
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended January 31, 2004

OR

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

Commission File No. 000-25142

Mitcham Industries, Inc.

(Exact name of registrant as specified in its charter)

Texas

*(State or other jurisdiction of
incorporation or organization)*

8141 SH 75 South

P.O. Box 1175

Huntsville, Texas

(Address of principal executive offices)

76-0210849

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

77342

(Zip Code)

Registrant's telephone number, including area code:

936-291-2277

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, \$.01 par value

(Title of class)

Indicate by check mark whether the registrant (1) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K.

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

Aggregate market value of the voting stock held by non-affiliates of the registrant: \$15,060,815 as of July 31, 2003.

As of May 20, 2004, there were outstanding 8,799,994 shares of the registrant's common stock, par value \$.01, which is the only class of common or voting stock of the registrant.

MITCHAM INDUSTRIES, INC.

ANNUAL REPORT ON FORM 10-K

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	<u>Certification of Christopher C. Siffert</u>	
	<u>Certification of Billy F. Mitcham, Jr.</u>	
	<u>Certification of Christopher C. Siffert</u>	

PART I

Item 1. *Business*

Mitcham Industries, Inc. (the “Company”), a Texas corporation, was incorporated in 1987. Since our organization, we have primarily been engaged in the leasing and sales of seismic equipment to the seismic industry worldwide. The Company consists of the operations of Mitcham Industries, Inc. and our two wholly-owned subsidiaries, Mitcham Canada Ltd. and Seismic Asia Pacific Pty Ltd. (“SAP”).

We lease and sell geophysical and other equipment used primarily by seismic data acquisition contractors to perform seismic data acquisition surveys on land and in transition zones (marsh and shallow water areas). We conduct our operations on a worldwide basis and are the largest independent seismic equipment lessor in North and South America. Over the last several years advances in seismic technology have increased drilling success rates, thereby reducing the overall costs of finding oil and gas.

We own a variety of technologically advanced equipment acquired from the leading seismic manufacturers. Our lease pool includes many types of equipment used in seismic data acquisition, including all electronic components of land and transition zone seismic data acquisition systems, geophones and cables, earth vibrators, peripheral equipment, survey and other equipment. A substantial amount of our equipment lease pool is provided by two manufacturers, the Sercel subsidiaries of Compagnie Generale de Geophysique (collectively, “Sercel”) and Input/ Output, Inc. (“I/O”). We believe that the majority of the advanced seismic data acquisition systems in use worldwide are either Sercel or I/O systems. At January 31, 2004, approximately 40% of our equipment lease pool, on a cost basis, consisted of seismic recording channel boxes, with the remainder consisting of geophones and other peripheral equipment.

We lease our equipment on a short-term basis, generally for three to nine months, to seismic contractors who need additional capacity to complete a seismic survey. Certain of our short-term leases contain a purchase option. Short-term leasing enables our customers to achieve operating and capital investment efficiencies. A typical seismic crew uses a wide variety of equipment to perform seismic data acquisition surveys. Our customers may lease a small amount of equipment to expand an existing crew’s capabilities or a complete seismic data acquisition system to equip an entire crew. Demand for short-term seismic equipment leases is affected by many factors, including: (i) the highly variable size and technological demands of individual seismic surveys, (ii) seasonal weather patterns and sporadic demand for seismic surveys in certain regions and (iii) costs of seismic equipment. We believe these factors allow seismic contractors to use short-term seismic equipment leasing as a cost-effective alternative to purchasing additional equipment. Our equipment lease rates vary according to an item’s expected useful life, utilization and initial cost.

We also sell a broad range of used seismic equipment on a worldwide basis and 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.

We have supply and exclusive lease referral agreements with several leading seismic equipment manufacturers, including Sercel and Pelton Company, Inc., an Input/ Output company, (“Pelton”), which we believe provide us with certain competitive advantages. Under these agreements, we are the exclusive worldwide short-term leasing representative for certain products.

Business Strategy

Our business strategy is to meet the needs of users of seismic equipment through our equipment leasing. To accomplish this, we have identified the following major objectives:

- *Provide a technologically advanced seismic equipment lease pool.* We intend to maintain the size and diversity of our equipment lease pool, including most recently, the addition of marine equipment. We believe that the availability of a large and diverse seismic equipment lease pool encourages seismic data acquisition contractors to lease, rather than purchase, such equipment, due to the capital and operating efficiencies provided by short-term leases.

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- *Continue to expand international operations.* Historically, North and South America have been our core operating areas, with a limited amount of international leasing activities, but as domestic drilling activity has decreased, our revenues from international sources have increased. We believe there are significant opportunities to continue to expand our international leasing activities.
- *Maintain alliances with major seismic equipment manufacturers.* Our relationships with leading seismic equipment manufacturers allow us to expand our equipment lease pool on favorable terms. We believe such relationships improve our access to customers and provide a competitive advantage.
- *Pursue additional business development opportunities.* We regularly evaluate opportunities to expand our business activities within the oil service industry, particularly in the seismic sector.

Seismic Technology and the Industry

Seismic surveys are a principal source of information used by oil and gas companies to identify geological conditions that are favorable for the accumulation of oil and gas and to evaluate the potential for successful drilling, development and production of oil and gas. Seismic technology has been used by the oil and gas industry since the 1920's and has advanced significantly with improvements in computing and electronic technologies. Beginning in the early 1990's, the oil and gas industry has significantly expanded its use of 3-D seismic data which provides a more comprehensive subsurface image and is believed to have contributed to improved drilling success rates, particularly in mature oil and gas basins such as those in North America. Additionally, 2-D seismic data continues to be used in many areas where 3-D data acquisition is cost prohibitive or logistical access is limited.

Oil and gas exploration companies utilize seismic data generated from the use of digital seismic systems and peripheral equipment in determining optimal locations for drilling oil and gas wells, in the development of oil and gas reserves and in reservoir management for the production of oil and gas. A complete digital seismic data acquisition system generally consists of (i) a central electronics unit that records and stores digital data ("CEU"), (ii) seismic recording channel boxes that contain from one to eight seismic channels ("channel boxes"), (iii) geophones, or seismic sensors, (iv) energy sources including dynamite, compressed air guns or earth vibrators that create the necessary acoustic wave to be recorded, (v) cables that transmit digital seismic data from the channel boxes to the CEU, (vi) geographic survey equipment, drilling equipment for shot holes and (vii) other peripheral, or accessory, equipment.

In seismic data acquisition, an acoustic wave is generated at or below the earth's surface through the discharge of compressed air, the detonation of small explosive charges or the use of vibrators. As the acoustic wave travels through the earth, it is reflected by the underlying rock layers and the reflected energy is captured by the geophones, which are sited at intervals along paths from the point of acoustical impulse. The resulting signals are then transmitted to the channel boxes, which convert the signals from analog to digital data and transmit this data via cable to the CEU. The CEU stores the seismic data on magnetic tape or disk for processing. The digital data is then input into a specialized seismic processing system that uses sophisticated computer software programs to enhance the recorded signal and produce an image of the subsurface strata. By interpreting seismic data, oil and gas exploration companies create detailed maps of exploration prospects and oil and gas reservoirs.

In the past, the 2-D seismic survey was the standard data acquisition technique used to map geologic formations over a broad area. 2-D seismic data can be visualized as a single vertical plane of subsurface information. Data gathered from a 3-D seismic survey is best visualized as a cube of information that can be sliced into numerous planes, providing different views of a geologic structure with much higher resolution than is available with traditional 2-D seismic survey techniques. 3-D seismic surveys generally require a larger amount of equipment than 2-D surveys. By using a greater number of channels and flexible configuration, 3-D seismic data provides more extensive and detailed information regarding the subsurface geology than does 2-D data. As a result, 3-D data allows the geophysicists interpreting the data to more closely select the optimal location of a prospective drillsite or oil and gas reservoir.

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In the exploration and development process, oil and gas companies establish requirements for seismic data acquisition programs based on their technical objectives. Because of the expense associated with drilling oil and gas wells, decisions whether or where to drill are critical to the overall process. Since 3-D seismic data increase drilling success rates and reduce costs, we believe that 3-D seismic surveys are now predominant. As a result of the increasing requirements for this higher resolution data, which in turn requires additional channels to collect and transmit the data, seismic data acquisition systems have been expanding in size during the past several years.

Industry advances include the use of high resolution 3-D, three-component geophones (“3D-3C”), which enhance the 3-D image, and time lapse (“4-D”) seismic, where surveys are periodically reacquired to allow the monitoring of producing oil and gas fields for optimal production and reserve recovery. These and other technical advances have contributed to increased drilling success rates and reduced oil and gas finding costs.

