



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 **October 31, 2010**

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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: 9,947,794 shares of common stock, \$0.01 par value, were outstanding as of December 3, 2010.

**MITCHAM INDUSTRIES, INC.**  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	<u>October 31, 2010</u>	<u>January 31, 2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,521	\$ 6,130
Restricted cash	687	605
Accounts receivable, net	14,355	15,444
Current portion of contracts receivable	3,721	2,073
Inventories, net	4,704	5,199
Cost and estimated profit in excess of billings on uncompleted contract	—	398
Income taxes receivable	—	1,438
Deferred tax asset	1,919	1,400
Prepaid expenses and other current assets	2,908	1,986
Total current assets	37,815	34,673
Seismic equipment lease pool and property and equipment, net	74,997	66,482
Intangible assets, net	5,475	2,678
Goodwill	4,320	4,320
Prepaid foreign income tax	2,960	2,574
Deferred tax asset	—	88
Long-term portion of contracts receivable, net	5,262	4,533
Other assets	36	49
Total assets	<u>\$ 130,865</u>	<u>\$ 115,397</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 12,460	\$ 6,489
Current maturities — long-term debt	3,111	93
Income taxes payable	1,771	1,345
Deferred revenue	860	854
Accrued expenses and other current liabilities	4,119	2,668
Total current liabilities	22,321	11,449
Non-current income taxes payable	3,402	3,258
Deferred tax liability	224	—
Long-term debt, net of current maturities	13,426	15,735
Total liabilities	39,373	30,442
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; 10,872 and 10,737 shares issued at October 31, 2010 and January 31, 2010, respectively	108	107
Additional paid-in capital	77,261	75,746
Treasury stock, at cost (925 shares at October 31, 2010 and January 31, 2010)	(4,843)	(4,843)
Retained earnings	13,222	10,247
Accumulated other comprehensive income	5,744	3,698
Total shareholders' equity	91,492	84,955
Total liabilities and shareholders' equity	<u>\$ 130,865</u>	<u>\$ 115,397</u>

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

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

	For the Three Months Ended October 31,		For the Nine Months Ended October 31,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Equipment leasing	\$ 8,074	\$ 9,037	\$ 24,133	\$ 20,165
Lease pool equipment sales	976	808	1,498	978
Seamap equipment sales	4,249	4,241	17,230	13,882
Other equipment sales	6,674	444	8,767	2,787
Total revenues	<u>19,973</u>	<u>14,530</u>	<u>51,628</u>	<u>37,812</u>
<b>Cost of sales:</b>				
Direct costs — equipment leasing	895	748	2,485	2,201
Direct costs — lease pool depreciation	5,289	4,610	15,556	13,127
Cost of lease pool equipment sales	385	473	634	570
Cost of Seamap and other equipment sales	7,425	2,534	15,376	8,645
Total cost of sales	<u>13,994</u>	<u>8,365</u>	<u>34,051</u>	<u>24,543</u>
<b>Gross profit</b>	5,979	6,165	17,577	13,269
<b>Operating expenses:</b>				
General and administrative	3,937	3,809	12,286	11,280
Provision for doubtful accounts	—	730	797	1,379
Depreciation and amortization	296	213	871	690
Total operating expenses	<u>4,233</u>	<u>4,752</u>	<u>13,954</u>	<u>13,349</u>
<b>Operating (loss) income</b>	1,746	1,413	3,623	(80)
<b>Other income (expenses):</b>				
Gain from bargain purchase in business combination	—	—	1,304	—
Interest, net	(90)	(122)	(302)	(303)
Other, net	(553)	123	(618)	405
Total other income (expense)	<u>(643)</u>	<u>1</u>	<u>384</u>	<u>102</u>
<b>Income before income taxes</b>	1,103	1,414	4,007	22
Provision for income taxes	<u>(376)</u>	<u>(388)</u>	<u>(1,032)</u>	<u>(86)</u>
<b>Net income (loss)</b>	<u>\$ 727</u>	<u>\$ 1,026</u>	<u>\$ 2,975</u>	<u>\$ (64)</u>
<b>Net income (loss) per common share:</b>				
Basic	<u>\$ 0.07</u>	<u>\$ 0.10</u>	<u>\$ 0.30</u>	<u>\$ (0.01)</u>
Diluted	<u>\$ 0.07</u>	<u>\$ 0.10</u>	<u>\$ 0.29</u>	<u>\$ (0.01)</u>
<b>Shares used in computing net income (loss) per common share:</b>				
Basic	9,916	9,805	9,854	9,795
Diluted	10,203	9,969	10,122	9,795

*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)**

	<b>For the Nine Months Ended October 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 2,975	\$ (64)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	16,586	13,912
Stock-based compensation	941	1,119
Gain from bargain purchase in business combination	(1,304)	—
Provision for doubtful accounts	797	1,379
Provision for inventory obsolescence	63	13
Gross profit from sale of lease pool equipment	(864)	(408)
Excess tax benefit from exercise of non-qualified stock options	(3)	(45)
Deferred tax benefit	(1,335)	(1,553)
Changes in non-current income taxes payable	144	(288)
Changes in working capital items, net of effects from business combination:		
Accounts receivable	609	(2,186)
Contracts receivable	(2,376)	(36)
Inventories	833	(1,468)
Prepaid expenses and other current assets	(952)	(268)
Income taxes receivable and payable	1,833	3,073
Costs incurred and estimated profit in excess of billings on uncompleted contract	573	1,746
Prepaid foreign income tax	(221)	—
Accounts payable, accrued expenses, other current liabilities and deferred revenue	1,996	(1,339)
Net cash provided by operating activities	<u>20,295</u>	<u>13,587</u>
<b>Cash flows from investing activities:</b>		
Purchases of seismic equipment held for lease	(16,049)	(18,828)
Purchases of property and equipment	(262)	(358)
Sale of used lease pool equipment	1,498	978
Acquisition of AES, net of cash acquired	(2,100)	—
Net cash used in investing activities	<u>(16,913)</u>	<u>(18,208)</u>
<b>Cash flows from financing activities:</b>		
Net (payments on) proceeds from line of credit	(4,250)	5,300
Proceeds from secured promissory note	3,672	—
Payments on borrowings	(122)	—
(Purchases of) proceeds from short-term investments	(15)	871
Proceeds from issuance of common stock upon exercise of stock options, net of stock surrendered to pay taxes	244	(12)
Excess tax benefit from exercise of non-qualified stock options	3	45
Net cash (used in) provided by financing activities	<u>(468)</u>	<u>6,204</u>
<b>Effect of changes in foreign exchange rates on cash and cash equivalents</b>	<u>477</u>	<u>(246)</u>
<b>Net change in cash and cash equivalents</b>	<u>3,391</u>	<u>1,337</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>6,130</u>	<u>5,063</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 9,521</u>	<u>\$ 6,400</u>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 465	\$ 461
Income taxes paid	\$ 1,716	\$ 820
Purchases of seismic equipment held for lease in accounts payable at end of period	\$ 9,621	\$ 4,577

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

**MITCHAM INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**1. Basis of Presentation**

The condensed consolidated balance sheet as of January 31, 2010 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 of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company’s Annual Report on Form 10-K for the year ended January 31, 2010. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of October 31, 2010, the results of operations for the three and nine months ended October 31, 2010 and 2009, and the cash flows for the nine months ended October 31, 2010 and 2009, 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, 2011.

**2. Organization**

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

**3. New Accounting Pronouncements**

ASC 805 *Business Combinations* (“ASC 805”) includes authoritative guidance requiring assets and liabilities recorded in a business combination to be recorded at fair value and is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application was not permitted before that date. This guidance replaces the cost-allocation process used to record business combinations under prior guidance. In addition, ASC 805 requires separate recognition of acquisition costs and of contractual contingencies at fair value as of the acquisition date. Further, the guidance requires capitalization of research and development assets and requires fair value recognition of contingent consideration as of the acquisition date. This guidance changes the accounting treatment for any business combination undertaken by the Company after February 1, 2009.

In the second quarter of 2009, the Company adopted guidance included in ASC 855 *Subsequent Events* (“ASC 855”), which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. ASC 855 provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The application of ASC 855 had no impact on the Company’s consolidated condensed financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were filed.

**4. Acquisition**

On March 1, 2010, MCL acquired all of the capital stock of AES for a total purchase price of Cdn \$4,194,000 (approximately U.S. \$3,984,000). AES manufactures, sells and leases “heli-pickers” and associated equipment that is utilized in the deployment and retrieval of seismic equipment by helicopters. The Company made this acquisition to expand the type of equipment available to its customers and to expand the markets in which it operates. The consideration consisted of cash paid at closing in the amount of Cdn \$2,200,000 (approximately U.S. \$2,090,000), promissory notes in

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the amount of Cdn \$1,500,000 (approximately U.S. \$1,425,000), a post-closing working capital adjustment payment of Cdn \$194,000 (approximately U.S. \$184,000) and deferred cash payments in the amount of Cdn \$300,000. The promissory notes bear interest at 6% annually, payable semi-annually. The principal amount of the notes is repayable in two equal installments on March 1, 2011 and 2012. The deferred cash payments will be made upon the expiration of certain indemnity periods. MCL may offset amounts due pursuant to the promissory notes or the deferred cash payment against indemnity claims due from the sellers. In addition, the sellers may be entitled to additional cash payments of up to Cdn \$750,000 should AES attain certain levels of revenues during the 24-month period following the acquisition, as specified in the agreement.

The Company hired an outside consulting firm, The BVA Group L.L.C., to assess the fair value of the assets and liabilities acquired in the AES acquisition in accordance with ASC 805. The fair value of the contingent consideration was determined to be approximately Cdn \$200,000. There were no amounts recognized related to other contingencies. The fair value of the assets and liabilities acquired exceeded the total value of consideration paid, resulting in a bargain purchase. Accordingly, a gain of \$1,304,000 was recorded as of the date of acquisition and no goodwill resulted from the transaction. Management believes that the bargain purchase arose due to the recent decline in the oil and gas service industry and the limited market for seismic equipment businesses. The following is a summary of the amounts recognized for assets acquired and liabilities assumed at the date of acquisition (in thousands):

Working capital	\$ 327
Seismic equipment lease pool	2,990
Deferred taxes	(1,086)
Intangible assets	3,154

Revenue and net loss for AES were \$637,000 and \$(47,000) for the three months ended October 31, 2010, respectively, and \$1,285,000 and \$(142,000) for the eight months ended October 31, 2010, respectively. The operations of AES are included in our Equipment Leasing segment.

### *Pro Forma Results of Operations*

The following consolidated pro forma results of operations for the three months and nine months ended October 31, 2010 and 2009 assumes the acquisition of AES occurred as of the beginning of those periods and reflects the full results of operations for the periods presented. The consolidated pro forma results have been prepared for comparative purposes only and do not purport to indicate the results of operations that would actually have occurred had the combinations been in effect on the dates indicated, or that may occur in the future.

