

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2004

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

Commission file number 000-25142

MITCHAM INDUSTRIES, INC.

(Name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the 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: 8,857,994 shares of Common Stock, \$0.01 par value, were outstanding as of September 10, 2004.

MITCHAM INDUSTRIES, INC.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	January 31, 2004	July 31, 2004
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,834	\$ 11,609
Accounts receivable, net of allowance for doubtful accounts of \$847 and \$822	5,635	5,743
Current portion of notes receivable, net of allowance for doubtful notes of \$28 and \$53	811	307
Prepaid expenses and other current assets	700	452
Current assets of discontinued operations	898	336
Total current assets	14,878	18,447
Seismic equipment lease pool, property and equipment	84,624	77,287
Accumulated depreciation of seismic equipment lease pool, property and equipment	(59,265)	(57,086)
Long-term assets of discontinued operations	491	353
Other assets	2	7
Total assets	<u>\$ 40,730</u>	<u>\$ 39,008</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,532	\$ 1,573
Current maturities – long-term debt	2,203	2,246
Equipment notes payable	1,296	—
Deferred revenue	345	369
Wages payable	495	575
Accrued expenses and other current liabilities	1,245	402
Current liabilities of discontinued operations	399	15
Total current liabilities	7,515	5,180
Long-term debt, net of current maturities	2,418	1,280
Total liabilities	9,933	6,460
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value; 20,000,000 shares authorized; 9,714,994 and 9,707,994 shares issued, respectively	97	97
Additional paid-in capital	61,913	62,298
Treasury stock, at cost (915,000 shares)	(4,686)	(4,686)
Deferred compensation	(83)	(51)
Accumulated deficit	(28,411)	(26,886)
Accumulated other comprehensive income	1,967	1,776
Total shareholders' equity	30,797	32,548
Total liabilities and shareholders' equity	<u>\$ 40,730</u>	<u>\$ 39,008</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 share and per share data)
(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2003	2004	2003	2004
Revenues:				
Equipment leasing	\$ 2,638	\$ 3,378	\$ 6,604	\$ 8,779
Equipment sales	1,291	3,015	3,193	5,820
Total revenues	3,929	6,393	9,797	14,599
Costs and expenses:				
Direct costs – seismic leasing	512	211	861	900
Cost of equipment sales	557	1,263	1,746	2,814
General and administrative	1,248	2,111	2,530	3,948
Depreciation	3,830	2,706	7,431	5,413
Total costs and expenses	6,147	6,291	12,568	13,075
Operating income (loss)	(2,218)	102	(2,771)	1,524
Other income (expense) – net	(46)	(27)	(20)	(79)
Income (loss) from continuing operations before income taxes	(2,264)	75	(2,791)	1,445
Provision for income taxes	—	—	—	—
Net income (loss) from continuing operations	(2,264)	75	(2,791)	1,445
Income (loss) from discontinued operations, net of income taxes of \$0	(1,879)	80	(2,792)	80
Net income (loss)	\$ (4,143)	\$ 155	\$ (5,583)	\$ 1,525
Income (loss) per common share from continuing operations				
Basic	\$ (0.26)	\$ 0.01	\$ (0.32)	\$ 0.16
Diluted	\$ (0.26)	\$ 0.01	\$ (0.32)	\$ 0.16
Income (loss) per common share from discontinued operations				
Basic and diluted	\$ (0.21)	\$ 0.01	\$ (0.32)	\$ 0.01
Net income (loss) per common share – basic and diluted	\$ (0.47)	\$ 0.02	\$ (0.64)	\$ 0.17
Shares used in computing income (loss) per common share:				
Basic	8,751,000	8,791,000	8,747,000	8,795,000
Dilutive effect of common stock equivalents	—	369,000	—	372,000
Diluted	8,751,000	9,160,000	8,747,000	9,167,000

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

MITCHAM INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended July 31,	
	2003	2004
Cash flows from operating activities:		
Income (loss) from continuing operations	\$(2,791)	\$ 1,445
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,431	5,413
Provision for doubtful accounts, net of charge offs	48	—
Net book value of seismic equipment sold	764	1,474
Changes in:		
Trade accounts receivable	(812)	212
Accounts payable, accrued expenses and other current liabilities	28	(698)
Other, net	367	660
Net cash provided by operating activities	<u>5,035</u>	<u>8,506</u>
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(1,410)	(1,118)
Purchases of property and equipment	(66)	(131)
Net cash used in investing activities	<u>(1,476)</u>	<u>(1,249)</u>
Cash flows from financing activities:		
Payments on borrowings	(1,035)	(2,391)
Net cash used in financing activities	<u>(1,035)</u>	<u>(2,391)</u>
Net increase in cash and cash equivalents-continuing operations	2,524	4,866
Net decrease in cash and cash equivalents-discontinued operations	(1,825)	(91)
Cash and cash equivalents, beginning of period	5,137	6,834
Cash and cash equivalents, end of period	<u>\$ 5,836</u>	<u>\$11,609</u>

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

MITCHAM INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

2. Organization

Mitcham Industries, Inc., a Texas corporation, was incorporated in 1987. The Company and its wholly-owned Canadian subsidiary provide full-service equipment leasing, sales and service to the seismic industry worldwide, primarily in North and South America. The Company, through its wholly-owned Australian subsidiary, Seismic Asia Pacific Pty Ltd. ("SAP"), provides seismic, oceanographic and hydrographic leasing and sales worldwide, primarily in Asia and Australia. Through its wholly-owned U.S. subsidiary, Drilling Services, Inc. ("DSI"), the Company provided seismic survey program design, quality control, permit acquisition, geographical surveying and shot hole drilling, all commonly referred to as "front-end services". In August 2003, the Company sold the operating assets of DSI. The operating results and assets and liabilities of DSI are discontinued operations and all prior period statements have been restated accordingly. See Note 8. All intercompany transactions and balances have been eliminated in consolidation.

3. Earnings Per Share

For the three and six months ended July 31, 2003 and 2004, the following table sets forth the number of shares that may be issued pursuant to options currently outstanding, which number was used in the per share calculations.

	Three Months Ended July 31,		Six Months Ended July 31,	
	2003	2004	2003	2004
Stock options	—	<u>369,000</u>	—	<u>372,000</u>
Total dilutive securities	—	<u>369,000</u>	—	<u>372,000</u>

4. Comprehensive Income

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2003	2004	2003	2004
Net income (loss)	\$(4,143)	\$155	\$(5,583)	\$1,525
Change in foreign currency translation adjustment	444	354	2,208	(191)
Comprehensive income (loss)	<u>\$(3,699)</u>	<u>\$509</u>	<u>\$(3,375)</u>	<u>\$1,334</u>

5. Supplemental Statements of Cash Flows Information

Supplemental disclosures of cash flow information for the six months ended July 31, 2003 and 2004 are as follows:

	Six Months Ended July 31,	
	2003	2004
Interest paid, continuing operations	\$111,000	\$113,000
Seismic equipment acquired in exchange for cancellation of accounts receivable	\$ 28,000	\$671,000

