action with respect to emissions of GHGs, due to the recent change in U.S. Presidential Administrations. In addition, many of the other countries where we and our customers operate, including, Canada and Europe, have adopted or are considering GHG reduction measures similar to those described above. Such measures, or any similar future proposals, have the potential to increase costs for the oil and gas industry, which in turn could result in reduced demand for the equipment we provide.

Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address GHG emissions would impact our business, any such future laws and regulations that require reporting of GHGs or otherwise limit emissions of GHGs from oil and gas exploration and production activities could have an adverse effect on the demand for our seismic equipment and associated services. Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, floods and other extreme weather events; if any such effects were to occur, they could adversely affect or delay our manufacturing of seismic equipment and cause us to incur significant costs in preparing for or responding to those effects, in addition to any indirect impacts resulting from the disruption of our customers' operations as a result of climate change.

Federal and state legislative and regulatory initiatives relating to hydraulic fracturing could result in additional operating restrictions or delays and adversely affect our business.

Hydraulic fracturing is an important and common practice that involves the injection of water, sand and chemicals under pressure into targeted surface formations to fracture the surrounding rock and stimulate production. We do not perform hydraulic fracturing, but many of our customers use this technique. The process is typically regulated by state oil and gas commissions, but the EPA has asserted federal regulatory authority over hydraulic fracturing involving the use of diesel fuels and issued final permitting guidance in February 2014 addressing the performance of such activities using diesel fuels. In addition, in June 2016, the EPA finalized rules that prohibit the discharge of wastewater from hydraulic fracturing operations to publicly owned wastewater treatment plants. At the state level, numerous states have adopted or are considering adopting legal requirements that could impose more stringent permitting, public disclosure, and/or well construction requirements on hydraulic fracturing activities. Moreover, local governments may seek to adopt ordinances within their jurisdiction regulating the time, place and manner of drilling activities in general or hydraulic fracturing activities in particular. Other counties have adopted or are considering similar restrictions on hydraulic fracturing activities. If new laws or regulations that significantly restrict hydraulic fracturing are adopted, such legal requirements could make it more difficult to complete natural gas wells in certain formations and adversely affect demand for our seismic equipment and associated services.

More comprehensive and stringent regulation of offshore oil and natural gas exploration and production operations may result in increased costs or delays, which could adversely affect our financial position, results of operations and cash flows.

Offshore oil and natural gas operations are frequently subject to delays and pose additional risks of environmental incidents. The occurrence of such incidents can result in increased regulation that could have an adverse effect on demand for our services. For example, subsequent to the Deepwater Horizon incident in April 2010, the Bureau of Ocean Energy Management (“BOEM”) and the Bureau of Safety and Environmental Enforcement (“BSEE”) issued a series of “Notice to Lessees” (“NLTs”) imposing increasingly stringent regulatory requirements and permitting procedures and, at times, issue temporary drilling moratoria, for new wells to be drilled in federal waters of the U.S. Outer Continental Shelf. These agencies may adopt additional environmental and safety measures upon exploration, development and production operators in the Gulf of Mexico in the future. These regulatory initiatives may serve to effectively slow down the pace of drilling and production operations in the Gulf of Mexico as well as increase lead times to obtain necessary approvals for offshore operations. Offshore oil and natural gas exploration and production operators, some of whom are our customers, could become subject to fines, penalties or orders requiring them to modify or suspend operations if they fail to comply with these requirements. Increased regulation in these areas could result in decreased offshore oil and gas exploration and development and consequently adversely affect demand for our services and our financial position, results of operation and cash flows.

Our business could be negatively affected by security threats, including cybersecurity threats, and other disruptions.

We face various security threats, including cybersecurity threats to gain unauthorized access to sensitive information or to render data or systems unusable, threats to the security of our facilities, and threats from terrorist acts. The potential for such security threats subjects our operations to increased risks that could have a material adverse effect on our business. In particular, our implementation of various procedures and controls to monitor and mitigate security threats and to increase security for our information, facilities and infrastructure may result in increased capital and operating costs. Moreover, there can be no assurance that such procedures and controls will be sufficient to prevent security breaches from occurring. If any of these security breaches were to occur, they could lead to losses of sensitive information, critical infrastructure or capabilities essential to our operations and could have a material adverse effect on our reputation, financial position, results of operations or cash flows. Cybersecurity attacks in particular are becoming more sophisticated and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data. These events could damage our reputation and lead to financial losses from remedial actions, loss of business or potential liability.

We may grow through acquisitions and our failure to properly plan and manage those acquisitions may adversely affect our performance.

We plan to expand not only through organic growth, but may also do so through the strategic acquisition of companies and assets. We must plan and manage any acquisitions effectively to achieve revenue growth and maintain profitability in our evolving market. For example, we recently completed the acquisition of intellectual property and certain other assets from Hydrosience Technologies, Inc., and in connection therewith, Mitsubishi Heavy Industries, Ltd. (“MHI”) has agreed to purchase an additional 21,756 shares of our Preferred Stock (as defined below) for \$500,000 upon the satisfaction of certain conditions specified in the securities purchase agreement between us and MHI. There can be no assurances, however, that such conditions will be satisfied or that the expected benefits of the Hydrosience Acquisition will be fully realized, if at all. If we fail to manage acquisitions effectively, our results of operations could be adversely affected.

Our growth has placed, and is expected to continue to place, significant demands on our personnel, management and other resources. We must continue to improve our operational, financial, management, legal compliance and information systems to keep pace with the growth of our business.

Any future acquisitions could present a number of risks, including but not limited to:

- incorrect assumptions regarding the future results of acquired operations or assets or expected cost reductions or other synergies expected to be realized as a result of acquiring operations or assets;
- failure to integrate the operations or management of any acquired operations or assets successfully and timely;
- diversion of management’s attention from existing operations or other priorities; and
- our inability to secure sufficient financing, on terms we find acceptable, that may be required for any such acquisition or investment.

Our stock price is subject to volatility.

Energy and energy service company stock prices, including our stock price, have been volatile from time to time. Stock price volatility could adversely affect our business operations by, among other things, impeding our ability to attract and retain qualified personnel and to obtain additional financing.

In addition to the other risk factors discussed in this section, the price and volume volatility of our common stock may be affected by:

- operating results that vary from the expectations of securities analysts and investors;
- factors influencing the levels of global oil and natural gas exploration and exploitation activities, such as depressed prices for natural gas in North America or disasters such as the Deepwater Horizon incident in the Gulf of Mexico in 2010;
- the operating and securities price performance of companies that investors or analysts consider comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and
- changes in global financial markets and global economies and general market conditions, such as interest rates, commodity and equity prices and the value of financial assets.

To the extent that the price of our common stock remains at lower levels or it declines further, our ability to raise funds through the issuance of equity or otherwise use our common stock as consideration will be reduced. In addition, increases in our leverage may make it more difficult for us to access additional capital. These factors may limit our ability to implement our operating and growth plans.

Because we do not currently pay any dividends on our common stock, investors must look solely to stock appreciation for a return on their investment in us.

We have not paid cash dividends on our common stock since our incorporation and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain any future earnings attributable to our common stock to support our operations and growth. Any payment of cash dividends on our common stock in the future will be dependent on the amount of funds legally available, our financial condition, capital requirements and other factors that our Board of Directors may deem relevant. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

We may issue debt or equity securities with rights senior to that of our common stock in liquidation which could dilute or negatively affect the value of our common stock.

Through April 3, 2018 we have issued 684,286 shares of 9.00% Series A Cumulative Preferred Stock, par value \$1.00 per share (the "Series A Preferred Stock"), with a liquidation preference of \$25.00 per share. In addition, we have entered into an agreement in connection with the Hydrosience Acquisition to issue an additional 21,756 shares to Mitsubishi Heavy Industries, Ltd. ("MHI"), subject to certain conditions. Furthermore, we have entered into an equity distribution agreement, pursuant to which we may sell up to an additional 293,958 shares of the Series A Preferred Stock through an at the market program. The Series A Preferred Stock has a liquidation preference senior to that of our common stock. In order to raise additional capital, in the future, we may issue other debt securities or equity securities with a liquidation preference senior to that of our common stock. In the event of our liquidation, our lenders and holders of our debt and preferred securities could receive a distribution of our available assets before distributions to the holders of our common stock. The issuance of these securities could dilute or negatively affect the value of our common stock.

Provisions in our articles of incorporation and Texas law could discourage a takeover attempt, which may reduce or eliminate the likelihood of a change of control transaction and, therefore, the ability of our shareholders to sell their shares for a premium.

Provisions of our Articles of Incorporation and the Texas Business Organizations Code may tend to delay, defer or prevent a potential unsolicited offer or takeover attempt that is not approved by our Board of Directors but that our shareholders might consider to be in their best interest, including an attempt that might result in shareholders receiving a premium over the market price for their shares. Because our Board of Directors is authorized to issue preferred stock with preferences and rights as it determines, it may afford the holders of any series of preferred stock preferences, rights or voting powers superior to those of the holders of common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We occupy the following principal facilities, which we believe are adequately utilized for our current operations:

<u>Location</u>	<u>Type of Facility</u>	<u>Size (in square feet)</u>	<u>Owned or Leased</u>	<u>Segment Using Property</u>
Huntsville, Texas	Office and warehouse	25,000 (on six acres)	Owned	Equipment Leasing and Marine Technology Products
Calgary, Alberta, Canada	Office and warehouse	33,500	Leased	Equipment Leasing
Salisbury, Australia	Office and warehouse	4,400	Leased	Equipment Leasing and Marine Technology Products
Singapore	Office and warehouse	35,000	Leased	Equipment Leasing and Marine Technology Products
Shepton Mallet, United Kingdom	Office and warehouse	16,600	Leased	Marine Technology Products
Ufa, Bashkortostan, Russia	Office and warehouse	22,600	Leased	Equipment Leasing
Bogota, Colombia	Office and warehouse	23,600	Leased	Equipment Leasing
Budapest, Hungary	Office and warehouse	12,000	Leased	Equipment Leasing
Salem, New Hampshire	Office and warehouse	57,900 (on 23.6 acres)	Owned	Marine Technology Products

We do not believe that any single property is material to our operations and, if necessary, we could readily obtain a replacement facility. Approximately 21,000 square feet of the facility in Salem, New Hampshire is subleased to unrelated third parties.

Item 3. *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 that we believe could have a material adverse effect on our results of operations or financial condition.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock

Our common stock is traded on the NASDAQ Global Select Market under the symbol "MIND." The following table sets forth, for the periods indicated, the high and low sales prices of our common stock as reported on the NASDAQ Global Select Market.

	High	Low
<u>Fiscal Year Ended January 31, 2017:</u>		
First Quarter	\$ 3.95	\$ 2.26
Second Quarter	4.45	3.31
Third Quarter	3.80	2.65
Fourth Quarter	4.92	2.97
<u>Fiscal Year Ended January 31, 2018:</u>		
First Quarter	\$ 5.14	\$ 3.89
Second Quarter	5.00	3.22
Third Quarter	4.20	2.82
Fourth Quarter	4.20	3.08

As of April 9, 2018, there were approximately 3,000 beneficial holders of our common stock.

Dividend Policy

We have not paid any cash dividends on our common stock since our inception and our Board of Directors does not contemplate the payment of cash dividends on our common stock in the foreseeable future. In the future, our payment of dividends on our common stock will depend on the amount of funds available, our financial condition, capital requirements and such other factors as our Board of Directors may consider.

As of April 9, 2018, there were 684,286 shares of Series A Preferred Stock outstanding with a liquidation preference of approximately \$25.00 per share. The quarterly dividends on the outstanding Series A Preferred Stock are approximately \$385,000. We have entered into an equity distribution agreement, pursuant to which we may sell up to an additional 293,958 shares of the Series A Preferred Stock through an at the market offering program which, if issued, would result in additional quarterly dividend payments.

As of January 31, 2018, we had deposits in foreign banks equal to approximately \$3.9 million. These funds may generally be transferred to our accounts in the United States without restriction. However, the transfer of these funds may result in withholding taxes payable to foreign taxing authorities. Any such withholding taxes generally may be credited against our federal income tax obligations in the United States, if any. Additionally, the transfer of funds from our foreign subsidiaries to the United States may result in currently taxable income in the United States. These factors could limit our ability to pay cash dividends in the future.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Neither we, nor any affiliated purchaser, purchased any of our equity securities during the fourth quarter of fiscal 2018.

Item 6. Selected Financial Data

The selected consolidated financial information contained below is derived from our consolidated financial statements and should be read in conjunction with Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements, including the notes thereto. Our historical results may not be indicative of the operating results to be expected in future periods.

	Years Ended January 31,				
	2018	2017	2016	2015	2014
	(Amounts in thousands, except per share amounts)				
Statement of Income Data:					
Total revenues	\$ 48,276	\$ 40,999	\$ 51,819	\$ 83,146	\$ 92,108
Operating (loss) income	(19,708)	(31,290)	(26,760)	(6,745)	5,805
(Loss) income from continuing operations	(20,159)	(31,339)	(27,759)	(9,192)	4,768
(Loss) income from continuing operations per common share – basic	(1.82)	(2.79)	(3.22)	(0.74)	0.37
(Loss) income from continuing operations per common share – diluted	(1.82)	(2.79)	(3.22)	(0.74)	0.36
Balance Sheet Data:					
Cash and short-term investments (including restricted cash)	10,146	3,511	3,769	5,359	15,243
Seismic equipment lease pool and property and equipment, net	22,900	43,838	73,516	100,087	129,573
Total assets	73,679	94,714	134,759	179,611	205,419
Long-term debt	—	—	17,266	23,137	22,125
Total liabilities	7,830	13,782	29,722	33,137	34,971
Total shareholders' equity	65,849	80,932	105,037	146,474	170,448

For fiscal 2018, 2017 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.

See Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of matters affecting the comparability of the above information.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We operate in two segments, Marine Technology Products and Equipment Leasing. The Marine Technology Products segment was previously referred to as our Equipment Manufacturing and Sales segment. We have revised the name of this segment in order to more accurately describe the operations and focus of that part of our business. The change in name has no effect on the composition of the segment or its operations. Revenue from the Marine Technology Products segment includes sales of Seamap equipment, sales of Klein equipment and sales of oceanographic and hydrographic equipment by SAP. This segment operates from locations near Bristol, United Kingdom, Brisbane, Australia, Salem, New Hampshire and in Singapore.

Our equipment leasing operations include all leasing activity, sales of lease pool equipment and certain other equipment sales and services related to those operations. This business is conducted from our Huntsville, Texas headquarters and from our locations in Calgary, Canada; Brisbane, Australia; Bogota, Colombia; Budapest, Hungary; Singapore and Ufa, Russia. This includes the operations of our subsidiaries MCL, MEL, MML and MSE, our branch in Colombia and the leasing operations conducted by SAP.

We acquired Klein effective December 31, 2015 and, accordingly, our consolidated results of operations for the year ended fiscal 2016 included only one month of operations from Klein, which amounts were not material.

Prior to the acquisition of Klein in December 2015, sales of oceanographic and hydrographic equipment by SAP were included in our Equipment Leasing segment. Segment operating results for all periods presented have been restated to reflect the revised segment structure.

Management believes that the performance of our Marine Technology Products segment is indicated by revenues from equipment sales and by gross profit from those sales. Management further 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 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:

	Years Ended January 31,		
	2018	2017	2016
	(in thousands)		
Revenues:			
Marine technology products	\$ 27,573	\$ 25,100	\$ 25,350
Equipment leasing	20,919	15,961	26,665
Less inter-segment sales	(216)	(62)	(196)
Total revenues	<u>48,276</u>	<u>40,999</u>	<u>51,819</u>
Cost of sales:			
Marine Technology products	16,844	13,612	13,566
Equipment leasing	25,563	34,863	35,903
Less inter-segment costs	(215)	(62)	(319)
Total direct costs	<u>42,192</u>	<u>48,413</u>	<u>49,150</u>
Gross profit (loss)			
Marine technology products	10,729	11,488	11,784
Equipment leasing	(4,644)	(18,902)	(9,238)
Inter-segment amounts	(1)	—	123
Total gross profit (loss)	<u>6,084</u>	<u>(7,414)</u>	<u>2,669</u>
Operating expenses:			
General and administrative	19,663	19,753	18,855
Research and development	1,502	974	111
Contract settlement	—	—	2,142
Impairment of intangible assets	1,466	—	3,609
Provision for doubtful accounts	1,013	750	2,201
Depreciation and amortization	2,148	2,399	2,511
Total operating expenses	<u>25,792</u>	<u>23,876</u>	<u>29,429</u>
Operating loss	<u>\$ (19,708)</u>	<u>\$ (31,290)</u>	<u>\$ (26,760)</u>

	Years Ended January 31,		
	2018	2017	2016
	(in thousands)		
EBITDA (1)	\$ (3,569)	\$ (2,421)	\$ 5,077
Adjusted EBITDA (1)	\$ 7,215	\$ 3,607	\$ 13,673
Reconciliation of Net Loss to EBITDA and Adjusted EBITDA			
Net loss	\$ (21,069)	\$ (33,153)	\$ (38,736)
Interest (income) expense, net	(47)	643	725
Depreciation and amortization	16,637	28,275	32,111
Provision for income taxes	910	1,814	10,977
EBITDA (1)	(3,569)	(2,421)	5,077
Non-cash foreign exchange (gains) losses	844	(338)	1,057
Stock-based compensation (2)	903	737	1,293
Impairment of intangible assets	1,466	—	3,609
Contract settlement (2)	—	—	1,781
Cost of lease pool sales	7,571	5,629	856
Adjusted EBITDA (1)	<u>\$ 7,215</u>	<u>\$ 3,607</u>	<u>\$ 13,673</u>
Reconciliation of Net Cash Provided by Operating Activities to EBITDA			
Net cash provided by operating activities	\$ 719	\$ 3,154	\$ 15,047
Stock-based compensation	(903)	(737)	(1,293)
Provision for doubtful accounts	(1,013)	(750)	(2,201)
Provision for inventory allowance	(815)	(75)	(407)
Changes in trade accounts and contracts receivable	(4,405)	(7,345)	238
Interest paid	86	673	694
Taxes paid, net of refunds	494	409	1,520
Gross profit from sale of lease pool equipment	4,906	298	1,384
Changes in inventory	(685)	(850)	(677)
Changes in accounts payable, accrued expenses and other current liabilities	455	2,189	(1,241)
Impairment of intangible assets	(1,466)	—	(3,609)
Changes in prepaid expenses and other current assets	(1,002)	1,327	(4,807)
Foreign currency losses, net of gains	(61)	(84)	(466)
Other	121	(630)	895
EBITDA (1)	<u>\$ (3,569)</u>	<u>\$ (2,421)</u>	<u>\$ 5,077</u>

(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. 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 and we believe 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.

