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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2004

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

Commission file number 000-25142

MITCHAM INDUSTRIES, INC.

(Name of registrant as specified in its charter)

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

8141 SH 75 South
P.O. Box 1175
Huntsville, Texas 77342
(Address of principal executive offices)

(936) 291-2277
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 8,799,994 shares of Common Stock, $0.01 par value, were outstanding as of June 11, 2004.

MITCHAM INDUSTRIES, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands except share data)

	January 31, 2004	April 30, 2004
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,834	$ 10,115
Accounts receivable, net of allowance for doubtful accounts of $847	5,635	6,704
Current portion of notes receivable, net of allowance for doubtful notes of $28	811	256
Prepaid expenses and other current assets	700	618
Current assets of discontinued operations	898	325
Total current assets	14,878	18,018
Seismic equipment lease pool, property and equipment	84,624	79,188
Accumulated depreciation of seismic equipment lease pool, property and equipment	(59,265)	(57,524)
Long-term assets of discontinued operations	491	421
Other assets	2	9
Total assets	$ 40,730	$ 40,112
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,532	$ 1,676
Current maturities – long-term debt	2,203	2,228
Equipment notes payable	1,296	931
Deferred revenue	345	583
Wages payable	495	548
Accrued expenses and other current liabilities	1,245	494
Current liabilities of discontinued operations	399	170
Total current liabilities	7,515	6,630
Long-term debt, net of current maturities	2,418	1,851
Total liabilities	9,933	8,481
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value; 20,000,000 shares authorized; 9,714,994 shares issued	97	97
Additional paid-in capital	61,913	61,913
Treasury stock, at cost (915,000 shares)	(4,686)	(4,686)
Deferred compensation	(83)	(75)
Accumulated deficit	(28,411)	(27,041)
Accumulated other comprehensive income	1,967	1,423
Total shareholders' equity	30,797	31,631
Total liabilities and shareholders' equity	$ 40,730	$ 40,112

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

MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except share and per share data)
(Unaudited)

	Three Months Ended April 30, 2003	Three Months Ended April 30, 2004
Revenues:		
Equipment leasing	$ 3,966	$ 5,401
Equipment sales	1,902	2,805
Total revenues	5,868	8,206
Costs and expenses:		
Direct costs – seismic leasing	348	689
Cost of equipment sales	1,188	1,551
General and administrative	1,283	1,837
Depreciation and amortization	3,601	2,707
Total costs and expenses	6,420	6,784
Operating income (loss):	(552)	1,422
Other income (expense) – net	26	(52)
Income (loss) from continuing operations	(526)	1,370
Loss from discontinued operations, net of income taxes of $0	(914)	—
Net income (loss)	$ (1,440)	$ 1,370
Income (loss) per common share from continuing operations:		
Basic	$ (0.06)	$ 0.16
Diluted	$ (0.06)	$ 0.15
Loss per common share from discontinued operations:		
Basic and diluted	$ (0.10)	$ —
Net income (loss) per common share:		
Basic	$ (0.16)	$ 0.16
Diluted	$ (0.16)	$ 0.15
Shares used in computing income (loss) per common share:		
Basic	8,743,000	8,800,000
Dilutive effect of common stock equivalents	—	381,000
Diluted	8,743,000	9,181,000

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

MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended April 30,	
	2003	2004
Cash flows from operating activities:		
Income (loss) from continuing operations	$ (526)	$ 1,370
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,601	2,707
Net book value of seismic equipment sold	455	940
Changes in:		
Trade accounts receivable	(1,888)	(27)
Accounts payable, accrued expenses and other current liabilities	216	(336)
Other, net	(17)	44
Net cash provided by operating activities	1,841	4,698
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(415)	(404)
Purchases of property and equipment	(57)	(33)
Net cash used in investing activities	(472)	(437)
Cash flows from financing activities:		
Payments on borrowings	(515)	(907)
Net cash used in financing activities	(515)	(907)
Net increase in cash and cash equivalents-continuing operations	854	3,354
Net decrease in cash and cash equivalents-discontinued operations	(751)	(73)
Cash, beginning of period	5,137	6,834
Cash, end of period	$ 5,240	$10,115

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

MITCHAM INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. **Basis of Presentation**

The condensed consolidated financial statements of Mitcham Industries, Inc. ("the Company") have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended January 31, 2004. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of April 30, 2004; the results of operations for the three months ended April 30, 2004 and 2003; and cash flows for the three months ended April 30, 2004 and 2003, have been included. The foregoing interim results are not necessarily indicative of the results of the operations for the full fiscal year ending January 31, 2005.