With the expanded use of seismic technology, particularly 3-D seismic, the size of data acquisition surveys has increased substantially in the past several years. Demand for higher resolution data, larger surveys and more rapid completion of such surveys is requiring seismic contractors to use data acquisition systems with a greater number of seismic recording channels. Additionally, in many areas, such as North America, the size of seismic surveys varies significantly, requiring frequent changes in the configuration of equipment and crews used for seismic surveys. As a result of these advances, seismic survey channel count has increased from smaller 2-D surveys, which typically averaged 120 channels, to larger 3-D surveys which today average approximately 2,000 channels and often use 5,000 or more channels. We believe that many seismic contractors will continue to meet changes in equipment needs by leasing incremental equipment to expand crew size as necessary, thereby reducing the substantial capital expenditures required to purchase such equipment.

Business and Operations

Seismic Equipment Leasing. We own a comprehensive lease pool of seismic equipment for short-term (typically less than one year) lease to our customers, which primarily include seismic contractors. We lease such equipment multiple times until the end of its useful life or its sale. Our equipment leasing services generally include the lease of the various components of seismic data acquisition systems and related equipment to meet a customer’s job specifications. Such specifications frequently vary as to the number of required recording channels, geophones, energy sources (e.g., earth vibrators) and other equipment. Our customers generally lease seismic equipment to supplement their owned inventory of recording channels and related equipment.

Our equipment lease pool includes a total of approximately 38,600 seismic recording channels (each channel being capable of electronically converting seismic data from analog to digital format and transmitting the digital data), geophones and cables, earth vibrators, peripheral equipment and geographic survey and other equipment. All of our lease pool equipment is manufactured by leading seismic equipment manufacturers and is widely used in the seismic industry.

Our equipment leases generally have terms of three to nine months and are typically renewable on a month-to-month basis. We provide maintenance of our leased equipment during the lease term for malfunctions due to failure of material and parts and will provide replacement equipment, as necessary. In addition, we provide field technical support services when requested by our customers.

Our equipment lease rates vary according to an item’s expected useful life, utilization and initial cost. The lessee must also obtain and keep in force insurance for the replacement value of the equipment and a specified minimum amount of general liability and casualty insurance on the leased equipment during the term of the lease. Before equipment is delivered, the lessee must provide certification that we have been named an additional insured and loss payee on its policies. The lessee is responsible for all maintenance and repairs of leased equipment other than those arising from normal wear and tear. All taxes (other than U.S. federal income taxes) and assessments are the contractual obligation of the lessee.

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Seismic equipment leasing is susceptible to weather patterns in certain geographic regions. In Canada, a significant percentage of the seismic survey activity occurs in the winter season, from November through March. During the months in which the weather is warmer, certain areas are not accessible to trucks, earth vibrators and other heavy equipment because of the unstable terrain. In the United States and in international markets other than Canada, most of the seismic survey work is not usually affected by weather. As a result of Canadian weather conditions, we attempt to manage our equipment lease pool to meet seasonal demands. Equipment leased in Canada during the winter months is typically moved to other markets during periods of slack Canadian demand.

While it is our general practice to lease our seismic equipment on a monthly basis, to respond to very competitive market conditions in the Canadian market in the winter months, we have in recent years leased certain equipment on a usage rather than on a monthly basis. In fiscal 2004, we implemented a new billing practice for these customers of requiring that certain seismic equipment be leased on a monthly rather than on a usage basis.

Seismic Equipment Sales. We buy equipment for resale in response to specific customer orders. We also sell used equipment from our lease pool. On occasion, we will also hold equipment of third parties and sell such equipment on consignment.

Other Equipment Sales. SAP, headquartered in Brisbane, Australia, 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. SAP is a manufacturer's representative for an array of equipment lines. SAP also supplies and services hydrographic, and radio and satellite positioning equipment for government and private entities.

Key Supplier Agreements

The Sercel Lease Agreement

Effective April 9, 2003, we renewed our then-existing exclusive leasing arrangement with Sercel, a major manufacturer of 3-D seismic data acquisition equipment, by entering into a new Equipment Lease Agreement (the "Sercel Agreement").

Under this agreement, we are Sercel's exclusive third-party worldwide short-term (for leases of a duration of less than one year) leasing representative for land-based seismic equipment and its non-exclusive leasing representative with respect to certain marine seismic equipment. While there are no restrictions on Sercel's ability to undertake short-term or long-term leasing of either land-based or marine seismic equipment, Sercel will provide us with information regarding any potential leases or sales opportunities that Sercel does not undertake.

The Sercel Agreement now expires December 31, 2004, but is subject to termination by Sercel before that date on (a) Sercel's reasonable belief that we have violated or intend to violate the Foreign Corrupt Practices Act of 1977, as amended, (b) our refusal or inability to certify that we are in compliance with laws applicable to its activities, or (c) our insolvency, voluntary or involuntary bankruptcy, assignment for the benefit of creditors or discontinuance as a going concern.

Other Agreements

We have an exclusive lease referral agreement (the "Pelton Agreement") with Pelton, a leading manufacturer and supplier of vibrator control electronics, which was acquired by I/O in January 2001. The terms of the Pelton Agreement are similar to those of the Sercel Agreement, except that (a) Pelton may not engage in short-term leasing (leases for periods of less than a year) of the equipment covered, and (b) the Pelton Agreement may be terminated by either party upon 90 days' prior written notice.

SAP has a number of manufacturer's representation agreements for major product lines, including: acoustic positioning systems, computer and electronic maintenance consumables, data acquisition and management systems, electrostatic and plotter consumables, geophone, cable and instrument repairs,

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geophones, hydrophones, connectors, cables, test equipment, GPS systems — geodetic and navigational, including Sercel differential GPS, graphic recorders, heave compensators and attitude sensors, hydrographic data acquisition systems, magnetometers, oceanographic and hydrographic instrumentation, tide gauges and current meters, radio positioning equipment, underwater and surface ROVs, land and marine seismic sources, side-scan sonar and sub-bottom profiling systems, underwater communications and location devices, echo sounders and transducers.

In fiscal years 2002 and 2003, we had a Commercial Representative Agreement (the “Sercel Sales Agreement”) with Georex, Inc., a wholly-owned subsidiary of Sercel, under which we were Sercel’s designated sales representative in Canada for seismic data acquisition and other field equipment. The Sercel Sales Agreement was subject to termination by either party on 90 days’ prior written notice. On October 28, 2002, we were notified that Sercel was terminating the Sercel Sales Agreement effective January 26, 2003. Total commissions earned under this agreement in the 2002 and 2003 fiscal years were \$1,273,000, with \$4,000 of that amount earned in fiscal 2003.

Discontinued Operations

On January 28, 2002, we formed a wholly-owned subsidiary, Drilling Services, Inc. (DSI), to own and operate a fleet of seismic shot hole drills and to provide other services required by seismic data acquisition contractors. On August 1, 2003, we sold the operating assets of DSI. Our 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.

We have recorded an asset impairment charge of \$700,000 related to the sale of those assets. The impairment charge is included in the loss from discontinued operations. The operating results and assets and liabilities of DSI are presented as discontinued operations and all prior period statements have been restated accordingly. We recorded a loss from discontinued operations, net of applicable taxes of \$2,422,000 in fiscal 2003 and \$2,715,000 in fiscal 2004.

Customers; Sales and Marketing

Our lease customers are seismic data acquisition contractors. We typically have a small number of lease customers, the composition of which changes yearly as leases are negotiated and concluded and equipment needs vary. As of January 31, 2004, we had lease customers with 57 active leases of various lengths, but typically for less than a year. Our seismic equipment sales customers include seismic data acquisition contractors, foreign governments, universities, engineering firms and research organizations worldwide.

We participate in both domestic and international trade shows and expositions to inform the industry of our products and services. In addition to advertising in major geophysical trade journals, direct advertising in the form of a semi-annual listing of equipment offerings is mailed to over 1,000 industry participants. In addition, we advertise our alliances with Sercel and Pelton in major geophysical trade journals and list our seismic equipment available for sale and lease on our website, www.mitchamindustries.com.

We work with a network of representatives in several international markets, including Europe, Russia and other former Soviet Union countries. These agents generate equipment sales and, to a lesser extent, equipment leasing business for us and are compensated on a commission basis. We also expend resources in the areas of customer service, product support and the maintenance of customer relationships.