- (2) Non-recurring contract settlement costs of approximately \$2.1 million in 2016 include approximately \$1.8 million of deferred cash payments and approximately \$300,000 of stock based compensation.

Within our Marine Technology Products segment, we design, manufacture and sell a variety of products used primarily in oceanographic, hydrographic, defense, seismic and maritime security industries. Seamap's primary products include the (i) GunLink and Digishot seismic source acquisition and control systems, which provide marine operators more precise control of exploration tools; and (ii) the BuoyLink RGPS tracking system used to provide precise positioning of seismic sources and streamers (marine recording channels that are towed behind a vessel). Klein designs, manufactures and sells side scan sonar and water-side security systems to commercial, governmental and military customers throughout the world. SAP sells equipment, consumable supplies, systems integration, engineering hardware and software maintenance support services to the seismic, hydrographic, oceanographic, environmental and defense industries throughout Southeast Asia and Australia. In March 2018, following the Hydrosience Acquisition, Seamap introduced the SeaLink product line of marine sensor and solid streamer systems (see Note 20 - Subsequent Event to our consolidated financial statements). These towed streamer systems are primarily designed for three-dimensional, high-resolution marine surveys in hydrographic industry applications.

In our Equipment Leasing segment, we lease seismic data acquisition equipment primarily to seismic data acquisition companies conducting land, transition zone and marine seismic surveys worldwide. We provide short-term leasing of seismic equipment to meet a customer's requirements. All active leases at January 31, 2018 were for a term of less than one year. Seismic equipment held for lease is carried at cost, net of accumulated depreciation. We acquire some marine lease pool equipment from our Marine Technology Products segment. These amounts are carried in our lease pool at the cost to our Marine Technology Products segment, less accumulated depreciation. From time to time, we sell lease pool equipment. These sales are transacted when we have equipment for which we do not have near term needs in our leasing business or is otherwise considered excess. Additionally, when equipment that has been leased to a customer is lost or destroyed, the customer is charged for such equipment at amounts specified in the underlying lease agreement. These charges are included in "Lease pool equipment sales" in the accompanying financial statements.

Our results of operations can experience fluctuations in activity levels due to a number of factors outside of our control. These factors include budgetary or financial concerns, difficulties in obtaining licenses or permits, security issues, labor or political issues and weather issues. See Item 1A- "Risk Factors."

Business Outlook

Prior to fiscal 2017 the majority of our revenues were generated by our Equipment Leasing segment. Since fiscal 2017 we have seen a significant decline in revenues from leasing activity. This decline has been caused, we believe, by a number of factors including the following:

- A reduction in demand for seismic services brought about by reduced oil and gas exploration activities, which was in turn caused by lower prices for oil and gas and by excess inventories of those commodities.
- An excess of capacity in the seismic industry, specifically excess supplies of seismic equipment.
- Technological advances which have reduced the cost of certain seismic equipment, therefore resulting in pressure on prices for the rental or sale of such equipment.
- Increased competition among providers of seismic equipment.

We believe that many of these factors will have a lasting effect on the seismic equipment industry. Therefore, we believe that it unlikely that the results of our Equipment Leasing segment return to levels seen historically. Accordingly, we have implemented a strategy to emphasize our Marine Technology Products segment and to make certain changes in our Equipment Leasing segment. The vision statement for the Company (see "Item 1 - Business") was developed to serve as a guide for the new strategy.

Our strategy includes the following key points:

- Increased emphasis on our Marine Technology Products segment. We are expanding our product offerings with an emphasis on products and services that are not exclusively dependent upon oil and gas exploration activity. We expect new products and services to come from a combination of internally developed products and those acquired from third parties, such as the acquisition of Klein in December 2015 and the new products introduced in March 2018 as discussed above.
- Decrease capital deployed in lease pool. We expect our Equipment Leasing Segment to remain an important component of our business; however, we believe capital can in some cases be more efficiently deployed in other areas. We have in recent periods sold assets from the lease pool have used those proceeds to repay debt and invest in other operations. We also have limited investment in new lease pool assets in recent periods; therefore, our investment in the lease pool has decreased significantly. We may, however, make additional lease pool investments in the future.

- Utilize our broad geographical footprint. We believe our world-wide locations and exposure to a number of different geographical markets provides an advantage over many competitors. However, we intend to reduce the scope of certain of those operations to reflect the changed environment of our Equipment Leasing segment. Other locations may be expanded from time-to-time in response to increased activity, particularly related to our Marine Technology Products segment.

The market for products sold by Seamap is primarily dependent upon activity within the hydrographic, oceanographic and marine seismic industries, including the re-fitting or updating of existing vessels and the equipping of new vessels. The products are 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 our business for replacements, spare parts, repairs and support services has expanded. We expect the addition of towed streamer products in March 2018 will further expand the opportunities for Seamap's products and allow us to bundle various products and equipment for a given project. Due to the required expansion of our existing facilities necessary to support the manufacture and repair of the streamer products, we do not expect a material contribution from these products until the second half of fiscal 2019.

The overall decline in seismic exploration activity has had, and we expect will continue to have, an impact on the demand for 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. While Seamap is not solely dependent on activity related to oil and gas exploration activity, a recovery of activity in marine exploration activity in the petroleum industry could have a materially beneficial effect on our results of operations.

Customers for Klein's products primarily consist of domestic and foreign governmental and military organizations and commercial entities involved in the hydrographic and oceanographic industries. Revenue from the sale of Klein products in fiscal 2018 and 2017 were significantly below our expectations. We believe we the following factors contributed to this shortfall:

- Delays in project awards by domestic and foreign governmental agencies due to budget constraints and processes.
- An industry-wide decline in the purchase of sonar products.
- Competitive pressures.
- Delays in the introduction of new products in fiscal 2017.

Despite the disappointing results in fiscal 2018 and 2017, we are optimistic that revenue from our sonar products will return to historical and anticipated levels. This belief is based on our current inventory of project pursuits, pending orders and independent projections of increased world-wide demand for sonar products.

Demand for the rental of land seismic exploration equipment varies by geographic region and has been very sporadic in recent periods. We expect continuing demand in Europe and improving demand in South America during fiscal 2019. We do anticipate opportunities for projects in other parts of the world, including North Africa and The Middle East, some of which could be significant. However, competition for such projects is generally intense and there is no assurance that we will have the opportunity to provide equipment for such projects. Land leasing activity is expected to remain well below historical levels in fiscal 2019.

Marine leasing activity increased in fiscal 2018 after having declined over the prior two years; however, this activity remains well below historical levels. 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. While we have experienced an increase in inquiries for marine equipment in recent months, we believe this excess of available equipment will continue into fiscal 2019.

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 a number of countries. In response to a decline in activity in some regions, we have taken steps to reduce costs such as by reducing personnel and expect to make further reductions in certain locations during fiscal 2019. However, we expect to expand our operations in Singapore to facilitate the production of the newly-introduced towed streamer products.

A significant portion of our revenues are generated from foreign sources. For fiscal 2018, 2017 and 2016, revenues from international customers totaled approximately \$36.9 million, \$34.7 million and \$44.5 million, respectively. These amounts represent 76%, 85% and 86% of consolidated revenues in those fiscal years, respectively. The majority of our transactions with foreign customers are denominated in United States dollars. 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

For fiscal 2018, 2017 and 2016, we recorded operating losses of approximately \$19.7 million, \$31.3 million and \$26.8 million, respectively. The improvement in fiscal 2018 from fiscal 2017 was due primarily to higher sales of lease pool equipment and contribution from

the sale of marine technology products. The higher operating loss in fiscal 2017 as compared to fiscal 2016 was due primarily to lower equipment leasing activity.

Revenues and Cost of Sales

Marine Technology Products

Revenues and cost of sales for our Marine Technology Products segment were as follows:

	Years Ended January 31,		
	2018	2017	2016
	(\$ in thousands)		
Revenues:			
Seamap	\$ 18,527	\$ 14,085	\$ 22,302
Klein	4,602	8,207	533
SAP	5,667	4,786	2,521
Intra-segment sales	(1,223)	(1,978)	(6)
	<u>27,573</u>	<u>25,100</u>	<u>25,350</u>
Cost of sales:			
Seamap	10,018	6,106	11,448
Klein	3,632	5,707	247
SAP	4,513	3,668	1,871
Intra-segment sales	(1,319)	(1,869)	—
	<u>16,844</u>	<u>13,612</u>	<u>13,566</u>
Gross profit	<u>\$ 10,729</u>	<u>\$ 11,488</u>	<u>\$ 11,784</u>
Gross profit margin	39%	46%	46%

Historically, demand for Seamap's products was dependent to a large degree upon offshore oil and gas exploration activity. In recent periods however, such demand increasingly relates to activity within the hydrographic and geotechnical survey industry. Accordingly, in fiscal 2018 Seamap's revenues increased from fiscal 2017 due, in part, to orders from research and hydrographic survey organizations. A large portion of Seamap's sales consist of large discrete orders, the timing of which is dictated by our customers. This timing generally relates to the availability of a vessel in port so that our equipment can be installed. Accordingly, there can be significant variation in sales from one period to another which does not necessarily indicate a fundamental change in demand for these products. Although recently there has been a softening of demand within the marine seismic industry in general, we believe that we have continued to experience demand for Seamap's products because operators of marine seismic vessels have been upgrading technology on remaining vessels in order to improve operating efficiency. Furthermore, some hydrographic survey operators have continued to increase their capacity and upgrade technology. During fiscal 2017, Seamap did experience a decline in demand for its products and a delay in certain projects as marine contractors revised spending plans in response to the decline in oil prices. Many contractors have retired or cold stacked vessels and therefore an excess of equipment has developed. Accordingly, the demand for spare parts and repairs has declined over the past two years. However, based on our backlog of orders as of January 31, 2018 and inquiries from customers, we expect revenue from the sale of Seamap products to increase in fiscal 2019 to be comparable or slightly higher than fiscal 2018. The gross profit generated by sales of Seamap equipment in fiscal 2018, 2017 and 2016 was approximately \$8.5 million, \$8.0 million and \$10.9 million, respectively. The gross profit margin from the sales of Seamap equipment in fiscal 2018, 2017 and 2016 was approximately 46%, 57% and 49%, respectively. In fiscal 2018, we notified customers that certain legacy products would no longer be supported beyond a specified date. Due to this "end of life" determination we adjusted the carrying value of certain inventory related to these products resulting in a charge to cost of sales in fiscal 2018 of approximately \$550,000. The fluctuations in gross profit margin among the periods were due primarily to the effect of these special charges and changes in product mix.

We acquired Klein effective December 31, 2015, accordingly the operating results related to these operations are not material to fiscal 2016 and the comparison between fiscal 2017 and fiscal 2016 is not meaningful. Revenue from the sale of Klein products in fiscal 2018 and fiscal 2017 was below our expectations. As discussed previously, we believe this shortfall was due in part to the following factors:

- Delays in project awards by domestic and foreign governmental agencies due to budget constraints and processes.
- An industry-wide decline in the purchase of sonar products.
- Competitive pressures.
- Delays in the introduction of new products in fiscal 2017.

The gross profit from sale of Klein products was approximately \$970,000, with a gross profit margin of 21%, in fiscal 2018 and approximately \$2.5 million, with a gross profit margin of 30%, in fiscal 2017. These margins are less than that normally anticipated due to the effect of certain fixed manufacturing costs.

SAP is a distributor and reseller of new hydrographic and oceanographic equipment to customers in Australia and throughout the Pacific Rim, including equipment manufactured by Klein and occasionally Seemap. Demand from customers in the Philippines and China, who are most often governmental organizations, has generally been strong over the past three years; however, revenues from year to year can vary significantly due to the timing of discrete orders. The gross profit from the sale of new seismic, hydrographic and oceanographic equipment by SAP amounted to approximately \$1.2 million in fiscal 2018, \$1.1 million in fiscal 2017, and \$650,000 in fiscal 2016, representing gross profit margins of 20%, 23% and 26%, respectively. The changes in gross profit margins between the years reflect changes in product mix from year to year. The effect of sales from Klein to SAP is eliminated in consolidation and in the table above as “intra-segment sales”.

As of January 31, 2018 the backlog of our Marine Technology Products segment was approximately \$2.7 million, as compared to approximately \$12.5 million as of January 31, 2017. We expect essentially all of these orders to be completed in fiscal 2019. Based on our experience and the lead times for the production of our product, we do not believe backlog as of a particular date is necessarily indicative of future results.

Equipment Leasing

Revenues and cost of sales from our Equipment Leasing segment were comprised of the following:

	Years Ended January 31,		
	2018	2017	2016
	(\$ in thousands)		
Revenues:			
Equipment leasing	\$ 7,826	\$ 10,161	\$ 23,719
Lease pool equipment sales	12,478	5,332	2,239
Other equipment sales	615	468	707
	20,919	15,961	26,665
Cost of sales:			
Lease pool depreciation	14,370	25,753	29,591
Direct costs – equipment leasing	3,450	3,284	4,658
Cost of lease pool equipment sales	7,571	5,629	856
Cost of other equipment sales	172	197	798
	25,563	34,863	35,903
Gross loss	\$ (4,644)	\$ (18,902)	\$ (9,238)
Gross loss margin	(22)%	(118)%	(35)%

Equipment leasing revenues decreased approximately 23% in fiscal 2018 compared to fiscal 2017 and 57% in fiscal 2017 as compared to fiscal 2016. This downward trend reflects the dramatic decline in oil and gas exploration activity in essentially all geographic regions brought about by uncertainty in world-wide oil prices and a global surplus of oil. Leasing activity in fiscal 2018 declined in all areas except for Africa, Asia and the Middle East. Fiscal 2017 activity was substantially below that in fiscal 2016 for all areas. The decline in demand for equipment leasing and a decline in the pricing for new seismic exploration equipment have resulted in a reduction in pricing for equipment leasing services. The magnitude of the changes in prices varies significantly from region to region, by the type of equipment and according to the other terms of a particular transaction.

The geographic regions with the largest contributions to our land leasing revenues in fiscal 2018 were Asia, Latin America, Europe, and the United States. In fiscal 2017 the regions making the largest contributions to leasing revenues were Latin America, United States, Europe and Canada.

Leasing revenues related to downhole seismic equipment were not material in fiscal 2018 and fiscal 2017.

Revenues from our marine leasing improved in fiscal 2018 as compared to fiscal 2017 and declined significantly in fiscal 2017 as compared to fiscal 2016. We believe this relative decline over the past two years is due in part to consolidation within the marine seismic industry and the retirement or temporary moth-balling of a number of seismic vessels. This has, in our opinion, resulted in an excess of equipment available in the market. Although we have experienced an increase in inquiries for the lease of marine seismic equipment, we believe this excess of equipment to be temporary but will likely continue into fiscal 2019.

From time to time, we sell equipment from our lease pool based on specific customer demand or in order to redeploy capital in other lease pool assets or other business opportunities. These transactions tend to occur as opportunities arise and, accordingly, are difficult to predict. Also included in sales of lease pool equipment are charges to leasing customers for lost or destroyed equipment. Due to the recent changes in the seismic equipment market we have implemented a strategy to dispose of certain lease pool equipment. Accordingly, revenue from the sales of lease pool equipment increased in fiscal 2018 as compared to fiscal 2017, and sales in fiscal 2017 increased as compared to fiscal 2016. We will continue to evaluate opportunities for additional lease pool equipment sales in fiscal 2019. The sale of lease pool equipment in fiscal 2018

resulted in a gross profit of approximately \$4.9 million. In fiscal 2017 and 2016 fiscal we recognized a gross loss of approximately \$300,000 and a gross profit of approximately \$1.4 million, respectively, from lease pool equipment sales. The amount of the gross profit or loss on a particular transaction varies greatly based primarily upon the age of the equipment.

Occasionally, we sell other seismic equipment that we acquire from other manufacturers. In addition, we occasionally sell equipment that we produce for use in deploying and retrieving seismic equipment by helicopter and sell certain ancillary marine equipment. The sale of marine equipment may include associated installation services. The sale of other seismic equipment resulted in a gross profit of approximately \$443,000 in fiscal 2018, a gross profit of approximately \$271,000 in fiscal 2017 and a gross loss of approximately \$91,000 in fiscal 2016.

