

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2008

or

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

For the transition period from _____ to _____

Commission File Number: 000-25142

MITCHAM INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of
incorporation or organization)

76-0210849

(I.R.S. Employer Identification No.)

8141 SH 75 South

P.O. Box 1175

Huntsville, Texas 77342

(Address of principal executive offices, including Zip Code)

(936) 291-2277

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,803,580 shares of common stock, \$0.01 par value, were outstanding as of September 5, 2008.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	July 31, 2008 (unaudited)	January 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,152	\$ 13,884
Restricted cash	1,413	—
Accounts receivable, net	15,898	12,816
Current portion of contracts receivable	4,904	2,964
Inventories, net	5,229	6,352
Deferred tax asset	708	1,230
Prepaid expenses and other current assets	711	1,491
Total current assets	35,015	38,737
Seismic equipment lease pool and property and equipment, net	64,180	53,179
Intangible assets, net	3,386	3,692
Goodwill	4,320	4,358
Net deferred tax asset	1,624	1,505
Long-term portion of contracts receivable and other assets	1,268	2,430
Total assets	<u>\$ 109,793</u>	<u>\$ 103,901</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,623	\$ 16,729
Current maturities — long-term debt	2,000	1,500
Income taxes payable	702	1,967
Deferred revenue	1,138	872
Accrued expenses and other current liabilities	9,425	3,674
Total current liabilities	22,888	24,742
Non-current income taxes payable	3,820	3,391
Total liabilities	26,708	28,133
Shareholders' equity:		
Preferred stock, \$1.00 par value; 1,000 shares authorized; none issued and outstanding	—	—
Common stock \$0.01 par value; 20,000 shares authorized; 10,726 and 10,708 shares issued at July 31, 2008 and January 31, 2008, respectively	107	107
Additional paid-in capital	73,350	71,929
Treasury stock, at cost (921 shares at July 31, 2008 and January 31, 2008)	(4,814)	(4,805)
Retained earnings	6,565	662
Accumulated other comprehensive income	7,877	7,875
Total shareholders' equity	83,085	75,768
Total liabilities and shareholders' equity	<u>\$ 109,793</u>	<u>\$ 103,901</u>

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

MITCHAM INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2008	2007	2008	2007
Revenues:				
Equipment leasing	\$ 7,500	\$ 6,249	\$ 19,873	\$ 16,330
Lease pool equipment sales	1,844	775	2,405	1,492
Seamap equipment sales	3,285	5,605	8,567	15,663
Other equipment sales	4,866	2,770	5,184	4,928
Total revenues	<u>17,495</u>	<u>15,399</u>	<u>36,029</u>	<u>38,413</u>
Cost of sales:				
Direct costs — equipment leasing	343	351	785	821
Direct costs — lease pool depreciation	3,673	2,442	7,313	4,846
Cost of equipment sales	6,365	6,033	9,189	16,069
Total cost of sales	<u>10,381</u>	<u>8,826</u>	<u>17,287</u>	<u>21,736</u>
Gross profit	7,114	6,573	18,742	16,677
Operating expenses:				
General and administrative	4,430	3,620	9,305	7,640
Depreciation and amortization	364	366	759	721
Total operating expenses	<u>4,794</u>	<u>3,986</u>	<u>10,064</u>	<u>8,361</u>
Operating income	2,320	2,587	8,678	8,316
Other income				
Interest, net	223	64	373	142
Other, net	3	—	8	2
Total other income	<u>226</u>	<u>64</u>	<u>381</u>	<u>144</u>
Income before income taxes	2,546	2,651	9,059	8,460
Provision for income taxes	<u>(921)</u>	<u>(930)</u>	<u>(3,156)</u>	<u>(2,799)</u>
Net income	<u>\$ 1,625</u>	<u>\$ 1,721</u>	<u>\$ 5,903</u>	<u>\$ 5,661</u>
Net income per common share:				
Basic	\$ 0.17	\$ 0.18	\$ 0.61	\$ 0.59
Diluted	\$ 0.16	\$ 0.17	\$ 0.57	\$ 0.55
Shares used in computing net income per common share:				
Basic	9,764	9,672	9,758	9,657
Diluted	10,385	10,271	10,361	10,219

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)

	For the Six Months Ended July 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 5,903	\$ 5,661
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,153	5,567
Stock-based compensation	1,163	985
Provision for (recovery of) doubtful accounts	95	(134)
Provision for inventory obsolescence	249	288
Gross profit from sale of lease pool equipment	(1,173)	(818)
Excess tax benefit from exercise of non-qualified stock options	(96)	(483)
Deferred tax provision	474	1,794
Changes in:		
Accounts receivable	(1,246)	1,222
Contracts receivable	(779)	1,111
Inventories	916	653
Prepaid expenses and other current assets	1,273	245
Income taxes payable	(1,190)	109
Accounts payable, accrued expenses, other current liabilities and deferred revenue	(7,298)	1,304
Net cash provided by operating activities	<u>6,444</u>	<u>17,504</u>
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(15,411)	(17,240)
Purchases of property and equipment	(470)	(355)
Sale of used lease pool equipment	2,405	1,492
Net cash used in investing activities	<u>(13,476)</u>	<u>(16,103)</u>
Cash flows from financing activities:		
Net proceeds from line of credit	2,000	4,500
Payments on borrowings	(1,500)	(6,000)
Purchase of short-term investments	(1,413)	—
Proceeds from issuance of common stock upon exercise of warrants and stock options, net of stock surrendered	196	322
Excess tax benefit from exercise of non-qualified stock options	96	483
Net cash used in financing activities	(621)	(695)
Effect of changes in foreign exchange rates on cash and cash equivalents	<u>(79)</u>	<u>424</u>
Net (decrease) increase in cash and cash equivalents	(7,732)	1,130
Cash and cash equivalents, beginning of period	<u>13,884</u>	<u>12,582</u>
Cash and cash equivalents, end of period	<u>\$ 6,152</u>	<u>\$ 13,712</u>
Supplemental cash flow information:		
Interest paid	\$ 135	\$ 244
Income taxes paid	\$ 3,306	\$ 588

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

Mitcham Industries, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)
(unaudited)

1. Basis of Presentation

The condensed consolidated balance sheet as of January 31, 2008 for Mitcham Industries, Inc. (for purposes of these notes the “Company”) has been derived from audited consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company’s Annual Report on Form 10-K for the year ended January 31, 2008. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of July 31, 2008, the results of operations for the three and six months ended July 31, 2008 and 2007, and the cash flows for the six months ended July 31, 2008 and 2007, have been included in these financial statements. The foregoing interim results are not necessarily indicative of the results of the operations to be expected for the full fiscal year ending January 31, 2009.