Competition

Our major competitors are the major seismic equipment manufacturers, who sell equipment on financed terms. We face lesser competition from several companies that engage in seismic equipment leasing, but competition has historically been fragmented and our competitors have not had as extensive a seismic equipment lease pool as we do. We compete for seismic equipment leases on the basis of (i) price and delivery, (ii) variety and availability of both peripheral seismic equipment and complete data acquisition systems and (iii) length of lease term. Our lease pool service and repair is also a major competitive advantage.

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We compete in the used equipment sales market with a broad base of seismic equipment owners, including major oil and gas exploration companies and seismic data acquisition contractors which use and eventually dispose of seismic equipment, many of which have substantially greater financial resources than us. We believe there is one competitor in the used seismic equipment sales business that generates comparable revenues from such sales, as well as numerous, smaller competitors who, in the aggregate, generate significant revenue from such sales.

Suppliers

We have several suppliers of seismic equipment for our lease pool. We acquire the majority of our seismic lease pool equipment from equipment manufacturers, Sercel and I/O. Other suppliers of peripheral seismic equipment include OYO Geospace Corporation (geophones, cables and seismic cameras), Steward Cable (cables) and Mark Products (geophones and cables). From time to time, we purchase new and used peripheral seismic equipment from various other manufacturers. Management believes that its current relationships with its suppliers are satisfactory.

Employees

As of January 31, 2004, we employed 62 people, none of whom is covered by a collective bargaining agreement. We consider our employee relations to be satisfactory.

Forward-Looking Statements and Risk Factors

Certain information contained in this Annual Report on Form 10-K (including statements contained in Part I, Item 1. "Business", Part I, Item 3. "Legal Proceedings" Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 9A. "Controls and Procedures"), as well as other written and oral statements made or incorporated by reference from time to time by us and our representatives in other reports, filings with the United States Securities and Exchange Commission (the "SEC"), press releases, conferences, or otherwise, may be deemed to be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 ("the Exchange Act"). This information includes, without limitation, statements concerning our future financial position and results of operations; planned capital expenditures; business strategy and other plans for future operations; the future mix of revenues and business; commitments and contingent liabilities; and future demand for our services and predicted improvement in energy industry and seismic service industry conditions. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. When used in this report, the words "anticipate," "believe," "estimate," "expect," "may," and similar expressions, as they relate to the Company and our management, identify forward-looking statements. The actual results of future events described in such forward-looking statements could differ materially from the results described in the forward-looking statements due to the risks and uncertainties set forth below and elsewhere within this Annual Report on Form 10-K.

Demand for Land-Based Seismic Data Not Assured

Demand for our services depends on the level of spending by oil and gas companies for exploration, production and development activities, as well as on the number of crews conducting land and transition zone seismic data acquisition worldwide, and especially in North America.

Loss of Significant Customers Will Adversely Affect Us

We typically lease and sell significant amounts of seismic equipment to a relatively small number of customers, the composition of which changes from year to year as leases are initiated and concluded and as customers' equipment needs vary. Therefore, at any one time, a large portion of our revenues may be derived from a limited number of customers. In the fiscal years ended January 31, 2002, 2003 and 2004, the single largest customer accounted for approximately 22%, 13% and 11%, respectively, of our consolidated revenues.

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Because our customer base is relatively small, the loss of one or more customers for any reason could adversely affect our results of operations.

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

On January 31, 2004, we had approximately \$7.8 million of customer accounts and notes receivable of which \$1.7 million was over 90 days past due. At January 31, 2004, we had an allowance of \$0.9 million to cover losses in our receivable balances. Significant payment defaults by our customers in excess of the allowance would have a material adverse effect on our financial position and results of operations.

International Economic and Political Instability Could Adversely Our Results of Operations

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

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

For accounting purposes, balance sheet accounts of the Canadian and Australian subsidiaries are translated at the current exchange rate as of the end of the accounting period. Income statement items are translated at average currency exchange rates. The resulting translation adjustment is recorded as a separate component of comprehensive income within shareholders' equity. This translation adjustment has become material because of the significant amount of equipment assigned to our Canadian operations and the significant fluctuations in the Canadian dollar exchange rate over the last few years.

We Must Continually Obtain Additional Lease Contracts

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

Dependence on Key Personnel

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

Our Seismic Lease Pool is Subject to Technological Obsolescence

We have a substantial capital investment in seismic data acquisition equipment. The development by manufacturers of seismic equipment of newer technology systems or component parts that have significant

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

Weather Conditions Cause Seasonal Results

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

Competition

We have several competitors engaged in seismic equipment leasing and sales, including seismic equipment manufacturers, data acquisition contractors and oil and gas exploration companies that use seismic equipment, many of which have substantially greater financial resources than us. There are also several smaller competitors that, in the aggregate, generate significant revenue from the sale of seismic survey equipment. Pressures from existing or new competitors could adversely affect our business operations.

We are also aware of several companies that engage in seismic equipment leasing. We believe that our competitors, in general, have neither as extensive a seismic equipment lease pool as we do, or similar exclusive lease referral agreements with suppliers. Competition exists to a lesser extent from seismic data acquisition contractors that may lease equipment that is temporarily idle.

Volatile Stock Prices and No Payment of Dividends

Due to recent energy industry conditions, energy and energy service company stock prices, including our stock price, have been extremely volatile. Such stock price volatility could adversely affect our business operations by, among other things, impeding our ability to attract and retain qualified personnel and to obtain additional financing if such financing is ever needed. We have historically not paid dividends on our common stock and do not anticipate paying dividends in the foreseeable future.

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

Certain provisions of our Articles of Incorporation and the Texas Business Corporation Act may tend to delay, defer or prevent a potential unsolicited offer or takeover attempt that is not approved by our Board of Directors but that our shareholders might consider to be in their best interest, including an attempt that might result in shareholders receiving a premium over the market price for their shares. Because our Board of Directors is authorized to issue preferred stock with such preferences and rights as it determines, it may afford the holders of any series of preferred stock preferences, rights or voting powers superior to those of the holders of common stock. Although we have no shares of preferred stock outstanding and no present intention to issue any shares of our preferred stock, there can be no assurance that we will not do so in the future.

Limitation on Directors' Liability

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

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Item 2. Properties

We own our corporate office and warehouse facilities in Huntsville, Texas. Our headquarters facility consists of 25,000 square feet of office and warehouse space on approximately six acres. We also lease approximately 31,000 square feet of office and warehouse space at our facility in Calgary, Canada. SAP leases approximately 4,400 square feet of office and warehouse space in Brisbane, Australia. Our U.S. subsidiary, DSI, leases approximately 26,650 square feet of office and warehouse space in Brookshire, Texas. The DSI leases will terminate in fiscal 2005.

Item 3. Legal Proceedings

No material lawsuits existed as of the fiscal year ended January 31, 2004.

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

None

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Market Information for Common Stock

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

	<u>High</u>	<u>Low</u>
Fiscal Year Ended January 31, 2003:		
First Quarter	\$4.40	\$3.50
Second Quarter	4.10	1.76
Third Quarter	2.12	1.05
Fourth Quarter	1.75	1.05
Fiscal Year Ended January 31, 2004:		
First Quarter	\$1.47	\$0.87
Second Quarter	2.22	1.15
Third Quarter	2.50	1.65
Fourth Quarter	4.18	1.90

As of May 20, 2004, there were over 4,000 holders of the common stock.

DIVIDEND POLICY

We have not paid any cash dividends on the common stock since our inception, and our Board of Directors does not contemplate the payment of cash dividends in the foreseeable future. It is the present policy of the Board of Directors to retain earnings, if any, for use in developing and expanding our business. In the future, our payment of dividends will also depend on our financial condition, results of operations and such other factors as our Board of Directors may consider.

Item 6. Selected Financial Data

Years Ended January 31,

	2000	2001	2002	2003	2004
	(Amounts in thousands, except per share amounts)				
Net sales and other revenues	\$10,644	\$20,597	\$27,183	\$14,139	\$22,406
Loss from continuing operations	(4,864)	(2,946)	(8,457)	(7,677)	(3,574)
Loss from continuing operations per common share — basic and diluted	(0.51)	(0.32)	(0.95)	(0.88)	(0.41)
Cash dividends declared per common share	—	—	—	—	—
Balance Sheet Data:					
Cash and marketable securities	17,399	11,402	8,244	5,137	6,834
Seismic equipment lease pool, property and equipment, cost basis	74,537	91,435	90,381	84,552	84,624
Total assets	67,705	72,561	58,795	44,340	40,730
Long-term debt	—	5,444	4,079	4,622	2,418
Total liabilities	7,430	18,573	16,192	10,682	9,933
Total shareholders' equity	60,275	53,988	42,603	33,658	30,797

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**Overview**

Our revenues are directly related to the level of worldwide oil and gas exploration activities and the profitability and cash flows of oil and gas companies and seismic contractors, which in turn are affected by expectations regarding the supply and demand for oil and natural gas, energy prices and finding and development costs.