Lease pool depreciation expense for fiscal 2018 amounted to approximately \$14.4 million, as compared to approximately \$25.8 million in fiscal 2017 and approximately \$29.5 million in fiscal 2016. The decreases reflect reduced purchases and the sale of lease pool equipment in recent periods. We reduced our lease pool additions in fiscal 2016 through fiscal 2018 in response to industry conditions. We anticipate maintaining a low level of lease pool additions in fiscal 2019. Therefore, as existing assets become fully depreciated and as we sell certain lease pool assets, we expect that lease pool depreciation expense will continue to decline. Depreciation of lease pool equipment commences upon its initial deployment on a lease contract and continues uninterrupted from that point, regardless of whether the equipment is subsequently on a lease contract. The equipment is depreciated on a straight-line basis over its estimated useful life. The useful lives of our assets range from two to 10 years. At January 31, 2018, lease pool assets with an acquisition cost of approximately \$99.0 million were fully depreciated, yet remained in service. This compares to approximately \$93.0 million at January 31, 2017. These assets, though fully depreciated, are expected to continue to generate revenues through leasing activity.

We recorded direct costs related to seismic leasing for fiscal 2018 in the amount of approximately \$3.5 million as compared to approximately \$3.3 million in fiscal 2017 and approximately \$4.7 million in fiscal 2016. These costs as a percentage of leasing revenues for fiscal 2018, 2017 and 2016 are 44%, 32% and 20%, respectively. Direct costs typically fluctuate with leasing revenues, as the three main components of direct costs are freight, repairs and sublease expense. However, a portion of these costs are fixed, such as warehouse and employee related expenses.

Operating Expenses

Selling, general and administrative expenses for fiscal 2018 amounted to approximately \$19.7 million, compared to approximately \$19.8 million and \$18.0 million in fiscal 2017 and 2016, respectively. In response to the continuing depressed environment in the seismic industry, particularly the land seismic industry, we have implemented a program to further reduce costs by scaling back or eliminating operations in certain areas. As a result of this we recorded a charge of approximately \$400,000 in the fourth quarter of fiscal 2018 related to certain costs associated with this program. Fiscal 2017 amounts reflect a full-year of activity related to Klein, which we acquired effective December 31, 2015. Without this effect, general and administrative expenses would have declined approximately 2% in fiscal 2017 as compared to fiscal 2016. The reductions in fiscal 2018 and 2017, after taking into account the items discussed above, reflect various cost reduction activities implemented during that year in response to the general downturn in the Company's business.

Due to the decline in seismic exploration activity, we think it now more likely that certain of our customers will encounter financial difficulties and may be unable to fully satisfy their financial obligations to us. In fiscal 2018 we implemented a program to resolve certain long-outstanding accounts receivable by offering significant discounts in return for a cash settlement. Therefore, in fiscal 2018, 2017 and 2016, we provided approximately \$1.0 million, \$750,000 and \$2.2 million, respectively, for doubtful accounts. At January 31, 2018 and 2017, we had trade accounts and note receivables over 90 days past due of approximately \$6.2 million and \$11.7 million, respectively. In our industry, and in our experience, it is not unusual for accounts to become delinquent from time to time and this is not necessarily indicative of an account becoming uncollectable. As of January 31, 2018 and 2017, our allowance for doubtful accounts receivable amounted to approximately \$6.2 million and \$5.9 million, respectively.

Depreciation and amortization, other than lease pool depreciation, relates primarily to the depreciation of furniture, fixtures and office equipment and the amortization of intangible assets. The increase in depreciation and amortization expense in fiscal 2017 and 2016 relates to intangible assets acquired in December 2016 related to Klein and May 2014 in connection with the ION product lines.

We periodically evaluate the recoverability of our intangible assets, including goodwill. Due to the shortfall in expected revenues from Klein as discussed above and the inherent uncertainty in projections of future results, we determined to record an impairment charge of approximately \$1.5 million, representing all goodwill related to Klein. For 2017, our evaluation did not give an indication of impairment. In fiscal 2016, our evaluation did give an indication of impairment. As a result, we recorded an impairment charge of approximately \$3.6 million in fiscal 2016. Approximately \$600,000 of this charge related to intangible assets associated with Heli-picker assets acquired in fiscal 2011 and approximately \$3.0 million related to goodwill associated with Seemap.

Other Income and Expense

Interest income reflects amounts earned on invested funds and finance charges related to seismic equipment sold under financing arrangements. Interest expense primarily reflects interest costs arising from borrowings under the Credit Agreement and the Seemap Credit Facility (both as defined below). Interest expense decreased in fiscal 2018 and fiscal 2017 as compared to the prior fiscal years primarily due to lower average borrowings during those periods and the elimination of these obligations during fiscal 2018.

Other income and expense relates primarily to net foreign exchange losses and gains. These gains and losses resulted primarily from two situations. Certain of our foreign operations have a functional currency of the U.S. dollar yet have cash, accounts receivable and accounts payable denominated in other currencies. These operations generally have net assets denominated in these other currencies. As the U.S. dollar strengthens against these other currencies, a foreign exchange loss arises and vice versa. In fiscal 2018, 2017 and 2016 we recorded foreign exchange losses of approximately \$844,000 and \$72,000 and foreign exchange gains of approximately \$1.3 million, respectively, related to these situations. In the second situation, certain of our foreign operations have a functional currency of the local currency yet have cash, accounts receivable and accounts payable denominated in the U.S. dollar. These operations generally have net liabilities denominated in U.S. dollars, including inter-company obligations. In fiscal 2018 we recognized approximately \$169,000 of exchange gain of this type. In fiscal 2017, we incurred approximately \$339,000 of exchange gains of this type. In fiscal 2016 we incurred approximately \$1.1 million of exchange losses of this type, primarily related to the strengthening of the U.S. dollar versus the Russian ruble, Australian dollar, British pound sterling and the Canadian dollar. We believe gains and losses of this type are non-cash items and are considered in our calculation of Adjusted EBITDA.

Provision for Income Taxes

Our provision for income taxes in fiscal 2018 is approximately \$910,000. This amount differs from that expected when applying the effective U.S. statutory rate of 32.9% to our loss before income taxes due primarily to recording a valuation allowance against all of the fiscal 2018 increase in our deferred tax assets and the effect of foreign withholding and branch taxes. Recently enacted changes to tax laws in the United States, including a reduction in the corporate tax rate and the manner in which earnings from foreign operations are taxed, did not have a material effect on our provision for income taxes in fiscal 2018.

In fiscal 2017, our provision for income taxes was approximately \$1.8 million. This amount differed from the expected income tax benefit at the U.S. statutory rate of 34% due primarily to recording a valuation allowance against all of the fiscal 2017 increase in deferred tax assets and the effect of foreign withholding taxes.

In fiscal 2016, due to changing economic conditions, we evaluated the recoverability of various deferred tax assets. These deferred tax assets consisted primarily of net operating loss carryforwards in various jurisdictions, including the United States. As a result of this evaluation we established a valuation allowance for essentially all deferred tax assets, resulting in an increase in deferred income tax expense of approximately \$15.5 million. Additionally, in fiscal 2016 we determined to deduct certain prior year foreign tax credits in our U.S. income tax returns, rather than take such amounts as a credit against future taxes. This change in treatment resulted in an increase in deferred income tax expense of approximately \$2.6 million. These items are the primary factors causing our total income tax expense in fiscal 2016, which amounted to approximately \$11.0 million, to differ from the expected income tax benefit at the U.S. statutory rate of 34%.

Liquidity and Capital Resources

Our principal source of liquidity and capital over the past three fiscal years has been cash flows provided by operating activities, proceeds from the issuance of preferred stock, the Credit Agreement and the Seemap Credit Facility. The principal factor that has affected our cash flow from operating activities is the level of oil and gas exploration and development activities as discussed above.

We believe that our liquidity needs for the next 12 months will be met from cash on hand, cash provided by operating activities, proceeds from the sale of lease pool equipment and from proceeds from the issuance of additional shares of preferred stock, taking into account the possible restrictions on funds from our foreign subsidiaries.

On August 2, 2013, we entered into a syndicated \$50 million, secured, three-year revolving credit agreement (the "Credit Agreement") with HSBC Bank USA, N.A as administrative agent, and on August 22, 2014, Seemap Singapore entered into a \$15.0 million credit facility (the "Seemap Credit Facility") with The Hongkong and Shanghai Banking Corporation Limited. In March 2017, we repaid all outstanding obligations under the Credit Agreement and terminated that agreement. Also, on April 5, 2017, we repaid all outstanding obligations under the Seemap Credit Facility and cancelled that facility. We are engaged in discussions with other commercial banks regarding establishing a new revolving credit facility or facilities. There can be no assurance, however, that we will be successful in negotiating any such facilities. Accordingly, we currently do not plan to rely upon proceeds from revolving credit facilities to meet our liquidity and capital needs.

In June 2016, we completed an offering of 9.00% cumulative preferred stock (the "Series A Preferred Stock"). The Series A Preferred Stock (i) allows for redemption on at our option (even in the event of a change of control), (ii) does not grant holders with voting control of our Board of Directors, and (iii) provides holders with a conversion option (into common stock) only upon a change of control which upon conversion would be subject to a limit on the maximum number of shares of common stock to be issued.

Should our needs for liquidity increase, such as to make an acquisition, acquire lease pool assets, or make other investments, we may seek to issue other debt or equity securities.

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

	Years Ended January 31,		
	2018	2017	2016
	(in thousands)		
Net cash provided by operating activities	\$ 719	\$ 3,154	\$ 15,047
Net cash provided by (used in) investing activities	8,997	4,412	(10,269)
Net cash used in financing activities	(3,038)	(7,313)	(5,638)
Effect of changes in foreign exchange rates on cash and cash equivalents	(43)	(511)	(546)
Net decrease in cash and cash equivalents	<u>\$ 6,635</u>	<u>\$ (258)</u>	<u>\$ (1,406)</u>

As of January 31, 2018, we had working capital of approximately \$25.3 million and cash and cash equivalents of approximately \$10.1 million, as compared to working capital of approximately \$21.6 million and cash and cash equivalents of approximately \$3.5 million at January 31, 2017. Our working capital increased from January 31, 2017 to January 31, 2018 primarily due the decline in accounts receivable and maturity and repayments of long-term debt. These items were partially offset by working capital generated by operations.

Cash Flows From Operating Activities. Cash flows provided by operating activities amounted to approximately \$719,000 in fiscal 2018 as compared to approximately \$3.2 million in fiscal 2017 and \$15.0 million in fiscal 2016. In fiscal 2018, the primary sources of cash provided by operating activities was our net loss of \$21.1 million net of non-cash charges, including depreciation and amortization charges totaling approximately \$16.6 million. The net change in other current assets and liabilities increased net cash provided by operating activities for fiscal 2018 by approximately \$5.7 million.

On April 5, 2017, we prepaid all amounts outstanding under the Seemap Credit Facility and cancelled that facility. Our average borrowing levels under the Credit Agreement and the Seemap Credit Facility for fiscal 2018, 2017 and 2016 were approximately \$801,000, \$12.2 million and \$17.6 million, respectively

Cash Flows From Investing Activities. In fiscal 2018, 2017 and 2016, we acquired approximately \$900,000, \$636,000 and \$2.2 million, respectively, of new lease pool equipment. We currently estimate that lease pool purchases during fiscal 2019 will be comparable to fiscal 2018.

In fiscal 2016 we acquired Klein for \$10.0 million in cash. Cash flows from investing activities for each of the fiscal years ended January 31, 2018, 2017 and 2016 reflect proceeds of approximately \$10.3 million, \$5.3 million and \$2.2 million, respectively, from the sale of used lease pool equipment.

Cash Flows From Financing Activities. During fiscal 2018, 2017 and 2016, we made net repayments of borrowings under the Credit Agreement of approximately \$3.5 million, \$10.9 million and \$2.6 million, respectively. The repayments in fiscal 2016 were net of borrowings of approximately \$10.0 million related to the acquisition of Klein in December 2015. During fiscal 2018, 2017 and 2016 we made scheduled repayments totaling approximately \$2.8 million, \$3.2 million and \$3.2 million, respectively, under the Seemap Credit Facility.

In fiscal 2017 we established an at the market program (“ATM”) whereby we can sell additional shares of Series A Preferred Stock from time to time. As of January 31, 2018 we have sold a total of 211,996 shares pursuant to this program and 293,958 shares remain available for sale under the ATM. Subsequent to January 31 2018, we sold 152,290 shares of Series A Preferred Stock to Mitsubishi Heavy Industries Ltd. (“MHI”) in a privately negotiated transaction in connection with the Hydrosience Acquisition and may issue an additional 21,756 to MHI, subject to certain conditions. Net proceeds from the sale of Series A Preferred stock totaled approximately \$4.2 million and \$7.3 million in fiscal 2018 and fiscal 2017, respectively. In fiscal 2018 and 2017, we paid cash dividends of approximately \$905,000 and \$486,000, respectively, related to the Series A Preferred Stock.

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 must post bonds in connection with bid, delivery or warranty obligations. These bonds are normally provided by local insurance, surety companies or local banks. In some cases, the party issuing the bond requires that we post collateral to secure our obligations under the bonds. As of January 31, 2017, no letters of credit under the Credit Agreement and the Seemap Credit Facility were outstanding.

The following table sets forth estimates of future payments of our consolidated contractual obligations as of January 31, 2018 (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating leases	2,166	1,141	1,004	21	—
Other obligations	1,400	1,400	—	—	—
Purchase obligations	1,474	1,474	—	—	—
Total	<u>\$ 5,040</u>	<u>\$ 4,015</u>	<u>\$ 1,004</u>	<u>\$ 21</u>	<u>\$ —</u>

We regularly evaluate opportunities to expand our business through the acquisition of other companies, businesses or product lines. If we were to make any such acquisitions, we believe they could generally be financed with a combination of cash on hand and cash flows from operations. However, should these sources of financing not be adequate, we may seek other sources of capital to fund future acquisitions. These additional sources of capital include additional bank credit facilities or the issuance of debt or equity securities.

We have determined that, due to fundamental shifts in our business strategy to emphasize our Marine Technology Products business and the potential requirement for additional investment and working capital to achieve our objectives, the undistributed earnings of foreign subsidiaries as of January 31, 2018, can no longer be deemed indefinitely reinvested outside of the United States. Furthermore, we have concluded that any deferred taxes with respect to the undistributed foreign earnings would be immaterial, particularly in light of the one-time repatriation of foreign earnings imposed by recently enacted tax legislation in the United States (see Note 12 - Income Taxes to our consolidated financial statements).

As of January 31, 2018, we had deposits in foreign banks equal to approximately \$3.9 million. All \$3.9 million of these deposits could be distributed to the United States without any adverse tax consequences.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined by Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in determining the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant estimates made by us in the accompanying consolidated financial statements relate to the allowances for uncollectible accounts receivable and inventory obsolescence; the useful lives of our lease pool assets and amortizable intangible assets and the impairment assessments of our lease pool and various intangible assets. Other areas where we have made significant estimates include the valuation of stock options, the assessment of the need for a valuation allowance related to deferred tax assets and the assessment of uncertain tax positions.

Critical accounting policies are those that are most important to the portrayal of a company's financial position and results of operations and require management's subjective judgment. Below is a brief discussion of our critical accounting policies.

Revenue Recognition

- **Leases** – We recognize lease revenue ratably over the term of the lease unless there is a question as to whether it is collectible. We do not enter into leases with embedded maintenance obligations. Under our standard lease, the customer is responsible for maintenance and repairs to the equipment, excluding normal wear and tear. We provide technical advice to our customers as part of our customer service practices. In most situations, our customers pay shipping and handling costs directly to the shipping agents.
- **Equipment Sales** – We recognize revenue and cost of goods sold from equipment sales upon agreement of terms and when delivery has occurred, unless there is a question as to its collectability. We occasionally offer extended payment terms on equipment sales transactions. These terms are generally one to two years in duration.
- **Long-term project revenue** – From time to time, SAP and Klein enter into contracts whereby they assemble and/or manufacture and sell certain marine equipment, primarily to governmental entities. Performance under these contracts generally occurs over a period of three to twelve months. Revenue and costs related to these contracts are accounted for under the percentage of completion method.
- **Service agreements** – Seemap provides on-going support services pursuant to contracts that generally have a term of 12 months. We recognize revenue from these contracts over the term of the contract. In some cases, we will provide support services on a time and material basis. Revenue from these arrangements is recognized as the services are provided. For certain new systems that Seemap sells, we provide support services for up to 12 months at no additional charge. Any amounts attributable to these support obligations are immaterial.

Allowance for Doubtful Accounts

We make provisions to the allowance for doubtful accounts based on a detailed review of outstanding receivable balances. Factors considered include the age of the receivable, the payment history of the customer, the general financial condition of the customer, any financial or operational leverage we may have in a particular situation and general industry conditions. We typically do not charge fees on past due accounts, although we reserve the right to do so in most of our contractual arrangements with our customers and have done so from time to time. Based on our view of general industry conditions and the specific customer factors discussed above, in fiscal 2018 we provided an allowance for doubtful accounts of approximately \$1.0 million.

Long-Lived Assets

We carry our lease pool of equipment and other property and equipment at cost, net of accumulated depreciation, and compute depreciation on the straight-line method over the estimated useful lives of the property and equipment, which range from two to 10 years. Geophones and batteries are depreciated over three years and recording channels over five to seven years. Buildings are depreciated over 30 years, property improvements are amortized over 10 years and leasehold improvements are amortized over the shorter of the useful life and the life of the lease. Intangible assets are amortized from three to 15 years.