(In thousands, except per share amounts)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2010	2009	2010	2009
Revenues	\$ 19,973	\$ 15,251	\$ 51,789	\$ 40,185
Net income	\$ 727	\$ 1,169	\$ 2,882	\$ 220
Earnings per share:				
Basic	\$ 0.07	\$ 0.12	\$ 0.29	\$ 0.02
Diluted	\$ 0.07	\$ 0.12	\$ 0.28	\$ 0.02

### **5. Restricted Cash**

In connection with certain contracts, SAP has pledged approximately \$687,000 in short-term time deposits as of October 31, 2010 to secure performance obligations under those contracts. The amount of security will be released as the contractual obligations are performed over the remaining terms of the contracts, which is estimated to be approximately three months. As the investment in the short-term time deposits relates to a financing activity, the securing of contract obligations, this transaction is reflected as a financing activity in the accompanying condensed consolidated statements of cash flows.



**6. Balance Sheet**

	<u>October 31,</u> <u>2010</u>	<u>January 31,</u> <u>2010</u>
	(in thousands)	
<b>Accounts receivable:</b>		
Accounts receivable	\$ 17,051	\$ 17,864
Allowance for doubtful accounts	(2,696)	(2,420)
Total accounts receivable, net	<u>\$ 14,355</u>	<u>\$ 15,444</u>
<b>Contracts receivable:</b>		
Contracts receivable	\$ 10,470	\$ 8,093
Valuation allowance	(1,487)	(1,487)
Less current portion of contracts receivable	(3,721)	(2,073)
Long-term portion of contracts receivable, net	<u>\$ 5,262</u>	<u>\$ 4,533</u>

Contracts receivable consisted of \$8,983,000 due from four customers as of October 31, 2010 and \$6,606,000 due from five customers as of January 31, 2010. Long-term contracts receivable, at October 31, 2010 and January 31, 2010, includes approximately \$3,217,000 related to a contract receivable from a customer that has defaulted on this contract. The Company is in the process of repossessing the equipment that was pledged as collateral for the obligation. The carrying value of this account has been reduced to the fair market value of the equipment, less the estimated cost to repossess the equipment. The Company expects to place the equipment recovered in its lease pool of equipment and accordingly has classified this amount as a non-current asset. The balance of contracts receivable at October 31, 2010 and January 31, 2010 consists of contracts bearing interest at an average of approximately 8% per year and with remaining repayment terms from three to 20 months. These contracts are collateralized by the equipment sold and are considered collectable, thus no allowances have been established for them.

	<u>October 31,</u> <u>2010</u>	<u>January 31,</u> <u>2010</u>
	(in thousands)	
<b>Inventories:</b>		
Raw materials	\$ 2,413	\$ 2,695
Finished goods	1,991	2,171
Work in progress	992	1,016
	<u>5,396</u>	<u>5,882</u>
Less allowance for obsolescence	(692)	(683)
Total inventories, net	<u>\$ 4,704</u>	<u>\$ 5,199</u>

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	October 31, 2010	January 31, 2010
	(in thousands)	
<b>Seismic equipment lease pool and property and equipment:</b>		
Seismic equipment lease pool	\$ 175,530	\$ 151,921
Land and buildings	366	366
Furniture and fixtures	6,704	6,305
Autos and trucks	631	526
	<u>183,231</u>	<u>159,118</u>
Accumulated depreciation and amortization	(108,234)	(92,636)
Total seismic equipment lease pool and property and equipment, net	<u>\$ 74,997</u>	<u>\$ 66,482</u>

**7. Goodwill and Other Intangible Assets**

	Weighted Average Life at 10/31/10	October 31, 2010			January 31, 2010		
		Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Amount
Goodwill		<u>\$ 4,320</u>			<u>\$ 4,320</u>		
Proprietary rights	9.7	\$ 3,520	\$ (1,033)	\$ 2,487	\$ 3,516	\$ (838)	\$ 2,678
Customer relationships	7.3	2,356	(196)	2,160	—	—	—
Patents	7.3	710	(59)	651	—	—	—
Trade name	7.3	193	(16)	177	—	—	—
Amortizable intangible assets		<u>\$ 6,779</u>	<u>\$ (1,304)</u>	<u>\$ 5,475</u>	<u>\$ 3,516</u>	<u>\$ (838)</u>	<u>\$ 2,678</u>

As of October 31, 2010, the Company had goodwill of \$4,320,000, all of which was allocated to the Seemap segment. 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 \$164,000 and \$61,000 for the three months ended October 31, 2010 and 2009, respectively and \$459,000 and \$212,000 for the nine months ended October 31, 2010 and 2009, respectively. As of October 31, 2010, future estimated amortization expense related to amortizable intangible assets was estimated to be:

For fiscal years ending January 31 (in thousands):	
2011	\$ 165
2012	661
2013	661
2014	661
2015	661
2016 and thereafter	2,666
Total	<u>\$ 5,475</u>

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### 8. Long-Term Debt and Notes Payable

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

	October 31, 2010	January 31, 2010
Revolving line of credit	\$ 11,100	\$ 15,350
Equipment note	3,637	—
MCL notes	1,528	—
SAP equipment notes	272	478
	<u>16,537</u>	<u>15,828</u>
Less current portion	(3,111)	(93)
Long-term debt	<u>\$ 13,426</u>	<u>\$ 15,735</u>

On July 27, 2010, the Company entered into an amended credit agreement with First Victoria Bank (the “Bank”) that provides for borrowings of up to \$35,000,000 on a revolving basis through May 31, 2012. The Company may, at its option, convert any or all balances outstanding under the revolving credit facility into a series of term notes with monthly amortization over 48 months.

Amounts available for borrowing are determined by a borrowing base. The borrowing base is computed based upon certain outstanding accounts receivable, certain portions of the Company’s lease pool and any lease pool assets that are to be purchased with proceeds from the facility. The revolving credit facility and any term loan are collateralized by essentially all of the Company’s domestic assets. Interest is payable monthly at the prime rate plus 50 basis points, which was 3.75% at October 31, 2010. Up to \$7,000,000 of available borrowings under the revolving facility may be utilized to secure letters of credit. The credit agreement contains certain financial covenants that require, among other things, for the Company to maintain a debt to shareholders’ equity ratio of no more than 0.7 to 1.0, maintain a current assets to current liabilities ratio of not less than 1.25 to 1.0; have quarterly earnings before interest, taxes, depreciation and amortization (“EBITDA”) of not less than \$2,000,000; all with which the Company complied as of October 31, 2010. The credit agreement also provides that the Company may not incur or maintain indebtedness in excess of \$1,000,000 without the prior written consent of the Bank, except for borrowings related to the credit agreement. The Company was in compliance with each of these provisions as of and for the quarter ended October 31, 2010.

In October 2010, the Company entered into a secured promissory note with a supplier in connection with the purchase of certain lease pool equipment. The note is repayable in 18 monthly installments, bears interest at 8% annually and is secured by the equipment purchased. The Company received the consent of the Bank for this transaction, as required by the terms of the revolving line of credit.

In March of 2010, MCL entered into two promissory notes related to the purchase of AES (See footnote 4). The notes bear interest at 6.0% per year and are repayable in two equal installments on March 1, 2011 and 2012.

During the year ended January 31, 2010, SAP entered into two notes payable to finance the purchase of certain equipment. The notes, which are secured by the equipment purchased, bear interest at 7.4% and 7.9% and are due through July 2014 and February 2011, respectively.

### 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 United States dollar exchange rates, which is recorded as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Net income (loss)	\$ 727	\$ 1,026	\$ 2,975	\$ (64)
Gain (loss) from foreign currency translation adjustment	1,048	825	2,046	5,624
Comprehensive income (loss)	<u>\$ 1,775</u>	<u>\$ 1,851</u>	<u>\$ 5,021</u>	<u>\$ 5,560</u>

The gain from foreign currency translation adjustment for the three months ended October 31, 2010 resulted primarily from the increases in the value of the Australian and Singapore dollars versus the United States dollar. The gain from foreign currency translation adjustment for the nine months ended October 31, 2010 resulted primarily from the increase in the value of the Canadian dollar versus the United States dollar during the three months ended April 30, 2010 and the increases in the value of the Australian and Singapore dollars versus the United States dollar for the three months ended October 31, 2010.

## 10. Income Taxes

The Company accounts for income taxes in accordance with authoritative guidance ASC 740 *Income Taxes* ("ASC 740"). 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. Authoritative guidance 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. As required by authoritative guidance included in ASC 740, 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 United States federal jurisdiction and in foreign jurisdictions. The Company is subject to United States federal income tax examinations for all tax years beginning with its fiscal year ended January 31, 2008. In November 2010 the Internal Revenue Service ("IRS") commenced an examination of the Company's United States federal income tax returns for the years ended January 31, 2010 and 2009. The Company is not aware of any proposed adjustments arising from this examination thus far.

The Company is subject to examination by taxing authorities throughout the world, including major foreign jurisdictions such as Australia, Canada, Colombia, Peru, Russia, Singapore, and the United Kingdom. With few exceptions, the Company and its subsidiaries are no longer subject to foreign income tax examinations for tax years before 2002. With respect to ongoing audits, the Company's Canadian income tax returns for the years ended January 31, 2004, 2005 and 2006 have been examined by Canadian tax authorities. Assessments for those years and for the effect of certain matters in subsequent years totaling approximately \$7,400,000 have been issued. The issues involved relate primarily to the deductibility of depreciation charges and whether those deductions should be taken in Canada or in the United States. Accordingly, the Company has filed requests for competent authority assistance with the Canadian Revenue Agency ("CRA") and with the IRS seeking to avoid potential double taxation. In addition, the Company has filed a protest with the CRA and the Province of Alberta. In connection with this protest the Company has been required to make a prepayment of approximately \$2,900,000 against the assessment.

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 effect of any uncertain tax positions for which resolution is reasonably possible within the next twelve months is not material.

Current income taxes payable of \$1,771,000 at October 31, 2010 consists of foreign taxes of \$1,419,000 and domestic taxes of \$352,000. Current income taxes payable of \$1,345,000 at January 31, 2010 consists entirely of foreign taxes.

### 11. Earnings (Loss) per Share

Net income (loss) per basic common share is computed using the weighted average number of common shares outstanding during the period, excluding unvested restricted stock. Net income (loss) per diluted common share is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period using the treasury stock method. Potential common shares result from the assumed exercise of outstanding common stock options having a dilutive effect, from the assumed vesting of phantom stock units, and from the assumed vesting of unvested shares of restricted stock. The following table presents the calculation of basic and diluted weighted average common shares used in the earnings (loss) per share calculation for the three and nine months ended October 31, 2010 and 2009:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Basic weighted average common shares outstanding	9,916	9,805	9,854	9,795
Stock options	268	160	261	122
Unvested restricted stock	19	4	7	8
Phantom stock	—	—	—	4
Total weighted average common share equivalents	287	164	268	134
Diluted weighted average common shares outstanding	10,203	9,969	10,122	9,929

For the nine months ended October 31, 2009, diluted weighted average common shares were anti-dilutive and were therefore not considered in calculating diluted loss per share for that period.

### 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 nine months ended October 31, 2010 was approximately \$171,000 and \$941,000, respectively, and, during the three and nine months ended October 31, 2009 was approximately \$279,000 and \$1,119,000, respectively. During the nine months ended October 31, 2010, 44,500 shares of restricted stock were awarded to employees and non-employee members of the Company's Board of Directors and options to purchase 115,000 shares of common stock were granted to employees and non-employee members of the Company's Board of Directors.