2. **Organization**

Mitcham Industries, Inc., a Texas corporation, was incorporated in 1987. The Company and its wholly-owned Canadian subsidiary provide full-service equipment leasing, sales and service to the seismic industry worldwide, primarily in North and South America. Through its wholly-owned U.S. subsidiary, Drilling Services, Inc. ("DSI"), the Company provided seismic survey program design, quality control, permit acquisition, geographical surveying and shot hole drilling, all commonly referred to as "front-end services". In August 2003, the Company sold the operating assets of DSI. The operating results and assets and liabilities of DSI are discontinued operations and all prior period statements have been restated accordingly. See Note 7. 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 Asia and Australia. All intercompany transactions and balances have been eliminated in consolidation.

3. **Earnings Per Share**

For the three months ended April 30, 2003 and 2004, the following potential common stock was used in the per share calculations.

	Three Months Ended April 30,	
	2003	**2004**
Stock options	—	381,000
Warrants	—	—
Total dilutive securities	—	381,000

4. **Comprehensive Income**

SFAS 130 "Reporting Comprehensive Income" establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income generally represents all changes in stockholders' equity (deficit) during the period except those resulting from investments by, or distributions to, stockholders. The Company has comprehensive income related to the change in its foreign currency translations account as follows:

	Three Months Ended April 30,	
	2003	2004
Net income (loss)	$(1,440)	$1,370
Change in foreign currency translation adjustment	1,764	(544)
Comprehensive income	$ 324	$ 826

5. **Reclassifications**

Certain 2003 amounts have been reclassified to conform to the 2004 presentation. Such reclassifications had no effect on net income or loss.

6. **Stock Options**

The Company accounts for its stock-based compensation plans under Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*. The pro forma information below is based on provisions of Statement of Financial Accounting Standard ("FAS") No. 123, *Accounting for Stock-Based Compensation*, as amended by FAS 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, issued in December 2002.

	Three Months Ended April 30,	
	2003	2004
Pro forma impact of fair value method (FAS 148)		
Reported income (loss) from continuing operations	$ (526)	$1,370
Less: fair value impact of employee stock compensation	(122)	(83)
Pro forma income (loss) from continuing operations	$ (648)	$1,287
Reported net income (loss)	$(1,440)	$1,370
Less: fair value impact of employee stock compensation	(122)	(83)
Pro forma net income (loss)	$(1,562)	$1,287
Income (loss) per common share		
Continuing operations income (loss) per share:		
Basic	$ (0.06)	$ 0.16
Diluted	$ (0.06)	$ 0.15
Pro forma continuing operations income (loss) per share:		
Basic	$ (0.07)	$ 0.15
Diluted	$ (0.07)	$ 0.14
Reported net income (loss) per share:		
Basic	$ (0.16)	$ 0.16
Diluted	$ (0.16)	$ 0.15
Pro forma net income (loss) per share:		
Basic	$ (0.18)	$ 0.15
Diluted	$ (0.18)	$ 0.14
Weighted average Black-Scholes fair value assumptions		
Risk free interest rate	5.0%	3-5%
Expected life	3-8 yrs.	3-8 yrs.
Expected volatility	65%	65%
Expected dividend yield	0.0%	0.0%

7. **Discontinued Operations**

On August 1, 2003, the Company sold the operating assets of DSI, which comprised all of the operating assets of the Company's front-end services segment. The Company's decision to sell DSI resulted from the over-capacity in that market segment. Proceeds from the sale were $250,000 cash and an $800,000 note receivable due over three years. Additionally, the buyer assumed $143,000 of capitalized lease obligations. Effective with the October 31, 2003 financial statements, the operating results of DSI are presented as discontinued operations and all prior period statements have been restated accordingly. A summary of DSI's revenues and pretax loss is reflected as follows.