The estimated useful lives for rental equipment are based on our experience as to the economic useful life of our products. We review and consider industry trends in determining the appropriate useful life for our lease pool equipment, including technological obsolescence, market demand and actual historical useful service life of our lease pool equipment. Additionally, to the extent information is available publicly, we compare our depreciation policies to those of other companies in our industry for reasonableness. When we purchase new equipment for our lease pool, we begin to depreciate it upon its first use and depreciation continues each month until the equipment is fully depreciated, whether or not the equipment is actually in use during that entire time period.

Our policy regarding the removal of assets that are fully depreciated from our books is the following: if an asset is fully depreciated and is still expected to generate revenue, then the asset will remain on our books. However, if a fully depreciated asset is not expected to have any revenue generating capacity, then it is removed from our books.

We carry our amortizable intangible assets at cost, net of accumulated amortization. Amortization is computed on a 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) over the estimated life of the asset. Currently, patents are amortized over 8 to 9-year period, proprietary rights are amortized over a 10 to 15-year period, customer relationships are amortized over an 8-year period, and covenants-not-to-compete are amortized over a three-year period. The basis for the proprietary rights and customer relationships lives are generally based upon the results of valuation reports commissioned from third parties. Patents are amortized over their remaining term. Covenants-not-to-compete are amortized over the term of the contract.

We annually assess our lease pool equipment for potential impairment. The assessment determines if, in our opinion, events or changes in circumstances have occurred that would indicate the carrying value of the asset may not be recoverable. Such events or changes in circumstances might include the following:

- A significant decrease in the market price of the asset;
- A significant adverse change in the extent or manner in which the assets are being used or in their physical condition;
- A significant adverse change in legal factors or in the business climate that could affect the value of the assets;
- A current period operating or cash flow loss, a history of operating or cash flow losses or a projection of continuing losses associated with the use of the assets; and
- A current expectation that it is more likely than not that the assets will be sold or otherwise disposed of significantly before the end of their previously estimated useful life.

If there is an indication of possible impairment, we test the assets for recoverability. Recoverability is determined by comparing the estimated future undiscounted cash flows expected to be generated by our lease pool assets to their total carrying value. Considering the general industry downturn and the factors noted above, we performed a test for recoverability as of January 31, 2018. We determined that despite recent declines in the overall business environment, there was no impairment of our lease pool assets. See Item 1A – “Risk Factors”, and note 6 to our consolidated financial statements.

Goodwill and Other Intangible Assets

As of January 31, 2018 all intangible assets, including goodwill, relate to our Marine Technology Products segment, which includes the operations of Seamap and Klein. For purposes of evaluating impairment pursuant to FASB Accounting Standards Codification Topic (ASC) 350, we established Seamap and Klein as reporting units. In accordance with ASC 350 we are required to evaluate the carrying value of our goodwill at least annually for impairment, or more frequently if facts and circumstances indicate it is more likely than not impairment has occurred. We formally evaluate the carrying value of our goodwill for impairment annually, as of January 31 for each of our reporting units. We first perform a qualitative assessment by evaluating relevant events or circumstances to determine if it is more likely than not that a reporting unit's fair value

exceeds its carrying value. If we are unable to conclude qualitatively that is more likely than not that a reporting unit's fair value exceeds its carrying value, then we perform a quantitative assessment of fair value of a reporting unit. If the carrying value of a reporting unit that includes goodwill is determined to be more than the fair value of the reporting unit, there exists a possibility of impairment of goodwill.

Prior to fiscal 2018, any impairment related to goodwill was measured in a two step process. Step 1 consisted of the process of allocating the fair value of the reporting unit to net assets and liabilities to determine the implied carrying value of goodwill and Step 2 consisted of comparing the implied carrying value of goodwill to the carrying value of the goodwill. Any excess of carrying value over implied carrying value was recorded as an impairment loss.

Effective for fiscal 2018 the Company adopted Accounting Standards Update ("ASU") No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-14 simplifies the process for assessing goodwill impairment by eliminating Step 2 for the goodwill impairment test. As amended, the goodwill impairment test consists of one step comparing the fair value of a reporting unit with its carrying amount. A goodwill impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. Any loss recognized should not exceed the total amount of goodwill allocated to the reporting unit.

In fiscal 2016, we concluded, based on qualitative factors, that it was more likely than not that the carrying value of the Seemap reporting unit was more than its fair value. We therefore conducted a quantitative assessment as discussed above. Based on this quantitative assessment, we recorded an impairment loss of \$3.0 million related to the Seemap reporting unit. Also at January 31, 2016, the Company recorded an impairment of approximately \$600,000 related to certain identifiable intangible assets related to its leasing reporting unit.

In fiscal 2017, we concluded, based on an assessment of qualitative factors, that it was more likely than not that the carrying value was not more than the fair value with respect to both the Seemap and Klein reporting units.

As of January 31, 2018 we concluded, based on an assessment of qualitative factors, that it was more likely than not that the carrying value of the Seemap reporting unit was not more than its fair value.

As of January 31, 2018 we concluded, based on an assessment of qualitative factors, that it was more likely than not that the carrying value of the Klein reporting unit was more than its fair value. We therefore conducted a quantitative assessment which confirmed that the carrying value exceeded the fair value. Accordingly, we recorded an impairment loss of approximately \$1.5 million related to the Klein reporting unit.

Our quantitative assessment requires significant judgment and is based upon our internal forecasts and comparisons to the publicly available valuations of what we believe to be comparable companies. Our internal forecasts include assumptions about market and economic conditions. If our estimates or related projections associated with the reporting units significantly change in the future, or if we use different comparable companies, we may be required to record further impairment charges. If the operational results of our reporting units are worse than expected or if economic conditions deteriorate, the fair value of our reporting units will be adversely affected.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between income and expenses reported for financial reporting and tax reporting. We assessed, using all available positive and negative evidence, the likelihood that the deferred tax assets, including deferred tax assets associated with tax loss carryovers and tax credit carryforwards, will be recovered from future taxable income. The analysis is performed on a jurisdiction by jurisdiction basis.

The weight we give to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists (i) the more positive evidence is necessary and (ii) the more difficult it is to support a conclusion that a valuation allowance is not needed for some portion, or all, of the deferred tax asset. Among the more significant types of evidence that we consider are:

- taxable income projections in future years;
- our history of taxable income within a particular jurisdiction;
- any history of the expiration of deferred tax assets without realization;
- whether the carry forward period is so brief that it would limit realization of tax benefits;
- other limitations on the utilization of tax benefits;
- future sales and operating cost projections that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures;
- our earnings history exclusive of the loss that created the future deductible amount coupled with evidence indicating that the loss is an aberration rather than a continuing condition; and
- tax planning strategies that will create additional taxable income.

In determining the valuation allowance to be recorded, we considered the following positive indicators:

- our history of taxable income in certain jurisdictions;
- the cyclical nature of the energy industry in general and the seismic industry in particular;
- specific tax planning strategies that will produce additional taxable income;
- the carryover periods for certain tax benefits; we noted in particular that the loss carryover period in the United States is 20 years for tax years beginning before December 31, 2017 and indefinite for losses incurred in tax years beginning after December 31, 2017. However, for losses incurred in tax years beginning after December 31, 2017, utilization is limited to 80% of taxable income.
- The carryover period for U.S. foreign tax credit carryforwards is 10 years;
- no U.S. tax benefits are expected to expire prior to 2021;
- we do not have a history of tax benefits expiring without being utilized; and
- our existing customer relationships.

We also considered the following negative indicators:

- our recent losses within certain jurisdictions, including the United States, Australia, Hungary, Canada, the United Kingdom and Russia;
- the recent decline in worldwide oil prices;
- the utilization of tax benefits, specifically foreign tax credits, is limited in certain jurisdictions;
- the risk of decreased global demand for oil; and
- the potential for increased competition in the seismic equipment leasing and sales business.

Based on our evaluation of the evidence, as of January 31, 2018 we have provided the following approximate valuation allowances against deferred tax assets in various jurisdictions (in thousands):

Jurisdiction	Deferred Tax Assets	Valuation Allowance	Net Deferred Tax Asset
United States ⁽¹⁾	\$ 11,952	\$ (11,952)	\$ —
Australia	1,367	(1,367)	\$ —
Hungary	1,245	(1,245)	\$ —
Canada	4,379	(4,379)	\$ —
United Kingdom	707	(707)	\$ —
Russia	206	(206)	\$ —

(1) includes federal and state deferred tax assets

The deferred tax asset in the United States relates primarily to net operation loss carryovers. Although we do not have a history of such loss carryovers expiring without being utilized and the earliest expiration of a loss carryforward is in 2033, 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 would need to generate taxable income of approximately \$55.1 million.

We evaluate tax positions taken through a two-step process. In the first step, we determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. In the second step, a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in (1) an increase in a liability for income taxes payable or (2) a reduction of an income tax refund receivable or a reduction in a deferred tax asset or an increase in a deferred tax liability or both (1) and (2). The evaluation of tax positions and the measurement of the related benefit require significant judgment on the part of management.

Stock-Based Compensation

Stock-based compensation expense is recorded based on the grant date fair value of share-based awards. Determining the grant date fair value requires management to make estimates regarding the variables used in the calculation of the grant date fair value. Those variables are the future volatility of our common stock price, the length of time an optionee will hold their options until exercising them (the “expected term”), and the number of options or shares that will be forfeited before they are exercised (the “forfeiture rate”). We utilize various mathematical models in calculating the variables. Stock-based compensation expense could be different if we used different models to calculate the variables.

Significant Accounting and Disclosure Changes

See Note 2, New Accounting Pronouncements, in the Notes to the Condensed Consolidated Financial Statements in Part II, Item 8 of this form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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, nor do we intend to enter, into derivative financial instruments for hedging or speculative purposes.

Hypothetical changes in interest rates and foreign currency exchange rates chosen for the following estimated sensitivity analysis are considered to be reasonable near-term changes generally based on consideration of past fluctuations for each risk category. However, since it is not possible to accurately predict future changes in interest rate and foreign currency exchange rates, these hypothetical changes may not necessarily be an indicator of probable future fluctuations.

Foreign Currency Risk

We operate in a number of foreign locations, which gives rise to risk from changes in foreign currency exchange rates. To the extent possible, we attempt to denominate our transactions in foreign locations in U.S. dollars. For those cases in which transactions are not denominated in U.S. dollars, we are exposed to risk from changes in exchange rates to the extent that non-U.S. dollar revenues exceed non-U.S. dollar expenses related to those operations. Our non-U.S. dollar transactions are denominated primarily in Russian rubles, Canadian dollars, Australian dollars and Singapore dollars. As a result of these transactions, we generally hold cash balances that are denominated in these foreign currencies. At January 31, 2018, our consolidated cash and cash equivalents included foreign currency denominated amounts equivalent to approximately \$1.2 million in U.S. dollars. A 10% increase in the U.S. dollar as compared to each of these currencies would result in a loss of approximately \$120,000 in the U.S. 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 to hedge these exposures.

Some of our foreign operations are conducted through wholly owned foreign subsidiaries that have functional currencies other than the U.S. dollar. We currently have subsidiaries whose functional currencies are the Canadian dollar, British pound sterling, Russian ruble, Australian dollar and the Singapore dollar. Assets and liabilities from these subsidiaries are translated into U.S. 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 in the Shareholders' Equity section of our Consolidated Balance Sheets. Approximately 43% of our net assets were impacted by changes in foreign currencies in relation to the U.S. dollar. During fiscal 2018, the U.S. dollar generally increased in value versus the above currencies. As a result of this increase, we have recognized an increase of approximately \$1.7 million in Accumulated Other Comprehensive Income, primarily related to changes in the relative exchange rate of the U.S. dollar against the Canadian dollar, Euro, Russian Ruble and the Australian dollar. See Item 7- “Management’s Discussion and Analysis of Financial Condition and Results of Operation, Other Income and Expense.”

Interest Rate Risk

As of January 31, 2018, we have no interest bearing debt on our balance sheet. As of January 31, 2017, there was approximately \$6.3 million outstanding under our credit agreements. These agreements contained a floating interest rate based on the Eurodollar rate or the prime rate. Our average borrowing rate was 3.95% as of January 31, 2017. In March 2017, we repaid all outstanding obligations under the Credit Agreement and terminated that agreement. Also, on April 5, 2017, we repaid all amounts outstanding under the Seamap Credit Facility and cancelled that facility. We have not entered into interest rate hedging arrangements in the past, and have no plans to do so.

Item 8. Financial Statements and Supplementary Data

The information required by this Item appears beginning on page F-1 and is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On November 16, 2017, Hein & Associates LLP (“Hein”), our independent registered public accounting firm combined with Moss Adams LLP (“Moss Adams”). As a result of this transaction, on November 16, 2017, Hein resigned as our independent registered public

accounting firm. Concurrent with such resignation, our audit committee approved the engagement of Moss Adams as the new independent registered public accounting firm for the Company.

The audit reports of Hein on the Company's financial statements for the two most recent fiscal years ended January 31, 2017 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the most recent fiscal year ended January 31, 2017 and through the subsequent interim period preceding Hein's resignation, there were no disagreements between the Company and Hein on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Hein would have caused them to make reference thereto in their report on the Company's financial statements for such years.

During the most recent fiscal year ended January 31, 2017 and through the subsequent interim period preceding Hein's resignation, there were no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

During the two most recent fiscal years and through the subsequent interim period preceding Moss Adam's engagement, we did not consult with Moss Adams on either (1) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that may be rendered on our financial statements, and Moss Adams did not provide us with either a written report or oral advise that Moss Adams concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or (2) any matter that was either the subject of a disagreement, as defined in Item 304(a)(1)(iv) of Regulation S-K, or a reportable event, as defined in Item 304(a)(1)(v) of Regulation S-K.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officers 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-K. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officers 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. Our principal executive officers and principal financial officer have concluded that our current disclosure controls and procedures were effective as of January 31, 2018 at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Rule 13a-15(c) under the Exchange Act, our management, including our principal executive officers and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of January 31, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework* in 2013. Based on this assessment, our management, including our principal executive officers and principal financial officer, concluded that, as of January 31, 2018, our internal control over financial reporting was effective based on those criteria.

Changes in Internal Control over Financial Reporting

There was no change in our system of internal control over financial reporting during the quarter ended January 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item the information to be disclosed in our definitive proxy statement for our 2018 Annual Meeting of Shareholders, which will be filed with the SEC within 120 business days of January 31, 2018.

We have adopted a Code of Business Conduct and Ethics, which covers a wide range of business practices and procedures. The Code of Business Conduct and Ethics represents the code of ethics applicable to our principal executive officers, principal financial officer, and principal accounting officer or controller and persons performing similar functions (“senior financial officers”). A copy of the Code of Business Conduct and Ethics is available on our website, <http://www.mitchamindustries.com>, and a copy will be mailed without charge, upon written request, to Mitcham Industries, Inc., P.O. Box 1175, Huntsville, Texas, 77342-1175, Attention: Robert P. Capps. We intend to disclose any amendments to or waivers of the Code of Business Conduct and Ethics on behalf of our senior financial officers on our website, at <http://www.mitchamindustries.com> promptly following the date of the amendment or waiver.

Item 11. Executive Compensation

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item the information to be disclosed in our definitive proxy statement for our 2018 Annual Meeting of Shareholders, which will be filed with the SEC within 120 business days of January 31, 2018.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item the information to be disclosed in our definitive proxy statement for our 2018 Annual Meeting of Shareholders, which will be filed with the SEC within 120 business days of January 31, 2018.

Item 13. Certain Relationships and Related Transactions and Director Independence

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item the information to be disclosed in our definitive proxy statement for our 2018 Annual Meeting of Shareholders, which will be filed with the SEC within 120 business days of January 31, 2018.

Item 14. Principal Accounting Fees and Services

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item the information to be disclosed in our definitive proxy statement for our 2018 Annual Meeting of Shareholders, which will be filed with the SEC within 120 business days of January 31, 2018.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) *List of Documents Filed*

(1) Financial Statements

The financial statements filed as part of this Form 10-K are listed in “Index to Consolidated Financial Statements” on page F-1.

(3) *Financial Statement Schedules*

Schedule II – Valuation and Qualifying Accounts.

(4) *Exhibits*

The exhibits required by Item 601 of Regulation S-K are listed in subparagraph (b) below.