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

We lease and sell seismic data acquisition equipment primarily to seismic data acquisition companies conducting land and transition zone seismic surveys worldwide. We provide short-term leasing of seismic equipment to meet a customer's requirements and offer technical support during the lease term. The majority of all active leases at January 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.

For the years ended January 31, 2002, 2003 and 2004, revenues from foreign customers totaled \$21.7 million, \$12.0 million and \$16.5 million, which is 80%, 85% and 74% of consolidated revenues in those fiscal years, respectively. The majority of our transactions with foreign customers are denominated in United States, Australian and Canadian dollars.

Seasonality

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

Results of Operations

During fiscal 2004, our results of operations were affected by several significant factors. Our revenues increased \$8.3 million, reflecting significant increases in both leasing and sales from the prior fiscal year. The increase in revenues is attributable to several factors. One significant factor is the inclusion of the results of SAP for the whole fiscal year versus two months in the prior year, which accounted for approximately \$2.7 million of the current year increase, primarily from sales of hydrographic and oceanographic equipment. Additionally, during the fiscal year, we expanded our marine seismic business, which resulted in the execution of several high-dollar rental contracts and several marine sales transactions having an aggregate value of \$1.2 million. Also contributing to our increase in fiscal 2004 revenues is a general increase in demand for short-term rentals in the United States from some of our seismic contractor customers. We believe that this increased demand resulted from the decision by a major contractor to cease land-based operations in North America, which benefited these customers due to the reduced level of competition.

Our fixed and variable costs are an important factor affecting our results of operations. Due to the size and age of our seismic equipment lease pool, depreciation expense is our single largest expense item, which amounted to \$13.7 million for fiscal 2004. This expense will vary between periods based on acquisitions of new equipment and sales of equipment with remaining depreciable life. Our general and administrative expenses remained fairly level over the past three fiscal years, except for fiscal 2004, which included a full year of expenses related to SAP totaling \$0.6 million. Direct cost of seismic leasing is a variable expense that fluctuates with our equipment leasing revenues. The main components of this cost are freight, sublease expenses and repairs and maintenance, to the extent that repairs performed are normal wear and tear and not billable to the lease customer.

Another significant factor that affected our results of operations for fiscal 2004 was currency translation adjustments. The decline in value of the United States dollar relative to the Canadian dollar resulted in an increase in both revenues and expenses from our Canadian subsidiary. The result was that our net loss was \$0.3 million greater than it would have been had the results from our Canadian operations been translated at the average exchange rate that prevailed in fiscal 2003.

Revenues

For fiscal 2004, consolidated revenues increased \$8.3 million, or 58%, to \$22.4 million from fiscal 2003, driven by increases in both leasing and sales activity during the year. Consolidated revenues for fiscal 2003 decreased approximately \$13.0 million, or 48%, from fiscal 2002 due mainly to the loss of three significant customers that ceased operations in fiscal 2002.

During fiscal 2004, leasing revenues increased \$5.4 million, primarily as a result of an increase in our North American revenues, our expanding marine seismic business, our first large rental contract in the South East Asia market, and the inclusion of the operations of SAP, which we acquired in December 2002. SAP's revenues for fiscal 2004 were approximately \$3.3 million as compared to approximately \$0.6 million in fiscal 2003. Foreign currency translation rates had the effect of increasing fiscal 2004 revenues by \$1.0 million from fiscal 2003 levels.

During fiscal 2003, leasing revenues decreased primarily due to the business decline of three of our customers in fiscal 2002. Foreign currency translation rates had the effect of decreasing fiscal 2003 revenues by approximately \$38,000 from fiscal 2002 levels.

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During fiscal 2002, we executed several high-dollar lease contracts with a customer in South America that attributed to our increase in revenues for the year. Foreign currency translation rates had the effect of decreasing fiscal 2002 revenues by approximately \$449,000 from fiscal 2001 levels. Included in fiscal 2002 revenues is commission income of \$1.3 million. This commission income was earned by Mitcham Canada pursuant to the Sercel Sales Agreement, was based on direct sales by Sercel to various customers and was recognized when Sercel paid the applicable commission to us.

Seismic equipment sales for fiscal 2004 were \$8.6 million as compared to \$5.8 million and \$5.9 million for fiscal 2003 and 2002, respectively. Cost of sales for the fiscal years ended January 31, 2004, 2003 and 2002 was \$4.7 million, \$4.6 million and \$5.0 million, respectively. Gross margins on equipment sales were 45%, 22% and 16% for fiscal years 2004, 2003 and 2002, respectively. Gross margins on equipment sales will vary significantly between periods due to the mix of sales revenue between new seismic equipment versus sales of depreciated seismic equipment being sold from our lease pool.

Costs and Expenses

For fiscal 2004, depreciation expense was \$13.7 million, which is \$1.0 million, or 7%, lower than fiscal 2003 depreciation expense. During fiscal 2003, we recorded depreciation expense in the amount of \$14.7 million. This amount reflects a decrease of \$1.3 million, or 8%, from the fiscal 2002 amount. For fiscal 2004, foreign currency translation rates had the effect of increasing depreciation expense by \$1.1 million from the fiscal 2003 amount. Foreign currency translation rates had the effect of decreasing depreciation expense for fiscal 2003 by \$58,000 from the fiscal 2002 amount. In fiscal 2002, we recorded depreciation expense in the amount of \$16.0 million, which reflected a \$2.9 million, or 22%, increase above the fiscal 2001 amount. Foreign currency translation rates had the effect of decreasing depreciation expense for fiscal 2002 by \$353,000 from the fiscal 2001 amount.

The decrease in fiscal 2004 and fiscal 2003 depreciation expense is largely because certain equipment reached the end of its depreciable life during each of those years, coupled with the sales of assets with remaining depreciable life. The increase in depreciation expense during fiscal 2002 was primarily a result of our replacement of older, fully depreciated seismic equipment with new, state-of-the-art technology.

Direct costs for fiscal 2004 were \$2.3 million, which was approximately \$1.0 million greater than fiscal 2003 direct costs. The increase is largely attributable to an increase in sublease expenses of \$645,000. For fiscal 2003, direct costs totaled \$1.4 million, representing a decrease of \$0.9 million from the fiscal 2002 amount of \$2.2 million. This decrease is attributable to the significant decrease in leasing activity during the fiscal year. Specifically, the decrease is mainly attributable to decreases in freight, equipment repairs and sublease expenses of \$134,000, \$474,000 and \$276,000, respectively. For fiscal 2002, our direct costs totaled approximately \$2.2 million, for an increase of \$450,000 over the fiscal 2001 amount. This increase is a result of the significant increase in equipment leasing activity during the year. The increase is attributable to increases in freight and equipment repairs of \$72,000 and \$478,000, respectively, partially offset by a decrease in leased equipment expenses of \$152,000. Direct costs typically fluctuate with leasing revenues, as the three main components of direct costs are freight, equipment repairs and sublease expense.

General and administrative expenses for fiscal 2004 totaled \$5.1 million, or \$0.6 million greater than fiscal 2003 expenses of \$4.5 million. This increase is due to the inclusion of the results of operations of SAP for a full year, which had general and administrative expenses totaling \$0.5 million greater than the prior year. For the fiscal year ended January 31, 2003, our general and administrative expenses totaled \$4.5 million, or \$1 million above those of fiscal 2002, which is entirely attributable to the inclusion of SAP. For the fiscal year ended January 31, 2002, our general and administrative expenses totaled approximately \$4.4 million, or \$0.2 million above those of fiscal 2001. This increase is primarily due to an increase in insurance, professional fees and debt acquisition costs, partially offset by a decrease in travel, rent and customer relation expenses.

During fiscal 2004, we recorded a provision for doubtful accounts in the amount of \$25,000 compared to a non-cash net benefit for doubtful accounts in the amount of \$1.9 million recorded in fiscal 2003. Of this net benefit, approximately \$1.7 million represents recoveries of receivables written off in the prior fiscal year. The recovery was in the form of seismic equipment that we accepted as a settlement of trade receivables owed to

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us by a former customer, who ceased operations that year. The remaining \$0.2 million benefit resulted from our collecting an outstanding note receivable that had been fully reserved in prior fiscal years due to the uncertainty of collection. Once the funds were collected, we reduced our allowance for doubtful accounts and recorded the net benefit. Our provision for doubtful accounts in fiscal 2002 was approximately \$5.1 million. In fiscal 2002, we had reserved or written off approximately \$5.0 million in trade and note receivables related to three customers who advised us they were ceasing operations and did not have the resources to pay their outstanding obligations to us. At January 31, 2004 and 2003, we had past due trade accounts and note receivables in the approximate amount of \$1.7 million and \$0.7 million, respectively. As of January 31, 2004 and 2003, our allowance for doubtful accounts and notes receivable amounted to \$0.9 million and \$0.8 million, respectively.