	Three Months Ended April 30,	
	2003	2004
Revenues	$2,071	$—
Pretax loss	$ (914)	$—

A summary of DSI's assets and liabilities is reflected as follows:

	January 31, 2004	April 30, 2004
Accounts and notes receivable of discontinued operations	$815	$272
Other current assets of discontinued operations	$ 83	$ 53
Non-current notes receivable and PP&E of discontinued operations	$491	$421
Accounts payable and accrued liabilities of discontinued operations	$399	$170

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

Overview

Our revenues are directly related to the level of worldwide oil and gas exploration activities and the profitability and cash flows of oil and gas companies and seismic contractors, which in turn are affected by expectations regarding the supply and demand for oil and natural gas, energy prices and finding and development costs. Seismic data acquisition activity levels are measured in terms of the number of active recording crews, known as the "crew count", and the number of recording channels deployed by those crews. An accurate and reliable census of active crews does not exist, therefore, it is not possible to make definitive statements regarding the absolute levels of seismic data acquisition activity. Furthermore, a significant number of seismic data acquisition contractors are either private or state-owned enterprises and information about their activities is not available in the public domain. Due to our unique position as the largest independent lessor of seismic equipment, we are privy to information about future projects from many data acquisition contractors. Our analysis of the available information is that land-based data acquisition activity is increasing. We believe that this increase is being driven by historically high world oil and North American natural gas prices, combined with the maturation of the world's hydrocarbon producing basins. The future direction and magnitude of changes in seismic data acquisition activity levels will continue to be dependent upon oil and natural gas prices.

We lease and sell seismic data acquisition equipment primarily to seismic data acquisition companies conducting land and transition zone seismic surveys worldwide. We provide short-term leasing of seismic equipment to meet a customer's requirements and offer technical support during the lease term. The majority of all active leases at April 30, 2004 were for a term of less than one year. Seismic equipment held for lease is carried at cost, net of accumulated depreciation. SAP sells equipment, consumables, systems integration, engineering hardware and software maintenance support services to the seismic, hydrographic, oceanographic, environmental and defense industries throughout South East Asia and Australia.

Seismic equipment leasing is susceptible to weather patterns in certain geographic regions. Our lease revenue is seasonal, especially in Canada, where a significant percentage of seismic survey activity occurs in the winter months, from November through March. During the months in which the weather is warmer, certain areas are not accessible to trucks, earth vibrators and other equipment because of the unstable terrain. This seasonal leasing activity by our Canadian customers has historically resulted in increased lease revenues in our first and fourth fiscal quarters.

Results of Operations

During the quarter ended April 30, 2004, our results of operations were affected by several significant factors. Our revenues increased $2.3 million, reflecting significant increases in both leasing and sales from the corresponding quarter in the prior fiscal year. Revenues from short-term leasing increased $1.8 million in the U.S. operations primarily because of our recently expanded marine seismic business, coupled with the addition of several significant new customers, as compared to the comparable period of the prior year. Sales of equipment in the United States increased by $1.1 million primarily due to three large sales transactions recorded in the quarter totaling approximately $1.8 million.

Our fixed and variable costs are important factors affecting our results of operations. Due to the size and age of our seismic equipment lease pool, depreciation expense, which amounted to $2.7 million for the quarter ended April 30, 2004, is our single largest expense item. This expense will vary between periods based on acquisitions of new equipment and sales of equipment with remaining depreciable life. Direct costs of seismic leasing is a variable expense that fluctuates with our equipment leasing revenues. The main components of this cost are freight, sublease expenses and repairs and maintenance, to the extent that repairs performed are normal wear and tear and not billable to the lease customer. Our general and administrative expenses remained fairly level from the corresponding quarter in the 2003, except that we incurred or accrued about $0.3 million on the special investigation discussed at Item 4.

Revenues

For the quarter ended April 30, 2004, consolidated revenues increased by $2.3 million, or 40% to a total of $8.2 million, as compared to $5.9 million for the corresponding quarter in 2003, driven by increases in both leasing and sales activity during the year. In the quarter ended April 30, 2004, leasing revenues increased $1.4 million, primarily as a result of an increase in our North American revenues and our expanding marine seismic business. Foreign currency translation rates had the effect of increasing consolidated revenues in the quarter ended April 30, 2004 by $0.4 million over the comparable quarter in 2003.

Seismic equipment sales for the quarter ended April 30, 2004 were $2.8 million as compared to $1.9 million for the comparable quarter in 2003. Cost of equipment sales for the quarters ended April 30, 2004 and 2003 were $1.6 million and $1.2 million, respectively. Gross margins on equipment sales were 45% and 38% for the quarters ended April 30, 2004 and 2003, respectively. Gross margins on equipment sales will vary significantly between periods due to the mix of sales revenue between new seismic equipment versus sales of depreciated seismic equipment being sold from our lease pool.