### 13. Segment Reporting

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

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):

	As of October 31, 2010	As of January 31, 2010
	Total assets	Total assets
	(in thousands)	
Equipment Leasing	\$ 111,080	\$ 95,671
Seemap	20,061	20,118
Eliminations	(276)	(392)
Consolidated	\$ 130,865	\$ 115,397

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Results for the three months ended October 31, 2010 and 2009 were as follows:

	Revenues		Operating income		Income before taxes	
	2010	2009	2010	2009	2010	2009
	(in thousands)		(in thousands)		(in thousands)	
Equipment Leasing	\$ 15,724	\$ 10,289	\$ 823	\$ 711	\$ 491	\$ 721
Seamap	4,338	4,360	887	670	576	661
Eliminations	(89)	(119)	36	32	36	32
Consolidated	<u>\$ 19,973</u>	<u>\$ 14,530</u>	<u>\$ 1,746</u>	<u>\$ 1,413</u>	<u>\$ 1,103</u>	<u>\$ 1,414</u>

Results for the nine months ended October 31, 2010 and 2009 were as follows:

	Revenues		Operating income (loss)		Income before taxes	
	2010	2009	2010	2009	2010	2009
	(in thousands)		(in thousands)		(in thousands)	
Equipment Leasing	\$ 34,398	\$ 23,930	\$ (1,373)	\$ (3,920)	\$ (575)	\$ (3,623)
Seamap	17,421	14,215	4,881	3,670	4,467	3,475
Eliminations	(191)	(333)	115	170	115	170
Consolidated	<u>\$ 51,628</u>	<u>\$ 37,812</u>	<u>\$ 3,623</u>	<u>\$ (80)</u>	<u>\$ 4,007</u>	<u>\$ 22</u>

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

**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;
- international and economic instability;
- planned capital expenditures;
- our business strategy and other plans for future operations;
- the future mix of revenues and business;
- our relationship with suppliers;
- our ability to retain customers;
- our liquidity and access to capital;
- the effect of seasonality on our 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;
- the effect of fluctuations in oil and natural gas prices on exploration activities;
- the effect of uncertainty in financial markets on our customers’ and our ability to obtain financing;
- loss of significant customers;
- seasonal fluctuations that can adversely affect our business;
- defaults by customers on amounts due us;
- possible impairment of our long-lived assets;
- inability to obtain funding or to obtain funding under acceptable terms;
- intellectual property claims by third parties;
- risks associated with our manufacturing operations; and
- risks associated with our foreign operations, including 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, 2010 (“2010 Form 10-K”), (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. We caution readers 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.

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

We operate in two segments, equipment leasing ("Equipment Leasing") and equipment manufacturing. Our equipment leasing operations are conducted from our Huntsville, Texas headquarters and from our locations in Calgary, Canada; Brisbane, Australia; Ufa, Russia; Bogota Colombia; and Lima, Peru. Our Equipment Leasing segment includes the operations of our Mitcham Canada, Ltd. ("MCL"), Absolute Equipment Solutions, Inc. ("AES"), Seismic Asia Pacific Pty. Ltd. ("SAP"), and Mitcham Seismic Eurasia LLC ("MSE") subsidiaries and our branch operations in Peru and Colombia. We acquired AES effective March 1, 2010. AES did not have a material effect on our results of operations for the three and nine months ended October 31, 2010. The equipment manufacturing segment is conducted by our Seemap subsidiaries and therefore is referred to as our "Seemap" segment. 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.

The following table presents certain operating information by operating segment.

	For the Three Months Ended October 31,		For the Nine Months Ended October 31,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
<b>Revenues:</b>				
Equipment Leasing	\$ 15,724	\$ 10,289	\$ 34,398	\$ 23,930
Seemap	4,338	4,360	17,421	14,215
Inter-segment sales	(89)	(119)	(191)	(333)
Total revenues	<u>19,973</u>	<u>14,530</u>	<u>\$ 51,628</u>	<u>37,812</u>
<b>Cost of sales:</b>				
Equipment Leasing	12,076	6,254	25,691	18,444
Seemap	2,043	2,262	8,666	6,602
Inter-segment costs	(125)	(151)	(306)	(503)
Total cost of sales	<u>13,994</u>	<u>8,365</u>	<u>34,051</u>	<u>24,543</u>
<b>Gross profit</b>	<u>5,979</u>	<u>6,165</u>	<u>17,577</u>	<u>13,269</u>
<b>Operating expenses:</b>				
General and administrative	3,937	3,809	12,286	11,280
Provision for doubtful accounts	—	730	797	1,379
Depreciation and amortization	296	213	871	690
Total operating expenses	<u>4,233</u>	<u>4,752</u>	<u>13,954</u>	<u>13,349</u>
<b>Operating income (loss)</b>	<u>\$ 1,746</u>	<u>\$ 1,413</u>	<u>\$ 3,623</u>	<u>\$ (80)</u>
<b>EBITDA (1)</b>	\$ 6,809	\$ 6,393	\$ 19,591	\$ 14,237
<b>Adjusted EBITDA (1)</b>	\$ 6,980	\$ 6,672	\$ 20,532	\$ 15,356
<b>Reconciliation of Net income (loss) to EBITDA and Adjusted EBITDA</b>				
Net income (loss)	\$ 727	\$ 1,026	\$ 2,975	\$ (64)
Interest expense, net	90	122	302	303
Depreciation and amortization	5,616	4,857	16,586	13,912
Provision for income taxes	376	388	1,032	86
Gain from bargain purchase	—	—	(1,304)	—
EBITDA (1)	<u>6,809</u>	<u>6,393</u>	<u>19,591</u>	<u>14,237</u>
Stock-based compensation	171	279	941	1,119
Adjusted EBITDA (1)	<u>\$ 6,980</u>	<u>\$ 6,672</u>	<u>\$ 20,532</u>	<u>\$ 15,356</u>

(1) EBITDA is defined as net income (loss) before (a) interest expense, net of interest income, (b) provision for (or benefit from) income taxes (c) depreciation, amortization and impairment and (d) the gain from bargain purchase. Adjusted EBITDA excludes stock-based compensation. We consider EBITDA and Adjusted EBITDA to be important indicators for the performance of our



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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 management utilizes this information for assessing our performance and as indicators of our ability to make capital expenditures, service debt and finance working capital requirements. The covenants of our revolving credit agreement require us to maintain a minimum level of EBITDA. Management believes that EBITDA and Adjusted EBITDA are measurements that are commonly used by analysts and some investors in evaluating the performance of companies such as us. In particular, we believe that it is useful to our analysts and investors to understand this relationship because it excludes transactions not related to our core cash operating activities. We believe that excluding these transactions allows investors to meaningfully trend and analyze the performance of our core cash operations. EBITDA and Adjusted EBITDA are not measures of financial performance under GAAP and should not be considered in isolation or as alternatives to cash flow from operating activities or as alternatives to net income as indicators of operating performance or any other measures of performance derived in accordance with GAAP. In evaluating our performance as measured by EBITDA, management recognizes and considers the limitations of this measurement. EBITDA and Adjusted EBITDA do not reflect our obligations for the payment of income taxes, interest expense or other obligations such as capital expenditures. Accordingly, EBITDA and Adjusted EBITDA are only two of the measurements that management utilizes. Other companies in our industry may calculate EBITDA or Adjusted EBITDA differently than we do and EBITDA and Adjusted EBITDA may not be comparable with similarly titled measures reported by other companies.

In our Equipment Leasing segment, we lease seismic data acquisition equipment primarily to seismic data acquisition companies conducting land, transition zone and marine seismic surveys worldwide. We provide short-term leasing of seismic equipment to meet a customer’s requirements. All active leases at October 31, 2010 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 Seemap segment. These amounts are reflected in the accompanying condensed consolidated financial statements at the cost to our Seemap 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 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 RGPS 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 normally 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.

### ***Business Outlook***

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.

Prior to the turmoil in global financial markets, which arose during 2008, the oil and gas exploration industry enjoyed generally sustained growth for a period of more than four years, fueled primarily by historically high commodity prices for oil and natural gas. We, along with much of the seismic industry, benefited from this growth. These higher prices resulted in increased activity within the oil and gas industry and, in turn, resulted in an increased demand for seismic services. Beginning in approximately October 2008, there was a dramatic decline in oil and gas prices that resulted in a significant reduction in oil and gas exploration activity. Accordingly, beginning in the fourth quarter of fiscal 2009, we began to see a decline in demand for our products and services. This decline was the most dramatic in North America, Russia and the CIS. In North America, we believe the decline resulted

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from the decrease in oil and natural gas prices and from difficulties in the credit markets, which limited the amount of capital available to independent oil and gas exploration companies. In Russia and the CIS, we think the decline in global oil prices and the devaluation of the ruble had a dramatic negative effect on the economics of oil and gas exploration and production operations. Furthermore, the global financial crisis had a material adverse effect on the liquidity available to these companies in Russia and the CIS. During this period, there were some areas where oil and gas exploration activities continued. We believe that this continued activity was largely driven by the super major oil and gas companies and by national oil companies.

In recent months, there has been a recovery in global crude oil prices and, to a much lesser extent, North American natural gas prices. As a result of this, we have seen an increase in activity in areas such as Russia, Southeast Asia and South America. However, activity in North America has not recovered to the same degree. There are continued indications of improving business conditions in the seismic services industry, including recently some related to North America. The majority of activity in the United States is taking place within various so called "shale plays". These indications include increased bid activity in our business and higher activity reported by certain seismic contractors. However, the magnitude and breadth of this recovery is uncertain. Uncertainty about the breadth and sustainability of the global economic recovery, we believe, contributes to this unsettled situation in the energy industry.

In April 2010, there was a fire and explosion aboard the Deepwater Horizon drilling platform operated by BP in ultra-deep water in the Gulf of Mexico. As a result of the explosion, ensuing fire and apparent failure of the blowout preventers, the rig sank and created a catastrophic oil spill that produced widespread economic, environmental and natural resource damage in the Gulf Coast region. In response to the explosion and spill, the Bureau of Ocean Energy Management, Regulation and Enforcement (the "BOEMRE," formerly the Minerals Management Service) of the U.S. Department of the Interior issued a "Notice to Lessees", or "NTL", on May 30, 2010, and a revised notice on July 12, 2010, implementing a moratorium on deepwater drilling activities that effectively halted deepwater drilling of wells using subsea blowout preventers ("BOPs") or surface BOPs on a floating facility. While the moratorium was in place, the BOEMRE issued a series of NTLs and adopted changes to its regulations to impose a variety of new safety and operating measures intended to help prevent a similar disaster in the future. The moratorium was lifted on October 12, 2010, but offshore operators must now comply with strict new safety and operating requirements. For example, before being allowed to resume drilling in deepwater, outer continental shelf operators must certify compliance with all applicable operating regulations found in 30 C.F.R. Part 250, including those rules recently placed into effect, such as rules relating to well casing and cementing, BOPs, safety certification, emergency response, and worker training. Operators also must demonstrate the availability of adequate spill response and blowout containment resources. This oil spill and the regulatory actions taken by BOEMRE in response to the incident have had an adverse effect on seismic exploration programs in the affected areas. Notwithstanding the lifting of the moratorium, we anticipate that there will continue to be delays in the resumption of drilling-related activities in deepwater, including delays in the issuance of drilling permits, as these various regulatory initiatives are fully implemented. These new requirements also have slowed the issuance of permits for new wells in shallow waters that were not subject to the moratorium.