During fiscal 2004, we recorded a non-cash impairment charge of \$0.7 million against assets held for sale as a result of our decision to sell the operating assets of DSI. No such charge was recorded in fiscal 2003 or 2002.

For fiscal 2004, we recorded a net loss from continuing operations in the amount of \$3.6 million, compared to a net loss from continuing operations for fiscal 2003 and 2002 in the amount of \$7.7 million and \$8.5 million, respectively. The net loss from discontinued operations in fiscal 2004 was \$2.7 million, compared with a net loss of \$2.4 million in fiscal 2003 and nil in 2002.

Liquidity and Capital Resources

As of January 31, 2004, we had net working capital of approximately \$7.4 million as compared to net working capital of \$3.3 million at January 31, 2003. Historically, our principal liquidity requirements and uses of cash have been for capital expenditures and working capital. Our principal sources of cash have been cash flows from operations and proceeds from sales of lease pool equipment. Net cash provided by operating activities for the year ended January 31, 2004 was \$7.0 million, as compared to net cash used in operating activities of \$0.5 million and net cash provided by operating activities of \$12.3 million for the years ended January 31, 2003 and 2002, respectively. Net cash used in financing activities for the year ended January 31, 2004 was \$2.1 million, compared to net cash provided by financing activities for the year ended January 31, 2003 of \$0.1 million and net cash used in financing activities of \$2.0 million for fiscal year 2002. During fiscal 2002, we liquidated temporary investments in marketable securities of approximately \$7.1 million to fund a portion of our capital expenditure program. The temporary investments were originally made with surplus cash generated in prior fiscal years, which were invested in marketable securities until such time as the funds were needed.

We are committed to purchase \$2.25 million of land data acquisition equipment by December 31, 2004, under the Sercel Agreement. We expect that cash on hand and cash flows from operations will be sufficient to meet this commitment.

Capital expenditures for the 2004 fiscal year totaled approximately \$3.6 million as compared to capital expenditures of \$4.8 million for fiscal 2003. Capital expenditures of \$18.0 million in fiscal 2002 were mainly comprised of purchases of Sercel 408UL seismic data recording equipment pursuant to the Sercel Agreement. The 408UL equipment is the latest generation equipment available to the market. Our fiscal 2004 and 2003 capital expenditures were made to fulfill specific lease contracts.

Subsequent to January 31, 2004, we negotiated and issued credits and other future customer enhancements with certain Canadian leasing customers totaling \$315,000. As of January 31, 2004, we had \$125,000 allocated to these matters in our allowance for doubtful accounts. After recording these credits, that allocation was no longer necessary and was reversed out of the allowance for doubtful accounts. The impact was a \$190,000 net increase in our net loss recorded at January 31, 2004. At January 31, 2004, we had trade accounts and notes receivable of \$1.7 million that were more than 90 days past due. As of January 31, 2004, our allowance for doubtful accounts was approximately \$0.9 million, which management believes is sufficient to cover any losses in our trade accounts receivable and notes receivable.

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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. Unless there is a question as to whether an account is collectible, the sales revenue and cost of goods sold is recognized at the transfer of title of the equipment.

In February 2002, we obtained an \$8.5 million term loan with First Victoria National Bank, the remaining principal balance of which was approximately \$4.6 million at January 31, 2004. The loan is payable in forty-eight equal installments of \$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 capital expenditure in 2004 in part by three separate short-term note agreements with three seismic equipment manufacturers related to the purchase of equipment for our lease pool. The aggregate amount financed by the manufacturers was \$1.7 million, of which \$1.3 million remains unpaid as of January 31, 2004. The notes call for monthly payments aggregating approximately \$121,000 and bear interest ranging from 0% to 8%. All three notes have 12-month repayment terms and mature during fiscal 2005.

On March 30, 2004, we obtained a \$4 million revolving loan agreement and credit line with First Victoria National Bank. The line allows us to borrow funds to purchase equipment at any time as necessary and is secured by the equipment purchased and any leases on that equipment. Interest is payable monthly at prime plus 1/2%. Principal is due on each note 25% after six months, 25% after nine months and the remaining 50% after a year from the date of each note. The last date that advances can be made is June 30, 2005. We have not yet borrowed any funds available under this line. Although we have sufficient cash to meet known commitments and no current plan 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.

During fiscal 2003, we repurchased 7,800 shares of our common stock for an aggregate cost of \$15,000, or an average cost of \$1.97 per share. We did not repurchase any shares of our common stock during fiscal 2004. 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.

The following table sets forth estimates of future payments of our consolidated contractual obligations as of January 31, 2004:

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt and equipment notes payable	\$5,917,000	\$3,499,000	\$2,418,000	\$ —	\$ —
Operating leases	913,000	344,000	473,000	96,000	—
Equipment purchase obligations	2,250,000	2,250,000	—	—	—
Total	\$9,080,000	\$6,093,000	\$2,891,000	\$96,000	\$ —

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 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.

Item 7A. 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. and Canadian dollars, there is little risk of economic (as opposed to accounting) loss from fluctuations in foreign currencies.

Item 8. Financial Statements and Supplementary Data

The information required by this item appears at pages F-1 through F-21 hereof and incorporated herein by reference.

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

None

Item 9A. Controls and Procedures

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Our principal executive officer and principal financial officer have concluded that, with the exceptions noted below, our current disclosure controls and procedures are effective to timely alert them to material information regarding the Company that is required to be included in our periodic reports filed with the SEC, and that our internal controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with generally accepted accounting principles. This Item 9A 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.

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

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

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

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

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

- *The lack of required formal high-level management reporting for Mitcham Canada, along with regular on-site reviews of accounting policies and practices.* We have historically relied on non-standardized verbal updates on high-level management issues, which can affect both the timeliness and accuracy of accounting for certain transactions. Formal high-level management regular on-site reviews of accounting policies and practices, would have sooner identified the issues discussed in the preceding paragraph, and with more specificity. Prior to the investigation but before the publication of our financial results for the fiscal year ended January 31, 2004, disputed amounts were reflected in our general, but not our specific, reserves for doubtful accounts.
- *The lack of automated equipment inventory management systems at Mitcham Canada.* While our headquarters in Huntsville, Texas employs an inventory tracking and management system that is fully integrated with its accounting system, Mitcham Canada is not on the same fully integrated system. Instead, management relies on manual reconciliations of equipment from Excel 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.

After the conclusion of the investigation, management and our independent auditor performed additional procedures to ensure that the internal control deficiencies noted above did not result in material misstatements to the audited financial statements for the 2004 fiscal year. Our independent auditor subsequently reviewed and assessed with us all post fiscal year-end accommodations made to Mitcham Canada leasing customers and determined that the unpublished fourth quarter results of operations should be reduced by \$190,000. Therefore, we believe the impact of the identified weaknesses in internal controls was addressed and mitigated in preparing this report. However, our continued reliance on manual procedures and reconciliations, even on a short-term basis, results in increased risk that some of the identified weaknesses in internal controls could impact future reporting periods.

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

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

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

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

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

PART III

Item 10. Directors and Executive Officers of the Registrant

The following table sets forth the names and ages of our directors and executive officers. Our directors are elected annually and serve one-year terms and until their successors are elected. Our executive officers are elected annually by the Board of Directors and serve one-year terms or until their death, resignation or removal by the Board of Directors. There are no family relationships between any of our directors and executive officers. In addition, there are no arrangements or understandings between any of our executive officers and any other person pursuant to which any person was selected as an executive officer.

<u>Name</u>	<u>Age</u>	<u>Positions Held</u>	<u>Director Since</u>
Billy F. Mitcham, Jr.	56	Chairman of the Board, President and Chief Executive Officer	1987
Peter H. Blum	47	Director	2000
R. Dean Lewis	60	Director	1995
John F. Schwalbe	59	Director	1994
Christopher C. Siffert	36	Vice President and Corporate Controller	N/A
Paul Guy Rogers	54	Vice President of Business Development	N/A

Business Experience of Our Directors and Executive Officers

Billy F. Mitcham, Jr. is Chairman of the Board, President and Chief Executive Officer. Mr. Mitcham has more than 25 years of experience in the geophysical industry. From 1979 to 1987, he served in various management capacities with Mitcham Associates, an unrelated equipment leasing company. From 1975 to 1979, Mr. Mitcham served in various capacities with Halliburton Services, primarily in oilfield services.