Costs and Expenses

For the quarter ended April 30, 2004, depreciation expense was $2.7 million, which is $0.9 million, or 25%, lower than the depreciation expense in the comparable quarter in 2003. During the quarter ended April 30, 2003, we recorded depreciation expense in the amount of $3.6 million. For the quarter ended April 30, 2004, foreign currency translation rates had the effect of increasing depreciation expense by $0.2 million as compared to the amount in the comparable quarter in 2003.

The decrease of depreciation expense from the quarter ended April 30, 2003 to 2004 is largely because certain equipment reached the end of its depreciable life during each of those years, coupled with the sales of assets with remaining depreciable life.

Direct costs for the quarter ended April 30, 2004 were $0.7 million, which was approximately $0.3 million greater than direct costs for the comparable quarter in 2003.

General and administrative expenses for the quarter ended April 30, 2004 totaled approximately $1.8 million, or $0.6 million greater than 2003 expenses of $1.3 million. During the quarter ended April 30, 2004, we incurred or accrued expenses of approximately $0.3 million in non-recurring professional fees related to the recently completed internal investigation discussed at Item 4. The remaining increase in general and administrative expenses is primarily due to an increase in insurance, travel, customer relations and compensation expenses, partially offset by a decrease in consulting expense.

For the quarter ended April 30, 2004, we recorded income from continuing operations in the amount of $1.4 million, compared to a loss from continuing operations for the comparable quarter of 2003 of $0.5 million. The loss from discontinued operations in the quarter ended April 30, 2004 was nil, compared with a net loss of $0.9 million in the comparable quarter of 2003.

Liquidity and Capital Resources

As of April 30, 2004, we had net working capital of approximately $11.4 million as compared to net working capital of $7.4 million at January 31, 2004. Historically, our principal liquidity requirements and uses of cash have been for capital expenditures and working capital. Our principal sources of cash have been cash flows from operations and proceeds from sales of lease pool equipment. Net cash provided by operating activities for the quarter ended April 30, 2004 was $4.7 million, as compared to net cash provided by operating activities of $1.8 million for the quarter ended April 30, 2003. Net cash used in financing activities for the quarter ended April 30, 2004 was $0.9 million, compared to net cash used in financing activities for the comparable quarter in 2003 of $0.5 million.

We are committed to purchase $2.25 million of land data acquisition equipment by December 31, 2004, under the Sercel Agreement. We expect that cash on hand and cash flows from operations will be sufficient to meet this commitment. Capital expenditures for the quarter ended April 30, 2004 totaled approximately $0.4 million as compared to capital expenditures of $0.5 million for the comparable quarter in 2003. Our 2004 and 2003 quarterly capital expenditures for the seismic equipment lease pool were made to fulfill specific lease contracts.

At April 30, 2004, we had trade accounts and notes receivable of $1.5 million that were more than 90 days past due. As of April 30, 2004, our allowance for doubtful accounts was approximately $0.9 million, which management believes is sufficient to cover any losses in our receivable balances.

In certain instances when customers have been unable to repay their open accounts receivable balances, we have agreed to a structured repayment program using an interest-bearing promissory note. In these cases, we provide a reserve for doubtful accounts against the balance. Due to the uncertainty of collection, we do not recognize the interest earned until the entire principal balance has been collected. In most cases where we have a chronic collection problem with a particular customer, future business is done on a prepayment basis or if additional credit is extended, revenues are not recognized until collected. Although the extension of repayment terms on open accounts receivables temporarily reduces our cash flow from operations, we believe that this practice is necessary in light of seismic industry conditions and that it has not adversely affected our ability to conduct routine business.

Additionally, we occasionally offer extended payment terms on equipment sales transactions. These terms are generally less than one year in duration. Until and unless there is a question as to whether an account is collectible, the sales revenue and cost of goods sold is recognized at the transfer of title of the equipment.

In February 2002, we obtained an $8.5 million term loan with First Victoria National Bank, the remaining principal balance of which was approximately $4.1 million at April 30, 2004. The loan is payable in forty-eight equal installments of approximately $197,000 and bears interest at the rate of prime plus 1/2%. The loan is secured by lease pool equipment and all proceeds from lease pool equipment leases and sales.

We paid for our $3.5 million in capital expenditures during the fiscal year ended January 31, 2004 in part by three separate short-term note agreements with three seismic equipment manufacturers related to the purchase of equipment for our lease pool. The aggregate amount financed by the manufacturers was $1.7 million, of which $0.9 million remains unpaid as of April 30, 2004. The notes call for monthly payments aggregating approximately $121,000 and bear interest ranging from 0% to 8%. All three notes have 12-month repayment terms and mature during fiscal 2005.