In addition to the new requirements recently imposed by the BOEMRE, there have been a variety of proposals to change existing laws and regulations that could adversely affect drilling operations and cause operators to incur increased costs. Implementation of any one or more of the various proposed changes could materially adversely affect operations in the Gulf of Mexico by raising operating costs, increasing insurance premiums, delaying drilling operations and increasing regulatory burdens, and, further, could lead to a wide variety of other unforeseeable consequences that make operations in the Gulf of Mexico and other offshore waters more difficult, more time consuming, and more costly. For example, Congress has actively considered a variety of amendments to the Oil Pollution Act of 1990, or "OPA", in response to the Deepwater Horizon incident. The proposed amendments to OPA could significantly increase the costs of drilling and operating wells in offshore waters and thereby reduce the level of exploration and production activities on the outer continental shelf. Any increase in the cost of operations in offshore waters and any decrease in offshore exploration and production activity could have a material adverse effect on the operation of the offshore exploration and development industry, which could have an adverse effect on our business, financial position and results of operation. While we have provided equipment for some marine seismic surveys in the Gulf of Mexico and these surveys have been delayed or cancelled, we do not expect the impact of these actions to be adversely material to us.

Due to the factors discussed above, the current outlook for our business remains uncertain. However, the geographic breadth of our operations and our expansive lease pool of equipment, as well as our generally stable financial position and our \$35.0 million credit line position us, we believe, to address any downturn in the seismic industry for the foreseeable future.

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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. The ability of our customers to build or re-fit vessels is dependant in part on their ability to obtain appropriate financing. Our Seemap business in fiscal 2010 benefited from orders we received in late fiscal 2009 for our GunLink and BuoyLink products. Although there was a decline in marine seismic activity during fiscal 2010, there have been recent indications of a rebound in such activity. Many marine contractors have retired older vessels and, therefore, decreased the total capacity within the marine seismic industry. However, there are indications that many of these contractors are seeking to upgrade technology in order to operate more efficiently. There have also been announcements recently of intentions by some contractors to add new-build vessels to their fleets. Certain of our existing and potential customers have continued to express interest in our GunLink and BuoyLink products. Some of this interest involves the upgrade of exiting GunLink and BuoyLink products to newer versions or systems with greater functionality.

During fiscal 2009 and 2008, we 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 fiscal 2009 and 2008, we added approximately \$34.9 million and \$26.0 million, respectively, of equipment to our lease pool. During fiscal 2010, we added approximately \$19.6 million of new lease pool equipment, despite the decline in demand for equipment during this period. Although we experienced an overall decline in demand, there was an increase in demand for certain types of equipment, such as downhole seismic tools and three-component digital sensors. We responded to this demand by acquiring more of this equipment, as well as other equipment for which we had specific demand or anticipated demand in the near future. In the nine months ended October 31, 2010, we added approximately \$20.7 million of new lease pool equipment. Due to recent indications of increased demand, particularly for certain types of equipment, we have increased our planned expenditures for new lease pool equipment for the current fiscal year. We now expect to add between \$26 million and \$28 million of new equipment to our lease pool in the fiscal year ending January 31, 2011.

In the past few years, we have expanded our lease pool by acquiring different types of equipment or equipment that can be used in different types of seismic applications. For example, we added a variety of marine seismic equipment to our lease pool and have purchased downhole seismic equipment that can be utilized in a wide array of applications, some of which are not related to oil and gas exploration. These applications include 3-D surface seismic surveys, well and reservoir monitoring, analysis of fluid treatments of oil and gas wells and underground storage monitoring. We recently have added new cable free recording technology to our lease pool of ground recording equipment. In the future we may seek to further expand the breadth of our lease pool, which could increase the amount we expend on the acquisition of lease pool equipment.

We also have expanded the geographic breadth of our operations by acquiring or establishing operating facilities in new locations. Most recently, in fiscal 2010, we established branch operations in Peru and in Colombia. We may seek to expand our operations in to additional locations in the future either through establishing "green field" operations or by acquiring existing operations. However, we do not currently have any specific plans to establish any such operations.

A significant portion of our revenues are generated from foreign sources. For the three months ended October 31, 2010 and 2009, revenues from international customers totaled approximately \$15.9 million and \$9.2 million, respectively, representing 80% and 63% of consolidated revenues in those periods, respectively. For the nine months ended October 31, 2010 and 2009, revenues from international customers totaled approximately \$43.8 million and \$27.6 million, respectively, representing 85% and 73% of consolidated revenues in those periods, respectively. The majority of our transactions with foreign customers are denominated in United States, Australian, Canadian and Singapore dollars and Russian rubles. We have not entered, nor do we intend to enter, into derivative financial instruments for hedging or speculative purposes. We do not believe that entering into derivative instruments for hedging purposes would be cost effective.

Our revenues and results of operations have not been materially impacted by inflation or changing prices in the three and nine month periods ending October 31, 2010 and 2009, except as described above.

### ***Results of Operations***

Revenues for the three-month periods ended October 31, 2010 and 2009 were approximately \$20.0 million and \$14.5 million, respectively. The increase was due to an increase in other equipment sales. Revenues for the nine-month periods ended October 31, 2010 and 2009 were approximately \$51.6 million and \$37.8 million, respectively. The increase was due primarily to increased leasing revenues, higher other Seemap sales and higher other equipment sales. In the three months ended October 31, 2009, leasing revenues included the impact of an unusually large contract in the United States. As discussed more fully below, this single contract has a material impact on the comparison between the three months ended October 31, 2010 and 2009. During the nine months

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ended October 31, 2010, leasing revenues began to recover from the lower levels experienced in the prior year as explained in more detail below. For the three months ended October 31, 2010, we generated operating income of approximately \$1.7 million as compared to approximately \$1.4 million for the three months ended October 31, 2009. For the nine months ended October 31, 2010, we generated operating income of approximately \$3.6 million, as compared to an operating loss of approximately \$80,000 in the nine months ended October 31, 2009. The increase in operating profit was due primarily to the increase in revenues. A more detailed explanation of these variations follows.

### **Revenues and Cost of Sales**

#### *Equipment Leasing*

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2010	2009	2010	2009
	(\$ in thousands)		(\$ in thousands)	
<b>Revenue:</b>				
Equipment leasing	\$ 8,074	\$ 9,037	\$ 24,133	\$ 20,165
Lease pool equipment sales	976	808	1,498	978
New seismic equipment sales	5,156	19	5,451	46
SAP equipment sales	1,518	425	3,316	2,741
	<u>15,724</u>	<u>10,289</u>	<u>34,398</u>	<u>23,930</u>
<b>Cost of sales:</b>				
Lease pool depreciation	5,327	4,657	15,674	13,266
Direct costs-equipment leasing	895	748	2,485	2,201
Cost of lease pool equipment sales	385	473	634	570
Cost of new seismic equipment sales	4,188	43	4,271	62
Cost of SAP equipment sales	1,281	333	2,627	2,345
	<u>12,076</u>	<u>6,254</u>	<u>25,691</u>	<u>18,444</u>
<b>Gross profit (loss)</b>	<u>\$ 3,648</u>	<u>\$ 4,035</u>	<u>\$ 8,707</u>	<u>\$ 5,486</u>
<b>Gross profit %</b>	23%	39%	25%	23%

Equipment leasing revenues declined approximately 11% in the third quarter of fiscal 2011 from the third quarter of fiscal 2010. As indicated above, in the third quarter of fiscal 2010 leasing revenues included the amounts related to an unusually large contract in the United States. This single contract contributed approximately \$3.9 million in leasing revenues, which is an unusually large amount for a single contract within a three-month period. Had the third quarter of fiscal 2010 not included the effect of this contract, leasing revenues would have increased approximately 57% in the third quarter of fiscal 2011 as compared to the third quarter of fiscal 2010. This increase can be attributed to increased leasing demand in areas such as South America, Southeast Asia, Europe and the Middle East. Leasing revenues increased approximately 20% in the first nine months of fiscal 2011 from the first nine months of fiscal 2010, despite the effect of the contract discussed above. The increases resulted from increased demand in certain geographic regions, specifically Russia, Southeast Asia, Europe and South America.

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 tend to occur sporadically and are difficult to predict. Sales of lease pool equipment in the third quarters and the first nine months of fiscal 2011 and 2010 are not considered necessarily indicative of a trend for such transactions. Often, the equipment that is sold from our lease pool has been in service, and therefore depreciated, for some period of time. Accordingly, the equipment sold may have a relatively low net book value at the time of the sale, resulting in a relatively high gross margin from the transaction. The amount of the margin on a particular transaction varies greatly based primarily upon the age of the equipment. For the three months ended October 31, 2010 and 2009 sales of lease pool equipment generated gross profit of approximately \$591,000 and \$335,000, respectively. For the nine months ended October 31, 2010 and 2009 sales of lease pool equipment generated gross profit of approximately \$864,000 and \$408,000, respectively.

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Periodically, we 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. In the third quarter of fiscal 2011, we sold approximately \$4.8 million of new seismic equipment in a single transaction to a new customer in Europe. This transaction may be indicative of an overall increase in demand for seismic equipment, in general, and in Europe, in particular, both for purchase and for rental. However, there can be no assurance that such demand will develop or that if it does develop that it will materially impact our results of operations. For the three and nine months ended October 31, 2010, sales of new seismic equipment generated gross profit of approximately \$968,000 and \$1.2 million, respectively. For the comparable periods in the prior fiscal year, the gross profit from the sale of new seismic equipment was not material.

SAP regularly sells new hydrographic and oceanographic equipment and provides system integration services to customers in Australia and throughout the Pacific Rim. For the third quarter ended October 31, 2010, SAP generated a gross profit of approximately \$237,000 from these transactions as compared to approximately \$92,000 in the fiscal quarter ended October 31, 2009. For the nine months ended October 31, 2010, the gross profit from SAP equipment sales amounted to approximately \$689,000, as compared to approximately \$396,000 in the nine months ended October 31, 2009. The increase in this business resulted from renewed demand from various governmental entities in the Pacific Rim. In May 2008, SAP entered into a contract with the Royal Australian Navy to provide certain equipment to the Republic of the Philippines. We accounted for this contract using the percentage of completion method. In October 2010, this contract was completed and in the three months ended October 31, 2010, we recognized revenues of approximately \$520,000 and gross profit of approximately \$60,000 related to this contract. In the three months ended October 31, 2009, we did not recognize any revenues or costs related to this contract. In the nine months ended October 31, 2009, we recognized approximately \$1.0 million in revenues related to this contract. The sales of hydrographic and oceanographic equipment by SAP are generally not related to oil and gas exploration activities and are often made to governmental entities. Accordingly, these sales are not impacted by global economic and financial issues to the same degree as are other parts of our business.