6. Reclassifications

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

7. Stock Options

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2003	2004	2003	2004
Pro forma impact of fair value method (FAS 148)				
Reported income (loss) from continuing operations	\$ (2,264)	\$ 75	\$ (2,791)	\$ 1,445
Less: fair value impact of employee stock compensation	(85)	(66)	(170)	(138)
Pro forma income (loss) from continuing operations	\$ (2,349)	\$ 9	\$ (2,961)	\$ 1,307
Reported net income (loss)	\$ (4,143)	\$ 155	\$ (5,583)	\$ 1,525
Less: fair value impact of employee stock compensation	(85)	(66)	(170)	(138)
Pro forma net income (loss)	\$ (4,228)	\$ 89	\$ (5,753)	\$ 1,387
Income (loss) per common share				
Continuing operations income (loss) per share:				
Basic	\$ (0.26)	\$ 0.01	\$ (0.32)	\$ 0.16
Diluted	\$ (0.26)	\$ 0.01	\$ (0.32)	\$ 0.16
Pro forma continuing operations income (loss) per share:				
Basic	\$ (0.27)	\$ —	\$ (0.34)	\$ 0.15
Diluted	\$ (0.27)	\$ —	\$ (0.34)	\$ 0.14
Reported net income (loss) per share:				
Basic	\$ (0.47)	\$ 0.02	\$ (0.64)	\$ 0.17
Diluted	\$ (0.47)	\$ 0.02	\$ (0.64)	\$ 0.17
Pro forma net income (loss) per share:				
Basic	\$ (0.48)	\$ 0.01	\$ (0.66)	\$ 0.16
Diluted	\$ (0.48)	\$ 0.01	\$ (0.66)	\$ 0.15
Weighted average Black-Scholes fair value assumptions				
Risk free interest rate	5%	3-5%	5%	3-5%
Expected life	3-8 yrs.	3-8 yrs.	3-8 yrs.	3-8 yrs.
Expected volatility	65%	68%	65%	68%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

8. Discontinued Operations

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2003	2004	2003	2004
Revenues	\$ 2,432	\$ —	\$ 4,502	\$ —
Pretax income (loss)	\$ (1,879)	\$ 80	\$ (2,792)	\$ 80

8. Discontinued Operations (continued)

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

	January 31, 2004	July 31, 2004
Accounts and notes receivable of discontinued operations	\$815	\$273
Other current assets of discontinued operations	\$ 83	\$ 63
Non-current notes receivable and PP&E of discontinued operations	\$491	\$353
Accounts payable and accrued liabilities of discontinued operations	\$399	\$ 15

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

Overview

Our revenues are directly related to the level of worldwide oil and gas exploration activities and the profitability and cash flows of oil and gas companies and seismic contractors, which in turn are affected by expectations regarding the supply and demand for oil and natural gas, energy prices and finding and development costs. Seismic data acquisition activity levels are measured in terms of the number of active recording crews, known as the "crew count", and the number of recording channels deployed by those crews. 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. Due to our unique position as the largest independent lessor of seismic equipment, we are privy to information about future projects from many data acquisition contractors. Based on our analysis of various indicators, including recent bid activity, equipment movement and public announcement of companies adding crew capacity, it appears that the worst of the downturn may be behind us and that the seismic exploration market is in an uptrend. We believe that this increase is being driven by historically high world oil and North American natural gas prices, combined with the maturation of the world's hydrocarbon producing basins. The future direction and magnitude of changes in seismic data acquisition activity levels will continue to be dependent upon oil and natural gas prices.

We lease and sell seismic data acquisition equipment primarily to seismic data acquisition companies conducting land and transition zone seismic surveys worldwide. We provide short-term leasing of seismic equipment to meet a customer's requirements and offer technical support during the lease term. The majority of all active leases at July 31, 2004 were for a term of less than one year. Seismic equipment held for lease is carried at cost, net of accumulated depreciation. SAP sells equipment, consumables, systems integration, engineering hardware and software maintenance support services to the seismic, hydrographic, oceanographic, environmental and defense industries throughout South East Asia and Australia.

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

Results of Operations

For the three months ended July 31, 2004 and 2003

During the quarter ended July 31, 2004, our results of operations were affected by several significant factors. Our revenues increased approximately \$2.5 million, reflecting significant increases in both leasing and sales from the corresponding quarter in the prior fiscal year. Revenues from short-term leasing increased \$0.7 million over the prior year primarily due to a settlement reached with one of our marine customers related to rentals of marine equipment during the prior two fiscal quarters that had not been recorded due to collectibility issues. Sales of

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equipment increased by \$1.7 million, compared to the prior year, primarily due to several large sales transactions recorded in the quarter.

Our fixed and variable costs are important factors affecting our results of operations. Due to the size and age of our seismic equipment lease pool, depreciation expense, which amounted to \$2.7 million for the quarter ended July 31, 2004, is our single largest expense item. This expense will vary between periods based on acquisitions of new equipment and sales of equipment with remaining depreciable life. Direct costs of seismic leasing are variable expenses that fluctuate with our equipment leasing revenues. The main components of this cost are freight, sublease expenses and repairs and maintenance, to the extent that repairs performed are normal wear and tear and not billable to the lease customer. Our general and administrative expenses increased significantly from the corresponding quarter in 2003, with the increase consisting primarily of severance-related expenses related to the resignation of our former chief financial officer during the quarter.

Revenues

For the quarter ended July 31, 2004, consolidated revenues increased by \$2.5 million, or 63% to a total of \$6.4 million, as compared to \$3.9 million for the corresponding quarter in 2003. The increase in revenues was principally due to improvements in both leasing and sales activity during the quarter. For the quarter ended July 31, 2004, leasing revenues increased \$0.7 million, of which approximately \$0.6 million was related to rentals of marine equipment during the prior two quarters that had not been recorded due to collectibility issues. During the quarter, we agreed to accept certain marine seismic equipment owned by the customer as payment for the invoices billed but not paid. The equipment was appraised by a third-party and such values were used as the basis for the settlement of these outstanding receivables. Additionally, our leasing revenues significantly increased in our Australian operations but were largely offset by decreases from our Canadian operations. Foreign currency translation rates had the effect of increasing consolidated revenues in the quarter ended July 31, 2004 by \$0.1 million over the comparable quarter in 2003.

Seismic equipment sales for the quarter ended July 31, 2004 were \$3.0 million as compared to \$1.3 million for the comparable quarter in 2003. Cost of equipment sales for the quarters ended July 31, 2004 and 2003 were \$1.3 million and \$0.6 million, respectively. Gross margins on equipment sales were 58% and 57% for the quarters ended July 31, 2004 and 2003, respectively. Gross margins on equipment sales will vary significantly between periods due to the mix of sales revenue between new seismic and oceanographic equipment as compared to sales of depreciated seismic equipment sold from our lease pool.

Costs and Expenses

For the quarter ended July 31, 2004, depreciation expense was \$2.7 million, which is \$1.1 million, or 29%, lower than the depreciation expense in the comparable quarter in 2003. The decrease in depreciation expense from the quarter ended July 31, 2003 to 2004 was primarily due to certain equipment reaching the end of its depreciable life during each of those years, coupled with the sales of assets with remaining depreciable life. For the quarter ended July 31, 2004, foreign currency translation rates had the effect of increasing depreciation expense by \$0.1 million as compared to the amount in the comparable quarter in 2003.

Direct costs for the quarter ended July 31, 2004 were \$0.2 million, which was approximately \$0.3 million less than direct costs for the comparable quarter in 2003 primarily due to a decrease in repair expenses.

General and administrative expenses for the quarter ended July 31, 2004 totaled approximately \$2.1 million, or \$0.9 million greater than 2003 expenses of \$1.2 million. During the quarter ended July 31, 2004, we incurred one-time severance-related charges of approximately \$0.7 million related to the resignation of our former chief financial officer. Of this amount, \$0.4 million was a non-cash stock-based compensation expense based on the estimated fair value of the option grant on the date of grant using the Black-Scholes option pricing model. The remaining increase in general and administrative expenses was primarily due to an increase in travel, customer relations, investor relations and professional fees, partially offset by a decrease in insurance expense.