On March 30, 2004, we obtained a $4 million revolving loan agreement and credit line with First Victoria National Bank. The line allows us to borrow funds to purchase equipment at any time as necessary and is secured by the equipment purchased and any leases on that equipment. Interest is payable monthly at prime plus 1/2%. Principal is due on each note 25% after six months, 25% after nine months and the remaining 50% after a year from the date of each note. The last date that advances can be made is June 30, 2005. We have not yet borrowed any funds available under this line. Although we have sufficient cash to meet known commitments and no current plans to draw down any amount, this credit line gives us the financial flexibility to acquire equipment for resale and for lease, as needed, on short notice to take advantage of strategic opportunities regardless of our cash position at the time.

At the present time, we believe that cash on hand and cash provided by future operations will be sufficient to fund our anticipated capital and liquidity needs over the next 12 months. However, should demand warrant, we may pursue additional borrowings to fund capital expenditures.

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 reserves for uncollectible accounts receivable and useful lives of our lease pool assets and their valuation.

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 until there is a question as to whether it is collectible. Commission income is recognized once it has been paid to us. We do not enter into leases with imbedded maintenance obligations. Under our standard lease contract, the lessee is responsible for maintenance and repairs to the equipment, excluding fair wear and tear. We provide technical advice to our customers as part of our customer service practices.

Equipment Sales

We recognize revenue and cost of goods sold from the equipment sales upon transfer of title. We occasionally offer extended payment terms on equipment sales transactions. These terms are generally less than one year in duration.

Allowance for Doubtful Accounts

We make provisions to the allowance for doubtful accounts periodically, as conditions warrant, based on whether we believe such receivables are collectible. In certain instances when customers have been unable to repay their open accounts receivable balances, we have agreed to a structured repayment program using an interest-bearing promissory note. In these cases, we provide a reserve for doubtful accounts against the balance and do not recognize interest earned until the entire principal balance has been collected.

Long-Lived Assets

We carry 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 three to seven years. Buildings are depreciated over 40 years, property improvements are amortized over 10 years and leasehold improvements are amortized over the life of the leases. We review our long-lived assets for impairment at each reporting date. If our assessment of the carrying amount of such assets exceeds the fair market value in accordance with the applicable accounting regulations, we record an impairment charge. During fiscal 2004, we recorded a non-cash impairment charge of $0.7 million related to the sale of DSI's operating assets.

Income Taxes

We account for our taxes under the liability method, whereby we recognize, on a current and long-term basis, deferred tax assets and liabilities which represent differences between the financial and income tax reporting bases of our assets and liabilities. A valuation allowance is established when uncertainty exists as to the ultimate realization of net deferred tax assets. As of January 31, 2003 and 2004, we have recorded a net deferred tax asset of $9.4 million and $11.6 million, respectively. As we believe it is not assured that these net deferred tax assets will be realized, we have provided valuation allowances of $9.4 million and $11.6 million at January 31, 2003 and 2004, respectively.

We periodically reevaluate these estimates and assumptions as circumstances change. Such factors may significantly impact our results of operations from period to period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We operate internationally, giving rise to exposure to market risks from changes in foreign exchange rates to the extent that transactions are not denominated in U.S. dollars. We typically denominate the majority of our lease and sales contracts in U.S., Canadian and Australian dollars to mitigate the exposure to fluctuations in foreign currencies. Since the majority of our lease and sales contracts with our customers are denominated in U.S., Canadian and Australian dollars, there is little risk of economic (as opposed to accounting) loss from fluctuations in foreign currencies.

Item 4. Controls and Procedures

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of 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 report. Our principal executive officer and principal financial officer have concluded that, with the exceptions noted below, our current disclosure controls and procedures are effective to timely alert them to material information regarding the Company that is required to be included in our periodic reports filed with the SEC, and that our internal controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with generally accepted accounting principles. This Item 4 contains the information regarding the evaluation of the Company's disclosure controls and procedures that is referred to in paragraph 4(b) of the certifications of the CEO and Controller attached as Exhibits 31.1 and 31.2 to this report, and should be read in conjunction with those certifications for a thorough understanding and presentation of that information.