Peter H. Blum has been President of Bear Ridge Capital, L.L.C., a private investment banking firm, since November 1998. From June 1998 until March 2003, Mr. Blum served as Director, and from September 2001 until March 2003, as Executive Vice President, of Mallon Resources Corporation, an oil and gas exploration and production company that merged with Black Hills Corporation on March 10, 2003. During 1997 and 1998, Mr. Blum served as Senior Managing Director of GBI Capital Management, now known as Landenburg Thalman Capital Management. From December 1996 through 1997, Mr. Blum was a Managing Director and head of the energy group at Rodman & Renshaw.

R. Dean Lewis is the Dean of the Business School at Sam Houston State University and has served in this capacity since October 1995. From 1987 to October 1995, Dr. Lewis was the Associate Dean and Professor of Marketing at Sam Houston State University. Prior to 1987, Dr. Lewis held a number of executive positions in the banking and finance industries.

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John F. Schwalbe has been a Certified Public Accountant in private practice since 1978, with primary emphasis on tax planning, consultation and compliance.

Christopher C. Siffert is a Vice President and our Corporate Controller. From November 1994 to January 1998, Mr. Siffert served as Internal Audit Manager for Houston Cellular Telephone Company and from July 1990 to November 1994 he was employed by Arthur Andersen LLP as a Senior Audit Supervisor. Mr. Siffert is a Certified Public Accountant.

Paul Guy Rogers is Vice President of Business Development. Mr. Rogers has 10 years experience in the geophysical industry. Prior to joining Mitcham, Mr. Rogers was employed by Geo Space LP, a worldwide manufacturer of geophysical equipment, with responsibilities for sales in the United States and Latin America.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who own more than 10% of our outstanding common stock, par value \$0.01 per share ("Common Stock"), to file initial reports of ownership and changes in ownership of Common Stock with the SEC. Reporting persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of reports we received, we believe that all filings required to be made under Section 16(a) were timely made, except as follows:

- R. Dean Lewis failed to make a timely filing of a statement of changes in beneficial ownership with respect to the options granted to him on July 17, 2003, the filing for which was made four days late;
- R. Chaney & Partners IV L.P., a shareholder who, acting with R. Chaney & Partners III L.P. as a "group" for purposes of Section 13(d) of the Exchange Act, is a 10% owner of the Common Stock, failed to make a timely filing of a statement of changes in beneficial ownership with respect to its sale of shares of Common Stock on each of January 8, 2004 (filing was eight days late), January 12, 2004 (filing was six days late) and January 13, 2004 (filing was five days late); and
- R. Chaney & Partners III L.P., a shareholder who, acting with R. Chaney & Partners IV L.P. as a "group" for purposes of Section 13(d) of the Exchange Act, is a 10% owner of the Common Stock, failed to make a timely filing of a statement of changes in beneficial ownership with respect to its sale of shares of Common Stock on each of January 8, 2004 (filing was 16 days late), January 12, 2004 (filing was 14 days late), January 13, 2004 (filing was 13 days late), January 16, 2004 (filing was eight days late), January 20, 2004 (filing was six days late), January 21, 2004 (filing was five days late), January 22, 2004 (filing was two days late) and January 23, 2004 (filing was one day late).

Code of Ethics

Our Board of Directors has adopted a Code of Ethics that applies to all of our employees, including our Chief Executive Officer and our Corporate Controller to ensure that our business is conducted in a legal and ethical manner. Copies of the Code of Ethics may be obtained without charge by contacting our Secretary by mail at Mitcham Industries, Inc., 8141 SH 75 South, P.O. Box 1175, Huntsville, Texas 77342, Attention: Secretary, or by telephone (936) 291-2277. The Audit Committee has adopted separate policies and procedures for handling reports of suspected wrongdoing related to accounting and audit matters.

Audit Committee of the Board of Directors

The Audit Committee, which is comprised of Messrs. Schwalbe (Chairman), Lewis and Blum, held five meetings during the fiscal year ended January 31, 2004. Our Board of Directors has determined that each member of the Audit Committee is an independent director, as that term is defined in Rule 4350 of the Nasdaq Marketplace Rules, and meets the criteria for independence set forth in Rule 10A-3 promulgated under the Exchange Act. In addition, our Board of Directors has determined that Mr. Schwalbe has the financial experience required by the Nasdaq Marketplace Rules and is an "audit committee financial expert" as defined by applicable SEC regulations.

Item 11. Executive Compensation

Summary Compensation Table

The following table shows all compensation earned for services rendered during the fiscal years ended January 31, 2002, 2003 and 2004 by our Chief Executive Officer and each of our other executive officers (collectively, the “Named Executives”).

Name and Principal Position	Annual Compensation			Long Term Compensation	
	Fiscal Year Ended January 31,	Salary(\$)	Bonus(\$)	Restricted Stock Award(s)(\$)(1)	Shares Underlying Options(#)
Billy F. Mitcham, Jr. Chairman of the Board, President and Chief Executive Officer	2004	253,223	0	34,020	30,000
	2003	245,931	0	0	85,000
	2002	228,098	20,000	0	80,000
P. Blake Dupuis Chief Operating Officer and Chief Financial Officer	2004	192,707	0	22,680	20,000
	2003	160,833	0	0	45,000
	2002	144,295	15,000	0	30,000
Christopher C. Siffert Vice President — Corporate Controller	2004	111,207	0	14,175	12,500
	2003	100,417	0	0	15,000
	2002	95,779	10,000	0	15,000
Paul Guy Rogers ⁽²⁾ Vice President — Business Development	2004	122,919	0	14,175	12,500
	2003	110,607	0	0	20,000
	2002	27,397	5,000	0	10,000

(1) The value of each restricted stock award was determined by multiplying the closing price of the Common Stock as of the date of grant, July 17, 2003 in all instances, by the number of shares awarded to the particular the Named Executives (18,000 shares for Mr. Mitcham; 12,000 shares for Mr. Dupuis; and 7,500

shares for each of Messrs. Siffert and Rogers) and then subtracting the consideration paid by the Named Executives for such shares (\$0.01 per shares in all instances). The forfeiture provisions relating to the shares of restricted stock expire ratably over a period of three years). As of January 30, 2004, the last trading day of the fiscal year ended January 31, 2004, and using the fair market value of the Common Stock as of such date (closing price of \$3.73), the number and value of aggregate restricted stock award holdings were as follows: 18,000 shares (\$67,140) by Mr. Mitcham; 12,000 shares (\$44,760) by Mr. Dupuis; and 7,500 shares (\$27,975) for each of Messrs. Siffert and Rogers).

(2) Mr. Rogers joined us on October 23, 2001.

Option Grants in Last Fiscal Year

The following table sets forth information concerning stock option grants made in the fiscal year ended January 31, 2004 to the Named Executives. There were no grants of stock appreciation rights to the Named Executives during the fiscal year ended January 31, 2004.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term(2)	
	Number of Securities Underlying Options Granted (#)(1)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	5%(\$)	10%(\$)
Billy F. Mitcham, Jr.	30,000	32.43	1.90	07/17/13	35,847	90,843
P. Blake Dupuis	20,000	21.62	1.90	07/17/13	23,898	60,562
Christopher C. Siffert	12,500	13.51	1.90	07/17/13	14,936	37,851
Paul Guy Rogers	12,500	13.51	1.90	07/17/13	14,936	37,851

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- (1) The options terminate on the earlier of their expiration date, 10 years after grant or three months after termination of employment, subject to certain exceptions. The options become exercisable in three equal annual installments beginning one year after the grant date, but vesting may be accelerated on the consummation of a specified change of control.
- (2) The indicated 5% and 10% rates of appreciation are provided to comply with SEC regulations and do not necessarily reflect our views as to the likely trend in our stock price. Actual gains, if any, on stock option exercises and the sale of Common Stock holdings will depend on, among other things, the future performance of our Common Stock and overall stock market conditions.

Option Exercises and Year-End Option Values

The following table provides information as to options exercised by the Named Executives in the 2004 fiscal year and year-end value of unexercised options held by the Named Executives.