For the quarter ended July 31, 2004, we recorded income from continuing operations in the approximate amount of \$0.1 million, compared to a loss from continuing operations for the comparable quarter of 2003 of \$2.3 million.

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Income from discontinued operations for the quarter ended July 31, 2004 was \$0.1 million, compared with a loss of \$1.9 million for the comparable quarter of 2003.

For the six months ended July 31, 2004 and 2003

Revenues

For the six months ended July 31, 2004, consolidated revenues increased by \$4.8 million, or 49% to a total of \$14.6 million, as compared to \$9.8 million for the corresponding period of the prior year. The increase in revenues was principally due to improvements in both leasing and sales activity during the period. For the six months ended July 31, 2004, leasing revenues increased \$2.2 million, of which approximately \$0.6 million is related to rentals of marine equipment during the prior two quarters that had not been recorded due to collectibility issues. We agreed to accept certain marine seismic equipment owned by the customer as payment for the invoices billed but not paid. The equipment was appraised by a third-party and such values were used as the basis for the settlement of these outstanding receivables. Additionally, our leasing revenues significantly increased in our Australian and US operations but were partly offset by a decrease from our Canadian operations. Foreign currency translation rates had the effect of increasing consolidated revenues in the six months ended July 31, 2004 by \$0.4 million over the comparable period in 2003.

Seismic equipment sales for the six months ended July 31, 2004 were \$5.8 million as compared to \$3.2 million for the comparable period in 2003. Cost of equipment sales for the six months ended July 31, 2004 and 2003 were \$2.8 million and \$1.7 million, respectively. Gross margins on equipment sales were 52% and 45% for the six months ended July 31, 2004 and 2003, respectively. Gross margins on equipment sales will vary significantly between periods due to the mix of sales revenue between new seismic and oceanographic equipment as compared to sales of depreciated seismic equipment sold from our lease pool.

Costs and Expenses

For the six months ended July 31, 2004, depreciation expense was \$5.4 million, which was \$2.0 million, or 27%, lower than the depreciation expense in the comparable six-month period in 2003. The decrease in depreciation expense for the six months ended July 31, 2004 from the comparable six-month period ended July 31, 2003 was principally due to certain equipment reaching the end of its depreciable life during each of those years, coupled with the sales of assets with remaining depreciable life. For the six months ended July 31, 2004, foreign currency translation rates had the effect of increasing depreciation expense by \$0.2 million over the amount in the reported comparable period in 2003.

Direct costs for the six months ended July 31, 2004 were \$0.9 million, which was relatively unchanged from the comparable period in 2003.

General and administrative expenses for the six months ended July 31, 2004 totaled approximately \$3.9 million, or \$1.4 million greater than 2003 expenses of \$2.5 million. During the six months ended July 31, 2004, we incurred one-time severance-related charges of approximately \$0.7 million related to the resignation of our former chief financial officer. Of this amount, \$0.4 million was recorded as a non-cash stock-based compensation expense. Additionally, during the six months ended July 31, 2004 we incurred approximately \$0.3 million in non-recurring professional fees related to the internal investigation conducted by the Company. The remaining increase in general and administrative expenses was primarily due to an increase in travel, customer relations, investor relations, insurance, compensation expenses and professional fees.

For the six months ended July 31, 2004, we recorded income from continuing operations in the amount of \$1.4 million, compared to a loss from continuing operations for the comparable six-month period of 2003 of \$2.8 million. Income from discontinued operations for the six months ended July 31, 2004 was \$0.1 million, compared with a loss of \$2.8 million for the comparable six-month period of 2003.

Liquidity and Capital Resources

As of July 31, 2004, we had net working capital of approximately \$13.3 million as compared to net working capital of \$7.4 million at January 31, 2004. Historically, our principal liquidity requirements and uses of cash have been for

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capital expenditures and working capital. Our principal sources of cash have been cash flows from operations and proceeds from sales of lease pool equipment. Net cash provided by operating activities for the six months ended July 31, 2004 was \$8.5 million, as compared to net cash provided by operating activities of \$5.0 million for the six months ended July 31, 2003. Net cash used in financing activities for the six months ended July 31, 2004 was \$2.4 million, compared to net cash used in financing activities for the comparable period in 2003 of \$1.0 million.

We are committed to purchase \$2.25 million of land data acquisition equipment by December 31, 2004, under an agreement with Sercel. We expect that cash on hand and cash flows from operations will be sufficient to meet this commitment. Capital expenditures for the six months ended July 31, 2004 totaled approximately \$1.2 million as compared to capital expenditures of \$1.5 million for the comparable period in 2003. Our 2004 and 2003 capital expenditures for the seismic equipment lease pool were made to fulfill specific lease contracts.

At July 31, 2004, we had trade accounts and notes receivable of \$2.1 million that were more than 90 days past due. As of July 31, 2004, our allowance for doubtful accounts was approximately \$0.9 million, which management believes is sufficient to cover any losses in our receivable balances. During the six months ended July 31, 2004, the Company acquired seismic equipment in exchange for cancellation of certain accounts receivable due from two customers in the approximate amount of \$0.7 million.

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

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

In February 2002, we obtained an \$8.5 million term loan with First Victoria National Bank, the remaining principal balance of which was approximately \$3.5 million at July 31, 2004. The loan is payable in forty-eight equal installments of approximately \$197,000 and bears interest at the rate of prime plus 1/2%. The loan is secured by lease pool equipment and all proceeds from lease pool equipment leases and sales.

We paid for our \$3.5 million in capital expenditures during the fiscal year ended January 31, 2004, using \$1.8 million in cash and entering into separate short-term note agreements with three seismic equipment manufacturers related to the purchase of equipment for our lease pool. The aggregate amount financed by the manufacturers was \$1.7 million, all of which has been repaid as of July 31, 2004. The notes called for monthly payments aggregating approximately \$121,000 and bore interest ranging from 0% to 8%. All three notes had 12-month repayment terms and matured during fiscal 2005.

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

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

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in determining the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant estimates made by us in the accompanying consolidated financial statements relate to reserves for uncollectible accounts receivable and useful lives of our lease pool assets and their valuation.

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

Revenue Recognition

Leases

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

Equipment Sales

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

Allowance for Doubtful Accounts

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

Long-Lived Assets

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

Income Taxes

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

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

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

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

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

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

The lack of required formal high-level management reporting for Mitcham Canada, along with regular on-site reviews of accounting policies and practices. We have historically relied on non-standardized verbal updates from our subsidiaries on high-level management issues, which can affect both the timeliness and accuracy of accounting for certain transactions. Formal high-level management reporting and regular on-site reviews of accounting policies

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and practices would have sooner identified the issues discussed in the preceding paragraph, and with more specificity. Prior to the investigation but before the publication of our financial results for the fiscal year ended January 31, 2004, disputed amounts were reflected in our general, but not our specific, reserves for doubtful accounts.

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

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

- We now require a monthly formal high-level executive summary for Mitcham Canada and SAP as part of their regular monthly financial reporting packages.
- We have established quarterly (for Mitcham Canada) and semi-annual (for SAP) on-site reviews of accounting policies and practices with internal accounting personnel and local management of Mitcham Canada and SAP, and formalized monthly telephonic reviews of the management report.
- We are evaluating how best to implement an integrated software system to effectively track and account for lease equipment at Mitcham Canada and SAP, and the timetable in which this can reasonably be accomplished.
- Until we can implement an integrated software system, we will require more frequent reconciliations of the manual systems to the general ledger accounts, and more levels of review of those reconciliations.
- We will engage our independent auditor to observe our physical inventory of the Canadian lease pool during the coming summer months, which is the Canadian low season.
- We will as soon as practicable hire an internal auditor who will report directly to the Audit Committee.
- We are interviewing consultants to begin the Section 404 internal controls documentation work so that there is adequate time for us to comply with those requirements for the fiscal year ended January 31, 2006.