2. Organization

Mitcham Industries, Inc., a Texas corporation, was incorporated in 1987. The Company, through its wholly owned Canadian subsidiary, Mitcham Canada, Ltd. (“MCL”) and its wholly owned Russian subsidiary, Mitcham Seismic Eurasia LLC (“MSE”), provides full-service equipment leasing, sales and service to the seismic industry worldwide. The Company, through its wholly owned Australian subsidiary, Seismic Asia Pacific Pty Ltd. (“SAP”), provides seismic, oceanographic and hydrographic leasing and sales worldwide, primarily in Southeast Asia and Australia. The Company, through its wholly owned subsidiary, Seemap International Holdings Pte. Ltd. (“Seemap”), designs, manufactures and sells a broad range of proprietary products for the seismic, hydrographic and offshore industries with product sales and support facilities based in Singapore and the United Kingdom. All intercompany transactions and balances have been eliminated in consolidation.

3. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements* (“SFAS 157”), to define fair value, establish a framework for measuring fair value and expand disclosures about the use of fair value to measure assets and liabilities. SFAS 157 requires quantitative disclosures using a tabular format in all periods (interim and annual) and qualitative disclosures about the valuation techniques used to measure fair value in all annual periods. SFAS 157 was effective for the Company’s fiscal year beginning February 1, 2008. The adoption of SFAS 157 had no material effect on the Company’s consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). SFAS 159 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 was effective for the Company’s fiscal year beginning February 1, 2008. The adoption of SFAS 159 had no material effect on the Company’s consolidated financial position and results of operations.

4. Restricted Cash

In connection with a contract awarded in May 2008, SAP has pledged approximately \$1.4 million in short-term time deposits to secure performance obligations under the contract. The amount of the security will be released as the contract obligations are performed over the life of the contract, which is estimated to be nine to twelve months.

[Table of Contents](#)**5. Balance Sheet**

	July 31, 2008	January 31, 2008
Accounts receivable:		
Accounts receivable	\$ 16,678	\$ 14,328
Allowance for doubtful accounts	(780)	(1,512)
Total accounts receivable, net	<u>\$ 15,898</u>	<u>\$ 12,816</u>

Accounts receivable at July 31, 2008 increased over the amount at January 31, 2008 due primarily to significant transactions occurring near to July 31, 2008. During the three months ended July 31, 2008 certain accounts receivable were charged-off against the allowance for doubtful accounts.

Contracts receivable:		
Contracts receivable	\$ 6,139	\$ 5,360
Less current portion of contracts receivable	(4,904)	(2,964)
Long-term portion of contracts receivable	<u>\$ 1,235</u>	<u>\$ 2,396</u>

Inventories:		
Raw materials	\$ 3,362	\$ 3,565
Finished goods	794	898
Work in progress	2,203	2,693
	6,359	7,156
Less allowance for obsolescence	(1,130)	(804)
Total inventories, net	<u>\$ 5,229</u>	<u>\$ 6,352</u>

The allowance for obsolescence increased from January 31, 2008 to July 31, 2008 based on revised estimates of net realizable amounts.

Seismic equipment lease pool and property and equipment:		
Seismic equipment lease pool	\$ 133,594	\$ 116,676
Land and buildings	366	366
Furniture and fixtures	5,768	5,026
Autos and trucks	622	605
	140,350	122,673
Accumulated depreciation and amortization	(76,170)	(69,494)
Total seismic equipment lease pool and property and equipment, net	<u>\$ 64,180</u>	<u>\$ 53,179</u>

6. Goodwill and Other Intangible Assets

	Weighted Average Life at 7/31/08	July 31, 2008			January 31, 2008		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill		<u>\$ 4,320</u>		<u>\$ 4,320</u>	<u>\$ 4,358</u>		<u>\$ 4,358</u>
Proprietary rights	11.9	\$ 3,861	\$ (475)	\$ 3,386	\$ 3,886	\$ (333)	\$ 3,553
Covenants not-to-compete	—	1,000	(1,000)	—	1,000	(861)	139
Amortizable intangible assets		<u>\$ 4,861</u>	<u>\$ (1,475)</u>	<u>\$ 3,386</u>	<u>\$ 4,886</u>	<u>\$ (1,194)</u>	<u>\$ 3,692</u>

As of July 31, 2008, the Company had goodwill of \$4,320, all of which is allocated to the Seemap segment. During the three months ended July 31, 2008 the Company recorded a decrease in goodwill in the amount of \$38 resulting from the recognition of certain tax credits relating to the operations of Seemap. These tax credits related to the period prior to the acquisition of Seemap by the Company. No impairment has been recorded against the goodwill account.

Amortizable intangible assets are amortized over their estimated useful lives of three to 15 years using the straight-line method. Aggregate amortization expense was \$127 and \$114 for the three months ended July 31, 2008 and 2007, respectively, and \$282 and \$228 for the six months ended July 31, 2008 and 2007, respectively. As of July 31, 2008, future estimated amortization expense related to amortizable intangible assets is estimated to be:

For fiscal years ending January 31:

2009	\$ 142
2010	284
2011	284
2012	284
2013 and thereafter	2,392
Total	<u>\$ 3,386</u>

7. Long-Term Debt and Notes Payable

The Company entered into a \$12,500 revolving loan agreement with First Victoria National Bank (the "Bank") which expires on February 1, 2009. The facility bears interest at the prime rate. Amounts available for borrowing under the facility are determined by a borrowing base. The borrowing base is computed based on certain outstanding accounts receivable, certain portions of the Company's lease pool and any lease pool assets that are to be purchased with proceeds of the facility. Borrowings under the facility are secured by essentially all of the Company's domestic assets. Interest on any outstanding principal balance is payable monthly, while the principal is due at maturity. The loan agreement also contains certain financial covenants that require, among other things, that the Company maintain a debt to shareholders' equity ratio of a maximum of 1.3 to 1.0, maintain a current assets to current liabilities ratio of a minimum of 1.25 to 1.0, and not incur or maintain any indebtedness or obligations or guarantee the debts or obligations of others in a total aggregate amount which exceeds \$1,000 without the prior written approval of the Bank, except for indebtedness incurred as a result of the Seemap acquisition and other specific exceptions. As of July 31, 2008, \$2,000 is outstanding under this facility.