(b) *Exhibits*

The exhibits marked with the cross symbol (†) are filed (or furnished in the case of Exhibits 32.1 and 32.2) with this Form 10-K. The exhibits marked with the asterisk symbol (*) are management contracts or compensatory plans or arrangements filed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

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 the SEC on June 10, 2016.	001-13490	3.1
3.4	Certificate of Amendment to 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 October 7, 2016	Incorporated by reference to Mitcham Industries, Inc.’s form 8-K filed with the SEC on October 7, 2016.	001-13490	3.1
4.1	Form of Senior Indenture (including Form of Senior Note)	Incorporated by reference to Mitcham Industries, Inc.’s Registration Statement on Form S-3, filed with the SEC on March 18, 2011.	333-172935	4.1
4.2	Form of Subordinated Indenture (including form of Subordinated Note)	Incorporated by reference to Mitcham Industries, Inc.’s Registration Statement on Form S-3, filed with the SEC on March 18, 2011.	333-172935	4.2

<u>Exhibit Number</u>	<u>Document Description</u>	<u>Report or Registration Statement</u>	<u>SEC File or Registration Number</u>	<u>Exhibit Reference</u>
10.1*	Amended and Restated Employment Agreement, dated September 8, 2015, between Mitcham Industries, Inc. and Billy F. Mitcham, Jr.	Incorporated by reference to Mitcham Industries, Inc.'s Registration Statement on Form 8-K filed with the SEC on September 14, 2015.	000-25142	10.1
10.2*	Mitcham Industries, Inc. Amended and Restated Stock Awards Plan	Incorporated by reference to Mitcham Industries, Inc.'s Definitive Proxy Statement on Schedule 14A filed with the SEC on May 31, 2013.	000-25142	Appendix A
10.3*	Form of Nonqualified Stock Option Agreement under the Mitcham Industries, Inc. Stock Awards Plan	Incorporated by reference to Mitcham Industries, Inc.'s Report on Form 10-Q for the quarter ended July 31, 2006, filed with the SEC on September 12, 2006.	000-25142	10.3
10.4*	Form of Restricted Stock Agreement under the Mitcham Industries, Inc. Stock Awards Plan	Incorporated by reference to Mitcham Industries, Inc.'s Report on Form 10-Q for the quarter ended July 31, 2006, filed with the SEC on September 12, 2006.	000-25142	10.4
10.5*	Form of Incentive Stock Option Agreement under the Mitcham Industries, Inc. Stock Awards Plan	Incorporated by reference to Mitcham Industries, Inc.'s Report on Form 10-Q for the quarter ended July 31, 2006, filed with the SEC on September 12, 2006.	000-25142	10.5
10.6*	Form of Restricted Stock Agreement (Stock Awards Plan)	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on September 8, 2004.	000-25142	10.1
10.7*	Form of Nonqualified Stock Option Agreement (Stock Awards Plan)	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on September 8, 2004.	000-25142	10.2
10.8*	Form of Incentive Stock Option Agreement (Stock Awards Plan)	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on September 8, 2004.	000-25142	10.4

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<u>Exhibit Number</u>	<u>Document Description</u>	<u>Report or Registration Statement</u>	<u>SEC File or Registration Number</u>	<u>Exhibit Reference</u>
10.9*	Form of Phantom Stock Award Agreement(Stock Awards Plan)	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on September 8, 2004.	000-25142	10.5
10.10*	Form of Stock Appreciation Rights Agreement(Stock Awards Plan)	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on September 8, 2004.	000-25142	10.6
10.11*	Form of Incentive Stock Option Agreement(2000 Stock Option Plan)	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on September 8, 2004.	000-25142	10.7
10.12*	Form of Nonqualified Stock Option Agreement(2000 Stock Option Plan)	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on September 8, 2004.	000-25142	10.8
10.13†*	Summary of Non-Employee Director Compensation			
10.14	Credit Agreement dated August 2, 2013 among Mitcham Industries, Inc., the guarantors party thereto and HSBC Bank USA, N.A.	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on August 5, 2013	000-25142	10.1
10.15	Security and Pledge Agreement dated August 2, 2013 among Mitcham Industries, Inc. the guarantors party thereto and HSBC Bank USA, N.A.	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on August 5, 2013	000-25142	10.2
10.16	First Amendment to Credit Agreement dated December 23, 2013 among Mitcham Industries, Inc., HSBC Bank USA, N.A., and the lenders party thereto	Incorporated by reference to Mitcham Industries, Inc.'s Annual Report on Form 10-K filed with the SEC on April 3, 2014.	000-25142	10.19
10.17	Second Amendment to Credit Agreement dated July 17, 2014 among Mitcham Industries, Inc., and HSBC Bank USA, N.A.	Incorporated by reference to Mitcham Industries, Inc.'s Quarterly Report on Form 10-Q, filed with the SEC on September 4, 2014.	000-25142	10.1
10.18	Third Amendment to Credit Agreement dated December 7, 2015 among Mitcham Industries, Inc., the guarantors party thereto and HSBC Bank USA, N.A.	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on December 10, 2015	000-25142	10.1

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<u>Exhibit Number</u>	<u>Document Description</u>	<u>Report or Registration Statement</u>	<u>SEC File or Registration Number</u>	<u>Exhibit Reference</u>
10.19	Facilities Agreement dated 15 August, 2014 between Seemap Pte Ltd as Company and Mitcham Industries, Inc. as Guarantor and The HongKong and Shanghai Banking Corporation Limited as Lender	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on August 27, 2014.	000-25142	10.1
10.20	Security Deed dated 15 August, 2014 between Seemap Pte Ltd as Chargor and The HongKong and Shanghai Banking Corporation Limited as Lender	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on August 27, 2014.	000-25142	10.2
12.1†	Ratio of Earnings to Fixed Charges			
21.1†	Subsidiaries of Mitcham Industries, Inc.			
23.1†	Consent of Moss Adams LLP			
23.2†	Consent of Hein & Associates LLP			
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 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, under Section 906 of the Sarbanes Oxley Act of 2002, 18 U.S.C. § 1350			
32.2†	Certification of 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			

<u>Exhibit Number</u>	<u>Document Description</u>	<u>Report or Registration Statement</u>	<u>SEC File or Registration Number</u>	<u>Exhibit Reference</u>
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			

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 13th day of April 2018.

MITCHAM INDUSTRIES, INC.

By: /s/ ROBERT P. CAPPS
 Robert P. Capps
Co-Chief Executive Officer,
Executive Vice President-Finance,
Chief Financial Officer and Director
(Co-Principal Executive Officer and Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title/Capacity</u>	<u>Date</u>
<u> /s/ GUY MALDEN </u> Guy Malden	Co-Chief Executive Officer, Executive Vice President – Marine Systems <i>(Co-Principal Executive Officer)</i>	April 13, 2018
<u> /s/ ROBERT P. CAPPS </u> Robert P. Capps	Co-Chief Executive Officer, Executive Vice President – Finance, Chief Financial Officer and Director <i>(Co-Principal Executive Officer and Principal Financial Officer)</i>	April 13, 2018
<u> /s/ MARK A. COX </u> Mark A. Cox	Vice President of Finance and Accounting <i>(Principal Accounting Officer)</i>	April 13, 2018
<u> /s/ PETER H. BLUM </u> Peter H. Blum	Non-Executive Chairman of the Board of Directors	April 13, 2018
<u> /s/ THOMAS GLANVILLE </u> Thomas Glanville	Director	April 13, 2018
<u> /s/ ROBERT J. ALBERS </u> Robert J. Albers	Director	April 13, 2018
<u> /s/ MARCUS ROWLAND </u> Marcus Rowland	Director	April 13, 2018
<u> /s/ RANDAL DEAN LEWIS </u> Randal Dean Lewis	Director	April 13, 2018

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Mitcham Industries, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Mitcham Industries, Inc. and subsidiaries (the “Company”) as of January 31, 2018, the related consolidated statements of operations, comprehensive loss, changes in shareholders’ equity and cash flows for the year then ended, and the related notes and schedule (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of January 31, 2018, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Moss Adams LLP

Houston, Texas
April 13, 2018

We have served as the Company’s auditor since 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Mitcham Industries, Inc.

We have audited the accompanying consolidated balance sheet of Mitcham Industries, Inc. and subsidiaries (collectively the "Company") as of January 31, 2017, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity and cash flows and financial statement schedule for each of the two years in the period ended January 31, 2017. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial statement schedule referred to above present fairly, in all material respects, the financial position of Mitcham Industries, Inc. and subsidiaries as of January 31, 2017, and the results of their operations and their cash flows for each of the two years in the period ended January 31, 2017, in conformity with U.S. generally accepted accounting principles.

/s/ Hein & Associates LLP

Houston, Texas
April 6, 2017

MITCHAM INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	January 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,902	\$ 2,902
Restricted cash	244	609
Accounts and contracts receivable, net of allowance for doubtful accounts of \$3,885 and \$3,716 at January 31, 2018 and January 31, 2017, respectively	10,494	15,830
Inventories, net	10,856	11,960
Prepaid income taxes	—	1,565
Prepaid expenses and other current assets	1,550	2,193
Total current assets	33,046	35,059
Seismic equipment lease pool and property and equipment, net	22,900	43,838
Intangible assets, net	8,015	9,012
Goodwill	2,531	3,997
Non-current prepaid income taxes	1,609	—
Long-term receivables, net of allowance for doubtful accounts of \$2,282 and \$2,188 at January 31, 2018 and January 31, 2017, respectively	4,652	2,780
Other assets	926	28
Total assets	\$ 73,679	\$ 94,714
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,271	\$ 1,929
Current maturities – long-term debt	—	6,371
Deferred revenue	741	651
Accrued expenses and other current liabilities	5,253	4,514
Income Taxes Payable	258	—
Total current liabilities	7,523	13,465
Deferred tax liability	307	317
Total liabilities	7,830	13,782
Commitments and contingencies (Note 13, 17 and 18)		
Shareholders' equity:		
Preferred stock, \$1.00 par value; 1,000 shares authorized; 532 and 343 issued and outstanding at January 31, 2018, and January 31, 2017, respectively	11,544	7,294
Common stock \$.01 par value; 20,000 shares authorized; 14,019 shares issued at January 31, 2018 and January 31, 2017	140	140
Additional paid-in capital	122,304	121,401
Treasury stock, at cost (1,929 shares at January 31, 2018 and 2017)	(16,860)	(16,858)
Accumulated deficit	(42,425)	(20,451)
Accumulated other comprehensive loss	(8,854)	(10,594)
Total shareholders' equity	65,849	80,932
Total liabilities and shareholders' equity	\$ 73,679	\$ 94,714

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

MITCHAM INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended January 31,		
	2018	2017	2016
Revenues:			
Sale of marine technology products	\$ 27,420	\$ 25,058	\$ 25,163
Equipment leasing	7,826	10,161	23,710
Sale of lease pool equipment	13,030	5,780	2,946
Total revenues	<u>48,276</u>	<u>40,999</u>	<u>51,819</u>
Cost of sales:			
Sale of marine technology products	16,686	13,571	13,376
Equipment leasing (including lease pool depreciation of \$14,370, \$25,753 and \$29,462 at January 31, 2018, January 31, 2017 and January 31, 2016, respectively)	17,764	29,037	34,120
Lease pool equipment sales	7,742	5,805	1,654
Total cost of sales	<u>42,192</u>	<u>48,413</u>	<u>49,150</u>
Gross profit (loss)	<u>6,084</u>	<u>(7,414)</u>	<u>2,669</u>
Operating expenses:			
Selling, general and administrative	19,663	19,753	18,035
Research and development	1,502	974	931
Provision for doubtful accounts	1,013	750	2,201
Contract settlement	—	—	2,142
Impairment of intangible assets	1,466	—	3,609
Depreciation and amortization	2,148	2,399	2,511
Total operating expenses	<u>25,792</u>	<u>23,876</u>	<u>29,429</u>
Operating loss	(19,708)	(31,290)	(26,760)
Other income (expense):			
Interest income (expense)	47	(643)	(725)
Other, net	(498)	594	(274)
Total other expense	<u>(451)</u>	<u>(49)</u>	<u>(999)</u>
Loss before income taxes	(20,159)	(31,339)	(27,759)
Provision for income taxes	(910)	(1,814)	(10,977)
Net loss	<u>\$ (21,069)</u>	<u>\$ (33,153)</u>	<u>\$ (38,736)</u>
Preferred stock dividends	(905)	(486)	—
Net loss attributable to common shareholders	<u>\$ (21,974)</u>	<u>\$ (33,639)</u>	<u>\$ (38,736)</u>
Net loss per common share:			
Basic	<u>\$ (1.82)</u>	<u>\$ (2.79)</u>	<u>\$ (3.22)</u>
Diluted	<u>\$ (1.82)</u>	<u>\$ (2.79)</u>	<u>\$ (3.22)</u>
Shares used in computing loss per common share:			
Basic	<u>12,084</u>	<u>12,070</u>	<u>12,041</u>
Diluted	<u>12,084</u>	<u>12,070</u>	<u>12,041</u>

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

MITCHAM INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Years Ended January 31,		
	2018	2017	2016
Net loss attributable to common shareholders	\$ (21,974)	\$ (33,639)	\$ (38,736)
Change in cumulative translation adjustment	1,740	1,507	(3,575)
Comprehensive loss	<u>\$ (20,234)</u>	<u>\$ (32,132)</u>	<u>\$ (42,311)</u>

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

MITCHAM INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands)

	Years Ended January 31, 2016, 2017 and 2018								
	Common Stock		Preferred Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount					
Balances, January 31, 2015	14,012	140	—	—	119,787	(16,851)	51,924	(8,526)	146,474
Net loss	—	—	—	—	—	—	(38,736)	—	(38,736)
Foreign currency translation	—	—	—	—	—	—	—	(3,575)	(3,575)
Issuance of common stock upon exercise of options	—	—	—	—	—	—	—	—	—
Restricted stock issued	7	—	—	—	—	—	—	—	—
Restricted stock forfeited for taxes	—	—	—	—	—	(3)	—	—	(3)
Purchase of common stock	—	—	—	—	(416)	—	—	—	(416)
Stock-based compensation	—	—	—	—	1,293	—	—	—	1,293
Balances, January 31, 2016	14,019	140	—	—	120,664	(16,854)	13,188	(12,101)	105,037
Net loss	—	—	—	—	—	—	(33,153)	—	(33,153)
Foreign currency translation	—	—	—	—	—	—	—	1,507	1,507
Restricted stock forfeited for taxes	—	—	—	—	—	(4)	—	—	(4)
Preferred stock offering	—	—	343	7,294	—	—	—	—	7,294
Preferred stock dividends	—	—	—	—	—	—	(486)	—	(486)
Stock-based compensation	—	—	—	—	737	—	—	—	737
Balances, January 31, 2017	14,019	\$ 140	343	7,294	\$ 121,401	\$ (16,858)	\$ (20,451)	\$ (10,594)	\$ 80,932
Net loss	—	—	—	—	—	—	(21,069)	—	(21,069)
Foreign currency translation	—	—	—	—	—	—	—	1,740	1,740
Restricted stock forfeited for taxes	—	—	—	—	—	(2)	—	—	(2)
Preferred stock offering	—	—	189	4,250	—	—	—	—	4,250
Preferred stock dividends	—	—	—	—	—	—	(905)	—	(905)
Stock-based compensation	—	—	—	—	903	—	—	—	903
Balances, January 31, 2018	14,019	\$ 140	532	\$ 11,544	\$ 122,304	\$ (16,860)	\$ (42,425)	\$ (8,854)	\$ 65,849

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

MITCHAM INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended January 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net loss	\$ (21,069)	\$ (33,153)	\$ (38,736)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	16,637	28,275	32,111
Stock-based compensation	903	737	1,293
Impairment of intangible assets	1,466	—	3,609
Provision for doubtful accounts, net of charge offs	1,013	750	2,201
Provision for inventory obsolescence	815	75	407
Gross (profit) loss from sale of lease pool equipment	(4,906)	298	(1,384)
Deferred tax expense	(20)	934	10,309
Non-current prepaid tax	182	—	—
Changes in:			
Trade accounts and contracts receivable	4,405	7,345	(238)
Inventories	685	850	677
Income taxes receivable and payable	—	475	(1,716)
Accounts payable, accrued expenses and other current liabilities	(455)	(2,189)	1,241
Prepays and other current assets, net	1,002	(1,327)	4,807
Foreign exchange losses net of gains	61	84	466
Net cash provided by operating activities	<u>719</u>	<u>3,154</u>	<u>15,047</u>
Cash flows from investing activities:			
Purchases of seismic equipment held for lease	(909)	(636)	(2,173)
Acquisition of businesses	—	—	(10,000)
Purchases of property and equipment	(407)	(283)	(336)
Sales of used lease pool equipment	10,313	5,331	2,240
Net cash provided by (used in) investing activities	<u>8,997</u>	<u>4,412</u>	<u>(10,269)</u>
Cash flows from financing activities:			
Net payments on revolving line of credit	(3,500)	(10,900)	(2,600)
Payments on term loan and other borrowings	(2,807)	(3,217)	(3,217)
Net (purchases of) proceeds from short-term investment	—	—	182
Net proceeds from preferred stock offering	4,174	7,294	—
Preferred stock dividends	(905)	(486)	—
Purchase of treasury stock	—	(4)	(3)
Net cash used in financing activities	<u>(3,038)</u>	<u>(7,313)</u>	<u>(5,638)</u>
Effect of changes in foreign exchange rates on cash, cash equivalents and restricted cash	(43)	(511)	(546)
Net increase (decrease) in cash, cash equivalents and restricted cash	6,635	(258)	(1,406)
Cash, cash equivalents and restricted cash, beginning of year	3,511	3,769	5,175
Cash, cash equivalents and restricted cash, end of year	<u>\$ 10,146</u>	<u>\$ 3,511</u>	<u>\$ 3,769</u>

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

Mitcham Industries, Inc.
Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization—Mitcham Industries, Inc., a Texas corporation (the “Company”), was incorporated in 1987. The Company, through its wholly owned subsidiary, Seamap International Holdings Pte, Ltd. (“Seamap”), and its wholly owned subsidiary, 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. 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 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. All intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition of Leasing Arrangements—The Company leases various types of seismic equipment to seismic data acquisition companies. All leases at January 31, 2018, 2017 and 2016 are for one year or less. Lease revenue is recognized ratably over the term of the lease. The Company does not enter into leases with embedded maintenance obligations. The standard lease provides that the lessee is responsible for maintenance and repairs to the equipment, excluding normal wear and tear. The Company occasionally provides technical advice to its customers without additional compensation as part of its customer service practices. Repairs or maintenance performed by the Company is charged to the lessee, generally on a time and materials basis. Repair and maintenance revenue is recognized as incurred.