In addition, our Chief Financial Officer, who was also a director and our Chief Operating Officer, has resigned. We have therefore initiated a formal search for a new CFO and COO. In the interim, our Controller is fulfilling the CFO duties.

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

Forward-Looking Statements and Risk Factors

Certain information contained in this Quarterly Report on Form 10-Q (including statements contained in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations", Part I, Item 4. "Controls and Procedures" and in Part II, Item 1. "Legal Proceedings"), as well as other written and oral statements made or incorporated by reference from time to time by us and our representatives in other reports, filings with the United States Securities and Exchange Commission (the "SEC"), press releases, conferences, or otherwise, may be deemed to be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). This information includes, without limitation, statements concerning our future financial position and results of operations; planned capital expenditures; business strategy and other plans for future operations; the future mix of revenues and business; commitments and contingent liabilities; and future demand for our services and predicted improvement in energy industry and seismic service industry conditions. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance

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that such expectations will prove to have been correct. When used in this report, the words “anticipate,” “believe,” “estimate,” “expect,” “may,” and similar expressions, as they relate to the Company and our management, identify forward-looking statements. The actual results of future events described in such forward-looking statements could differ materially from the results described in the forward-looking statements due to the risks and uncertainties set forth in our Annual Report on Form 10-K for the year ended January 31, 2004 and elsewhere within this Quarterly Report on Form 10-Q.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following documents are filed as exhibits to this Report:

10.1 – Separation Agreement, Consulting Agreement and Release, dated June 24, 2004 between P. Blake Dupuis and Mitcham Industries, Inc.*

31.1 – Certification of Billy F. Mitcham, Jr., Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

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

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

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

* Management contract or compensatory plan or arrangement

(b) Reports on Form 8-K

Current Report on Form 8-K dated May 14, 2004 announcing the completion of the Company’s internal investigation.

Current Report on Form 8-K dated June 2, 2004 related to the Company’s earnings for the fiscal year ended January 31, 2004.

Current Report on Form 8-K dated June 14, 2004 related to the Company’s earnings for the first quarter ended April 30, 2004.

Current Report on Form 8-K dated July 28, 2004 related to the Company’s distribution to shareholders of its 2004 Annual Report, the CEO’s accompanying letter of which contained certain forward-looking information regarding industry trends, capital expenditures and profitability.

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.

Date: September 13, 2004

MITCHAM INDUSTRIES, INC.

/s/ Christopher C. Siffert

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

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Exhibit Index

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**SEPARATION AGREEMENT, CONSULTING AGREEMENT
AND RELEASE BETWEEN
P. BLAKE DUPUIS
AND
MITCHAM INDUSTRIES, INC.**

This Separation Agreement, Consulting Agreement and Release (the "**Agreement**") is made and entered into by and between **P. Blake Dupuis** (the "**Employee**" or "**Dupuis**") and **Mitcham Industries, Inc.** and its subsidiaries and affiliates (the "**Company**") (Employee and the Company are sometimes referred to singularly as a "**Party**" and collectively as the "**Parties**").

RECITATIONS

WHEREAS, Employee voluntarily resigned from his employment with the Company on May 14, 2004 (the "**Separation Date**") (See **Exhibit A** hereto); and

WHEREAS, Employee has been an at-will employee of the Company for several years in the capacity of Chief Financial Officer, and has also served in other capacities, and as such has extensive knowledge of the Confidential Information (as that term is defined in Section 11(c)); and

WHEREAS, Employee and the Company wish to provide a mutually acceptable agreement and settlement of any claims concerning the use or disclosure of Confidential Information and goodwill, including providing clear guidelines regarding the use and disclosure of Confidential Information and protection of goodwill; and

WHEREAS, Employee and the Company wish to amicably resolve all issues related to Employee's interest in vested and unvested stock options restricted stock awarded to him during his employment with the Company under the Company's stock option and award plans (See Section 7 hereof and **Exhibit B** hereto);

WHEREAS, the consideration for Employee's waiver of rights or claims, including claims under the Age Discrimination in Employment Act, are the sums of money and other benefits referred to in Sections 6, 7 and 8 herein, which sums and benefits exceed that to which Employee is already entitled; and

WHEREAS, the Employee and the Company wish to otherwise amicably settle fully and finally any and all differences between them.

AGREEMENT

In consideration of the premises and mutual promises herein contained, the Parties agree as follows:

1. **No Admission.** Neither the making of this Agreement nor the fulfillment of any condition or obligation of this Agreement constitutes an admission of any liability or wrongdoing on the part of either Party. All liability by either Party to the other has been and is expressly denied.
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2. **Entire Agreement.** This Agreement, including the Exhibits hereto, supersedes and replaces any and all other agreements, written or verbal, between the Company and Employee. Employee represents and acknowledges that in entering into this Agreement, he does not rely and has not relied upon any representation or statement made by the Company or any of its agents, representatives or attorneys with regard to the subject matter, basis or effect of this Agreement or otherwise, other than the representations contained in this Agreement.
3. **Effective Date.** This Agreement shall become effective and enforceable on the day that it is executed by both Parties (the “*Effective Date*”).
4. **Voluntary Agreement.** Employee represents that he has carefully read and fully understands all the provisions of this Agreement, that he is competent to execute this Agreement, and that he is knowingly and voluntarily entering into this Agreement of his own free will and accord, without reliance upon any statement or representation of any person or parties released, or their representatives, concerning the nature and extent of the damages or legal liability therefor.
5. **Employee Acknowledgments. Employee acknowledges that:**
 - a. **He has been advised by the Company to consult with the attorney of his choice prior to signing this Agreement.**
 - b. **He understands he has at least 21 days from the date this Agreement was given to him within which to consider this Agreement, and that he may accept this offer and its terms by executing this Agreement and returning a signed copy of this Agreement to John F. Schwalbe at the address set forth in Section 18(h).**
 - c. **He would not be entitled to receive the sums of money and other benefits offered to him and referred to in Sections 6, 7 and 8 below but for his entering into this Agreement.**
 - d. **He understands he may revoke this Agreement after the date he signs it by providing written notice of the revocation to the Company no later than the seventh day after he signs it. As such, all payment and other obligations of the Company contained in this Agreement are subject to this seven-day revocation period.**
6. **Payments and Reimbursements.**
 - a. **Pre-Separation Date Services and Expenses.** Employee acknowledges that the Company has already paid to him all salary and wages due to him up to and including the Separation Date, and that he is not entitled to any payment or other remuneration for any bonus, sick leave, vacation leave, or other employment benefits, except as specifically set forth in this Agreement. Within 10 business days of its receipt from the Employee of an

expense reimbursement request, together with detailed itemized expenses, the Company will reimburse Employee for Employee's reasonable out-of-pocket expenses incurred in connection with his performance of his job duties prior to the Separation Date. Such request for reimbursement must, however, be received from the Employee by July 15, 2004.

b. **Severance Payment.** Within 10 business days after the Company's receipt of a fully executed copy of this Agreement, the Company shall pay to Employee, in one lump sum, subject to the usual deductions for payroll taxes and benefits, a total severance payment equivalent to three months of Employee's gross monthly pay of \$15,833, or \$47,500.00 (FORTY-SEVEN THOUSAND FIVE HUNDRED DOLLARS AND NO CENTS). Employee acknowledges that such sum represents a severance payment in exchange for agreeing to a full release of any and all claims arising out of his employment relationship with the Company. Such payment shall not be considered compensation for purposes of determining benefits payable under any Company benefit plan, program, agreement or arrangement, and no service credit shall be given after the Separation Date.

c. **Outplacement Services Reimbursement.** Within 10 business days of its receipt from the Employee of an expense reimbursement request together with detailed itemized expenses, the Company shall reimburse Dupuis for up to \$10,000 (TEN THOUSAND DOLLARS AND NO CENTS) of outplacement and employment counseling services expenses actually incurred by him in connection with his search for a new position, beginning May 15, 2004 and ending on the earlier of April 14, 2005, or the first date on which Dupuis begins full-time employment.