During quarter ending April 30, 2004, management became aware of a possible issue related to certain accounts receivable accounts of our Canadian subsidiary, Mitcham Canada, that were recognized in the fourth quarter of the fiscal year ended January 31, 2004. In April 2004, an employee reported to the Audit Committee some concern regarding the integrity of those receivables. Our Audit Committee immediately began an investigation, engaging independent legal counsel and independent forensic accountants. As a result of the investigation, and based on comments made to us by our independent auditor, material weaknesses in internal controls over financial reporting at Mitcham Canada discussed below were identified and fully disclosed to our Audit Committee and independent auditor.

In addition, as a result of the independent investigation, we became aware of an isolated incident in which certain of our employees overrode the system of internal controls in connection with the preparation of an invoice. The incident, which did not indicate any weakness in our system of internal controls over financial reporting, had no effect on our financial statements, and was fully disclosed to the Audit Committee and our independent auditors.

We have identified the following weaknesses in internal controls over financial reporting:

Implementation of a winter season billing practice change for leasing customers of Mitcham Canada that began in November 2003. Mitcham Canada equipment lease customers were resistant to the acceptance of the recent changes in billing policy for certain leased equipment. As a result, several customers disputed their billings during the fourth quarter and receivables balance at January 31, 2004. These billing and collection issues were resolved in the first quarter of fiscal 2005, when Mitcham Canada provided certain customers with credits of disputed receivables, and in one instance, a probable credit toward the future purchase of equipment. All resolutions have been appropriately accounted for.

By way of explanation, the current market of seismic data acquisition contractors in Canada is limited, consisting of perhaps between 12-16 contractors. Each of these contractors' financial condition is sensitive to changes in demand for seismic services and to the timeliness in which they are paid for their services, which in turn affect the timing of when Mitcham Canada is paid for its equipment leasing. To compete effectively in the market, Mitcham Canada must respond to these market conditions.

The lack of required formal high-level management reporting for Mitcham Canada, along with regular on-site reviews of accounting policies and practices. We have historically relied on non-standardized verbal updates on high-level management issues, which can affect both the timeliness and accuracy of accounting for certain transactions. Formal high-level management reporting and regular on-site reviews of accounting policies and practices would have sooner identified the issues discussed in the preceding paragraph, and with more specificity. Prior to the investigation but before the publication of our financial results for the fiscal year ended January 31, 2004, disputed amounts were reflected in our general, but not our specific, reserves for doubtful accounts.

The lack of automated equipment inventory management systems at Mitcham Canada. While our headquarters in Huntsville, Texas employs an inventory tracking and management system that is fully integrated with its accounting system, Mitcham Canada is not on the same fully integrated system. Instead, management relies on manual reconciliations of equipment from spreadsheets to the accounting system, which require accounting staff resources to track the movement of equipment to and from the customer, as well as between Huntsville, Texas and Calgary, Canada. This tracking process uses a number of databases, thus creating inefficiencies in identifying and deploying equipment that is available for rent, as well as additional required reconciliation procedures between the databases and the general ledger.

We are in the process of implementing the following changes or additions to our internal controls and procedures, on a post-fiscal-year end basis:

- We now require a monthly formal high-level executive summary for Mitcham Canada and SAP as part of their regular monthly financial reporting packages.
- We have established quarterly (for Mitcham Canada) and semi-annual (for SAP) on-site reviews of accounting policies and practices with internal accounting personnel and local management of Mitcham Canada and SAP, and formalized monthly telephonic reviews of the management report.
- We are evaluating how best to implement an integrated software system to effectively track and account for lease equipment at Mitcham Canada and SAP, and the timetable in which this can reasonably be accomplished.
- Until we can implement an integrated software system, we will require more frequent reconciliations of the manual systems to the general ledger accounts, and more levels of review of those reconciliations.
- We will engage our independent auditor to conduct a physical inventory of the Canadian lease pool during the coming summer months, which is the Canadian low season.
- We will as soon as practicable hire an internal auditor who will report directly to the Audit Committee.

- We are interviewing consultants to begin the Section 404 internal controls documentation work so that there is adequate time for us to comply with those requirements for the fiscal year ended January 31, 2006.

In addition, our Chief Financial Officer, who was also a director and our Chief Operating Officer, has resigned. We have therefore initiated a formal search for a new CFO and COO. In the interim, we have retained a CFO consultant, Gary Brooks, who, together with our Controller, are fulfilling the CFO duties.