Revenue Recognition of Equipment Sales—Revenues and cost of sales from the sale of equipment are recognized upon acceptance of terms and when delivery has occurred, unless there is a question as to collectability. In cases where the equipment sold is manufactured by others, the Company reports revenues at gross amounts billed to customers because the Company: (a) is the obligor in the sales arrangement; (b) has full latitude in pricing the product for sale; (c) has general inventory risk should there be a problem with the equipment being sold to the customer or if the customer does not complete payment for the items purchased; (d) has discretion in supplier selection if the equipment ordered is not unique to one manufacturer; and (e) assumes credit risk for the equipment sold to its customers.

Revenue Recognition of Long-term Projects—From time to time, SAP and Klein enter into contracts whereby they assemble and sell certain marine equipment, primarily to governmental entities. Performance under these contracts generally occurs over a period of several months. Revenue and costs related to these contracts are accounted for under the percentage of completion method, based on estimated physical completion.

Revenue Recognition of Service Agreements—Seamap provides on-going support services pursuant to contracts that generally have a term of 12 months. The Company recognizes revenue from these contracts over the term of the contract. In some cases, the Company will provide support services on a time and material basis. Revenue from these arrangements is recognized as the services are provided. For certain new systems that Seamap sells, the Company provides support services for up to 12 months at no additional charge. Any amounts attributable to these support obligations are immaterial. Revenues from service contracts for each of the three months ended January 31, 2018 were not material. Due to immateriality, service revenues are not presented separately in the financial statements.

Contracts Receivable—In connection with the sale of seismic equipment, the Company will, from time to time, accept a contract receivable as partial consideration. These contracts bear interest at a market rate, generally have terms of less than two years and are collateralized by a security interest in the equipment sold. Interest income on contracts receivable is recognized as earned, unless there is a question as to collectability in which case it is recognized when received.

Allowance for Doubtful Accounts—Trade receivables are uncollateralized customer obligations due under normal trade terms. The carrying amount of trade receivables and contracts receivable is reduced by a valuation allowance that reflects management’s estimate of the amounts that will not be collected, based on the age of the receivable, payment history of the customer, general industry conditions, general financial condition of the customer and any financial or operational leverage the Company may have in a particular situation. Amounts are written-off when collection is deemed unlikely. Past due amounts are determined based on contractual terms. The Company generally does not charge interest on past due accounts.

Cash and Cash Equivalents—The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Short-term Investments—The Company considers all highly liquid investments with an original maturity greater than three months, but less than twelve months, to be short-term investments.

Inventories—Inventories are stated at the lower of average cost (which approximates first-in, first-out) or market. An allowance for obsolescence is maintained to reduce the carrying value of any materials or parts that may become obsolete. Inventories are periodically monitored to ensure that the allowance for obsolescence covers any obsolete items.

Mitcham Industries, Inc.
Notes to Consolidated Financial Statements

Seismic Equipment Lease Pool—Seismic equipment held for lease consists primarily of recording channels and peripheral equipment and is carried at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the equipment, which are five to seven years for channel boxes and two to 10 years for other peripheral equipment. As this equipment is subject to technological obsolescence and wear and tear, no salvage value is assigned to it. The Company continues to lease seismic equipment after it has been fully depreciated if it remains in acceptable condition and meets acceptable technical standards. This fully depreciated equipment remains in fixed assets on the Company's books. The Company removes from its books the cost and accumulated depreciation of fully depreciated assets that are not expected to generate future revenues. Depreciation of equipment commences upon its initial deployment on a lease contract and continues uninterrupted from that point, regardless of whether the equipment is subsequently on a lease contract.

Property and Equipment—Property and equipment is carried at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the related estimated useful lives. The estimated useful lives of equipment range from three to seven years. Buildings are depreciated over 30 years and property improvements are amortized over 10 years. Leasehold improvements are amortized over the shorter of the realized estimated useful life or the life of the respective leases. No salvage value is assigned to property and equipment.

Intangible Assets—Intangible assets are carried at cost, net of accumulated amortization. Amortization is computed on 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) over the estimated life of the asset. Proprietary rights, developed technology and amortizable tradenames are amortized over a 10 to 15-year period. Customer relationships are amortized over an eight-year period. Patents are amortized over an eight to nine-year period.

Impairment—The Company reviews its long-lived assets, including its amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In reviewing for impairment, the carrying value of such assets is compared to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. If such cash flows are not sufficient to support the asset's recorded value, an impairment charge is recognized to reduce the carrying value of the long-lived asset to its estimated fair value. The determination of future cash flows as well as the estimated fair value of long-lived assets involves significant estimates on the part of management. The Company performs an impairment test on goodwill on an annual basis. The Company performs a qualitative review to determine if it is more likely than not that the fair value of our reporting units is greater their carrying value. If the Company is unable to conclude quantitatively that it is more likely than not that a reporting unit's fair value exceeds its carrying value, then the Company performs a quantitative assessment of fair value of the reporting unit. The quantitative reviews involve significant estimates on the part of management.

Product Warranties—Seamap provides its customers warranties against defects in materials and workmanship generally for a period of three months after delivery of the product. The Company maintains an accrual for potential warranty costs based on historical warranty claims. For the fiscal years ended January 31, 2018, 2017 and 2016, warranty expense was not material.

Income Taxes—The Company accounts for income taxes under the liability method, whereby the Company recognizes deferred tax assets and liabilities which represent differences between the financial and income tax reporting basis of its assets and liabilities. Deferred tax assets and liabilities are determined based on temporary differences between income and expenses reported for financial reporting and tax reporting. The Company has assessed, using all available positive and negative evidence, the likelihood that the deferred tax assets will be recovered from future taxable income.

The weight given to the potential effect of positive and negative evidence is commensurate with the extent to which it can be objectively verified. The preponderance of negative or positive evidence supports a conclusion regarding the need for a valuation allowance for some portion, or all, of the deferred tax asset. The more significant types of evidence considered include the following:

- taxable income projections in future years;
- our history of taxable income within a particular jurisdiction;
- any history of the expiration of deferred tax assets without realization;
- whether the carry forward period is so brief that it would limit realization of tax benefits;
- other limitations on the utilization of tax benefits;
- future sales and operating cost projections that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures;
- our earnings history exclusive of the loss that created the future deductible amount coupled with evidence indicating that the loss is an aberration rather than a continuing condition; and
- tax planning strategies that will create additional taxable income.

Mitcham Industries, Inc.
Notes to Consolidated Financial Statements

Use of Estimates—The preparation of the Company’s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company’s management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the allowance for doubtful accounts, lease pool valuations, valuation allowance on deferred tax assets, the evaluation of uncertain tax positions, estimated depreciable lives of fixed assets and intangible assets, impairment of fixed assets and intangible assets, valuation of assets acquired and liabilities assumed in business combinations and the valuation of stock options. Future events and their effects cannot be perceived with certainty. Accordingly, these accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company’s operating environment changes. Actual results could differ from these estimates.

Substantial judgment is necessary in the determination of the appropriate levels for the Company’s allowance for doubtful accounts because of the extended payment terms the Company often offers to its customers and the limited financial wherewithal of certain of these customers. As a result, the Company’s allowance for doubtful accounts could change in the future, and such change could be material to the financial statements taken as a whole. The Company must also make substantial judgments regarding the valuation allowance on deferred tax assets and with respect to quantitative analysis prepared in conjunction with impairment analysis related to goodwill and other intangible assets.

Fair Value of Financial Instruments—The Company’s financial instruments consist of accounts and contracts receivable, accounts payable and amounts outstanding under our credit facilities. Due to the maturities of these financial instruments and the variable rates under our credit agreements, the Company believes that their fair value approximates their carrying amounts.

The Financial Accounting Standards Board (“FASB”) has issued guidance on the definition of fair value, the framework for using fair value to measure assets hierarchy, which prioritizes the inputs used to measure fair value. These tiers include:

- Level 1: Defined as observable inputs such as quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Defined as pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors and current and contractual prices for the underlying instruments, as well as other relevant economic measures.
- Level 3: Defined as pricing inputs that are unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

The Company measures the fair values of goodwill, intangibles and other long-lived assets on a recurring basis if required by impairment tests applicable to these assets. The Company utilized Level 3 inputs to value goodwill, intangibles and other long-lived assets as of January 31, 2018. See Notes 6 and 7 to our consolidated financial statements.

Foreign Currency Translation—All balance sheet accounts of the Canadian, Australian, certain Singaporean, United Kingdom and Russian subsidiaries have been translated at the current exchange rate as of the end of the accounting period. Statements of operations items have been translated at average currency exchange rates. The resulting translation adjustment is recorded as a separate component of comprehensive income within shareholders’ equity.

Stock-Based Compensation—Stock-based compensation expense is recorded based on the grant date fair value of share-based awards. Restricted stock awards are valued at the closing price on the date of grant. Determining the grant date fair value for options requires management to make estimates regarding the variables used in the calculation of the grant date fair value. Those variables are the future volatility of our common stock price, the length of time an optionee will hold their options until exercising them (the “expected term”), and the number of options that will be forfeited before they are exercised (the “forfeiture rate”). We utilize various mathematical models in calculating the variables. Share-based compensation expense could be different if we used different models to calculate the variables.

Earnings Per Share—Net income (loss) per basic common share is computed using the weighted average number of common shares outstanding during the period. Net income (loss) per diluted common share is computed using the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding common stock options having a dilutive effect using the treasury stock method, from unvested shares of restricted stock using the treasury stock method and from outstanding common stock warrants. For the fiscal years ended January 31, 2018, 2017 and 2016, the following table sets forth the number of potentially dilutive shares that may be issued pursuant to options, restricted stock and warrants outstanding used in the per share calculations.

Mitcham Industries, Inc.
Notes to Consolidated Financial Statements

	Years Ended January 31,		
	2018	2017	2016
	(in thousands)		
Stock options	77	18	13
Restricted stock	32	44	46
Total dilutive shares	109	62	59

For the fiscal years ended January 31, 2018, 2017 and 2016, respectively, 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 those periods.

Reclassifications—Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on the results of operations or comprehensive income.

2. New Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, to simplify impairment testing of goodwill and other intangible assets by eliminating step two of the impairment test. ASU No. 2017-04 will be effective during the fiscal year ended January 31, 2021. The Company has adopted the provisions of ASU 2017-04 as of January 31, 2018. The adoption of ASU 2017-04 did not have a material effect on the Company’s condensed consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, to require that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company has adopted the provisions of ASU No. 2016-18 as of February 1, 2017. The adoption of ASU No. 2016-18 did not have a material effect on the Company’s condensed consolidated financial statements.

In August 2016, the FASB issued 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 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. The Company adopted this new standard as of February 1, 2017, utilizing the prospective transition method. As a result, the Company now recognizes all excess tax charges or benefits as income tax expense or benefit in the accompanying Consolidated Statements of Operations and in the accompanying Consolidated Statements of Cash Flows as operating activities.

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, 2020. The Company is evaluating the impact of ASU No. 2016-02 on its 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. The Company has adopted the provisions of ASU 2015-11 as of February 1, 2017. The adoption of ASU 2015-11 did not have an impact on the Company’s consolidated financial statements as the Company’s inventory is determined using the average cost method.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU 2014-09 was later amended by ASU No. 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, and ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. ASU 2014-09, as amended, (the “Revenue Standard”) supersedes most industry specific guidance and intends to enhance comparability of revenue recognition practices across entities and industries by providing a principle-based, comprehensive framework for addressing revenue recognition issues. The Revenue Standard will be effective during the fiscal year ended January 31, 2019.

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The Company will adopt the Revenue Standard in the first quarter of fiscal 2019 and plans to use the modified retrospective method. The Company has analyzed a number of customer contracts and has determined that the Revenue Standard will be applicable to contracts performed by its Marine Technology Products segment, but not contracts performed by its Equipment Leasing segment. Based on the analysis the Company does not expect revenue recognition under the Revenue Standard to be materially different from the way contract revenue has been recognized under previous guidance. The Company is continuing to review its customer contracts in light of the Revenue Standard and evaluating the effect adoption will have on its financial statements, disclosures, and related internal controls.

3. Supplemental Statements of Cash Flows Information

Supplemental disclosures of cash flows information for the fiscal years ended January 31, 2018, 2017 and 2016 were as follows (in thousands):

	Years Ended January 31,		
	2018	2017	2016
Interest paid	\$ 86	\$ 673	\$ 694
Income taxes paid, net	494	409	1,520
Seismic equipment purchases included in accounts payable at year-end	53	130	325

4. Inventories

Inventories consisted of the following (in thousands):

	As of January 31,	
	2018	2017
Raw materials	\$ 5,099	\$ 5,781
Finished goods	6,185	5,985
Work in progress	1,247	1,146
Cost of inventories	12,531	12,912
Less allowance for obsolescence	(1,675)	(952)
Net inventories	<u>\$ 10,856</u>	<u>\$ 11,960</u>

5. Accounts and Contracts Receivables

Accounts and contracts receivables consisted of the following (in thousands):

	As of January 31,	
	2018	2017
Accounts receivable	\$16,392	\$21,762
Contracts receivable	4,921	2,752
	21,313	24,514
Less long-term portion	(6,934)	(4,968)
Current accounts and contracts receivable	14,379	19,546
Less current portion of allowance for doubtful accounts	(3,885)	(3,716)
Current portion of accounts and contracts receivable, net of allowance for doubtful accounts	<u>\$10,494</u>	<u>\$15,830</u>

Contracts receivable consisted of \$4.9 million and \$2.8 million, due from five customers as of January 31, 2018 and 2017, respectively. The balance of contracts receivable at January 31, 2018 and 2017 consisted of contracts bearing interest at an average rate of approximately 2.8% and 2.2% respectively and with remaining repayment terms from one to 40 months. These contracts are collateralized by the equipment sold. As of January 31, 2017, the Company has entered into structured payment arrangements with five 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 \$2.1 million. Payments terms for long-term receivables are structured to be completed by the end of fiscal 2020.

6. Seismic Equipment Lease Pool and Property and Equipment

Seismic equipment lease pool and property and equipment consisted of the following (in thousands)

	As of January 31,	
	2018	2017
Recording channels	\$ 89,397	\$ 126,081
Other peripheral equipment	84,877	92,920
Cost of seismic equipment lease pool	174,274	219,001
Land and buildings	3,380	3,379
Furniture and fixtures	10,222	9,462
Autos and trucks	722	675
Cost of property and equipment	14,324	13,516
Cost of seismic equipment lease pool and property and equipment	188,598	232,517
Less accumulated depreciation	(165,698)	(188,679)
Net book value of seismic equipment lease pool and property and equipment	<u>\$ 22,900</u>	<u>\$ 43,838</u>

As of January 31, 2018 and 2017, the Company completed an annual review of long-lived assets by comparing undiscounted future cash flows to be generated by our lease pool assets to the carrying value of our lease pool assets noting that the undiscounted future cash flows exceeded their carrying value and no impairment has been recorded.

Location of seismic equipment lease pool and property and equipment (in thousands):

	As of January 31,	
	2018	2017
United States	\$ 4,973	\$ 16,510
Europe	6,557	7,730
Canada	2,134	8,525
Latin America	2,390	2,317
Singapore	4,793	5,321
Australia	737	1,462
Russia	1,316	1,973
Net book value of seismic equipment lease pool and property and equipment	<u>\$ 22,900</u>	<u>\$ 43,838</u>

7. Goodwill and Other Intangible Assets

	Weighted Average Life at 1/31/18	January 31, 2018				January 31, 2017			
		Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
		(in thousands)				(in thousands)			
Goodwill		\$ 7,060	\$ —	\$ (4,529)	\$ 2,531	\$ 7,060	\$ —	\$ (3,063)	\$ 3,997
Proprietary rights	4.9	\$ 6,181	\$ (3,663)	—	2,518	\$ 5,810	\$ (3,003)	—	2,807
Customer relationships	3.8	5,024	(2,464)	—	2,560	4,679	(1,656)	—	3,023
Patents	5.0	1,730	(778)	—	952	1,608	(558)	—	1,050
Trade name	8.3	894	(41)	—	853	884	(27)	—	857
Developed technology	7.9	1,430	(298)	—	1,132	1,430	(155)	—	1,275
Amortizable intangible assets		<u>\$ 15,259</u>	<u>\$ (7,244)</u>	<u>\$ —</u>	<u>\$ 8,015</u>	<u>\$ 14,411</u>	<u>\$ (5,399)</u>	<u>\$ —</u>	<u>\$ 9,012</u>

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On January 31, 2018, the Company completed an annual review of goodwill and other intangible assets. Based on a review of qualitative factors it was determined it was more likely than not that the fair value of our Seemap reporting unit was greater than its carrying value. Based on a review of qualitative and quantitative factors it was determined it was more likely than not that the fair value of our Klein reporting unit was not greater than its carrying value. Accordingly, we recorded an impairment of approximately \$1.5 million related to the Klein reporting unit.

On January 31, 2017, the Company completed an annual review of goodwill and other intangible assets. Based on a review of qualitative factors it was determined it was more likely than not that the fair value was greater than the carrying value of both our Seemap and Klein reporting units. As a result, no impairment charge was recorded in fiscal 2017.