In connection with the Seemap acquisition in July 2005, the Company issued \$3,000 in promissory notes payable to the former shareholders of Seemap, of which \$1,500 was outstanding at January 31, 2008. The notes bear interest at 5%, which is payable annually on the anniversary of the notes. A partial principal payment of \$637 was made in February 2008 and the remaining principal payment of \$863 was made in July 2008.

8. Shareholders' Equity

During the six months ended July 31, 2008, approximately 18 shares were issued upon the exercise of stock options by employees pursuant to various stock option plans of the Company.

9. Comprehensive Income

Comprehensive income generally represents all changes in shareholders' equity during the period, except those resulting from investments by, or distributions to, shareholders. The Company has comprehensive income related to changes in foreign currency to U.S. dollar exchange rates, which is recorded as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2008	2007	2008	2007
Net income	\$ 1,625	\$ 1,721	\$ 5,903	\$ 5,661
Gain (loss) from foreign currency translation adjustment	(299)	1,248	2	3,554
Comprehensive income	<u>\$ 1,326</u>	<u>\$ 2,969</u>	<u>\$ 5,905</u>	<u>\$ 9,215</u>

10. Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. SFAS 109 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. The Company has adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, Accounting for Income Taxes* ("FIN 48"). As required by FIN 48, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company and its subsidiaries file consolidated and separate income tax returns in the U.S. federal jurisdiction and in foreign jurisdictions. The Company is subject to U.S. federal income tax examinations for all tax years beginning with its fiscal year ended January 31, 2002. The Internal Revenue Service has not commenced an examination of any of the Company's U.S. federal income tax returns.

The Company is subject to examination by taxing authorities throughout the world, including major foreign jurisdictions such as Australia, Canada, Russia, Singapore and the United Kingdom. With few exceptions, the Company and its subsidiaries are no longer subject to foreign income tax examinations for tax years before 2002. With respect to ongoing audits, in the second quarter of fiscal 2008, the Canadian federal tax authorities commenced an audit of the Company's Canadian income tax returns for tax years ended January 31, 2004 through 2007. To date, no adjustments have been proposed as a result of this audit.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as reductions in income tax expense.

The Company's U.S. federal income tax returns for the year ended January 31, 2005 and all prior years will close during the twelve month period ending July 31, 2009, unless extended by examination or agreement. Also, the tax returns of MCL, the Company's Canadian subsidiary, for the years ended January 31, 2004 through the year ended January 31, 2007 are being examined by Canadian federal taxing authorities. Accordingly, it is reasonably possible that some uncertain tax positions will be resolved within the next twelve months. Should these uncertain tax positions be resolved, the amount of unrecognized tax benefits would decrease by up to approximately \$1,978, which amount would decrease income tax expense.

11. Earnings per Share

Net income per basic common share is computed using the weighted average number of common shares outstanding during the period, excluding unvested restricted stock. Net income per diluted common share is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding warrants and common stock options having a dilutive effect using the treasury stock method, from the assumed vesting of phantom stock units, and from the assumed vesting of unvested shares of restricted stock using the treasury stock method. The following table presents the calculation of basic and diluted weighted average common shares used in the earnings per share calculation for the three and six months ended July 31, 2008 and 2007:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2008	2007	2008	2007
Basic weighted average common shares outstanding	9,764	9,672	9,758	9,657
Stock options	596	562	583	527
Unvested restricted stock	14	22	15	20
Phantom stock	11	—	5	—
Warrants	—	15	—	15
Total weighted average common share equivalents	621	599	603	562
Diluted weighted average common shares outstanding	10,385	10,271	10,361	10,219

12. Stock-Based Compensation

Total compensation expense recognized for stock-based awards granted under the Company's various equity incentive plans during the three and six months ended July 31, 2008 was approximately \$527 and \$1,163, respectively, and during the three and six months ended July 31, 2007 was approximately \$429 and \$985, respectively. During the six months ended July 31, 2008, options to purchase 150 shares of common stock were granted to the non-employee members of the Company's Board of Directors.

13. Segment Reporting

The following information is disclosed as required by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

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; Brisbane, Australia; and Ufa, Bashkortostan, Russia.

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

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

	<u>As of July 31, 2008</u>	<u>As of January 31, 2008</u>
	<u>Total assets</u>	<u>Total assets</u>
Equipment Leasing	\$ 93,175	\$ 86,057
Seemap	17,130	18,434
Eliminations	(512)	(590)
Consolidated	<u>\$ 109,793</u>	<u>\$ 103,901</u>

Results for the three months ended July 31, 2008 and 2007 were as follows:

	<u>Revenues</u>		<u>Operating income (loss)</u>		<u>Income (loss) before taxes</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Equipment Leasing	\$ 14,210	\$ 9,794	\$ 2,676	\$ 2,227	\$ 2,928	\$ 2,361
Seemap	3,302	5,754	(413)	363	(439)	293
Eliminations	(17)	(149)	57	(3)	57	(3)
Consolidated	<u>\$ 17,495</u>	<u>\$ 15,399</u>	<u>\$ 2,320</u>	<u>\$ 2,587</u>	<u>\$ 2,546</u>	<u>\$ 2,651</u>

Results for the six months ended July 31, 2008 and 2007 were as follows:

	<u>Revenues</u>		<u>Operating income (loss)</u>		<u>Income (loss) before taxes</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Equipment Leasing	\$ 27,462	\$ 22,750	\$ 7,813	\$ 7,442	\$ 8,250	\$ 7,725
Seemap	8,607	16,118	781	1,013	725	874
Eliminations	(40)	(455)	84	(139)	84	(139)
Consolidated	<u>\$ 36,029</u>	<u>\$ 38,413</u>	<u>\$ 8,678</u>	<u>\$ 8,316</u>	<u>\$ 9,059</u>	<u>\$ 8,460</u>