7. **Options and Restricted Stock.** All options granted to Employee during his employment with the Company are listed on **Exhibit B** hereto. On August 15, 2002, the Company granted to Employee under the 2000 Stock Option Plan (the "**2000 Plan**") an option to purchase up to 45,000 shares of the Company's common stock at a purchase price of \$1.99 per share, the right to purchase up to 30,000 shares of which has not yet vested. On July 17, 2003, the Company granted to Employee under the 1994 Stock Option Plan (the "**1994 Plan**") an option to purchase up to 20,000 shares of the Company's common stock at a purchase price of \$1.90 per share, none of which has yet vested (the right to purchase a total of 50,000 shares of which has not yet vested under the foregoing two option grants to purchase a total of up to 65,000 shares, the "**Non-Vested Portion**"). Pursuant to the provisions of the 2000 Plan and the 1994 Plan, Employee must exercise the foregoing options within the 90 days after the termination of his employment and may, during such time, purchase only the number of shares of underlying stock that are currently vested. In consideration for the Employee's agreements contained herein, the Company shall, as of the Effective Date (a) accelerate the vesting of the Non-Vested Portion (see **Exhibit B**); and (b) grant to Dupuis an option under the 2000 Plan to purchase up to 110,000 shares of the Company's common stock, the form of which option is attached hereto as **Exhibit C** (such option, the "**New Option**"). However, all other options granted to the Employee prior to the Separation Date shall be cancelled (see **Exhibit B**), and the 12,000 shares of restricted stock awarded to him under the 1998 Stock Awards Plan (the "**1998 Plan**") shall be forfeited in accordance with the terms of the 1998 Plan.

8. Consulting Agreement.

- a. **Consulting Fees.** As additional consideration for the execution of this Agreement and subject to the terms hereof, the Company shall pay to Dupuis an aggregate fee of \$189,996.00 (ONE HUNDRED EIGHTY-NINE THOUSAND NINE HUNDRED NINETY-SIX DOLLARS AND NO CENTS) (the "**Consulting Fees**") for 12 months of consultation services for the period beginning May 15, 2004 and ending April 14, 2005 (the "**Consulting Period**"). Specifically, the Company shall pay the Consulting Fees in 12 monthly gross amounts of \$15,833.00 each, on or before the third day of each month, with the first such monthly payment due on or before July 3, 2004, and the last such payment due on or before June 3, 2005. The Consulting Fees are separate from and additional to any compensation earned by Dupuis under Section 6(b) above.
- b. **Consultant's Duties.** During the Consulting Period, Dupuis, upon written or oral request of the Company, shall:
- (i) assist the Company in the orderly completion of transactions and the transition of projects that were undertaken during his employment, and consult with and advise the Company concerning issues related to including ongoing business, financial or contractual related matters arising from operations or proposed operations of the Company of which he has knowledge or information;
 - (ii) consult with and advise the Company concerning any litigation, arbitration or disputes arising from any contracts or operations or proposed operations of the Company of which he has knowledge or information, and otherwise assist the Company in the protection of the Company's interests in such litigation, arbitration or disputes; and
 - (iii) otherwise make himself available from time to time for such other reasonable assignments.

Except upon Dupuis's prior written consent, he shall not be required to spend more than 40 hours per month on any of the foregoing duties. If Dupuis shall have at the time of such request have obtained other employment, the Company will coordinate the performance of any of the foregoing duties so as not to unreasonably interfere with any duties or obligations of his new employment. In his capacity as a consultant to the Company, Dupuis will report to and communicate only with John F. Schwalbe, whose contact information is set forth in Section 18(h), and shall not communicate with any other party related to the Company.

- c. **Independent Contractor Status.** The means, methods and details of performing any services to the Company hereunder shall be under Dupuis's control, and he shall therefore be an independent contractor rather than an employee, agent, partner, joint venturer, or representative of the Company. Dupuis shall at all times represent and disclose he is an independent contractor of the Company and shall not represent to any third party that he is an employee, agent, covenantor, or representative of the

Company. Dupuis shall provide such services in a professional, loyal, and timely manner. Subject to the promises contained herein, Dupuis is free to provide services to parties other than the Company.

d. **Benefits.**

(i) **Continuation Coverage Payments.** The Company has given notice to the Dupuis regarding continuation of his current group medical plan coverage [THE COMPANY WILL SOON PROVIDE A TEXAS STATE CONTINUATION ELECTION FORM]. The Company shall pay directly to the issuer of its group medical insurance plan, the continuation coverage premium for Dupuis and his spouse for the nine-month period beginning June 1, 2004 and ending February 28, 2005. For each of the months of March, April and May 2005, on or before the third day of each such month, the Company shall pay to Dupuis with the Consulting Fee for such month an additional \$710.12 per month, which represents the current premium cost for group medical coverage for Dupuis and his spouse under the Company's group medical plan.

(ii) **No Benefits as an Employee.** Dupuis acknowledges that, as an independent contractor to the Company, he is not entitled during the Consulting Period to participation in, coverage under, or benefits from the Company or any of its employee benefit plans, funds, programs or arrangements sponsored or maintained by the Company for its employees (except to the extent that Dupuis participates through the group medical insurance continuation plan as provided in section 10(d)(i) in accordance with the Texas Insurance Code). If for any reason Dupuis's relationship with the Company during the Consulting Period is determined to be that of an "employee" rather than that of an independent contractor, Dupuis expressly waives and declines, from the date hereof, participation in, coverage under, or benefits from the Company or any of its employee benefit plans, funds, programs or arrangements sponsored or maintained by the Company for its employees.

e. **Termination of Consulting Services Agreement.** The agreement to provide consulting services shall terminate upon the following events:

(i) **Death.** The agreement to provide consulting services shall terminate upon the death of Dupuis and, in such case, the Company will pay to Dupuis's estate any unpaid Consulting Fees for the remainder of the Consulting Period.

(ii) **With Cause.** The Company may terminate the agreement to provide consulting services for cause by giving notice to Dupuis that one or more of the following events have occurred:

(a) Dupuis's refusal to perform reasonable consulting services requested by the Company, after written notice from the Company indicating such failure and the subsequent failure of Dupuis to begin providing the

reasonable consulting services requested by the Company within six business days of such notice;

(b) Dupuis's breach of any provision contained herein concerning nondisclosure or non-solicitation;

(c) Dupuis's material breach of any provision of this Agreement after receipt of written notice from the Company indicating such breach and the subsequent failure of Dupuis to cure such breach within six business days of such notice.

In the event of termination of the agreement to provide consulting services for cause, the Company will pay to Dupuis any unpaid Consulting Fees for services rendered prior to the date that notice of termination is given.