Direct costs related to equipment leasing for the three months ended October 31, 2010 increased approximately 20% over the same period in the prior year. In the nine months ended October 31, 2010, direct costs increased approximately 13% over the same period one year ago. These increases are attributable to the generally higher leasing activity in the fiscal 2011 periods as compared to the previous fiscal year periods.

For the three months ended October 31, 2010, lease pool depreciation increased approximately 14% over the three months ended October 31, 2009. For the nine months ended October 31, 2010, lease pool depreciation increased approximately 18% over the nine months ended October 31, 2009. The increase in lease pool depreciation results from the additions we made to our lease pool in fiscal 2010 and to date in fiscal 2011. When newly acquired lease pool equipment is placed in service (first deployed on a rental contract) we begin to depreciate that equipment on a straight-line basis over estimated depreciable lives ranging from three to seven years. Therefore, in periods of lower equipment utilization, we experience depreciation expense that is disproportionate to our equipment leasing revenues.

Overall, our Equipment Leasing segment generated a gross profit of approximately \$3.6 million in the third quarter of fiscal 2011 as compared to approximately \$4.0 million in the third quarter of fiscal 2010. This decline in gross profit is attributable to the lower leasing revenues and higher depreciation expense in the fiscal 2011 period. In the first nine months of fiscal 2011, the Equipment Leasing segment generated a gross profit of approximately \$8.7 million as compared to approximately \$5.5 million in the first nine months of fiscal 2010. This increase is attributable primarily to the increase in leasing revenues in the fiscal 2011 period.

### *Seamap*

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2010	2009	2010	2009
	(\$ in thousands)		(\$ in thousands)	
Equipment sales	\$ 4,338	\$ 4,360	\$ 17,421	\$ 14,215
Cost of equipment sales	2,043	2,262	8,666	6,602
Gross profit	<u>\$ 2,295</u>	<u>\$ 2,098</u>	<u>\$ 8,755</u>	<u>\$ 7,613</u>
Gross profit %	53%	48%	50%	54%

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The sale of Seemap 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 October 31, 2010, Seemap's revenues consisted primarily of sales of miscellaneous products, spare parts sales and repair and support services as we did not ship any major GunLink or BuoyLink systems during that period. During the three months ended October 31, 2009, we shipped one GunLink 4000 system and certain other equipment, and provided on-going support and repair services, as well as spare parts sales. In the nine months ended October 31, 2010, we shipped a total of four GunLink 4000 systems, versus three such systems for the comparable period in the prior year. As our installed base of GunLink and BuoyLink systems increases, we expect revenues from parts sales, repairs and support services to increase. Changes in product prices did not contribute materially to the difference in sales between the fiscal 2011 and fiscal 2010 periods.

The gross profit from the sale of Seemap equipment for the three months ended October 31, 2010 was higher than that for the three months ended October 31, 2009 due to changes in product mix. For the nine months ended October 31, 2010, the gross profit margin decreased from the comparable period in the prior year due to certain volume discounts given during the three months ended April 30, 2010.

### ***Operating Expenses***

General and administrative expenses for the quarter ended October 31, 2010 were approximately \$3.9 million, compared to approximately \$3.8 million for the quarter ended October 31, 2009. For the nine months ended October 31, 2010, general and administrative expenses were approximately \$12.3 million, compared to approximately \$11.3 million in the nine months ended October 31, 2009. The increase results primarily from a reduction in the absorption of overhead costs and higher incentive compensation expenses in fiscal 2011. Under SAP's contract with the Royal Australian Navy discussed above, certain general and administrative costs were charged to the contract and reimbursed through contract billings. As essentially all contract activities had been completed, there were no such costs charged to the contract during the three or nine months ended October 31, 2010.

In the nine months ended October 31, 2010, we recorded a provision for doubtful accounts of approximately \$797,000, related almost exclusively to one customer located in the CIS. This customer had been complying with a specific negotiated repayment schedule. However, in the three months ended October 31, 2010, the customer failed to make the agreed upon payments. While we are continuing efforts to collect these amounts, further discussions with this customer lead us to believe that it is unlikely that it will be able to make additional payments in the foreseeable future. Accordingly, we have provided a provision against all amounts due from this customer. In the three and nine months ended October 31, 2009, we recorded provisions for doubtful accounts related to two customers who filed for bankruptcy during that period and related to a sales customer who defaulted under a deferred payment contract and for which we have been required to repossess the equipment that we had sold to that customer.

### ***Other Income (Expense)***

We completed the acquisition of AES on March 1, 2010. The fair value of the assets and liabilities we acquired, as determined by a third-party appraisal, exceeded the total consideration we paid by approximately \$1.3 million. Accordingly, pursuant to the provisions of the Financial Accounting Standards Board Accounting Standards Codification 805 Business Combinations, we recorded a gain from the bargain purchase as of the acquisition date.

Net interest expense for the three months ended October 31, 2010 amounted to approximately \$90,000, consisting of interest expense related to our revolving credit agreement of approximately \$131,000 offset by interest income of approximately \$41,000. For the nine months ended October 31, 2010, net interest expense was approximately \$302,000, consisting of interest expense of approximately \$470,000 offset by interest income of approximately \$168,000. Net interest expense for the three months ended October 31, 2009 amounted to approximately \$122,000, consisting of interest expense related to our revolving credit agreement of approximately \$148,000 offset by interest income of approximately \$26,000. For the nine months ended October 31, 2009, net interest expense was approximately \$303,000, consisting of interest expense of approximately \$461,000 offset by interest income of approximately \$158,000. Interest income is derived from the temporary investment of cash balances and from finance charges related to equipment sales transactions with deferred payment provisions.

Other expenses of approximately \$553,000 for the three months ended October 31, 2010 and other income of \$123,000 for the three months ended October 31, 2009 relate primarily to foreign exchange losses and gains incurred by our foreign subsidiaries. These losses and gains relate primarily to changes in the local functional currency balances of accounts receivable denominated in United States dollars. These changes occur as the value of the United States dollar versus the local currency fluctuates. For the nine months ended October 31, 2010, these

changes resulted in a net exchange loss of approximately \$618,000 and for the nine months ended October 31, 2009 in a gain of approximately \$405,000.

#### ***Provision for Income Taxes***

Our tax provision for the three months ended October 31, 2010 was approximately \$376,000, which indicates an effective tax rate of approximately 34%, which is comparable to the United States statutory rate. For the nine months ended October 31, 2010, our tax provision amounted to approximately \$1.0 million, which indicates an effective tax rate of approximately 26%. The gain from the bargain purchase is not taxable and therefore reduced our effective tax rate for the period. Absent the effect of this item, our effective tax rate for the nine months ended October 31, 2010 would have been approximately 38%. This rate is higher than the United States statutory rate of 34% due primarily to estimated potential penalties and interest arising from uncertain tax positions. For the three months ended October 31, 2009, we had a tax provision of approximately \$388,000, which indicates an effective tax rate of approximately 27%. This rate reflects the effect of foreign taxes that are at a lower rate than the United States statutory rate of 34%. For the nine months ended October 31, 2009, we had a tax provision of approximately \$86,000 despite a loss before income taxes. This results from the effect of estimated potential interest and penalties arising from uncertain tax positions. Pursuant to accounting standards, we have estimated and recorded the potential effect on our liabilities for income taxes should specific uncertain tax positions be resolved not in our favor. We are further required to estimate and record potential penalties and interest that could arise from these positions.

Our Canadian income tax returns for the fiscal years ended January 31, 2004, 2005 and 2006 have been examined by the Canadian Revenue Agency (“CRA”). CRA has assessed additional taxes for those years and for subsequent years as a result of that audit. We have protested certain aspects of the assessments. In addition, because the issues raised in these audits potentially impact our United States federal tax returns, we are seeking resolution of these matters through the competent authority process under the United States — Canadian tax treaties. We believe that we have adequately provided for the probable outcome of these matters in our financial statements. Accordingly, we do not believe the ultimate resolution of these matters will have a negative effect on our financial position or results of operations. In November 2010, the Internal Revenue Service instigated an examination of our United States federal income tax returns for the years ended January 31, 2010 and 2009. Due to the preliminary status of these examinations we are unable to estimate their effect, if any, on our tax provision.

#### **Liquidity and Capital Resources**

As of October 31, 2010, we had working capital of approximately \$15.5 million, including cash and cash equivalents and restricted cash of approximately \$10.2 million, as compared to working capital of approximately \$23.2 million including cash and cash equivalents and restricted cash of approximately \$6.7 million at January 31, 2010. Our working capital decreased during the nine months ended October 31, 2010 primarily due to purchases of leasepool equipment and repayments of borrowings under our revolving credit agreement.

Net cash provided by operating activities was approximately \$20.3 million in the first nine months of fiscal 2011 as compared to approximately \$13.6 million in the same nine months in fiscal 2010. This increase resulted primarily from the increase in net income in the fiscal 2011 period and the effect of higher non-cash depreciation expenses in the fiscal 2011 period.

Net cash flows used in investing activities for the nine months ended October 31, 2010 included purchases of seismic equipment held for lease totaling approximately \$16.0 million. There were approximately \$9.6 million in accounts payable at October 31, 2010 related to lease pool purchases. At January 31, 2010, there was approximately \$4.9 million in accounts payable related to lease pool purchases. Accordingly, additions to our lease pool amounted to approximately \$20.7 million in the first nine months of fiscal 2011, as compared to approximately \$11.4 million in the first nine months of fiscal 2010. Due to what we believe are indications of increasing demand for our equipment, we have increased our intended purchase of lease pool equipment for fiscal 2011. We now expect such purchases to amount to between \$26.0 million and \$28.0 million in the fiscal year ending January 31, 2011. As of October 31, 2010, we had outstanding commitments for the purchase of approximately \$5.2 million of lease pool equipment.

In the first nine months of fiscal 2011, proceeds from the sale of lease pool equipment amounted to approximately \$1.5 million. We generally do not seek to sell our lease pool equipment, but may do so from time to time. In particular, we may sell lease pool equipment in response to specific demand from customers if the selling price exceeds the estimated present value of projected future leasing revenue from that equipment.

Net cash used in financing activities was approximately \$0.5 million in the first nine months of fiscal 2011 compared to net cash provided by financing activities of approximately \$6.2 million in the same nine month period

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in fiscal 2010. During the nine months ended October 31, 2010, we made net repayment of approximately \$4.2 million under our revolving credit agreement. In July 2010, we entered into an amended million revolving credit agreement with First Victoria National Bank (the "Bank"), which provides for borrowing of up to \$35.0 million. 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 \$35.0 million of borrowings under the facility were available to us, less amounts currently outstanding as described below. The revolving credit facility matures on May 31, 2012. However, at any time prior to maturity, we can convert any or all outstanding balances into a series of 48-month notes. Amounts converted into these notes are due in 48 equal monthly installments. The agreement also provides that up to \$7.0 million of the available borrowing may be used to secure letters of credit. The revolving credit facility is secured by essentially all of our domestic assets. Interest is payable monthly at the prime rate plus 50 basis points. The revolving credit agreement contains certain financial covenants that require us, among other things, to maintain a debt to shareholders' equity ratio of no more than 0.7 to 1.0, maintain a current assets to current liabilities ratio of not less than 1.25 to 1.0 and produce quarterly earnings before interest, taxes, depreciation and amortization ("EBITDA") of not less than \$2.0 million.