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

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

Cautionary Statement about Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q (this "Form 10-Q") may be deemed to be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 27A of the Securities Act of 1933, as amended. This information includes, without limitation, statements concerning:

- our future financial position and results of operations;
- planned capital expenditures;
- our business strategy and other plans for future operations;
- the future mix of revenues and business;
- future demand for our services; and
- general conditions in the energy industry and seismic service industry.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can not assure you that these expectations will prove to be correct. When used in this Form 10-Q, the words "anticipate," "believe," "estimate," "expect," "may" and similar expressions, as they relate to our company and management, are intended to identify forward-looking statements. The actual results of future events described in these forward-looking statements could differ materially from the results described in the forward-looking statements due to risks and uncertainties including, but are not limited to, those summarized below:

- decline in the demand for seismic data and our services;
- loss of significant customers;
- defaults by customers on amounts due us;
- risks associated with our manufacturing operations and
- foreign currency exchange risk

Other factors that could cause our actual results to differ from our projected results are described in (1) Part II, "Item 1A. Risk Factors" and elsewhere in this Form 10-Q, (2) our Annual Report on Form 10-K for the fiscal year ended January 31, 2008, (3) our reports and registration statements filed from time to time with the Securities and Exchange Commission ("SEC") and (4) other announcements we make from time to time.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to 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.

Overview

We operate in two segments, equipment leasing and equipment manufacturing. Our equipment leasing operations are conducted from our Huntsville, Texas headquarters and from our locations in Calgary, Canada; Brisbane, Australia; and Ufa, Russia. This includes the operations of our Mitcham Canada, Ltd. ("MCL"), Seismic Asia Pacific Pty. Ltd., ("SAP") and Mitcham Seismic Eurasia LLC ("MSE") subsidiaries. The equipment manufacturing segment is conducted by our Seemap subsidiaries and therefore is referred to as our Seemap segment. We acquired Seemap in July 2005. Seemap operates from its locations near Bristol, United Kingdom and in Singapore.

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

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The following table presents certain operating information by operating segment.

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2008	2007	2008	2007
	(in thousands)		(in thousands)	
Revenues:				
Equipment Leasing	\$ 14,210	\$ 9,794	\$ 27,462	\$ 22,750
Seamap	3,302	5,754	8,607	16,118
Inter-segment sales	(17)	(149)	(40)	(455)
Total revenues	<u>17,495</u>	<u>15,399</u>	<u>36,029</u>	<u>38,413</u>
Cost of sales:				
Equipment Leasing	8,483	5,107	12,971	9,953
Seamap	1,972	3,864	4,441	12,099
Inter-segment costs	(74)	(145)	(125)	(316)
Total cost of sales	<u>10,381</u>	<u>8,826</u>	<u>17,287</u>	<u>21,736</u>
Gross profit	<u>7,114</u>	<u>6,573</u>	<u>18,742</u>	<u>16,677</u>
Operating expenses:				
General and administrative	4,430	3,620	9,305	7,640
Depreciation and amortization	364	366	759	721
Total operating expenses	<u>4,794</u>	<u>3,986</u>	<u>10,064</u>	<u>8,361</u>
Operating income	<u>\$ 2,320</u>	<u>\$ 2,587</u>	<u>\$ 8,678</u>	<u>\$ 8,316</u>
EBITDA (1)	\$ 6,400	\$ 5,395	\$ 16,839	\$ 13,885
Adjusted EBITDA (1)	\$ 6,927	\$ 5,824	\$ 18,002	\$ 14,870
Reconciliation of Net Income to EBITDA and Adjusted EBITDA				
Net income	\$ 1,625	\$ 1,721	\$ 5,903	\$ 5,661
Interest income, net	(223)	(64)	(373)	(142)
Depreciation and amortization	4,077	2,808	8,153	5,567
Provision for income taxes	921	930	3,156	2,799
EBITDA (1)	<u>6,400</u>	<u>5,395</u>	<u>16,839</u>	<u>13,885</u>
Stock-based compensation	527	429	1,163	985
Adjusted EBITDA (1)	<u>\$ 6,927</u>	<u>\$ 5,824</u>	<u>\$ 18,002</u>	<u>\$ 14,870</u>

(1) EBITDA is defined as earnings (loss) before (a) interest income, net of interest expense, (b) provision for (or benefit from) income taxes and (c) depreciation and amortization. Adjusted EBITDA excludes stock-based compensation. We consider EBITDA and Adjusted EBITDA to be important indicators for the performance of our business, but not measures of performance calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"). We have included these non-GAAP financial measures because they provide management with important information for assessing our performance and as indicators of our ability to make capital expenditures and finance working capital requirements. EBITDA and Adjusted EBITDA are not measures of financial performance 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. Other companies in our industry may calculate EBITDA or Adjusted EBITDA differently than we do, and EBITDA and Adjusted EBITDA may not be comparable with similarly titled measures reported by other companies.

In our Equipment Leasing segment, we lease seismic data acquisition equipment primarily to seismic data acquisition companies conducting land, transition zone and marine seismic surveys worldwide. We provide short-term leasing of seismic equipment to meet a customer's requirements. The majority of all active leases at July 31, 2008 were for a term of less than one year. Seismic equipment held for lease is carried at cost, net of accumulated depreciation. We acquire some marine lease pool equipment from our Seamap segment. These amounts are reflected in the accompanying condensed consolidated financial statements at the cost to our Seamap segment. From time to time, we sell lease pool equipment to our customers. These sales are usually transacted when we have equipment for which we do not have near term needs in our leasing business and if the proceeds from the sale exceed the estimated present value of future lease income from that equipment. We also occasionally sell new seismic equipment that we acquire from other companies and sometimes provide financing on those sales. In

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addition to conducting seismic equipment leasing operations, SAP sells equipment, consumables, systems integration, engineering hardware and software maintenance support services to the seismic, hydrographic, oceanographic, environmental and defense industries throughout Southeast Asia and Australia.

Our Seemap segment designs, manufactures and sells a variety of products used primarily in marine seismic applications. Seemap's primary products include (1) the GunLink seismic source acquisition and control systems, which provide marine operators more precise control of their exploration systems, and (2) the BuoyLink GPS tracking system used to provide precise positioning of seismic sources and streamers (marine recording channels that are towed behind a vessel).