(iii) **Termination by Dupuis.** Dupuis may notify the Company that he no longer wishes to provide consulting services as provided in Section 8(b), and, in such event, the Company will pay to Dupuis any unpaid Consulting Fees due for services rendered prior to the effective date of such resignation.

(iv) **Without Cause.** The Company may terminate the consulting services under this Agreement for reasons other than those set forth in Section 8(e) (ii) by written notice to Dupuis. In such event, the Company will continue to pay remainder of the Consulting Fees over the remainder of the Consulting Period, and will continue to pay the continuation coverage premiums and other payments set forth in Section 8(d)(i). Dupuis's sole remedy for any breach of this Agreement by the Company will be the payment of any remaining amounts of Consulting Fees for the Consulting Period.

(v) **No Effect on Provisions Concerning Nondisclosure and Non-Solicitation.** Any termination of this agreement to provide consulting services shall not affect Dupuis's obligations Section 11(a) through (d) or Section 13 of this Agreement.

9. **Release.** As a material inducement to the Company to enter into this Agreement, Dupuis hereby irrevocably and unconditionally releases, acquits and forever discharges the Company and each of the Company and its current or former parent, owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, divisions, subsidiaries, affiliates and all persons acting by, through, under or in concert with any of them, (collectively, the "**Releasees**" or "**Released Parties**"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred), of any nature whatsoever, known or unknown ("**Claim**" or "**Claims**") which Dupuis now has, owns, holds, or which Dupuis at any time heretofore had, owned, or held against Releasees, including, but not limited to:

- a. all Claims under the **Age Discrimination in Employment Act of 1967, as amended;**
- b. all Claims under Title VII of the Civil Rights Act of 1964, as amended, and 42 U.S.C. § 1981;
- c. all Claims under the Employee Retirement Income Security Act of 1974, as amended;
- d. all Claims arising under the Americans With Disabilities Act of 1990, as amended;
- e. all Claims arising under the Family and Medical Leave Act of 1993, as amended;
- f. all Claims related to Employee's employment with the Company;
- g. all Claims of unlawful discrimination based on age, sex, race, religion, national origin, handicap, disability, equal pay, sexual orientation or otherwise;
- h. all Claims of wrongful discharge, retaliation, whistle blowing, breach of an implied or express employment contract, negligent or intentional infliction of emotional distress, libel, defamation, breach of privacy, fraud, breach of any implied covenant of good faith and fair dealing and any other federal, state, or local common law or statutory claims, whether in tort or in contract;
- i. all Claims related to unpaid wages, salary, overtime compensation, bonuses, severance pay, vacation pay or other compensation or benefits arising out of Dupuis's employment with the Company; and
- j. all Claims arising under any federal, state or local regulation, law, code or statute.

In short, Dupuis is voluntarily giving up his right to sue the Company for any alleged wrongdoing which preceded the date that Dupuis signed this Agreement, except that Dupuis does not relinquish his right to challenge this Agreement on the basis that it was not knowing and voluntary. However, Dupuis hereby reaffirms that this Agreement is knowing and voluntary. Dupuis knows that he is voluntarily giving up his right to sue the Company in exchange for the sums of money and other benefits referenced in Sections 6, 7 and 8 above. Dupuis further acknowledges that if he does not sign this Agreement, he will not receive the sums of money and other benefits referenced in Sections 6, 7 and Section 8 above.

(initials)

Dupuis further agrees not to institute any proceedings against the Company or its current or former officers, directors, shareholders, agents, employees, successors or assigns to challenge provisions of this Agreement concerning nondisclosure, non-competition, or non-solicitation, and Dupuis irrevocably waives all defenses to the strict enforcement of such provisions. Dupuis quitclaims and releases any claim he may have to any ownership, license, or other interest in the Confidential Information and goodwill of the Company and acknowledges that the Company is the exclusive owner of the Confidential Information and goodwill.

10. **No Lawsuits Filed or to be Filed.** As a material inducement to the Company to enter into this Agreement, Employee represents that he has filed no lawsuits or administrative complaints against the Company and, if he has filed any lawsuits or administrative complaints against the Company, he will notify the Company of such lawsuits or administrative complaints and cause them to be dismissed with prejudice. It is understood and agreed that the release of liability described in this Agreement is a material provision of this Agreement. Accordingly, Employee knowingly and voluntarily covenants and promises not to sue or otherwise pursue legal action against the Company, other than for breach of this Agreement, and further covenants and promises that if Employee recovers in any legal action, the Company shall be entitled to restitution, recoupment or a setoff from Employee in the amount of the payments and other benefits paid under Sections 6 and 8, and to cancel the New Option.
11. **Restricted Activities.** In addition to the otherwise enforceable agreements and promises contained herein, Dupuis further agrees as follows:
- a. **Non-Interference with Customers or Suppliers.** During the one-year period beginning on the Effective Date and ending on the one-year anniversary of the Effective Date (the “*Restricted Period*”), Dupuis will not, without the express prior written consent of an authorized officer of the Company, directly or indirectly, in one or a series of transactions, recruit, solicit or otherwise induce or influence, any supplier, customer or any other person or entity that has a business relationship with the Company, or had a business relationship with the Company within the 12-month period preceding the Restricted Period, to discontinue, reduce or modify such business relationship with the Company.
 - b. **Non-Solicitation of Employees.** The Parties acknowledge that the employees of the Company are an integral part of the Company and that it is extremely important for the Company to use its maximum efforts to prevent the loss of such employees. The Parties therefore agree that it is necessary to afford fair protection to the Company from the loss of any such employees. Consequently, as material inducement to the Company to pay Dupuis the payments and provide the other benefits described in Sections 6, 7 and 8, Dupuis covenants and agrees that for the Restricted Period, he shall not, directly or indirectly, hire or engage or attempt to hire or engage any individual who shall have been an employee of the Company, at any time during the one-year period prior to the Effective Date, whether for or on his behalf or for any entity in which he has have a direct or indirect interest, whether as a proprietor, partner, co-venturer, financier, investor, stockholder, director, officer, employer, employee, servant, agent, representative or otherwise.
 - c. **Confidential Information.** Dupuis acknowledges and agrees that he had access to certain Confidential Information (as that term is defined below), trade secrets and proprietary data of the Company, by virtue of Dupuis’s employment with the Company, and Dupuis’s participation in the Company’s activities and business. As a further material inducement to the Company to pay Dupuis the payments and provide the other benefits described in Sections 6, 7 and 8, Dupuis agrees to

maintain the secrecy of all Confidential Information (as hereinbelow defined) and agrees not to disclose such Confidential Information to any person(s), (s), partnership(s), corporation(s) or other entity of any nature whatsoever, and agrees to maintain such Confidential Information in the strictest confidence and trust. "**Confidential Information**" means, in whatever form (tangible or intangible, including electronic data recorded or retrieved by any means), any and all trade secrets, confidential knowledge, proprietary data, and information owned by the Company, furnished by the Company to Dupuis, or developed by the Company, contractor, or employee of the Company that relates to the business or activities of the Company, including technical specifications, diagrams, flow charts, methods, processes, procedures, discoveries, concepts, calculations, techniques, formula, systems, designs, research and development plans, marketing plans, business plans, business opportunities, cost and pricing data, customer records and lists, general financial and marketing know-how, copyrightable works and applications for registrations thereof, pending applications for letters patent of the United States and foreign countries, and any such that are issued, granted or published, in common law, state and federal rights relating to and under any trademarks, trade names or service marks (and also including any of the foregoing provided to Dupuis by or on behalf of the Company, prior to the Effective Date), but expressly excluding information which:

- (i) was available to the public prior to the time of disclosure to, or discovery of production by Dupuis;
- (ii) becomes available to the public through no act or omission of Dupuis; or
- (iii) becomes available to Dupuis through or from a third party who is not under any obligation of confidentiality to the Company.