Aggregate Option Exercises in 2004 Fiscal Year and January 31, 2004 Option Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at January 31, 2004 (#)	Value of Unexercised In-the-Money Options at January 31, 2004 (\$)
			Exercisable/ Unexercisable	Exercisable/ Unexercisable (1)
Billy F. Mitcham, Jr.	0	0	266,915/113,335	61,284/153,501
P. Blake Dupuis	0	0	150,500/60,000	27,885/88,800
Christopher C. Siffert	0	0	60,000/27,500	10,400/40,275
Paul Guy Rogers	0	0	16,666/25,834	11,599/46,076

- (1) Value is based on the \$3.73 per share closing price of Common Stock on January 30, 2004, the last day of trading prior to the end of the fiscal year, less the exercise price.

Compensation of Directors

Cash Compensation

We pay each of our non-employee directors an annual fee of \$20,000 for their services as directors and reimburse them for their reasonable out-of-pocket expenses incurred in connection with their attendance at board and committee meetings.

Stock Options

In addition to cash compensation, our non-employee directors are eligible, at the discretion of our full Board of Directors, to receive discretionary grants of stock options under our 2000 Stock Option Plan. For the fiscal year ending January 31, 2004, each of our non-employee directors was awarded options to purchase 30,000 shares of Common Stock, which options will vest in full on July 17, 2004 (the first anniversary of the grant date).

Employment Agreement

In January 1997, we entered into an employment agreement with Billy F. Mitcham, Jr., our Chairman of the Board, President and Chief Executive Officer. The term of the agreement, which was originally for a period of five years, is automatically extended for successive one-year periods unless either party gives written notice of termination at least 30 days prior to the end of the then-current term. The agreement provides for an annual salary and a bonus at the discretion of our Board of Directors.

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Mr. Mitcham's employment agreement may be terminated prior to the end of any extension period: upon his death; if it is determined that he has become disabled (as defined in the agreement); if he provides three months prior notice of his desire to resign; or if we provide him with notice of termination without cause (as defined in the agreement). In addition, Mr. Mitcham's employment agreement may be terminated before the end of the then-current term if our Board of Directors determines that he has: breached the agreement in any material respect; misappropriated a material business opportunity available to us; engaged in fraud or dishonesty with respect to our business; or been convicted of, or indicted for, any felony criminal offense or any crime punishable by imprisonment. If Mr. Mitcham terminates his employment within 60 days following (i) a material reduction in his duties and responsibilities occurring without his consent or (ii) a reduction in, or our failure to pay when due, any portion of his salary, Mr. Mitcham will be entitled to payments equal to \$450,000, payable ratably over the 24 months following his termination of his employment.

For a period of two years after the termination of the agreement, Mr. Mitcham is prohibited from engaging in any business activities which are competitive with our business and from diverting any of our customers to a competitor. We have not entered into employment agreements with any of our other executive officers.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is now, or at any time has been, employed by or served as an officer of Mitcham or any of its subsidiaries or had any substantial business dealings with Mitcham or any of its subsidiaries. No executive officer of Mitcham is now, or at any time has been, a member of the compensation committee or board of directors of another entity, one of whose executive officers has been a member of the Compensation Committee or the Board of Directors.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Our executive compensation program is designed to attract, motivate and retain talented management personnel and to reward management for our successful financial performance and for increasing shareholder value. Our executive compensation has three components: base salaries, annual performance bonuses and long-term incentive stock-based awards.

Base Salaries. We determine the salary ranges for our executive officers based upon their responsibilities and the salary levels of similarly positioned officers in comparable companies. Our philosophy has been to establish base salaries in the median area of the range of such salaries at comparable companies, because we consider long-term stock-based compensation to be more important than annual base salaries in aligning the executive's financial rewards to the shareholders' financial interests for the long term. The Compensation Committee's practice has been to review the base salaries of our officers at the regular July meeting of the Board of Directors. At our July 2003 meeting, we determined not to increase Mr. Mitcham's base salary of \$250,000. We also determined not to increase the base salary of any other Named Executive, except for Mr. Rogers, whose base salary was increased by 9%.

Annual Performance Bonuses. Annual bonuses are awarded using a qualitative analysis. In making our determination of whether to award an annual bonus and the amount of the bonus, we consider several factors, including our financial performance in relation to planned expectations and level of responsibility or duties, successful completion of particular projects or acquisition and implementation of new technical knowledge. For fiscal 2004, we determined that uncertain future industry conditions precluded us from granting discretionary bonus awards.

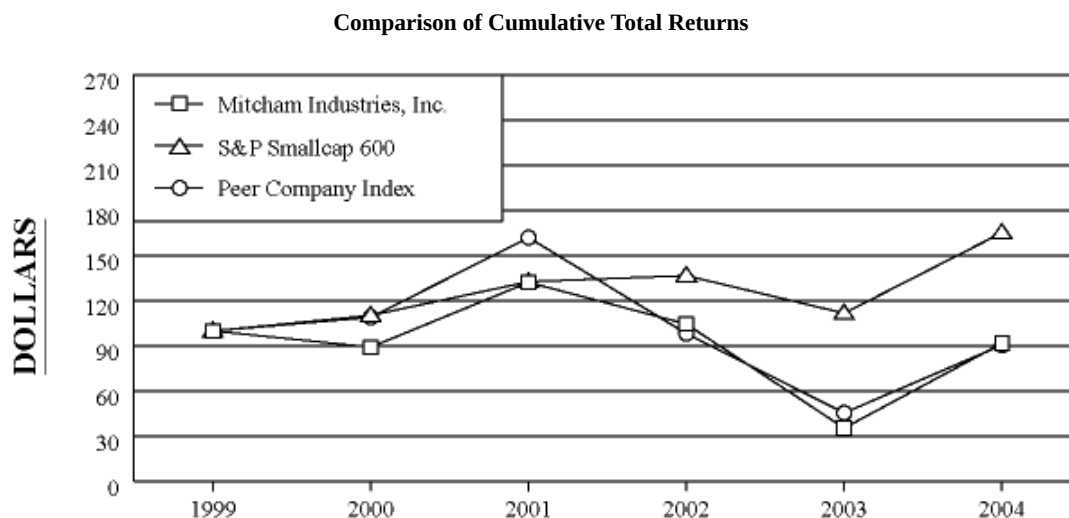
Long-Term Stock-Based Compensation. We believe that a substantial percentage of executive compensation should be tied to equity-based plans and thereby directly related to improvement in shareholder value over the long term. In determining the number of options to grant, we make a subjective determination based on the same factors as we do in determining bonuses. For fiscal 2004, we approved the grant to executive officers of the options shown in the Summary Compensation Table for that fiscal year, which vest ratably over three years.

The Compensation Committee

John F. Schwalbe
R. Dean Lewis
Peter H. Blum

Performance Graph

The following graph compares our Common Stock's cumulative total return for the period beginning January 31, 1999, through January 31, 2004, to the cumulative total return on (i) the S&P's Smallcap 600 stock index and (ii) an index of peer companies we selected. In the past, we have provided a comparison of the cumulative total return on our Common Stock to the S&P Oil and Gas (Drilling & Equipment) index, and the following performance graph compares the cumulative total return on our Common Stock to the cumulative total return on that index for the period from January 31, 1998, through January 31, 2002. The cumulative total return assumes that the value of an investment in our Common Stock and each index was \$100 at January 31, 1999, and that all dividends were reinvested.



	1/31/99	1/31/00	1/31/01	1/31/02	1/31/03	1/31/04
Mitcham Industries, Inc.	\$100.00	\$ 89.23	\$132.31	\$104.62	\$ 35.45	\$ 91.82
S&P Smallcap 600	\$100.00	\$110.31	\$132.72	\$136.77	\$111.77	\$165.30
Peer Company Index	\$100.00	\$109.08	\$162.05	\$ 98.25	\$ 45.51	\$ 90.60

The index of peer companies consists of: Compagnie Generale de Geophysique (NYSE: GGY), Dawson Geophysical Company (NASDAQ: DWSN), Input/Output, Inc. (NYSE: IO), Omni Energy Services Corp. (NASDAQ: OMNI) and Veritas DGC, Inc. (NYSE: VTS).

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the beneficial ownership of the outstanding shares of Common Stock as of May 20, 2004, with respect to each person we know to be the beneficial owner of 5% or more of the outstanding shares of Common Stock. All persons listed have sole disposition and voting power with respect to the indicated shares except as otherwise indicated in the footnotes below the table.