Seismic equipment leasing is susceptible to weather patterns in certain geographic regions. In Canada and Russia, a significant percentage of the seismic survey activity occurs in winter months, from December through March or April. During the months in which the weather is warmer, certain areas are not accessible to trucks, earth vibrators and other heavy equipment because of unstable terrain. In other areas of the world, such as Southeast Asia and the Pacific Rim, periods of heavy rain, known as monsoons, can impair seismic operations. We are able, in many cases, to transfer our equipment from one region to another in order to deal with seasonal demand and to increase our equipment utilization.

The oil and gas exploration industry has enjoyed generally sustained growth in recent periods, fueled primarily by historically high commodity prices for oil and natural gas. We, along with much of the seismic industry, have benefited from this growth. 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. Land seismic data acquisition activity levels are measured in terms of the number of active recording crews, known as the "crew count," and the number of recording channels deployed by those crews, known as "channel count". Because an accurate and reliable census of active crews does not exist, it is not possible to make definitive statements regarding the absolute levels of seismic data acquisition activity. Furthermore, a significant number of seismic data acquisition contractors are either private or state-owned enterprises and information about their activities is not available in the public domain. Nonetheless, we believe the seismic industry is currently enjoying a period of stable and sustained growth. This is evidenced by increased demand for our equipment, improving financial results as reported by many seismic contractors and announcements by some seismic contractors of increased crew count and channel count. We believe that this increase is being driven by relatively high world oil prices and, to a lesser degree, 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 to a large degree.

The market for products sold by Seemap and the demand for the leasing of marine seismic equipment is dependent upon activity within the offshore, or marine, seismic industry, including the re-fitting of existing seismic vessels and the equipping of new vessels.

Current prices of oil and natural gas have resulted in increased activity in the oil and gas industry and, in turn, resulted in an increased demand for seismic services. This has contributed to an increased demand for leasing of our equipment. We cannot predict how long the current trend will last, but we believe that a depressed oil and gas industry results in lower demand for and, therefore, lower revenues from, the leasing of our equipment. We do not quantitatively calculate utilization rates for our equipment lease pool. However, we do subjectively monitor factors that we believe reflect trends in utilization. We have relatively fixed costs within certain revenue ranges and, as a result, our earnings are particularly sensitive to changes in utilization rates and demand for our lease equipment.

We have responded to the increased demand for our services and products by adding new equipment to our lease pool and by introducing new products from our Seemap segment. During the six months ended July 31, 2008, we added approximately \$19.8 million of equipment to our lease pool. During the fiscal years ended January 31, 2008 and 2007, we added approximately \$26.0 million and \$25.5 million, respectively, of equipment to our lease pool. We have also attempted to improve the utilization of our lease pool by establishing test facilities in Russia and Singapore. Should the present growth for the seismic industry continue, we expect to add new equipment to our lease pool. We may also establish operating facilities in new geographic areas, but we have no plans to do so at this time.

We also may seek to expand our lease pool by acquiring different types of equipment or equipment that can be used in different types of seismic applications. We have done this in the past by adding marine seismic equipment to our lease pool. During the six months ended July 31, 2008, we added equipment used in vertical seismic profiling ("VSP") applications to our lease pool. VSP is a technology in which seismic recording devices are introduced into a well bore, such as an oil or gas well. VSP technology has a wide variety of applications, some of which are not related to oil and gas exploration. These applications include 3D surface seismic surveys, well and

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reservoir monitoring, analysis of fluid treatments of oil and gas wells and underground storage monitoring. Of the approximately \$19.8 million of lease pool equipment added in the six months ended July 31, 2008, approximately \$2.6 million related to VSP equipment.

Our revenues and results of operations during the six months ended July 31, 2008 have not been materially impacted by inflation or changing prices, except as described above.

A significant portion of our revenues are generated from sources outside the United States. For the six months ended July 31, 2008, revenues from international customers totaled approximately \$28.2 million. This amount represents 78% of consolidated revenues for that period. The majority of our transactions with international customers are denominated in United States, Australian and Canadian dollars, Russian rubles and British pounds sterling.

Results of Operations

Revenues for the three and six months ended July 31, 2008 were approximately \$17.5 million and \$36.0 million, respectively, compared to approximately \$15.4 million and \$38.4 million, respectively in the three and six months ended July 31, 2007. The increase in revenues in the three months ended July 31, 2008 over the same period in the prior year is attributable to increased revenues in the Equipment Leasing segment and is despite a decrease in revenues from the Seemap segment during those periods. Revenues for the six-month period ended July 31, 2008 declined, despite an increase in revenues from the Equipment Leasing segment. As more fully discussed below, in the first quarter of fiscal 2008 our Seemap segment had unusually high sales, which distorts the comparison between the two six-month periods. For the three months ended July 31, 2008, we recorded operating income of approximately \$2.3 million, compared to approximately \$2.6 million for the same fiscal quarter a year ago, a decrease of approximately 12%. The decrease was due primarily to lower gross profits from the Seemap segment and higher general and administrative expenses. For the six months ended July 31, 2008, operating profit amounted to approximately \$8.7 million as compared to approximately \$8.3 million for the six months ended July 31, 2007. The increase in operating income is primarily the result of improved margins from our Seemap segment and higher equipment leasing revenues. A more detailed explanation of the variations noted above follows.

Revenues and Cost of Sales

Equipment Leasing

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2008	2007	2008	2007
	(\$ in thousands)		(\$ in thousands)	
Revenue:				
Equipment leasing	\$ 7,500	\$ 6,249	\$ 19,873	\$ 16,330
Lease pool equipment sales	1,844	775	2,405	1,492
New seismic equipment sales	3,518	1,666	3,647	3,446
SAP equipment sales	1,348	1,104	1,537	1,482
	<u>14,210</u>	<u>\$ 9,794</u>	<u>27,462</u>	<u>\$ 22,750</u>
Cost of sales:				
Lease pool depreciation	3,712	2,480	7,392	4,913
Direct costs-equipment leasing	343	401	785	821
Cost of lease pool equipment sales	1,107	201	1,232	479
Cost of new seismic equipment sales	2,398	1,305	2,485	2,820
Cost of SAP equipment sales	923	720	1,077	920
	<u>8,483</u>	<u>5,107</u>	<u>12,971</u>	<u>9,953</u>
Gross profit	<u>\$ 5,727</u>	<u>\$ 4,687</u>	<u>\$ 14,491</u>	<u>\$ 12,797</u>
Gross profit %	<u>40%</u>	<u>48%</u>	<u>53%</u>	<u>56%</u>