Dupuis hereby expressly acknowledges and agrees that if he shall seek to disclose, divulge, reveal, report, publish, transfer or use, for any purpose whatsoever, any Confidential Information, he shall bear the burden of proving that any such information has become publicly available such that his actions do not constitute a breach of any of his obligations hereunder. Dupuis may disclose Confidential Information if required to disclose such information by law or court order, but before doing so he must provide notice to the Company with regard to such potential disclosure.

- d. **Reformation.** Dupuis agrees that the scope of the restrictions of this Section 11 are reasonable and valid. If a court finds that the provisions of this Section 11 are overly broad with respect to time, scope of activity or otherwise, such court may reform such provision so as to provide the maximum protection legally affordable to the Company. The time period provided in any subsection of this Section 11 shall be extended for any period in which Dupuis violates his promises in such subsection, but such extension shall not be greater than one year. An alleged or actual breach of this Agreement by the Company will not be a defense to enforcement of the provisions of this Section 11 or other obligations of Dupuis to the Company. Dupuis

further irrevocably waives his right to bring any suit or claim against the Company, including a claim for declaratory relief, to challenge the enforceability of any of the covenants contained in Section 11, and irrevocably waives all defenses to the strict enforcement of the covenants contained in this Section 11.

12. **DUPUIS HAS CAREFULLY READ AND CONSIDERED THE PROVISIONS OF THIS AGREEMENT AND, HAVING DONE SO, AGREES THAT THE RESTRICTIONS SET FORTH HEREIN ARE REASONABLE AND ARE REASONABLY REQUIRED FOR THE PROTECTION OF THE BUSINESS INTERESTS AND GOODWILL OF THE AND ITS BUSINESS, OFFICERS, DIRECTORS AND EMPLOYEES. DUPUIS FURTHER AGREES THAT THE RESTRICTIONS SET FORTH IN THIS AGREEMENT ARE NECESSARY TO PROTECT THE CONFIDENTIALITY OF ITS CONFIDENTIAL INFORMATION AND TRADE SECRETS AND GOODWILL AND LEGITIMATE BUSINESS INTERESTS.**
13. **No Disparagement.** Dupuis shall not make or cause to be made any derogatory, negative or disparaging statements, either written or verbal, about the Company or any Released Party.
14. **Future Cooperation in Litigation.** In all future litigation involving the Company for which the Company requests Dupuis's cooperation, he will fully cooperate with the Company. In return for his cooperation, the Company shall pay Dupuis for all the reasonable costs incurred by Dupuis due to his cooperation.
15. **Return of Company Property.** Dupuis acknowledges that on or before the date Dupuis executes this Agreement, he has returned or will return to the Company any and all property, including Confidential Information of the Company, such as (but not limited to) marketing plans and related information, product development plans and related information, trade secret information, pricing information, vendor information, financial information, telephone lists, computer software and hardware, keys, credit cards, vehicle, telephone, and office equipment.
16. **Tax Payments and Withholding.** Dupuis acknowledges that he has received no opinion or advice from the Company regarding the taxability, if any, of payments to be made to him under this Agreement. To the extent any portion of such payments are considered to be taxable income to Dupuis, he will be solely and exclusively responsible for the entire amount of taxes on such income. If the Company is required by law to pay or withhold any taxes on such payments to Dupuis as a result of his failure to do so, then he shall immediately reimburse the Company for the full amount of such payments and any costs or expenses related to the Company's actions in obtaining such reimbursement.
17. **Nondisclosure of Agreement.** The Parties shall not now or in the future disclose or cause to be disclosed the term of this Agreement except (a) as may be necessary in filing tax returns or as may be required to be disclosed in the Company's SEC filings; (b) in connection with enforcing the terms and conditions of this Agreement in a court of law as

provided herein; (c) in response to a valid subpoena or other lawful process; or (d) except as otherwise required by applicable law.

18. **Miscellaneous.**

a. **Opportunity to Cure Breach.** If either Party determines that the other has breached this Agreement, the non-breaching Party will notify the Party in breach of that fact in writing, and the Party in breach will be afforded six business days to cure the breach.

b. **Venue.** Any controversy or claim arising out of or relating to this Agreement or otherwise concerning this Agreement SHALL be brought in a court of competent jurisdiction in Walker County, Texas. The provisions of this Agreement shall be enforced to the fullest extent permissible under the laws and public policies of the State of Texas or any other jurisdiction in which enforcement of this Agreement is sought in the event that the choice of forum provision in this Agreement is found invalid.

c. **Governing Law.** The provisions of this Agreement shall be construed in accordance with the laws of the State of Texas without regard to its conflicts of law principles.

d. **No Transfer.** Dupuis represents and warrants that he has not sold, assigned, transferred, conveyed, or otherwise disposed of, to any third party, by operation of law or otherwise, any action, cause of action, suit, debt, obligation, account, contract, agreement, covenant, guarantee, controversy, judgment, damage, claims, counterclaims, liability, or demand of any nature whatsoever relating to any matter covered in this Agreement.

e. **No waiver; amendment.** No waiver of any of the terms of this Agreement shall be valid unless in writing and signed by both Parties. No waiver or default of any term of this Agreement shall be deemed a waiver of any subsequent breach or default of the same or similar nature. This Agreement may not be changed except by writing signed by both Parties.

f. **Successors and Assignees.** This Agreement shall be binding upon Dupuis and upon his heirs, administrators, representatives, executors, trustees, successors and, as relates to the receipt of payments and other benefits hereunder, permitted assignees, and shall inure to the benefit of the Company and the Releasees, and to their heirs, administrators, representatives, executors, trustees, successors, and assignees.

g. **Further Cooperation.** The Parties will promptly execute any and all other documents that are necessary and appropriate to effectuate the terms of this Agreement.

h. **Notices.** Any notice, requests, demands and other communications to be given under this Agreement shall be in writing and shall be delivered (a) in the case of the Company, to John F. Schwalbe, 10900 Richmond Avenue, #219, Houston, Texas, 77042, telecopier no. (713) 974-2210, and (b) in case of Dupuis, to him at 3302 Birchland Court, Kingwood, Texas 77345. All such notices and other communications shall be deemed validly given, made or served:

- (i) on the date on which it is delivered personally with receipt acknowledged;
- (ii) five business days after it shall have been sent by registered or certified mail (receipt requested and postage prepaid);
- (iii) one business day after it is sent by overnight courier (charges prepaid); or
- (iv) on the same business day when sent before 5:00 p.m., recipient's time, and on the next business day when sent after 5:00 p.m., recipient's time, by telecopier, transmission confirmed.

i. **Multiple Counterparts.** This Agreement may be executed in multiple counterparts, each of which shall be considered to be one and the same instrument.

j. **Equitable Relief.** The Company shall be entitled to enforce its rights under any provision of this Agreement and to exercise all the rights existing in its favor. The Parties agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of Sections 8(e) and 11 of this Agreement and that the Company may, in its sole discretion, apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive relief, including temporary restraining orders, preliminary injunctions, and permanent injunctions in order to enforce or to prevent any violation of such provisions of this Agreement against Dupuis.

k. **Non-Compliance.** All of the payments and benefits provided for Dupuis in this Agreement (other than the severance payment provided for in Section 6(b)) are conditioned upon his compliance with the provisions of Section 11(a) through (d) and Section 13 of this Agreement, which are material and important terms of this Agreement. If either: (i) Dupuis violates any such provision, or (ii) Dupuis challenges the validity of such covenants (though he is prohibited from doing under Section 11(d) of this Agreement), and all or any part of Sections 11(a) through (d) of this Agreement is held to be unenforceable, invalid or illegal for any reason whatsoever by a court of competent jurisdiction, then Dupuis agrees to immediately return all monies paid to him or on his behalf under Section 8 of this Agreement, and the Company shall be entitled to terminate all such payments and benefits and to cancel the New Option, without waiving the right to pursue any other available legal or equitable remedies.