Aggregate amortization expense was \$1.5 million, \$1.5 million and \$1.7 million for the fiscal years ended January 31, 2018, 2017 and 2016, respectively. As of January 31, 2018, future estimated amortization expense related to amortizable intangible assets is estimated to be (in thousands):

For fiscal years ending January 31:	
2019	\$ 1,508
2020	1,508
2021	1,355
2022	820
2023	726
Thereafter	2,098
Total	<u>\$ 8,015</u>

8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	<u>As of January 31,</u>	
	<u>2018</u>	<u>2017</u>
Contract settlement	\$ 1,431	\$ 1,431
Wages and benefits	1,098	1,130
Customer Deposits	1,019	641
Restructuring costs	413	—
Other	1,292	1,312
Accrued Expenses and Other Liabilities	<u>\$ 5,253</u>	<u>\$ 4,514</u>

9. Long-Term Debt and Notes Payable

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

	<u>As of January 31,</u>	
	<u>2018</u>	<u>2017</u>
Revolving line of credit	\$ —	\$ 3,500
Term credit facility	—	2,800
Other equipment notes	—	71
	—	6,371
Less current portion	—	(6,371)
Long-term debt	<u>\$ —</u>	<u>\$ —</u>

As of January 31, 2017, the Company had a secured, revolving credit facility, as described below (the "Credit Agreement"). The Credit Agreement was 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

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as lenders thereunder (initially consisting of HSBC Bank USA, N.A. and First Victoria National Bank). In November 2016, the Company reduced the commitment to \$10.0 million from \$20.0 million. In March 2017, the Company repaid all outstanding obligations under the Credit Agreement and terminated that agreement.

The Credit Agreement provided for Eurodollar loans, which bore interest at the Eurodollar base rate, plus a margin of from 2.50% to 3.50% based on the Company's leverage ratio and for ABR loans which bore interest at the applicable base rate plus a margin of from 1.50% to 2.50% based on the Company's leverage ratio. As of January 31, 2017, the margin for ABR loans was 250 basis points and the margin for Eurodollar loans was 350 basis points. The Company agreed to pay a commitment fee on the unused portion of the Credit Agreement of 0.375% to 0.50%. Up to \$10.0 million of available borrowings under the Credit Agreement may have been utilized to secure letters of credit.

On August 22, 2014, Seemap Singapore entered into a \$15.0 million credit facility (the "Seemap Credit Facility") with The Hongkong and Shanghai Banking Corporation Limited ("HSBC-Singapore"). The facility consisted of a \$10.0 million term loan, a \$3.0 million revolving credit facility, and a \$2.0 million banker's guarantee facility. In April 2017, the company prepaid all amounts outstanding under the Seemap Credit Facility and canceled that facility.

The term loan portion of the Seemap Credit Facility provided for eleven quarterly principal payments of \$800,000 and a final payment of the remaining \$1.2 million on or before August 31, 2017. Interest on the term facility was payable quarterly at LIBOR plus 2.75%. Under the Seemap Credit Facility, Seemap Singapore may have borrowed 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 bore interest at LIBOR plus 3.00%.

The Company's average borrowings under the Credit Agreement and the Seemap Credit Facility for the fiscal years ended January 31, 2018 and 2017 were approximately \$801,000 and \$12.2 million, respectively.

10. Shareholders' Equity

The Company has 1,000,000 shares of preferred stock authorized. The preferred stock may be issued in multiple series with various terms, as authorized by the Company's Board of Directors. As of January 31, 2018, approximately 532,000 shares of 9.00% Series A Cumulative Preferred Stock, par value \$1.00 per share, (the "Series A Preferred Stock") were outstanding, and 343,000 shares were outstanding as of January 31, 2017. Dividends on the Series A Preferred Stock are cumulative from the date of original issue and payable quarterly on or about the last day of January, April, July and October of each year when, as and if, declared by the Company's board of directors. Dividends are payable out of amounts legally available therefor at a rate equal to 9.00% per annum per \$25.00 of stated liquidation preference per share, or \$2.25 per share of Series A Preferred Stock per year. The Company may not redeem the Series A Preferred Stock before June 8, 2021, except as described below. On or after June 8, 2021, the Company may redeem, at the Company's option, the Series A Preferred Stock, in whole or in part, at a cash redemption price of \$25.00 per share, plus all accrued and unpaid dividends to, but not including, the redemption date. If at any time a change of control occurs, the Company will have the option to redeem the Series A Preferred Stock, in whole or in part, within 120 days after the date on which the change of control occurred by paying \$25.00 per share, plus any accrued and unpaid dividends to, but not including, the date of redemption. The Series A Preferred Stock has no stated maturity, is not subject to any sinking fund or other mandatory redemption, and will remain outstanding indefinitely unless repurchased or redeemed by the Company or converted into our common stock in connection with a change of control. Holders of the Series A Preferred Stock generally have no voting rights except for limited voting rights if dividends payable on the outstanding Series A Preferred Stock are in arrears for six or more consecutive or non-consecutive quarterly dividend periods, or if the Company fails to maintain the listing of the Series A Preferred Stock on a national securities exchange for a period continuing for more than 180 days.

The Company has 20,000,000 shares of common stock authorized, of which 14,019,000 were issued as of January 31, 2018 and 2017.

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 year ended January 31, 2016, the Company repurchased 852,100 shares of its common stock at an average price of approximately \$11.41 per share. These shares are reflected as treasury stock in the accompanying financial statements.

During the fiscal years ended January 31, 2018, 2017 and 2016, approximately 359, 718 and 580 shares, respectively, were surrendered in exchange for payment of taxes due upon the vesting of restricted shares. The shares had an average fair value of \$4.79, \$3.76 and \$4.86, respectively.

11. Related Party Transaction

On June 8, 2016, the Company issued 320,000 shares of the Series A Preferred Stock, 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.

On October 7, 2016 the Company entered into an equity distribution agreement (the “Equity Distribution Agreement”) with Ladenburg Thalmann & Co. Inc. (the “Agent”), pursuant to which the Company may sell up to 500,000 shares of the Series A Preferred Stock through the Agent through an at the market (“ATM”) offering program. Under the Equity Distribution Agreement, the Agent will be entitled to compensation of up to 2.0% of the gross proceeds from the sale of Series A Preferred Stock under the ATM program. For the twelve months ended January 31, 2018, the Company issued 188,822 shares of Series A Preferred Stock under the ATM offering program. Gross proceeds from these sales were approximately \$4.4 million and the Agent received compensation of approximately \$86,000. For the three months ended January 31, 2018, the Company issued 106,918 shares of Series A Preferred stock under the ATM offering program. Gross proceeds from these sales were approximately \$2.5 million and the Agent received compensation of approximately \$49,000, resulting in net proceeds to the Company of \$2.4 million for the three months ended January 31, 2018. The Non-Executive Chairman of the Company received no portion of this compensation.

12. Income Taxes

	Years Ended January 31,		
	2018	2017	2016
	(in thousands)		
Loss before income taxes is attributable to the following jurisdictions:			
Domestic	\$ (12,246)	\$ (17,685)	\$ (11,900)
Foreign	(7,913)	(13,654)	(15,859)
Total	<u>\$ (20,159)</u>	<u>\$ (31,339)</u>	<u>\$ (27,759)</u>
The components of income tax expense (benefit) were as follows:			
Current:			
Domestic	\$ (225)	\$ 34	\$ (16)
Foreign	1,156	846	684
	<u>931</u>	<u>880</u>	<u>668</u>
Deferred:			
Domestic	(36)	40	10,762
Foreign	15	894	(453)
	<u>(21)</u>	<u>934</u>	<u>10,309</u>
Income tax expense	<u>\$ 910</u>	<u>\$ 1,814</u>	<u>\$ 10,977</u>

The following is a reconciliation of expected to actual income tax expense:

	Years Ended January 31,		
	2018	2017	2016
	(in thousands)		
Federal income tax at 32.9%, 34%, 34%, respectively	\$ (6,632)	\$ (10,655)	\$ (9,436)
Changes in tax rates	7,257	—	(82)
Permanent differences	3,356	38	509
Foreign effective tax rate differential	1,163	1,979	1,609
Potential tax, penalties and interest resulting from uncertain tax positions	—	—	(236)
Foreign withholding taxes, foreign branch taxes, including penalties and interest	716	671	717
Election to deduct foreign taxes in prior years U.S. income tax returns	—	—	2,610
Valuation allowance on deferred tax assets	(5,765)	10,056	15,477
Excess tax deficiency for share-based payments under ASU 2016-09	309	—	—
Other	506	(275)	(191)
	<u>\$ 910</u>	<u>\$ 1,814</u>	<u>\$ 10,977</u>

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The components of the Company's deferred taxes consisted of the following:

	As of January 31,	
	2018	2017
	(in thousands)	
Deferred tax assets:		
Net operating losses	\$ 14,292	\$ 17,666
Tax credit carry forwards	693	894
Stock option book expense	1,381	2,259
Allowance for doubtful accounts	1,521	2,098
Allowance for inventory obsolescence	430	437
Accruals not yet deductible for tax purposes	611	691
Fixed assets	1,325	1,266
Other	901	1,046
Gross deferred tax assets	21,154	26,357
Valuation allowance	(21,154)	(26,357)
Deferred tax assets	—	—
Deferred tax liabilities:		
Intangible assets	—	(150)
Other	(307)	(167)
Deferred tax liabilities	(307)	(317)
Unrecognized tax benefits	—	—
Total deferred tax (liabilities) assets, net	(307)	\$ (317)

On December 22, 2017, the United States enacted legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act contains (i) significant changes to corporate taxation, including reduction of the highest corporate tax rate from 35% to 21%, (ii) limitations on the deductibility of interest expense, business entertainment expenses, and executive compensation, and (iii) significant changes to U.S. international taxation, including a one time repatriation tax on undistributed earnings of foreign subsidiaries, the exemption from U.S. tax of certain foreign earnings upon their distribution to U.S. corporate shareholders, and the addition of a base erosion and anti-abuse tax. The Company's assessment of the effects of the Tax Act is not complete; therefore, provisional amounts under the Tax Act have been reported for fiscal year ended January 31, 2018.

As a result of the Tax Act reducing the corporate rate to 21%, effective January 1, 2018, the Company's effective federal income tax rate was reduced from 34% to 32.9% for the fiscal year ended January 31, 2018.

As a result of the reduction of the corporate tax rate to 21%, U.S. generally accepted accounting principles require the Company to re-value its deferred tax assets and liabilities as of the date of enactment, with resulting tax effects accounted for in the reporting period of enactment. The impact of revaluation was a decrease of approximately \$7.0 million in value of the Company's U.S. deferred tax assets. The decrease in value of the U.S. deferred tax assets was directly offset by a corresponding reduction in the valuation allowance related to deferred tax assets. Therefore, no tax expense was recorded for the fiscal year ended January 31, 2018 as a result of the change in the corporate tax rate.

The Company also recognized approximately \$11.2 million of estimated U.S. taxable income due to the one-time repatriation of previously untaxed foreign earnings and profits imposed by the Tax Act. The repatriated foreign earnings were reported as a permanent difference and were entirely offset by current year U.S. net operating losses. As a result, the one-time repatriation of foreign earnings did not result in a tax liability for the Company.

The Company has determined that, due to fundamental shifts in its business strategy to emphasize its Marine Technology Products business and the potential requirement for additional investment and working capital to achieve its objectives, the undistributed earnings of foreign subsidiaries as of January 31, 2018, should no longer be deemed indefinitely reinvested outside of the United States. Furthermore, the Company has concluded that any deferred taxes with respect to the undistributed foreign earnings would be immaterial, particularly in light of the one-time repatriation of foreign earnings imposed by the Tax Act. Therefore, the Company has not recorded a deferred tax liability associated with the undistributed foreign earnings as of January 31, 2018.

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Included in deferred tax assets is approximately \$1.4 million related to stock based compensation, including non-qualified stock options. Recent prices for the Company's common stock are below the exercise price for a significant number of these stock options. Should the price of the Company's common stock remain below the exercise price of the options, these stock options will expire without exercise. In accordance with the provisions of ASC 718-740-10, a valuation allowance has not been computed based on the decline in stock price.

As of January 31, 2018, the Company has recorded valuation allowances of approximately \$21.2 million related to deferred tax assets. 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.

At January 31, 2018, the Company had tax credit carry forwards of approximately \$693,000, which amounts can be carried forward through at least 2021.

As of January 31, 2018, 2017 and 2016 the company had no unrecognized tax benefits attributable to uncertain tax positions. Income tax expense for the fiscal year ended January 31, 2016 included approximately \$92,000 of benefit related to reductions in uncertain tax positions. A reconciliation of the beginning and ending amounts of unrecognized tax benefits, excluding potential penalties and interest, is as follows:

	Years Ended January 31,		
	2018	2017	2016
	(in thousands)		
Unrecognized tax benefits as of beginning of year	\$ —	\$ —	\$ 92
Increases as a result of tax positions taken in prior years	—	—	—
Increases as a result of tax positions taken in current year	—	—	—
Settlements	—	—	(44)
Lapse of statute of limitations	—	—	(48)
Unrecognized tax benefits as of end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The Company recognizes interest and penalties related to income tax matters as a component of income tax expense. Income tax expense for the fiscal year ended January 31, 2016 included approximately \$145,000 of benefit related to a reduction in estimated penalties and interest for uncertain tax positions.

Effective January 31, 2016 the Company has adopted the provisions of ASU 2015-17 on a prospective basis. Accordingly, all net deferred tax assets and liabilities are classified as long-term as of January 31, 2017 and January 31, 2018 in the accompanying Consolidated Balance Sheets.

The company prospectively adopted the provisions of ASU 2016-09 beginning February 1, 2017. Accordingly, all excess tax benefits and deficiencies related to employee share-based payments are recognized as income tax benefits or expense in the accompanying Consolidated Statement of Operations and in the accompanying Consolidated Statement of Cash Flows as operating activities. For the fiscal year ended January 31, 2018 the excess tax deficiency for share-based payments recognized as tax expense was approximately \$309,000.

The Company files U.S. federal income tax returns as well as separate returns for its foreign subsidiaries within their local jurisdictions. The Company's U.S. federal tax returns are subject to examination by the IRS for fiscal years ended January 31, 2013 through 2018. The Company's tax returns may also be subject to examination by state and local revenue authorities for fiscal years ended January 31, 2013 through 2018. The Company's Canadian income tax returns are subject to examination by the Canadian tax authorities for fiscal years ended January 31, 2014 through 2018. The Company's tax returns in other foreign jurisdictions are generally subject to examination for the fiscal years ended January 31, 2013 through January 31, 2018.

13. Commitments and Contingencies

Purchase Obligations—At January 31, 2018, the Company had approximately \$1.5 million in purchase orders outstanding.

Customs and Performance Guarantees—As of January 31, 2018, the Company had provided customs and performance guarantees totaling approximately \$244,000. These were secured by cash deposits totaling approximately \$244,000.

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14. Stock Option Plans

At January 31, 2018, the Company had stock-based compensation plans as described in more detail below. The total compensation expense related to stock-based awards granted under these plans during the fiscal years ended January 31, 2018, 2017 and 2016 was approximately \$903,000, \$737,000 and \$1.3 million, respectively. The Company recognizes stock-based compensation costs net of a forfeiture rate for only those awards expected to vest over the requisite service period of the award. The Company estimates the forfeiture rate based on its historical experience regarding employee terminations and forfeitures.

The fair value of each option award is estimated as of the date of grant using a Black-Scholes-Merton option pricing formula. Expected volatility is based on historical volatility of the Company's stock over a preceding period commensurate with the expected term of the option. The expected term is based upon historical exercise patterns. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula since the Company does not pay dividends and has not paid any dividends since its incorporation. The weighted average grant-date fair value of options granted during the fiscal years ended January 31, 2018 and 2016 were \$2.02 and \$1.64, respectively. No options were granted during the fiscal year ended January 31, 2017. The assumptions for the periods indicated are noted in the following table.

Weighted average Black-Scholes-Merton fair value assumptions

	Years Ending January 31,		
	2018	2017	2016
Risk free interest rate	1.89 - 2.01%	—	1.34 - 1.55%
Expected life	4.87 - 6.87 yrs	—	4.87 - 6.87 yrs
Expected volatility	42 - 47%	—	50 - 52%
Expected dividend yield	0.0%	—	0.0%

Cash flows resulting from tax benefits attributable to tax deductions in excess of the compensation expense recognized for those options (excess tax benefits) are classified as financing out-flows and operating in-flows. The Company had no excess tax benefits during the fiscal years ended January 31, 2018 and 2017. The Company had excess tax benefits of approximately \$416,000 during the fiscal year ended January 31, 2016.

The Company has share-based awards outstanding under five different plans: the 1994 Stock Option Plan ("1994 Plan"), the 1998 Amended and Restated Stock Awards Plan ("1998 Plan"), the 2000 Stock Option Plan ("2000 Plan"), the Mitcham Industries, Inc. Stock Awards Plan ("2006 Plan") and the 1994 Non-Employee Director Plan ("Director Plan"), (collectively, the "Plans"). Stock options granted and outstanding under each of the plans generally vest evenly over three years (except for the Director Plan, under which options generally vest after one year) and have a 10-year contractual term. The exercise price of a stock option generally is equal to the fair market value of the Company's common stock on the option grant date. All Plans except for the 2006 Plan have been closed for future grants. All shares available but not granted under the 1998 Plan and the 2000 Plan as of the date of the approval of the 2006 Plan were transferred to the 2006 Plan. As of January 31, 2018, there were approximately 218,000 shares available for grant under the 2006 Plan. The 2006 Plan provides for awards of nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units and phantom stock. New shares are issued for restricted stock and upon the exercise of options.