Equipment leasing revenues increased approximately 20% in the second quarter of fiscal 2009 over the second quarter of fiscal 2008 and increased approximately 22% in the first six months of fiscal 2009 over the first six months of fiscal 2008. These increases resulted from higher demand for seismic equipment, expansion into new geographic markets and expansion of our lease pool. During the fiscal year ended January 31, 2008, we added approximately \$26.0 million of new lease pool equipment, including approximately \$13.0 million in the fourth

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quarter of that year. This increase in our lease pool contributed significantly to the increase in equipment leasing revenues in the first six months of fiscal 2009 as compared to the same period of fiscal 2008. In the first six months of fiscal 2009, we added approximately \$19.8 million of new lease pool equipment; however, approximately \$13.0 million of these additions were made late in the second quarter of fiscal 2009 and did not contribute materially to our leasing revenues. The demand for seismic equipment is primarily driven by the global oil and gas exploration activity discussed above.

We have recently added VSP equipment to our lease pool and have begun to lease this equipment. The amount of revenue from this equipment was not material, amounting to approximately \$0.4 million in the first six months of fiscal 2009, but could have a more significant impact in future periods.

From time to time, we sell equipment from our lease pool based on specific customer demand and as opportunities present themselves in order to redeploy our capital in other lease pool assets. Accordingly, these transactions are difficult to predict. The gross profit from the sales of lease pool equipment amounted to approximately \$0.7 million and \$0.6 million for the quarters ended July 31, 2008 and 2007, respectively. For the first six months of fiscal 2009 and 2008, the gross profit from lease pool equipment sales amounted to approximately \$1.2 million and \$1.0 million, respectively. Often, the equipment that is sold from our lease pool has been held by us, and therefore depreciated, for some period of time. Accordingly, the equipment sold may have a relatively low net book value at the time of the sale, resulting in a relatively high gross margin from the transaction. The amount of the margin on a particular transaction varies greatly based primarily upon the age of the equipment.

Periodically, we will sell new seismic equipment that we acquire from others. On occasion, these sales may be structured with a significant down payment and the balance financed over a period of time at a market rate of interest. These sales are also difficult to predict and do not follow any seasonal patterns. During the three months ended July 31, 2008, the gross profit from these sales amounted to approximately \$1.1 million, while in the three months ended July 31, 2007, the gross profit from these transactions amounted to approximately \$0.4 million. For the six months ended July 31, 2008, the gross profit from the sale of new seismic equipment amounted to approximately \$1.2 million, as compared to approximately \$0.6 million in the first six months of fiscal 2008.

SAP regularly sells new hydrographic and oceanographic equipment to customers in Australia and throughout the Pacific Rim. The gross profit from the sale of new seismic equipment and hydrographic and oceanographic equipment was approximately \$0.4 million in both the fiscal quarter ended July 31, 2008 and the fiscal quarter ended July 31, 2007. For the first six months of fiscal 2009, the gross profit from these sales amounted to approximately \$0.5 million versus approximately \$0.6 million in the first six months of fiscal 2008. In May 2008, SAP entered into a contract with the Royal Australian Navy to provide certain equipment to the Republic of the Philippines. This contract did not contribute any revenues in the quarter ended July 31, 2008; however, we expect the contract to generate approximately \$4.5 million of revenues over the next nine to twelve months, with gross profit margins generally consistent with SAP's other equipment sales.

Overall, the gross profit from our Equipment Leasing segment increased by approximately 22% to approximately \$5.7 million in the second quarter of fiscal 2009 as compared to approximately \$4.7 million in the second quarter of fiscal 2008. For the first six months of fiscal 2009 the gross profit from our Equipment Leasing segment amounted to approximately \$14.5 million as compared to approximately \$12.8 million in the first six months of fiscal 2008, an increase of approximately 13%. Despite higher depreciation charges within this segment, the increase in leasing revenues and increased gross profit from equipment sales has resulted in an overall increase in gross profit in the first six months of fiscal 2009.

Depreciation expense related to lease pool equipment for the quarter and six months ended July 31, 2008 amounted to approximately \$3.7 million and \$7.4 million, respectively. These amounts compare to approximately \$2.5 million and \$4.9 million for the quarter and six months ended July 31, 2007, respectively. The increase in depreciation expense was primarily due to our acquisition of additional lease pool equipment during fiscal 2008 and 2009. Approximately \$13.0 million of additions to our lease pool were made late in the second quarter of fiscal 2009 and therefore did not contribute materially to the increase in depreciation.

Revenues and lease pool depreciation costs do not necessarily directly correlate. Over the long-term, depreciation costs are impacted by increases in equipment purchases to meet growing demand for our leased equipment. We have been able to purchase equipment at discounts through volume purchase arrangements. A lower purchase price results in lower depreciation costs. Although some of the equipment in our lease pool has reached the end of its depreciable life, given the increased demand within the seismic industry, the equipment continues to be in service and continues to generate revenue. The depreciable life of equipment in our industry is determined more by technical obsolescence than by usage or wear and tear. Some of our equipment is still capable of functioning appropriately, although fully depreciated. The current high demand for equipment has allowed us to

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lease older equipment that in periods of lower demand would be idle. Thus, we are able to generate leasing revenues from this older equipment with little or no associated depreciation costs.

Direct costs related to seismic leasing did not vary materially between the three and six-month periods ended July 31, 2008 and the same periods in the prior fiscal year. Direct costs typically fluctuate with leasing revenues, as the three main components of direct costs are freight, repairs and sublease expense; however, costs as a percentage of revenues decreased in fiscal 2009 as compared to the same periods in the prior fiscal year. This decline was primarily due to greater reimbursement of costs from our customers, lower costs to lease certain equipment from third parties and the effect of slightly longer lease terms on average. Longer lease terms have the effect of increasing equipment utilization without increasing direct costs.