As indicated by the following chart, we were in compliance with all financial covenants as of October 31, 2010:

<b>Description of Financial Covenant</b>	<b>Required Amount</b>	<b>Actual as of October 31, 2010 or for the period then ended</b>
Ratio of debt to shareholder's equity	Not more than 0.7:1.0	0.18:1.0
Ratio of current assets to current liabilities	Not less than 1.25:1.0	1.69:1.0
Quarterly EBITDA	Not less than \$2.0 million	\$6.8 million

The revolving 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 revolving credit agreement. As of December 3, 2010, we had approximately \$22.3 million outstanding under this revolving credit agreement and \$2.0 million committed to secure letters of credit.

In October 2010, in connection with the purchase of certain lease pool equipment, we entered into a secured promissory note with a supplier in the amount of approximately \$3.6 million. The note is repayable in 18 monthly installments, bears interest at 8% annually and is secured by the equipment purchased. Pursuant to the terms of our revolving bank credit agreement we sought and received the consent of the bank for this transaction.

We believe that the working capital requirements, contractual obligations and expected capital expenditures discussed above, as well as our other liquidity needs for the next twelve months, 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 October 31, 2010, we had deposits in foreign banks consisting of both United States dollar and foreign currency deposits equal to approximately \$11.6 million. These funds may generally be transferred to our accounts in the United States without restriction. However, the transfer of these funds may result in withholding taxes payable to foreign taxing authorities. Any such withholding taxes generally may be credited against our federal income tax obligations in the United States. 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 gives rise to risk from changes in foreign exchange rates. To the extent possible, we attempt to denominate our transactions in foreign locations in United States dollars. For those cases in which transactions are not denominated in United States dollars, we are exposed to risk from changes in exchange rates to the extent that non-United States dollar revenues exceed non-United States dollar expenses related to those operations. Our non-United States dollar transactions are denominated primarily in Canadian dollars, Australian dollars, Singapore dollars and Russian rubles. As a result of these transactions, we generally hold cash balances that are denominated in these foreign currencies. At October 31, 2010, our consolidated cash and cash equivalents included foreign currency denominated amounts equivalent to approximately \$3.1 million in United States dollars. A 10% increase in the value of the United States dollar as compared to the value of each of these currencies would result in a loss of approximately \$0.3 million in the United States dollar value of these deposits, while a 10% decrease would result in an equal amount of gain. We do not currently hold or issue foreign exchange contracts or other derivative instruments as we do not believe it is cost efficient to attempt to hedge these exposures.

Some of our foreign operations are conducted through wholly-owned foreign subsidiaries that have functional currencies other than the United States dollar. We currently have subsidiaries whose functional currencies are the Canadian dollar, British pound sterling, Australian dollar, Russian ruble and the Singapore dollar. Assets and liabilities from these subsidiaries are translated into United States dollars at the exchange rate in effect at each balance sheet date. The resulting translation gains or losses are reflected as accumulated other comprehensive income (loss) in the shareholders' equity section of our consolidated balance sheets. Approximately 59% of our net assets are impacted by changes in foreign currencies in relation to the United States dollar.

***Interest Rate Risk***

As of October 31, 2010 there was approximately \$11.1 million outstanding under our revolving credit agreement. This agreement contains a floating interest rate based on the prime rate plus 50 basis points, which was 3.75% as of October 31, 2010. Assuming the outstanding balance remains unchanged, a change of 100 basis points in the prime rate would result in an increase in annual interest expense of approximately \$111,000. We have not entered into interest rate hedging arrangements in the past, and have no plans to do so. Do to fluctuating balances in the amount outstanding under this debt agreement we do not believe such arrangements to be cost effective.

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of October 31, 2010 at the reasonable assurance level.

***Changes in Internal Control over Financial Reporting***

There was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended October 31, 2010 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 legal proceedings, individually or collectively, 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, 2010 have not materially changed.

Our business, results of operations and financial position are subject to a number of risks. 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, 2010, 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) Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. (Removed and Reserved)**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

*Exhibits*

The exhibits required to be filed pursuant to the requirements of Item 601 of Regulation S-K are set forth in the Exhibit Index accompanying this Form 10-Q and are incorporated herein by reference.

**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: December 8, 2010

/s/ Robert P. Capps

Robert P. Capps

Executive Vice President-Finance and Chief Financial Officer

(Duly Authorized Officer and Chief Accounting Officer)

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Each exhibit identified below is part of this Form 10-Q. Exhibits filed (or furnished in the case of Exhibit 32.1) with this Form 10-Q are designated by the cross symbol (†). All exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

<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	Third Amended and Restated Bylaws of Mitcham Industries, Inc.	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on August 2, 2010.	000-25142	3.1(i)
10.1†	Secured Promissory Note dated October 15, 2010			
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			

## SECURED PROMISSORY NOTE

**\$4,847,927.25****Houston, Texas****October 15, 2010**

Please note this amount is not the total for sales order EQL1475. It represents the amount invoiced on September 23, 2010

FOR VALUE RECEIVED, the undersigned, **MITCHAM INDUSTRIES**, an entity organized under the laws of Texas (hereinafter called "Maker", whether one or more), jointly and severally, promises to pay to the order of **SERCEL, INC.**, an Oklahoma corporation (hereinafter called "Payee", which term shall herein in every instance refer to any owner or holder of this Note), the sum of Four Million Eight Hundred Forty Seven Thousands Nine Hundred Twenty Seven United States Dollars and Twenty Five United States Cents, \$4,847,927.25, together with interest on the principal hereof from time to time outstanding from the date hereof until maturity at the per annum rate hereinafter stated, said principal and interest being payable in lawful money of the United States of America at the offices of 17200 Park Row, Houston, Harris County, Texas 77084, or at such other place which Payee may hereafter designate in writing.

The unpaid principal amount from time to time outstanding on this Note shall bear interest during each day of the term of the loan evidenced hereby at a fixed per annum rate of eight percent (8%) per annum. The interest rate applicable to the unpaid principal amount from time to time outstanding on this Note, whether prior to or following maturity, is referred to herein as the "Agreed Rate". After maturity (whether by acceleration in the event of default or otherwise), all amounts outstanding hereunder shall bear interest at the Highest Lawful Rate (as such term is hereinafter defined).

Interest on this Note shall be calculated on a per annum basis of 365 days;

All sums paid hereon (whether regularly scheduled payment or prepayment) shall be applied first to the satisfaction of accrued unpaid interest and the remainder, if any, to the reduction of the principal balance hereof.

This Note is due and payable as follows: a down payment of One Million Two Hundred Ten Thousand Six Hundred Seventy Two United States Dollars and Twenty Five United States Cents, \$1,210,672.25 is due at time of signing this note. The remaining balance to be paid in eighteen (18) monthly installments of principal and interest that is defined in the Attached Payment Schedule, Appendix A, the first such installment being due and payable on or before November 15, 2010, and continuing regularly thereafter on the 15th day of each month thereafter through and including April 30, 2012, at which time the entire remaining outstanding principal balance of this Note and all unpaid accrued interest, if not sooner paid, shall be due and payable in full.

Maker shall have the privilege to prepay this Note at any time, and from time to time, in whole or in part, without penalty or fee. All such partial prepayments applied against the principal under this Note shall be applied in the inverse order of maturity. Any

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prepayment of principal under this Note shall include accrued interest to the date of prepayment on the principal amount being prepaid.

In the case of an Event of Default (as defined below), then Payee shall have the option, to the extent permitted by applicable law, to declare this Note due and payable (unless, as provided below, an Event of Default occurs which causes this Note to be automatically due and payable, upon which no declaration shall be required), whereupon the entire unpaid principal balance of this Note and all accrued unpaid interest thereon shall thereupon at once mature and become due and payable without presentment, demand, protest or notice of any kind (including, but not limited to, notice of intention to accelerate or notice of acceleration), all of which are hereby expressly waived by Maker.

The occurrence of any one or more of the following events with regard to Maker shall constitute an Event of Default hereunder:

- (A) Maker shall fail to pay, for a period longer than three (3) days after when due, any installment of principal or interest hereunder or under any other instrument or agreement between Maker and Payee;
- (B) Maker shall fail to perform any of the obligations, covenants or agreements legally imposed by the terms of this Note or any instrument securing its payment or any of the obligations, covenants or agreements legally imposed by the terms of any other instrument or agreement between Maker and Payee, including the Security Agreement (as defined below), which is not cured within ten (10) days after Maker receives written notice from Payee;
- (C) Maker shall breach any representation and warranty made under this Note or under the Security Agreement (as defined below) ;
- (D) Maker shall be merged with any entity when Maker is not the surviving company or all or part of its assets or businesses are transferred to any third party.
- (E) Maker shall admit its inability to pay its debts as they mature or shall make any assignment for the benefit of itself or any of its creditors;
- (E) Maker or any guarantor hereof shall default in the payment of any other indebtedness Maker or any guarantor hereof owes to Payee or default in the performance of any obligation set forth in any instrument securing the payment of any other indebtedness Maker or such guarantor owes to Payee;
- (F) A receiver or trustee shall be appointed for the Maker or for any substantial part of its assets, or any proceedings shall be instituted for the dissolution or the full or partial liquidation of the Maker and, except with respect to any such appointments requested or instituted by Maker, such receiver or trustee shall not be discharged within thirty (30) days of his appointment, and, except with respect to any such proceedings instituted by Maker, such

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proceedings shall not be discharged within thirty (30) days of their commencement, or Maker shall discontinue business or materially change the nature of its business; or

- (G) A creditor of Maker shall file or commence any levy of attachment, execution or other similar process against assets of Maker valued in excess of \$25,000 which potential loss is not covered by insurance or which proceeding is not being contested in good faith by Maker, or obtain possession of any of the Collateral (as defined in the Security Agreement) by any means, including (without implied limitation) levy, distraint, replevin, or self-help.

Following the occurrence of any Event of Default, the Payee at its option, may declare the entire principal balance and accrued interest owing hereon at once and immediately due and payable on demand and the entire unpaid principal amount owed hereunder, all interests accrued thereon and all other obligations of the Maker shall automatically become due and payable without further action of any kind. Failure to exercise this option shall not constitute a waiver of the right to exercise the same in the event of a subsequent default. The occurrence of events mentioned in points D to G inclusive shall cause this Note to be automatically accelerated and to be due and payable in its entirety without any other declaration.