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Stock Based Compensation Activity

The following table presents a summary of the Company's stock option activity for the fiscal year ended January 31, 2018:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, January 31, 2017	1,781	\$ 9.27	5.90	\$ 778
Granted	549	4.66		
Exercised	—	—		
Forfeited	(94)	11.24		
Expired	(64)	17.70		
Outstanding, January 31, 2018	<u>2,172</u>	<u>\$ 7.75</u>	<u>6.16</u>	<u>\$ 320</u>
Exercisable at January 31, 2018	<u>1,400</u>	<u>\$ 9.51</u>	<u>4.84</u>	<u>\$ 214</u>
Vested and expected to vest at January 31, 2018	2,149	\$ 7.53	6.01	\$ 318

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the fourth quarter of fiscal 2018 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on January 31, 2018. This amount changes based upon the market value of the Company's common stock. No options were exercised during the fiscal years ended January 31, 2018, 2017, and 2016. The fair value of options that vested during the fiscal years ended January 31, 2018, 2017 and 2016 was approximately \$0.5 million, \$1.0 million and \$1.5 million, respectively. For the fiscal year ended January 31, 2018, approximately 245,000 options vested.

As of January 31, 2018, there was approximately \$578,000 of total unrecognized compensation expense related to unvested stock options granted under the Company's share-based compensation plans. That expense is expected to be recognized over a weighted average period of 0.9 years.

Restricted stock as of January 31, 2018 and changes during the fiscal year ended January 31, 2018 were as follows:

	Year Ended January 31, 2018	
	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested, beginning of period	12	\$ 11.89
Granted	—	—
Vested	(10)	13.03
Canceled	—	—
Unvested, end of period	<u>2</u>	<u>\$ 9.97</u>

As of January 31, 2018, there was approximately \$2,000 of unrecognized stock-based compensation expense related to unvested restricted stock awards. That expense is expected to be recognized over a weighted average period of 0.6 years.

15. Segment Reporting

The Marine Technology Products 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 UK, Singapore and New Hampshire, with sales offices in Huntsville, Texas and Brisbane, Australia.

The Equipment Leasing segment offers for lease or sale, new and "experienced" seismic equipment 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; Singapore; Brisbane, Australia and Ufa, Bashkortostan, Russia.

Mitcham Industries, Inc.
Notes to Consolidated Financial Statements

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

	As of January 31, 2018			As of January 31, 2017			As of January 31, 2016		
	Marine Technology Products	Equipment Leasing	Consolidated	Marine Technology Products	Equipment Leasing	Consolidated	Marine Technology Products	Equipment Leasing	Consolidated
Fixed assets, net	\$ 3,790	\$ 19,161	\$ 22,900	\$ 4,036	\$ 39,926	\$ 43,838	\$ 4,278	\$ 69,238	\$ 73,516
Intangible assets, net	8,015	—	8,015	9,012	—	9,012	10,466	—	10,466
Goodwill	2,531	—	2,531	3,997	—	3,997	4,155	—	4,155
Total Assets	35,879	37,850	73,679	37,294	57,544	94,714	39,059	95,932	134,759

	Year ended January 31,											
	2018				2017				2016			
	Marine Technology Products	Equipment Leasing	Corporate expenses	Consolidated	Marine Technology Products	Equipment Leasing	Corporate expenses	Consolidated	Marine Technology Products	Equipment Leasing	Corporate expenses	Consolidated
Revenues	\$ 27,572	\$ 20,919	—	\$ 48,276	\$ 25,100	\$ 15,941	\$ —	\$ 40,999	\$ 25,350	\$ 26,665	\$ —	\$ 51,819
Interest expense, net	(18)	65	—	47	(178)	(465)	—	(643)	(239)	(486)	—	(725)
Operating (loss) income	(2,572)	(13,930)	(3,211)	(19,708)	(508)	(27,782)	(3,001)	(31,290)	279	(23,454)	(3,702)	(26,760)
Capital expenditures	268	1,049	—	1,317	263	20	—	283	226	2,283	—	2,509
Depreciation and amortization expense	1,991	14,652	—	16,637	2,054	26,221	—	28,275	1,741	30,370	—	32,111

Approximately \$216,000, \$62,000 and \$196,000 related to sales from Marine Technology Products to the Equipment Leasing segment is eliminated in the consolidated revenues for the fiscal years ended January 31, 2018, 2017 and 2016, respectively. Capital expenditures and fixed assets are reduced by approximately \$6,000 and \$192,000 for the fiscal years ended January 31, 2017 and 2016, respectively, which represents the difference between the sales price and the cost to manufacture the equipment.

A reconciliation of operating income is as follows (in thousands):

	Years Ended January 31,		
	2018	2017	2016
Marine Technology Products	\$ (2,572)	\$ (508)	\$ 279
Equipment Leasing	(13,930)	(27,782)	(23,454)
Corporate Expenses	(3,211)	(3,001)	(3,702)
Reconciling items:			
Elimination of loss from inter-company sales	5	1	117
Consolidated operating income	\$ (19,708)	\$ (31,290)	\$ (26,760)

Mitcham Industries, Inc.
Notes to Consolidated Financial Statements

16. Quarterly Financial Data (Unaudited)

	Quarters Ended				
	Fiscal Year	April 30	July 31	October 31	January 31
Net revenues:	2018	\$ 18,433	\$ 10,836	\$ 8,644	\$ 10,363
	2017	\$ 11,731	\$ 8,663	\$ 8,057	\$ 12,548
Gross profit (loss):	2018	\$ 3,194	\$ 618	\$ 901	\$ 1,371
	2017	\$ (366)	\$ (2,242)	\$ (2,137)	\$ (2,669)
Loss before income taxes:	2018	\$ (2,436)	\$ (5,007)	\$ (4,695)	\$ (8,021)
	2017	\$ (6,144)	\$ (9,091)	\$ (7,558)	\$ (8,546)
Incomes taxes (benefit):	2018	\$ 229	\$ 357	\$ 586	\$ (262)
	2017	\$ 299	\$ 435	\$ (228)	\$ 1,308
Net loss:	2018	\$ (2,665)	\$ (5,364)	\$ (5,281)	\$ (7,759)
	2017	\$ (6,443)	\$ (9,526)	\$ (7,330)	\$ (9,854)
Loss per common share – basic:	2018	\$ (0.24)	\$ (0.46)	\$ (0.46)	\$ (0.66)
	2017	\$ (0.53)	\$ (0.80)	\$ (0.62)	\$ (0.83)
Income per common share – diluted:	2018	\$ (0.24)	\$ (0.46)	\$ (0.46)	\$ (0.66)
	2017	\$ (0.53)	\$ (0.80)	\$ (0.62)	\$ (0.83)

17. Leases

The Company leases seismic equipment to customers under operating leases with non-cancelable terms of one year or less. These leases are generally renewable on a month-to-month basis. All taxes (other than income taxes) and assessments are the contractual responsibility of the lessee. To the extent that foreign taxes are not paid by the lessee, the relevant foreign taxing authorities might seek to collect such taxes from the Company. Under the terms of its lease agreements, any amounts paid by the Company to such foreign taxing authorities may be billed and collected from the lessee. If the Company is unable to collect the foreign taxes it paid on behalf of its lessees, the Company may have foreign tax credits in the amounts paid, which could be applied against its U.S. income tax liability subject to certain limitations. The Company is not aware of any foreign tax obligations as of January 31, 2018 and 2017 that are not reflected in the accompanying consolidated financial statements.

The Company leases seismic equipment, as well as other equipment from others under operating leases. Lease expense incurred by the Company in connection with such leases amounted to approximately \$774,000, \$552,000 and \$831,000 for the fiscal years ended January 31, 2018, 2017 and 2016, respectively.

The Company leases its office and warehouse facilities in Canada, Australia, Singapore, United Kingdom, Hungary, Colombia and Russia under operating leases. Office rental expense for the fiscal years ended January 31, 2018, 2017 and 2016 was approximately \$1.2 million, \$1.2 million and \$1.2 million, respectively.

Aggregate minimum lease payments for non-cancelable operating leases are as follows (in thousands):

For fiscal years ending January 31:

2019	\$ 1,140
2020	688
2021	316
2022	15
2023	6

18. Concentrations

Credit Risk—As of January 31, 2018 and 2017, amounts due from customers that exceeded 10% of consolidated accounts receivable amounted to an aggregate of approximately \$5.8 million from three customers and \$5.1 million from three customers, respectively.

The Company maintains deposits and certificates of deposit with banks which may exceed the Federal Deposit Insurance Corporation (“FDIC”) insured limit and money market accounts which are not FDIC insured. In addition, deposits aggregating approximately \$3.9 million at January 31, 2018 are held in foreign banks. Management believes the risk of loss in connection with these accounts is minimal.

Industry Concentration—The majority of the Company’s revenues are derived from seismic equipment leased and sold to companies providing seismic acquisition services. The seismic industry has historically been subject to cyclical activity and is dependent, in large part, on the expected future prices of oil and natural gas. Should the industry experience a decline in the price of oil and natural gas, the Company could be subject to significantly greater credit risk and declining demand for its products and services.

Supplier Concentration—The Company purchases the majority of its seismic equipment for its lease pool from a small number of suppliers, each being an industry leader for its product. The Company believes that two of its suppliers manufacture most of the land-based seismic systems and equipment in use. The Company has satisfactory relationships with its suppliers. However, should those relationships deteriorate, the Company may have difficulty in obtaining new technology requested by its customers and maintaining the existing equipment in accordance with manufacturers’ specifications.

19. Sales and Major Customers

A summary of the Company’s revenues from customers by geographic region, outside the U.S., is as follows (in thousands):

	Years Ended January 31,		
	2018	2017	2016
UK/Europe	\$ 11,835	\$ 14,577	\$ 16,437
Canada	807	1,891	1,354
Latin America	1,354	2,983	3,283
Asia/South Pacific	16,768	10,348	16,623
Eurasia	332	3,120	3,659
Other	5,834	1,828	3,147
Total	<u>\$ 36,930</u>	<u>\$ 34,747</u>	<u>\$ 44,503</u>

During the fiscal year ended January 31, 2018 two customers exceeded 10% of total revenue. During the fiscal year ended January 31, 2017, two customer exceeded 10% of total revenue. During the fiscal year ended January 31, 2016, no individual customer exceeded 10% of total revenues.

20. Subsequent Event

In February 2018 the Company completed the acquisition of intellectual property and certain other assets from Hydrosience Technologies, Inc. and Solid Seismic LLC (collectively “Hydrosience”). Hydrosience designed, manufactured and sold marine sensors and solid streamer technology primarily for the hydrographic and seismic industries. In April 2017 Hydrosience filed for bankruptcy protection. Mitcham acquired the assets pursuant to an Asset Purchase Agreement and Sale Order that were approved by the bankruptcy court on January 31, 2018. Under these agreements, Mitcham acquired certain specified intangible and tangible assets free and clear of all prior claims and encumbrances for consideration of \$3.0 million in cash and an agreement to forego accounts receivable balances due from Hydrosience with a carrying value of approximately \$1.2 million. Mitcham assumed no contracts or prior warranty obligations. In connection with the closing of the acquisition, Mitcham issued 152,290 shares of Preferred Stock to Mitsubishi Heavy Industries, Ltd (“MHI”) for proceeds of \$3.5 million pursuant to a securities purchase agreement between Mitcham and MHI. In addition, MHI agreed to purchase an additional 21,756 shares of Preferred Stock for \$500,000 upon the satisfaction of certain conditions specified in the securities purchase agreement.

SCHEDULE II
MITCHAM INDUSTRIES, INC.
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

<u>Description</u>	<u>Col. A</u>	<u>Col. B</u> Balance at Beginning of Period	<u>Col. C(1)</u> Charged to Costs and Expenses	<u>Col. C(2)</u> Charged to Other Accounts	<u>Col. D</u> Deductions Describe	<u>Col. E</u> Balance at End of Period
Allowance for doubtful accounts						
January 31, 2018		\$ 5,904	1,027	(23) (a)	(741) (b)	\$ 6,167
January 31, 2017		\$ 5,821	737	(31) (a)	(623) (b)	\$ 5,904
January 31, 2016		\$ 6,339	2,069	404 (a)	(2,991) (b)	\$ 5,821
Allowance for obsolete equipment and inventory						
January 31, 2018		\$ 952	989	20 (a)	(286) (c)	\$ 1,675
January 31, 2017		\$ 900	116	(41) (a)	(23) (c)	\$ 952
January 31, 2016		\$ 750	208	(58) (a)	— (c)	\$ 900

- (a) Represents translation differences.
(b) Represents recoveries and uncollectible accounts written off.
(c) Represents sale or scrap of inventory and obsolete equipment.

Mitcham Industries, Inc.
Summary of Non-Employee Director Compensation
(As of July 31, 2017)

Retainer/Fees

Each non-employee director is entitled to receive the following compensation:

- an annual cash retainer fee of \$28,000 per year, plus an additional \$48,000 for the Non-Executive Chairman of the Board of Directors;
- an additional cash retainer of \$7,500 per year for each member of the Audit Committee, plus an additional \$5,000 per year for the chairperson of the Audit Committee;
- an additional cash retainer of \$4,000 per year for each member of the Compensation Committee, plus an additional \$4,000 per year for the chairperson of the Compensation Committee;
- an additional cash retainer of \$4,000 per year for the chairperson of the Strategic Planning Committee;
- an additional fee of \$2,000 for each Board of Directors meeting attended, including telephonic meetings.

Equity-Based Compensation

In addition to cash compensation, non-employee directors are eligible, at the discretion of the full Board of Directors, to receive discretionary grants of stock options or restricted stock or any combination thereof under Mitcham Industries, Inc.'s equity compensation plans.

MITCHAM INDUSTRIES, INC.
Ratio of Earnings to Fixed Charges

	Year Ended January 31,				
	2018	2017	2016	2015	2014
Earnings					
(Loss) Income before income taxes	(20,159)	\$ (31,339)	\$ (27,759)	\$ (10,186)	\$ 6,026
Fixed charges (as outlined below)	245	846	932	1,142	544
Total earnings, as defined \$	(19,914)	(30,493)	(26,827)	(9,044)	6,570
Fixed Charges					
Interest	47	\$ 653	\$ 739	\$ 902	\$ 314
Estimate of interest within rental expense	\$ 198	\$ 193	\$ 193	\$ 240	\$ 230
Total fixed charges	\$ 245	\$ 846	\$ 932	\$ 1,142	\$ 544
Ratio of (losses) earnings to fixed charges	*	*	*	*	12.08

* Earnings for the years ended January 31, 2018, January 31, 2017, January 31, 2016 and January 31, 2015 were insufficient to cover fixed charges by \$20,159, \$31,339, \$27,759 and \$10,186, respectively.

SUBSIDIARIES OF MITCHAM INDUSTRIES, INC.

The following entities are directly or indirectly wholly-owned subsidiaries of Mitcham Industries, Inc.:

<u>Name of Entity</u>	<u>State or Country of Organization</u>
Mitcham Holdings Ltd	United Kingdom
Mitcham Canada Holdings Limited	United Kingdom
Mitcham Canada ULC	Alberta, Canada
Mitcham Europe Ltd	Hungary
Seismic Asia Pacific Pty Ltd.	Australia
Seamap International Holdings Pte. Ltd.	Singapore
Seamap (UK) Ltd.	United Kingdom
Seamap Pte. Ltd.	Singapore
Mitcham Marine Leasing Pte. Ltd.	Singapore
Mitcham Seismic Eurasia LLC	Russia
Mongo Ltd.	Cyprus
Klein Marine Systems, Inc.	Delaware
Seamap (Malaysia) Sdn Bhd.	Malaysia
Seamap USA, LLC	Texas

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-212949 and 333-222278, and Form S-8 Nos. 333-11097, 333-67208, 333-120663, 333-137943 and 333-192169) of our report dated April 13, 2018, relating to the consolidated financial statements and schedule of Mitcham Industries, Inc. appearing in this Annual Report (Form 10-K) for the year ended January 31, 2018.

/s/ Moss Adams LLP

Houston, Texas
April 13, 2018

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (333-11097, 333-67208, 333-120663, 333-137943 and 333-192169) and Form S-3 (333-212949 and 333-222278) of Mitcham Industries, Inc. of our report dated April 6, 2017 relating to our audits of the consolidated financial statements and the financial statement schedule, appearing in this Annual Report on Form 10-K of Mitcham Industries, Inc. for the year ended January 31, 2018.

/s/ Hein & Associates LLP

Houston, Texas

April 13, 2018

CERTIFICATION

I, Guy Malden., certify that:

1. I have reviewed this annual report on Form 10-K for the annual period ended January 31, 2018 of Mitcham Industries, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Guy Malden

Guy Malden

Co-Chief Executive Officer and Executive Vice President-Marine Systems
(Co-Principal Executive Officer)

April 13, 2018

CERTIFICATION

I, Robert P. Capps, certify that:

1. I have reviewed this annual report on Form 10-K for the annual period ended January 31, 2018 of Mitcham Industries, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Robert P. Capps

Robert P. Capps

Co-Chief Executive Officer, Executive Vice President-Finance and Chief Financial Officer
(Co-Principal Executive Officer and Principal Financial Officer)

April 13, 2018

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Mitcham Industries, Inc. (the "Company") on Form 10-K for the annual period ended January 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Guy Malden, Co-Chief Executive Officer of the Company, and Robert P. Capps, Co-Chief Executive Officer, Executive Vice President-Finance and Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Guy Malden

Guy Malden

Co-Chief Executive Officer and Executive Vice President-Marine Systems
(Co-Principal Executive Officer)

April 13, 2018

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Mitcham Industries, Inc. (the "Company") on Form 10-K for the annual period ended January 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Guy Malden, Co-Chief Executive Officer of the Company, and Robert P. Capps, Co-Chief Executive Officer, Executive Vice President-Finance and Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert P. Capps

Robert P. Capps

Co-Chief Executive Officer, Executive Vice President-Finance and Chief Financial Officer

(Co-Principal Executive Officer and Principal Financial Officer)

April 13, 2018