Management views the short-term and long-term remediation of our internal control deficiencies as a top-priority item. We will continue to evaluate the effectiveness of our internal controls and procedures to take action as appropriate. Other than implementing the improvements discussed above, there have been no changes in our internal controls over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Forward-Looking Statements and Risk Factors

Certain information contained in this Quarterly Report on Form 10-Q (including statements contained in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, Part I, Item 4. “Controls and Procedures” and in Part II, Item 1. “Legal Proceedings”), as well as other written and oral statements made or incorporated by reference from time to time by us and our representatives in other reports, filings with the United States Securities and Exchange Commission (the “SEC”), press releases, conferences, or otherwise, may be deemed to be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (“the Exchange Act”). This information includes, without limitation, statements concerning our future financial position and results of operations; planned capital expenditures; business strategy and other plans for future operations; the future mix of revenues and business; commitments and contingent liabilities; and future demand for our services and predicted improvement in energy industry and seismic service industry conditions. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. When used in this report, the words “anticipate,” “believe,” “estimate,” “expect,” “may,” and similar expressions, as they relate to the Company and our management, identify forward-looking statements. The actual results of future events described in such forward-looking statements could differ materially from the results described in the forward-looking statements due to the risks and uncertainties set forth below and elsewhere within this Quarterly Report on Form 10-Q.

Demand for Land-Based Seismic Data Not Assured

Demand for our 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 and transition zone seismic data acquisition worldwide, and especially in North America.

Loss of Significant Customers Could Adversely Affect Us

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 the fiscal years ended January 31, 2002, 2003 and 2004, the single largest customer accounted for approximately 22%, 13% and 11%, respectively, of our consolidated revenues. Because our customer base is relatively small, the loss of one or more customers for any reason could adversely affect our results of operations.

Significant Defaults of Past-Due Customer Accounts Would Adversely Affect Our Results of Operations

On April 30, 2004, we had approximately $8.0 million of customer accounts and notes receivable of which $1.5 million was over 90 days past due. At April 30, 2004, we had an allowance of $0.9 million to cover losses in our receivable balances. 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.

International Economic and Political Instability Could Adversely Affect Our Results of Operations

Our results of operations are dependent upon the current political and economic climate of several international countries in which our customers either operate or are located. International sources (including Canada) accounted for approximately 74% of our revenues in the fiscal year ended January 31, 2004. Since the majority of our lease and sales contracts with our customers are denominated in U.S., Australian and Canadian dollars, there is little risk of economic (as opposed to accounting) loss from fluctuations in foreign currencies. However, our internationally sourced revenues are still subject to the risk of currency exchange controls (in which payment could not be made in U.S. dollars), taxation policies, and expropriation, as well as to political turmoil, civil disturbances, armed hostilities, and other hazards.

Foreign Currency Exchange Rates Have Increasingly Materially Affected Our Results of Operations

For accounting purposes, balance sheet accounts of the Canadian and Australian subsidiaries are translated at the current exchange rate as of the end of the accounting period. Income statement 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 become material because of the significant amount of equipment assigned to our Canadian operations and the significant fluctuations in the Canadian dollar exchange rate over the last few years.

We Must Continually Obtain Additional Lease Contracts

Our seismic equipment leases typically have a term of three to nine months and provide gross revenues that recover only a portion of our capital investment. Our ability to generate lease revenues and profits is dependent on obtaining additional lease contracts after the termination of an original lease. However, lessees 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 lessees 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.

Dependence on Key Personnel

Our success is dependent on, among other things, the services of certain key personnel, including specifically Billy F. Mitcham, Jr., our Chairman of the Board, President and Chief Executive Officer. Mr. Mitcham's employment agreement is automatically renewed on a year-to-year basis until terminated by either party giving 30 days notice prior to the end of the current term (subject to earlier termination on certain stated events). The agreement prohibits Mr. Mitcham from engaging in any business activities that are competitive with our business and from diverting any of our customers to a competitor for two years after the termination of his employment. The loss of the services of Mr. Mitcham could have a material adverse effect on us.

Our Seismic Lease Pool is Subject to Technological Obsolescence

We have a substantial capital investment in seismic data acquisition equipment. The development by manufacturers of seismic equipment of newer technology systems or component parts that have significant competitive advantages over seismic systems and component parts now in use could have an adverse effect on our ability to profitably lease and sell our existing seismic equipment. Significant improvements in technology may also require us to recognize an asset impairment charge to our lease pool investment, and to correspondingly invest significant sums to upgrade or replace our existing lease pool with newer-technology equipment demanded by our customers.