It is the intention of the parties hereto to conform strictly to applicable usury laws as in effect from time to time during the term of this Note. Accordingly, it is agreed that, notwithstanding any provision of this Note to the contrary, if any transaction or transactions contemplated hereby would be usurious under applicable law (including the laws of the United States of America, or of any other jurisdiction whose laws may be mandatory), then, in that event, notwithstanding anything to the contrary in this Note, or any agreement entered into in connection with this Note, it is agreed as follows: (i) the provisions of this paragraph shall govern and control; (ii) the aggregate of all interest under applicable law that is contracted for, charged or received under this Note shall under no circumstances exceed the maximum amount of interest allowed by applicable law, and any excess shall be promptly credited to Maker by Payee (or, if such consideration shall have been paid in full, such excess shall be promptly refunded to Maker by Payee); (iii) neither Maker nor any other person or entity now or hereafter liable in connection with this Note shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum interest permitted by the applicable usury laws; and (iv) the effective rate of interest shall be ipso facto reduced to the Highest Lawful Rate. All sums paid, or agreed to be paid, to Payee for the use, forbearance and detention of the indebtedness of Maker to Payee shall, to the extent permitted by applicable law, be amortized, pro rated, allocated and spread throughout the full term of the indebtedness described in this Note, until payment in full so that the actual rate of interest does not exceed the Highest Lawful Rate in effect at any particular time during the full term thereof. The maximum lawful interest rate, if any, referred to in this paragraph that may accrue pursuant to this Note is referred to herein as the "Highest Lawful Rate". If at any time the Agreed Rate shall exceed the Highest Lawful Rate, and thereafter the Agreed Rate should become less than the Highest Lawful Rate, the rate of interest payable in such latter time shall be the Highest Lawful Rate until Payee shall have received

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the amount of interest which Payee would have otherwise received if the Agreed Rate had not been limited by the Highest Lawful Rate during the period of time that the Agreed Rate exceeded the Highest Lawful Rate. If at maturity or final payment of this Note the total amount of interest paid or accrued under the foregoing provisions is less than the total amount of interest which would have accrued if the Agreed Rate had at all times been in effect, then Maker agrees to pay to Payee, to the extent allowed by law, an amount equal to the difference between (a) the lesser of (i) the amount of interest which would have accrued if the Highest Lawful Rate had at all times been in effect or (ii) the amount of interest which would have accrued if the Agreed Rate had at all times been in effect, and (b) the amount of interest accrued in accordance with the other provisions of this Note.

Except as otherwise provided herein, Maker and any and all sureties, guarantors and endorsers of this Note and all other parties now or hereafter liable hereon severally waive grace, demand, presentment for payment, protest, notice of any kind (including, but not limited to, notice of dishonor, notice of protest, notice of intention to accelerate and notice of acceleration) and diligence in collecting and bringing suit against any party hereto and agree (i) to all extensions and partial payments, with or without notice, before or after maturity, (ii) to any substitution, exchange or release of any security now or hereafter given for this Note, (iii) to the release of any party primarily or secondarily liable hereon, and (iv) that it will not be necessary for Payee, in order to enforce payment of this Note, to first institute or exhaust Payee's remedies against Maker or any other party liable therefore or against any security for this Note.

In the event of any default hereunder and this Note is collected by suit or legal proceedings or through bankruptcy proceedings, Maker agrees to pay, in addition to all other amounts owing hereunder, all expenses and costs of collection, including reasonable attorney's fees incurred by the holder hereof.

If any payment of principal or interest on this Note shall become due on a Saturday, Sunday or legal banking holiday, such payment shall be made on the next succeeding business day and such extension of time shall in such case be included in computing interest in connection with such payment.

Any check, draft, money order or other instrument given in payment of all or any portion hereof may be accepted by Payee and handled in collection in the customary manner, but the same shall not constitute payment hereunder or diminish any rights of Payee except to the extent that actual cash proceeds of such instrument are unconditionally received by Payee. In connection therewith, any such payments received by the holder hereof after noon of any business day shall be posted and applied to the indebtedness evidenced by this Note on the next business day of the holder hereof.

Maker shall pay to Payee a late charge of five percent (5%) of any monthly installment not received by Payee within five (5) days after the installment is due.

This Note has been executed and delivered in and shall be construed in accordance with and governed by the laws of the State of Texas and of the United States of America, except that Tex. Fin. Code Ann. Ch. 346, as amended (which regulates certain revolving

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credit loan accounts and revolving tri-party accounts) shall not apply hereto. Debtor irrevocably submits to the exclusive jurisdiction of Texas courts for the purpose of any action or other proceeding arising out of this Agreement. The Parties expressly waive any right to a trial by jury in any action or proceeding to enforce or defend any rights under this Agreement and agree that any such action or proceeding shall be tried before a court and not before a jury.

Maker represents, warrants and covenants that (i) the loan evidenced by this Note is made solely for business, commercial or investment purposes (and not for personal, family, or agricultural purposes), (ii) Maker is a corporation in existence and in good standing in its state of incorporation and in each state in which Maker's business requires Maker to qualify to do business, (iii) Maker is duly authorized to enter into and execute this Note and each of the other documents and instruments executed in connection therewith and (iv) the person executing this note and all other documents executed in connection therewith is a duly elected officer of Maker and is authorized to execute this Note and (v) this Note represents valid and binding obligations of Maker enforceable in accordance with its terms.

This Note, the obligations evidenced hereby or Payee's rights hereunder may be assigned from time to time, and in any such case the assignee shall be entitled to all of the rights, privileges and remedies granted in this note and in any other documents and instruments executed in connection herewith.

This Note is entitled to the benefits and security afforded by that certain Security Agreement of even date herewith executed by Maker in favor of Payee (the "Security Agreement"), creating a lien on certain personal property more fully described in said Security Agreement.

**Maker's Address:**

8175 Highway 75 South  
Huntsville TX 77340  
USA

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**MAKER:**

**MITCHAM INDUSTRIES**, a corporation organized under the laws of Texas

By: /s/ Robert P. Capps  
Name: Robert P. Capps  
Title: Executive Vice President

**Appendix A**

**EQL1475**

<b>Total Amount =</b>	<b>4,847,927.25</b>
<b>Number of Payments =</b>	<b>18</b>
<b>Down Payment</b>	<b>1,210,672.25</b>

**Interest Rate = 8.00%**

**Amount financed: 3,637,255.00**

	Due Date	Payment	Principal	Interest	Principal Balance
Ship Date:	10/8/2010				
1	November 15, 2010	215,443.09	185,149.24	30,293.85	3,452,105.76
2	December 15, 2010	215,443.09	192,744.31	22,698.78	3,259,361.45
3	January 15, 2011	215,443.09	193,297.29	22,145.80	3,066,064.15
4	February 15, 2011	215,443.09	194,610.65	20,832.44	2,871,453.50
5	March 15, 2011	215,443.09	197,821.02	17,622.07	2,673,632.48
6	April 15, 2011	215,443.09	197,277.04	18,166.05	2,476,355.44
7	May 15, 2011	215,443.09	199,160.20	16,282.89	2,277,195.23
8	June 15, 2011	215,443.09	199,970.64	15,472.45	2,077,224.59
9	July 15, 2011	215,443.09	201,784.63	13,658.46	1,875,439.96
10	August 15, 2011	215,443.09	202,700.37	12,742.72	1,672,739.59
11	September 15, 2011	215,443.09	204,077.63	11,365.46	1,468,661.96
12	October 15, 2011	215,443.09	205,786.13	9,656.96	1,262,875.82
13	November 15, 2011	215,443.09	206,862.45	8,580.64	1,056,013.37
14	December 15, 2011	215,443.09	208,499.44	6,943.65	847,513.93
15	January 15, 2012	215,443.09	209,684.64	5,758.45	637,829.29
16	February 15, 2012	215,443.09	211,109.35	4,333.74	426,719.93
17	March 15, 2012	215,443.09	212,730.79	2,712.30	213,989.14
18	April 15, 2012	215,443.09	213,989.14	1,453.95	0.00
		<b>3,877,975.66</b>	<b>3,637,255.00</b>	<b>240,720.66</b>	

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## SECURITY AGREEMENT

This Security Agreement dated as of the 15<sup>th</sup> day of October, 2010 is between **MITCHAM INDUSTRIES**, an entity organized under the laws of Texas (“Debtor”), and **SERCEL, INC.**, an Oklahoma corporation (“Secured Party”).

### WITNESSETH:

**WHEREAS**, effective as of the date hereof, Secured Party sold, transferred and conveyed to Debtor that certain equipment described on **Exhibit “A”** hereto (the “Equipment”), in exchange for a promissory note of Debtor to Secured Party in the original principal amount of Four Million Eight Hundred Forty Seven Thousand Nine Hundred Twenty Seven United States Dollars and Twenty Five Cents, \$4,847,927.25, (\*Please note this amount is not the total for sales order EQL1475. It represents the amount invoiced on September 23, 2010) dated of even date herewith (the “Note”);

**WHEREAS**, Debtor desires to provide security to Secured Party for the performance and payment of the Note;

**NOW, THEREFORE**, in consideration of the premises and agreements contained herein, Debtor and Secured Party hereby agree as follows:

Section 1. **Definitions.** Any terms used in this Security Agreement that are defined in the Texas Business and Commerce Code (the “U.C.C.”) shall have the meaning assigned to those terms by the U.C.C. in effect as of the date hereof or as otherwise required by law.

Section 2. **Security Interest, Collateral and Obligations.**

2.01. **Grant and Obligations.** Debtor hereby grants to Secured Party a security interest in the Collateral as defined in Section 2.02 below to secure the performance and payment of the Obligations. “Obligations” shall mean, collectively, (a) the punctual payment of any and all amounts owing, or to be owing, by Debtor to Secured Party under the Note; and (b) any renewals, extensions, or rearrangements of the Note.

2.02. Collateral. “Collateral” shall mean (i) the Equipment including all modifications thereto, substitutions and exchange, (ii) all proceeds, other profits, rentals or receipts, in whatever form, arising from the collection, sale, lease, exchange, assignment, licensing or other dispositions of, or realization upon, any Collateral described above including, without limitation, all claims of Debtor against third parties for loss of, damage to or destruction of, or for proceeds payable under policies of insurance with respect to any Collateral, in each case whether now existing or hereafter arising, (iii) all books and records relating to the Equipment in the possession or control of Debtor.

Section 3. **Debtor’s Representations, Warranties and Agreements.** Debtor represents and warrants to Secured Party and agrees that:

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3.01. **Disposal of Collateral.** Debtor will not sell, transfer or otherwise dispose of any of the Collateral.

3.02. **Information.** Debtor shall keep accurate and complete records of the Collateral, shall give Secured Party or its representatives reasonable access to such records during normal business hours and upon prior written notice to Debtor shall provide such other information concerning Debtor and the Collateral as Secured Party may reasonably require. The address of Debtor's place of business, chief executive office and office where Debtor keeps its records concerning the Collateral is at the address set forth beside Debtor's signature on this Security Agreement. Debtor shall notify Secured Party ten (10) days in advance of any change in its address, any change of or additions to the location of its place of business, chief executive office or office where it keeps its records, and any change in its name, identity, or structure.

3.03. **Other Liens.** There is no certificate of title, financing statement or other writing showing any lien on the Collateral. Debtor has good and marketable title to the Collateral, free and clear of all other liens and encumbrances, subject only to the security interest of Secured Party. Debtor has full power and lawful authority to grant to Secured Party a security interest in the Collateral as provided in this Security Agreement. Debtor will defend the Collateral against the claims and demands of all third persons and will not permit the creation of any charge, lien, security interest, adverse claim or encumbrance of any and every nature whatsoever against the Collateral or any part thereof.