EXECUTED on the 24th day of June, 2004.

/s/P. Blake Dupuis

P. BLAKE DUPUIS

MITCHAM INDUSTRIES, INC.

By: /s/Billy F. Mitcham, Jr.

Its:President & CEO

EXHIBIT A
Resignation of Employee

To: Board of Directors – Mitcham Industries, Inc.

May 14, 2004

Gentlemen:

Please accept my voluntary resignation from the Board of Directors of Mitcham Industries, Inc., effective Wednesday, May 12, 2004, as well as from all positions I hold as an officer of Mitcham Industries, Inc., effective as of Friday, May 14, 2004, including, without limitation, as Chief Operating Officer, Chief Financial Officer and Secretary.

Sincerely,
/s/ P. Blake Dupuis

P. Blake Dupuis

EXHIBIT B
Stock Options

The following incentive stock options were granted to Employee prior to the Separation Date:

<u>Date of Grant</u>	<u>Original Expiration Date</u>	<u>Options Granted</u>	<u>Exercise Price</u>	<u>Vested Prior to the Separation Date</u>	<u>Exercised/ Canceled Prior to the Separation Date</u>	<u>Unvested Prior to the Separation Date</u>	<u>Footnotes</u>
09/29/98	09/29/08	60,000	\$7.375	60,000	0	0	(1)
02/23/99	02/23/09	10,500	\$ 3.56	10,500	0	0	(1)
07/27/00	07/27/10	45,000	\$ 5.13	45,000	0	0	(1)
07/18/01	07/18/11	30,000	\$ 5.00	20,000	0	10,000	(1)
08/15/02	08/15/12	45,000	\$ 1.99	15,000	0	30,000	(2) (3)
07/17/03	07/17/13	20,000	\$ 1.90	0	0	20,000	(2) (3)
	Totals:	210,500		150,500	0	60,000	

(1) The indicated options (vested and unvested) shall be canceled as of the Effective Date.

(2) As of the Effective Date, the expiration date of the indicated options shall be August 12, 2004.

(3) All of the indicated options shall be vested as of the Effective Date.

As of the Effective Date, Employee shall have the following incentive stock options:

<u>Date of Grant</u>	<u>Expiration Date</u>	<u>Exercise Price</u>	<u>Exercisable Number of Options</u>
08/15/02	08/12/04	\$1.99	45,000
07/17/03	08/12/04	\$1.90	20,000
	Totals:		65,000

EXHIBIT C

MITCHAM INDUSTRIES, INC.
NONQUALIFIED STOCK OPTION AGREEMENT
(2000 STOCK OPTION PLAN)

Mitcham Industries, Inc., a Texas corporation (the "**Company**"), has granted to P. Blake Dupuis (the "**Optionee**"), an option ("**Option**") to purchase a total of 110,000 shares of Common Stock (the "**Shares**"), at the price set forth below and in all respects subject to the terms, definitions and provisions of the Company's 2000 Stock Option Plan (the "**Plan**") adopted by the Company, the terms of which are incorporated herein by reference. Capitalized terms used but not defined in this Option shall have the same meanings as are given to them in the Plan.

1. Grant and Nature of Option. This Option is being granted to the Optionee in connection with the consulting agreement contained in the Separation Agreement, Consulting Agreement and Release of even date herewith between the Company and the Optionee (the "**Separation Agreement**"). This Option is intended by the Company and the Optionee to be a Nonqualified Stock Option that does not qualify for any special tax benefits to the Optionee. This Option is not an Incentive Stock Option and is not subject to Section 5(b) of the Plan.

2. Exercise Price. The exercise price is \$4.50 for each Share (the "**Exercise Price**"), which is at least 100% of the fair market value (as defined in the Plan) of a share of Common Stock on the date of grant.

3. Exercise of Option. This Option shall be immediately exercisable, subject to the provisions of Section 9 of the Plan and the provisions of this Option.

This Option is exercisable by written notice stating the election to exercise the Option, the number of Shares in respect of which this Option is being exercised, and such representations and agreements as to the holder's investment intent with respect to such Shares as may be required by the Company. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price in full. This Option shall be deemed exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued on the exercise of this Option unless such issuance and such exercise complies with all relevant provisions of any applicable law including, without limitation, the Securities Act of 1933, as amended (the "**Securities Act**"), the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to approval of counsel for the Company with respect to such compliance. Assuming such compliance, for income tax purposes, the Shares shall be considered transferred to the Optionee on the date on which this Option is exercised with respect to such Shares.

4. Method of Payment. Payment of the exercise price shall be by any of the following, or a combination thereof, at the election of the Board:

(a) cash;

(b) certified or cashier's check; or

(c) surrender of other shares of Common Stock of the Company that (i) either have been owned by the Optionee for more than six months on the date of surrender or were not acquired, directly or indirectly, from the Company and (ii) have a fair market value on the date of surrender equal to the aggregate Exercise Price of the Shares as to which this Option is being exercised.

5. Restrictions on Exercise. This Option may not be exercised if the issuance of such Shares upon such exercise or the method or payment of consideration for such Shares would constitute a violation of any applicable federal or state securities or other law or regulation. As a condition to the exercise of this Option, the Company may require the Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6. Forfeitures. If an Optionee is convicted of or pleads guilty or nolo contendere to any felony criminal offense or any civil offense involving either fraud or the unauthorized disclosure of confidential information of the Company, the Committee may then determine that all outstanding options of the Optionee that have not been exercised are forfeited. The Board has determined that, as is allowed by Section 9(b) of the Plan, this Option shall not be forfeited, and the term during which this Option may be exercised shall not be affected, solely because of the termination of the Optionee's consulting agreement with the Company. However, this Option may be forfeited in accordance with the provisions of Section 18(k) of the Separation Agreement.

7. Non-Transferability of Option. This Option may not be transferred in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. This Option may not be exercised more than five years from the date of grant of this Option, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

DATE OF GRANT: June 24, 2004.

MITCHAM INDUSTRIES, INC.

By: /s/Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer and President

The Optionee acknowledges receipt of a copy of the 2000 Stock Option Plan and represents that he is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. The Optionee has reviewed the 2000 Stock Option Plan and this Option in their entirety and fully understands all provisions of this Option. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the 2000 Stock Option Plan. The Optionee further agrees to notify the Company upon any change in the residence address indicated below:

Dated: June 24, 2004.

/s/P. Blake Dupuis

P. Blake Dupuis

Residence Address:

3302 Birchland Court
Kingwood, Texas 77345

CERTIFICATION

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

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

/s/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer
September 13, 2004

CERTIFICATION

I, Christopher C. Siffert, certify that:

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

/s/ Christopher C. Siffert

Christopher C. Siffert
Vice President & Corporate Controller
September 13, 2004

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

In connection with the Quarterly Report of Mitcham Industries, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Billy F. Mitcham, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer
September 13, 2004

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

In connection with the Quarterly Report of Mitcham Industries, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher C. Siffert, Vice President & Corporate Controller of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Christopher C. Siffert

Christopher C. Siffert
Vice President & Corporate Controller
September 13, 2004