Weather Conditions Cause Seasonal Results

The first and fourth quarters of our fiscal year have historically accounted for a greater portion of our revenues than do our second and third quarters. This seasonality in revenues is primarily due to the increased seismic survey activity in Canada from November through March. This seasonal pattern may cause our results of operations to vary significantly from quarter to quarter. Accordingly, period-to-period comparisons are not necessarily meaningful and should not be relied on as indicative of future results.

Competition

We have several competitors engaged in seismic equipment leasing and sales, including seismic equipment manufacturers, data acquisition contractors and oil and gas exploration companies that use seismic equipment, many of which have substantially greater financial resources than us. There are also several smaller competitors that, in the aggregate, generate significant revenue from the sale of seismic survey equipment. Pressures from existing or new competitors could adversely affect our business operations. We are also aware of several companies that engage in seismic equipment leasing. We believe that our competitors, in general, have neither as extensive a seismic equipment lease pool as we do, or similar exclusive lease referral agreements with suppliers. Competition exists to a lesser extent from seismic data acquisition contractors that may lease equipment that is temporarily idle.

Volatile Stock Prices and No Payment of Dividends

Due to recent energy industry conditions, energy and energy service company stock prices, including our stock price, have been extremely volatile. Such 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 if such financing is ever needed. We have historically not paid dividends on our common stock and do not anticipate paying dividends in the foreseeable future.

Possible Adverse Effect of Anti-Takeover Provisions; Potential Issuance of Preferred Stock

Certain provisions of our Articles of Incorporation and the Texas Business Corporation Act 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 such 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. Although we have no shares of preferred stock outstanding and no present intention to issue any shares of our preferred stock, there can be no assurance that we will not do so in the future.

Limitation on Directors' Liability

Our Articles of Incorporation provide, as permitted by governing Texas law, that a director of the Company shall not be personally liable to the Company or its shareholders for monetary damages for breach of fiduciary duty as a director, with certain exceptions. These provisions may discourage shareholders from bringing suit against a director for breach of fiduciary duty and may reduce the likelihood of derivative litigation brought by shareholders on behalf of the Company against a director.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

From time to time, the Company is a party to legal proceedings arising in the ordinary course of business. The Company is not currently a party to any litigation that it believes could have a material adverse effect on the results of operations or financial condition of the Company.

Item 6. *Exhibits and Reports on Form 8-K*

(a) Exhibits

The following documents are filed as exhibits to this Report:

31.1 – Certification of Billy F. Mitcham, Jr., 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 Christopher C. Siffert, Corporate Controller, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

32.1 – Certification of Billy F. Mitcham, Jr., Chief Executive Officer, under Section 906 of the Sarbanes-Oxley Act of 2002, U.S.C. 1350

32.2 – Certification of Christopher C. Siffert, Corporate Controller, under Section 906 of the Sarbanes-Oxley Act of 2002, U.S.C. 1350

(b) Reports on Form 8-K

During the quarter ended April 30, 2004, we filed a Current Report on Form 8-K announcing the delay in releasing the Company’s earnings for the fourth quarter and fiscal year ended January 31, 2004.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MITCHAM INDUSTRIES, INC.

Date: June 11, 2004

/s/ Christopher C. Siffert
Christopher C. Siffert
Vice President & Corporate Controller
(Authorized Officer and Principal Accounting Officer)

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Exhibit Index

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Exhibit 31.1

CERTIFICATION

I, Billy F. Mitcham, Jr., certify that:

1. I have reviewed this report on Form 10-Q of Mitcham Industries, Inc.;

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 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)) for the registrant and we 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) 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

c) 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 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 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/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer
June 11, 2004

Exhibit 31.2

CERTIFICATION

I, Christopher C. Siffert, certify that:

1. I have reviewed this report on Form 10-Q of Mitcham Industries, Inc.;

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 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)) for the registrant and we 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) 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

c) 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 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 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/ Christopher C. Siffert

Christopher C. Siffert
Vice President & Corporate Controller
June 11, 2004

Exhibit 32.1

**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 Quarterly Report of Mitcham Industries, Inc. (the “Company”) on Form 10-Q for the period ended April 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Billy F. Mitcham, Jr., Chief Executive Officer of the Company, 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; 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/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer
June 11, 2004

Exhibit 32.2

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 Quarterly Report of Mitcham Industries, Inc. (the "Company") on Form 10-Q for the period ended April 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher C. Siffert, Vice President & Corporate Controller of the Company, 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; 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/ Christopher C. Siffert

Christopher C. Siffert
Vice President & Corporate Controller
June 11, 2004