3.04. **Covenants Concerning the Collateral.** The Collateral shall remain in Debtor's possession or control. Debtor shall bear all risk of loss with respect to the Collateral. At any reasonable time and upon reasonable prior written notice to Debtor, Secured Party may inspect during normal business hours the Collateral. Debtor shall assist Secured Party in making any such inspection. Debtor shall maintain all equipment that is Collateral in the same good condition existing as of the date of this Security Agreement, except for reasonable wear and tear, and such equipment will not be used in violation of any statute or ordinance or in a not careful and improper manner. Debtor shall replace within a reasonable time all parts that may be worn out, lost, destroyed or otherwise rendered unfit for use with appropriate replacement parts.

3.05. **Insurance.** Debtor will maintain reasonable amounts of insurance on the Collateral (in an amount not less than the outstanding balance under the Note) and name the Secured party as a loss payee and additional insured on its policies of insurance. Such insurance shall also include general liability insurance in an amount of not less than \$1,000,000 per incident and \$5,000,000 in the aggregate. If any insurance required hereby expires, is cancelled or is otherwise not in full force and effect, at Secured Party's option, Secured Party may obtain replacement insurance, which may, but need not, be single interest insurance in favor of Secured Party. Secured Party may pay the premiums thereunder and add the amount of such premiums to the Obligations. Debtor agrees to reimburse Secured Party on demand for any amounts so paid.

The all risk policy shall (i) name Secured Party and its assigns as sole loss payee (ii) contain a breach of warranty endorsement insuring Secured Party and its assigns notwithstanding a breach or violation of the policy by Debtor; (iii) be issued by a company that is approved to do business in the State of Texas and that is acceptable to Secured Party in its sole discretion; (iv) contain a clause in a form acceptable to Secured Party providing that the insurer shall waive all of

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its rights of recovery, under legal or conventional subrogation or otherwise, against Secured Party, and (v) provide for no less than thirty (30) days prior written notice of cancellation or non-renewal to Lessor and its successors or assigns.

Debtor hereby appoints Secured Party as its attorney-in-fact with full power, rights, and authority with respect to the policies required under this Section, including, without limitation, the right to request payments and execute and endorse all documents, checks, drafts or other instruments necessary or advisable to secure payments due under any policy required under this Section. The foregoing appointment shall not relieve Debtor from its obligation to procure the insurance policies required herein, to make timely insurance claims and to otherwise cooperate with insurance carriers. Proceeds from any policy required hereunder shall be made payable first to Secured Party to the extent of its liability or loss, if any. Debtor shall deliver to Secured Party a certificate of insurance with respect to the policy required under this Section together with a copy of the endorsement naming Secured Party as additional insured and loss payee not later than the Effective Date, and a certificate of insurance with respect to each renewal or replacement thereof not later than fifteen (15) days before any such insurance policy expires. Lessee will be responsible for all deductible amounts.

3.06. **Further Assurances.** Debtor will do, make, procure, execute and deliver all acts, things, writings and assurances as Secured Party may at any time reasonably request to perfect, protect, assure or enforce its interest, rights and remedies created by or arising in connection with this Security Agreement, including the execution of financing statements.

3.07. **Power, Authority and Existence.** The execution, delivery and performance of this Security Agreement and all other instruments and agreements executed by Debtor are within Debtor's power and authority, are not on the date of execution of this Agreement and thereafter will not be in contravention of law, or any indenture, agreement or undertaking to which Debtor is a party or by which Debtor is bound or will be bound after the execution of this Agreement.

3.08. **Assessments.** Debtor shall promptly pay when due all taxes, assessments, license fees, registration fees, and governmental charges levied or assessed against Debtor or with respect to the Collateral or any part thereof.

3.09. **Time of the Essence.** Debtor agrees that in performing any act under this Security Agreement, time shall be of the essence and Secured Party's acceptance of partial or delinquent payments, or failure of Secured Party to exercise any right or remedy, shall not be a waiver of any obligation of Debtor or right of Secured Party or constitute a waiver of any similar or dissimilar default subsequently occurring.

Section 4. **Event of Default.** Debtor shall be in default under this Security Agreement (any such default being referred to as an "Event of Default") if a default has occurred in any obligation of Debtor under the Note or this Security Agreement or if the Debtor is in the breach of any representation, warranty, covenant, agreement or condition hereunder.

Section 5. **Rights of Secured Party.**

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5.01. **Rights After Default.** Secured Party may, in its discretion, after the occurrence of an Event of Default: (a) bring any action at law or in equity to protect its interest in the Collateral or to obtain damages for or to prevent deterioration or destruction of the Collateral other than ordinary wear and tear in connection with its intended primary use and (b) exercise any right of a secured creditor under the U.C.C. or other applicable laws or (c) exercise any right of a debtor under maritime laws.

5.02. **Discharges, Liens, etc.** At its option, Secured Party may make payments to discharge taxes, liens or security interest or other encumbrances at any time levied or placed on the Collateral and take any other action necessary to obtain, preserve, and enforce the security interest and the rights and remedies granted in this Security Agreement and maintain and preserve the Collateral. Such payments and any other expenses incurred by Secured Party in taking such action shall become part of the Obligations. Debtor agrees to reimburse Secured Party on demand for any such payments made or expenses incurred by Secured Party.

5.03. **U.C.C. Remedies.** Upon the occurrence and during the continuance of an Event of Default, and at any time thereafter, Secured Party may declare the Obligations or any part thereof immediately due and payable, without demand, notice of intention to accelerate, notice of acceleration, notice of non payment, presentment, protest notice of dishonor or any other notice whatsoever all of which are hereby waived by Debtor and may demand payment of the Obligations and shall have the rights and remedies of a secured party under the U.C.C. or any other applicable laws, including without limitation, the right to sell, lease or otherwise dispose of any or all of the Collateral in any manner allowed by the U.C.C. Secured Party may require Debtor to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party which is reasonably convenient for both parties. Secured Party shall have the right to take possession of all or any part of the Collateral or any security therefore and of all books, records, papers and documents of Debtor or in Debtor's possession or control relating to the Collateral and may lawfully and without breach of the peace enter upon any premises upon which any of the Collateral or any security therefore or any of such books, records, papers or documents are situated and remove the same therefrom without any liability for trespass or damages thereby occasioned unless arising out of Secured Party's gross negligence or willful misconduct. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party will send Debtor ten (10) days' prior written notice of the time and place of any public sale or other disposition thereof or of the time after which any private sale or other disposition thereof is to be made. The requirement of sending reasonable notice shall be met if such notice is deposited in the U.S. Mail, postage prepaid, certified mail, return receipt requested, addressed to Debtor at the address set forth beside Debtor's signature on this Security Agreement at least ten (10) days before the time of the sale or disposition of the Collateral. Debtor shall be liable for all expenses, including without limitation, reasonable attorneys' fees and court costs, actually incurred by Secured Party in repossessing, storing, preparing for sale, lease or other disposition, or selling, leasing or otherwise disposing of the Collateral. The Collateral may be sold, leased or otherwise disposed of as an entirety or in such parcels as Secured Party may elect, and it shall not be necessary for Secured Party to have actual possession of the Collateral or to have it present when the sale, lease or other disposition is made. Debtor shall remain liable for any deficiency.

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5.04. **No Waiver.** Debtor may remedy any Event of Default and the Secured Party may waive any Event of Default without waiving any other Event of Default. The remedies of Secured Party are cumulative, and the exercise or partial exercise of any one or more of the remedies provided for herein shall not be construed as a waiver of any of the other remedies of Secured Party. No delay of Secured Party in exercising any power or right shall operate as a waiver thereof. Secured Party's failure to exercise this security interest against all or any portion of the Collateral at any time, does not waive any right of Secured Party to later assert any or any other right, power or remedy of Secured Party with respect to such Collateral as provided herein.

5.05. **Assignment.** This Security Agreement, the Obligations or Secured Party's rights hereunder may be assigned from time to time by the Secured Party, and in any such case the assignee shall be entitled to all of the rights, privileges and remedies granted in this Security Agreement to Secured Party.

Section 6. **Additional Agreements.**

6.01. **Miscellaneous.** "Secured Party" and "Debtor" as used in this Security Agreement include the successors, legal representatives, receivers and assigns of those parties. The divisions of this Security Agreement into sections and subsections and the titles thereto have been made for convenience only and shall be given no substantive meaning or significance whatever in construing the terms and provisions of this Security Agreement.

6.02. **Choice of Law.** Unless expressly provided elsewhere in this Security Agreement, this Security Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Texas. Debtor irrevocably submits to the exclusive jurisdiction of Texas courts for the purpose of any action or other proceeding arising out of this Agreement.

The Parties expressly waive any right to a trial by jury in any action or proceeding to enforce or defend any rights under this Agreement and agree that any such action or proceeding shall be tried before a court and not before a jury.

6.03. **Illegality.** If any provision of this Security Agreement is rendered or declared invalid, illegal or ineffective by reason of any existing or subsequently enacted legislation or by decree of a court of competent jurisdiction, such legislation or decree shall not impair, invalidate or nullify the remainder of this Security Agreement which shall remain in full force and effect.

6.04. **Continuing Agreement.** The security interest hereby granted and all of the terms and provisions in this Agreement shall be deemed a continuing agreement. They shall continue in full force and effect and remain effective between the parties until full and indefeasible payment of the Obligations.

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6.05. **Amendments.** No modification, variation or amendment of or to this Security Agreement shall be effective unless in writing signed by Debtor and Secured Party.

6.06. **Notice.** Any notice or demand to Debtor or Secured Party hereunder or in connection herewith may be given and shall conclusively be deemed and considered to have been given and received upon the deposit thereof in the U.S. Mail, in writing, duly stamped and mailed by certified mail, return receipt requested and addressed to the address set forth on this Security Agreement, or at such other address as Debtor or Secured Party may designate to the other in writing.

**DEBTOR:**

Address:

8175 Highway 75 South  
Huntsville, TX 77340

**MITCHAM INDUSTREIS**

By: /s/ Robert P. Capps  
Name: Robert P. Capps  
Title: Executive Vice President

**SECURED PARTY:**

Address:

17200 Park Row  
Houston, Texas 77084

**SERCEL, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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MITCHAM INDUSTRIES  
8175 Highway 75 South  
Huntsville, TX 77340  
USA



**Exhibit "A"**

**Please note this amount is not the total for sales order EQL1475. It represents the amount invoiced on September 23, 2010.**

<b>INVOCE No.</b>	<b>INVOICE DATE</b>	<b>INVOICE TOTAL</b>
50329	June 30, 2010	4,441,598.68
51125	August 31, 2010	2,745.27
51137	August 31, 2010	357,828.80
51414	September 23, 2010	45,754.50
<b>TOTAL INVOICED AMOUNT:</b>		<b>\$4,847,927.25</b>

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CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended October 31, 2010 of Mitcham Industries, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.  
Chief Executive Officer  
December 8, 2010

CERTIFICATION

I, Robert P. Capps, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended October 31, 2010 of Mitcham Industries, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Robert P. Capps

Robert P. Capps  
Executive Vice President-Finance and  
Chief Financial Officer  
December 8, 2010

**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 October 31, 2010, 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, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Billy F. Mitcham, Jr.

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Billy F. Mitcham, Jr.  
Chief Executive Officer  
December 8, 2010

/s/ Robert P. Capps

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Robert P. Capps  
Executive Vice President-Finance and  
Chief Financial Officer  
December 8, 2010