Seamap

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2008	2007	2008	2007
	(\$ in thousands)		(\$ in thousands)	
Equipment sales	\$ 3,302	\$ 5,754	\$ 8,607	\$ 16,118
Cost of equipment sales	1,972	3,864	4,441	12,099
Gross profit	\$ 1,330	\$ 1,890	\$ 4,166	4,019
Gross profit %	40%	33%	48%	25%

The sale of Seamap products, while not generally impacted by seasonal factors, can vary significantly from quarter to quarter due to customer delivery requirements. In the three months ended July 31, 2008 sales of Seamap equipment declined from the fiscal quarter ended July 31, 2007 as we shipped fewer orders due to an expected temporary decline in deliveries during this period. For the six months ended July 31, 2007, sales of Seamap equipment were unusually high, and therefore not directly comparable to other periods. Included in sales for that period was approximately \$3.5 million related to ancillary equipment that we do not normally sell and which contributed a relatively small gross margin. Also during this period, we recorded approximately \$2.4 million of sales related to orders that had originally been intended to ship in the fourth quarter of fiscal 2007, but which were delayed due to production issues and customers' requests. Absent these unusual items, Seamap equipment sales in the first six months of fiscal 2008 amounted to approximately \$10.2 million. This compares with sales of approximately \$8.6 million in the first six months of fiscal 2009. Changes in product prices did not contribute materially to the difference in sales between the fiscal 2009 and fiscal 2008 periods.

The gross profit from the sale of Seamap equipment amounted to approximately \$1.3 million, or 40% of Seamap revenues for the three months ended July 31, 2008, as compared to approximately \$1.9 million, or 33% of Seamap revenues for the three months ended July 31, 2007. For the six months ended July 31, 2008 gross profit from the sale of Seamap equipment amounted to approximately \$4.2 million, or 48% of Seamap revenues, as compared to approximately \$4.0 million, or 25% of Seamap revenues for the six months ended July 31, 2007. Gross profit as a percentage of sales for the six months ended July 31, 2007 was negatively impacted by certain design issues related to the GunLink 4000 product and by the effect of the sale of low-margin ancillary products discussed above. The gross margins for Seamap have increased in recent periods due to the resolution of the GunLink 4000 design issues and improved margins related to the GunLink 2000 and GunLink 4000 products. The GunLink 2000 and 4000 margins have improved primarily due to increased production efficiencies. These production efficiencies have resulted from the normal maturation of the production process for new products, such as the GunLink 4000, and from moving most production activities to Singapore from the United Kingdom to take advantage of lower cost structures. Also, in December 2007, we acquired intellectual property related to the software utilized in the GunLink products. Prior to this acquisition, with the sale of each GunLink system we were required to pay a royalty to the party that had developed the software. Had we owned the software during the first six months of fiscal 2008, we estimate our gross profit from Seamap equipment sales would have been approximately \$1.3 million higher in that period.

Operating Expenses

General and administrative expenses for the quarter ended July 31, 2008 were approximately \$4.4 million, compared to approximately \$3.6 million for the quarter ended July 31, 2007. For the first six months of fiscal 2009 general and administrative expenses amounted to approximately \$9.3 million as compared to approximately \$7.6 million in the first six months of fiscal 2008. The increases in the fiscal 2009 periods resulted from generally higher personnel costs and increased stock-based compensation expense.

Interest and Other Income, net

Net interest and other income for the second quarter and first six months of fiscal 2009 amounted to approximately \$0.2 million and \$0.4 million, respectively, compared to approximately \$0.1 million in each of the comparable periods of fiscal 2008. The increase is due to income from finance charges related to the sale of new seismic equipment.

Provision for Income Taxes

Our provision for income taxes for the six months of fiscal 2009 was approximately \$3.2 million, an effective tax rate of approximately 35%, consisting of current taxes of approximately \$2.7 million and deferred taxes of approximately \$0.5 million. For the first six months of fiscal 2008, our provision for income taxes amounted to approximately \$2.8 million, an effective tax rate of approximately 33%, consisting of current taxes of \$1.0 million and deferred taxes of \$1.8 million. The increase in effective tax rate results primarily from the effect of a decrease in Canadian tax rates on our deferred tax assets.

Liquidity and Capital Resources

As of July 31, 2008, we had working capital of approximately \$12.1 million and cash and cash equivalents of approximately \$6.2 million as compared to working capital of approximately \$14.0 million and cash and cash equivalents of approximately \$13.9 million at January 31, 2008. Our working capital decreased during the six months ended July 31, 2008 primarily due to expenditures for new lease pool equipment.

Net cash flows provided by operating activities was approximately \$6.4 million in the first six months of fiscal 2009 as compared to cash flows provided by operating activities of approximately \$17.5 million in the same six months in fiscal 2008. This decrease, despite the increase in net income in the fiscal 2009 period, resulted primarily from a decrease in accounts payable, accrued expenses, other current liabilities and deferred revenue.

Net cash flows used in investing activities for the six months ended July 31, 2008 includes purchases of seismic equipment held for lease totaling approximately \$15.4 million. This amount reflects approximately \$8.6 million attributable to equipment purchased in fiscal 2008, but not paid for until the current year. Approximately \$13.0 million of current year additions of equipment, for which payment had not been made as of July 31, 2008, are not included in the purchases of seismic equipment held for lease in the statements of cash flows. These amounts are reflected in accounts payable and accrued liabilities as of July 31, 2008. Accordingly, additions to our lease pool amounted to approximately \$19.8 million in the first six months of fiscal 2009, as compared to approximately \$4.6 million in the first six months of fiscal 2008. Additions to our lease pool in the first six months of fiscal 2009 included 1,000 stations (3,000 channels) of Sercel 428 DSU3 land recording equipment, VSP recording systems, Sercel 408 land recording equipment, Sercel 408 ULS submersible recording systems, geophones, as well as other land and marine seismic equipment.

In the first six months of fiscal 2009, we received approximately \$2.4 million in cash from the sale of lease pool equipment compared to approximately \$1.5 million from the first six months of fiscal 2008. The amount we receive from the sale of lease pool equipment varies significantly based on market conditions and the demand for equipment. We generally do not seek to sell our lease pool equipment, but do so from time to time. In particular we will sell lease pool equipment in response to specific demand from customers if the selling price exceeds the estimated present value of projected future leasing revenue from that equipment.

During the six months ended July 31, 2008, we incurred net borrowings of \$2.0 million under our revolving credit agreement. Our credit agreement provides for borrowings of up to \$12.5 million on a revolving basis through February 1, 2009. Amounts available for borrowing are determined by a borrowing base. The borrowing base is computed based upon eligible accounts receivable and eligible lease pool assets. Based upon the latest calculation of the borrowing base we believe that the entire \$12.5 million of the facility is available to us. The revolving credit facility is secured by essentially all of our domestic assets. Interest is payable monthly at the prime rate. The credit agreement contains certain financial covenants that require, among other things, us to maintain a debt to shareholders' equity ratio of no more than 1.3 to 1.0, maintain a current assets to current

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liabilities ratio of not less than 1.25 to 1.0. The credit agreement also provides that we may not incur or maintain indebtedness in excess of \$1.0 million without the prior written consent of the Bank, except for borrowings related to the credit agreement. As of September 5, 2008 we had \$4.5 million outstanding under this revolving credit agreement. We are negotiating an extension and expansion of this credit facility and expect to complete the transaction prior to the maturity of the existing agreement, although there is no assurance that we will be able to do so.

During the six months ended July 31, 2008, we repaid the remaining \$1.5 million of outstanding principle under the notes issued in connection with the acquisition of Seamap, utilizing net cash provided by operations. In addition, during this same period we invested approximately \$1.4 million in short-term deposit accounts. These amounts were pledged to secure performance obligations under a contract entered into by SAP.

As discussed above, we have purchased significant amounts of additional lease pool equipment in recent periods. We expect to purchase further amounts if we believe customer demand for equipment warrants further purchases; however, the amount and timing of any additional purchases are uncertain.

We believe that the obligations discussed above, as well as our other liquidity needs, can be met from cash flows provided by operations and from amounts available under our revolving credit facility discussed above. Should we make additional substantial purchases of lease pool equipment or should we purchase other businesses, we may seek other sources of debt or equity financing.

As of July 31, 2008, we had deposits in foreign banks consisting of both U.S. dollar and foreign currency deposits equal to approximately \$6.0 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 transfer taxes generally may be credited against our federal income tax obligations in the United States. Additionally, the transfer of funds from our foreign subsidiaries to the United States may result in currently taxable income in the United States.

Item 3. 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, or intend to enter, into derivative financial instruments for hedging or speculative purposes.

Foreign Currency Risk

We operate in a number of foreign locations, which give rise to risk from changes in foreign 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 British pounds sterling, Canadian dollars, Australian dollars, Singapore dollars and the Russian ruble. As a result of these transactions, we generally hold cash balances that are denominated in these foreign currencies. At July 31, 2008, our consolidated cash and cash equivalents included foreign currency denominated amounts equivalent to approximately \$4.0 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 \$0.4 million 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, Australian dollar, Russian ruble 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 47% of our net assets are impacted by changes in foreign currencies in relation to the U.S. dollar.

Item 4. 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 officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of July 31, 2008 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our system of internal control over financial reporting during the quarter ended July 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II**Item 1. Legal Proceedings**

From time to time, we are a party to legal proceedings arising in the ordinary course of business. We are not currently a party to any litigation that we believe could have a material adverse effect on our results of operations or financial condition.

Item 1A. Risk Factors

The Risk Factors included in our Annual Report on Form 10-K for the year ended January 31, 2008 have not materially changed. In addition to the other information set forth in this form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended January 31, 2008, which could materially affect our business, financial condition or future results. The risks described in this Form 10-Q and in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

(a) Not applicable.

(b) Not applicable.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs
May 1-31, 2008	—	—	—	—
June 1-30, 2008	—	—	—	—
July 1-31, 2008	352	\$16.23	—	—
Total	<u>352</u>	<u>\$16.23</u>	<u>—</u>	<u>—</u>

Note: All shares were surrendered in payment of taxes due upon the vesting of restricted stock.

Item 3. Defaults Upon Senior Securities

Not applicable.

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Item 4. *Submission of Matters to a Vote of Security Holders*

We held our Annual Meeting of Shareholders on July 24, 2008. Shareholders of record as of the close of business on May 27, 2008 were entitled to vote.

Shareholders elected each of the six directors nominated for the board of directors. The votes were as follows:

<u>Name of Nominee</u>	<u>For</u>	<u>Withheld</u>
Billy F. Mitcham, Jr.	8,388,150	317,545
Peter H. Blum	8,397,153	308,542
Robert P. Capps	7,888,729	816,966
R. Dean Lewis	8,352,468	353,227
John F. Schwalbe	8,352,668	353,027
Robert J. Albers	8,414,309	291,386

The shareholders ratified the appointment of Hein & Associates LLP as our independent registered public accounting firm for the fiscal year ending January 31, 2009. The votes were as follows:

<u>For</u>	<u>Against</u>	<u>Abstaining</u>
8,452,143	66,510	8,623

Item 5. *Other Information*

Not applicable.

Item 6. *Exhibits*

Exhibits

The exhibits marked with the cross symbol (†) are filed or furnished (in the case of Exhibit 32.1) with this Form 10-Q.

<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>
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	Second Amended and Restated Bylaws of Mitcham Industries, Inc.	Incorporated by reference to Mitcham Industries, Inc.'s Annual Report on Form 10-K for the fiscal year ended January 31, 2004, filed with the SEC on May 28, 2004.	000-25142	3.2
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 Robert P. Capps, Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended			
32.1†	Certification of Billy F. Mitcham, Jr., Chief Executive Officer, and Robert P. Capps, Chief Financial Officer, under Section 906 of the Sarbanes Oxley Act of 2002, 18 U.S.C. § 1350			

SIGNATURES

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

MITCHAM INDUSTRIES, INC.

Date: September 9, 2008

/s/ Robert P. Capps

Robert P. Capps

Executive Vice President-Finance and Chief Financial Officer

(Duly Authorized Officer and Chief Accounting Officer)

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended July 31, 2008 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(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/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer
September 9, 2008

CERTIFICATION

I, Robert P. Capps, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended July 31, 2008 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(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
Executive Vice President-Finance and Chief Financial Officer
September 9, 2008

**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 quarterly period ended July 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Billy F. Mitcham, Jr., Chief Executive Officer of the Company, and Robert P. Capps, 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; 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
September 9, 2008

/s/ Robert P. Capps

Robert P. Capps
Executive Vice President-Finance and Chief Financial Officer
September 9, 2008