Name and Address of Beneficial Owner	Common Stock Beneficially Owned	
	Number of Shares	Percent of Class
Billy F. Mitcham, Jr. P.O. Box 1175 Huntsville, Texas 77342	685,467(1)	7.6%
R. Chaney & Partners IV L.P. 909 Fannin, Suite 1275 Two Houston Center Houston, Texas 77010	804,800(2)	9.2%
Dimensional Fund Advisors, Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, California 90401	555,300(3)	6.3%
Stuart Sternberg c/o Spear Leeds & Kellogg 120 Broadway New York, New York 10271	874,500(4)	10.0%
First Wilshire Securities Management, Inc. 600 South Lake Street, Suite 100 Pasadena, California 91106	923,120(5)	10.6%

- (1) Includes 293,000 shares of Common Stock owned directly by Billy F. Mitcham, Jr. and an aggregate of 134,634 shares owned by Billy F. Mitcham, Sr. (77,040 shares) and two trusts established for the benefit of the sons of Mr. Mitcham, Jr. (the "Mitcham Children's Trusts") (57,594 shares), as to which Mr. Mitcham, Jr. has sole voting rights under a Voting Agreement. Also includes shares underlying currently exercisable options, and options that will become exercisable within 60 days of May 20, 2004, to purchase an aggregate of 257,833 shares of Common Stock.
- (2) As of March 3, 2004, based upon information contained in a Form 4, dated March 4, 2004, filed jointly by R. Chaney & Partners IV L.P. ("Fund IV") and R. Chaney & Partners III L.P. ("Fund III") with the SEC.
- (3) As of December 31, 2003, based upon information contained in a Schedule 13G/A, dated February 6, 2004, filed with the SEC by Dimensional Fund Advisors, Inc. ("Dimensional"). All securities reported in the Schedule 13G/A filed by Dimensional are owned by certain of its clients, none of which is known by Dimensional to own more than 5% of the outstanding shares of Common Stock.
- (4) As of January 28, 2004, based upon information contained in a Form 4, dated February 2, 2004, filed with the SEC by Stuart Sternberg.
- (5) As of April 30, 2004, based upon information contained in two Forms 3, each dated May 3, 2004, filed with the SEC by First Wilshire Securities Management, Inc.

Security Ownership of Management

The following table sets forth the beneficial ownership of Common Stock as of May 20, 2004, by (i) each executive officer whose total annual salary and bonus exceeded \$100,000 in the fiscal year ended January 31, 2004; (ii) each director and nominee; and (iii) all directors and executive officers as a group. All persons listed have sole disposition and voting power with respect to the indicated shares except as otherwise indicated in the footnotes below the table.

Name of Beneficial Owner	Common Stock Beneficially Owned	
	Number of Shares	Percent of Class
Billy F. Mitcham, Jr.	685,467(1)	7.5%
P. Blake Dupuis	185,000(2)	2.1%
Christopher C. Siffert	76,666(3)	*
Paul Guy Rogers	28,332(4)	*
R. Dean Lewis	92,000(5)	1.0%
John F. Schwalbe	94,000(5)	1.1%
Peter H. Blum	324,879(6)	3.7%
All directors and executive officers as a group (seven persons)	1,486,344(7)	15.5%

* Less than 1%

- (1) Includes 293,000 shares of Common Stock owned directly by Billy F. Mitcham, Jr. and an aggregate of 134,634 shares owned by Billy F. Mitcham, Sr. (77,040 shares) and the Mitcham Children's Trusts (57,594 shares), as to which Mr. Mitcham, Jr. has sole voting rights under a Voting Agreement. Also includes shares underlying currently exercisable options, and options that will become exercisable within 60 days of May 20, 2004, to purchase an aggregate of 257,833 shares of Common Stock.
- (2) Includes shares underlying currently exercisable options to purchase an aggregate of 175,000 shares of Common Stock.
- (3) Includes shares underlying currently exercisable options, and options that will become exercisable within 60 days of May 20, 2004, to purchase an aggregate of 69,166 shares of Common Stock.
- (4) Includes shares underlying currently exercisable options, and options that will become exercisable within 60 days of May 20, 2004, to purchase an aggregate of 20,832 shares of Common Stock.
- (5) Represents shares underlying currently exercisable options, and options that will become exercisable within 60 days of May 20, 2004.
- (6) Includes shares underlying currently exercisable options, and options that will become exercisable within 60 days of May 20, 2004, to purchase an aggregate of 80,000 shares of Common Stock, 22,624 shares underlying currently exercisable warrants, 2,000 shares owned by Mr. Blum's spouse's IRA, and 3,500 shares owned by Mr. Blum's minor son.
- (7) Includes: (a) shares underlying currently exercisable options and warrants, and options that will become exercisable within 60 days, to purchase an aggregate of 788,831 shares of Common Stock, as follows: the 257,833 shares referred to in footnote (1) above, and an aggregate of 530,998 shares attributable to P. Blake Dupuis (175,000 shares), Christopher C. Siffert (69,166 shares), Paul Guy Rogers (20,832 shares), R. Dean Lewis (92,000 shares), John F. Schwalbe (94,000 shares) and Peter H. Blum (80,000 shares — options; and 22,624 shares — warrants).

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information with respect to our equity compensation plans as of January 31, 2004:

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1)
Equity compensation plans approved by our stockholders ⁽²⁾	1,394,790	\$3.91	158,490
Equity compensation plans not approved by our stockholders	0	0	0

- (1) Excludes securities to be issued upon the exercise of outstanding options, warrants and rights.
- (2) Includes options granted under the 1994 Stock Option Plan, 1994 Non-Employee Director Stock Option Plan, 1998 Stock Awards Plan and 2000 Stock Option Plan, each of which is further described in footnote 16 to our audited financial statements.

Item 13. *Certain Relationships and Related Transactions*

Voting Agreement. Effective September 20, 1993, we entered into a Voting Agreement (the “Voting Agreement”) with Billy F. Mitcham, Jr., Billy F. Mitcham, Sr. and the Mitcham Children’s Trusts. Under the Voting Agreement, Mr. Mitcham, Jr. has the authority to vote all shares of Common Stock held by the parties to the agreement, which as of May 20, 2004 includes 293,000 shares owned directly by Mr. Mitcham Jr. and an additional 134,634 shares owned by the other parties, representing 3.3% and 1.5%, respectively (for an aggregate of 4.8%), of the shares of Common Stock outstanding on such date. The Voting Agreement will terminate on the first to occur of (i) the agreement of the parties, (ii) the transfer by the parties thereto of their shares or (iii) the expiration of 25 years.

Item 14. *Principal Accounting Fees and Services*

The following table sets forth the amount of audit fees, audit related fees and tax fees billed or expected to be billed by Hein & Associates LLP, our independent auditor, for the fiscal years ended January 31, 2003 and January 31, 2004, respectively:

	2004	2003
	Amount	Amount
Audit Fees ⁽¹⁾	\$110,000	\$100,880
Audit-Related Fees ⁽²⁾	—	—
Tax Fees ⁽³⁾	55,000	55,606
All Other Fees	—	—
Total Fees	\$165,000	\$156,486

- (1) Includes the annual consolidated financial statement audit, review of quarterly reports on Form 10-Q and other services associated with the audit.
- (2) During the indicated periods, our independent auditor did not provide us with any information technology services relating to financial information systems design and implementation.
- (3) Includes fees and expenses for services primarily related to tax compliance, tax advice and tax planning for certain acquisitions.

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The Audit Committee has pre-approved all audit services and permitted non-audit services provided by the independent auditors, and the compensation, fees and terms for such services, for the fiscal year ended January 31, 2005. The Committee also has approved a policy that requires Audit Committee pre-approval of the compensation and terms of service for audit services and any permitted non-audit services based on ranges of fees, and any changes in terms, conditions and fees resulting from changes in audit scope or other matters. Any proposed audit or non-audit services exceeding the pre-approved fee ranges require additional pre-approval by the Audit Committee or its Chairman.

PART IV**Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K***(a) List of Documents Filed**(1) Financial Statements*

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

(1) Financial Statement Schedules

This Annual Report includes the following financial statement schedule:

Schedule II — Valuation and Qualifying Accounts

(2) Exhibits — The exhibits required by Item 601 of Regulation S-K are listed in subparagraph (c) below.

(b) Reports on Form 8-K

During the quarter end January 31, 2004, we filed a Current Report on Form 8-K, related to the Company’s earnings for the third quarter ended October 31, 2003.

*(c) Exhibits***Exhibit
Number**

3.1	—	Amended and Restated Articles of Incorporation of Mitcham Industries, Inc. (1) (Exhibit 3.1)
3.2	—	Second Amended and Restated Bylaws of Mitcham Industries, Inc.**
9	—	Voting Agreement, dated September 20, 1993, between the Company, Billy F. Mitcham, Jr. and certain shareholders (2) (Exhibit 9)
*10.1	—	Employment Agreement, dated January 15, 1997, between the Company and Billy F. Mitcham, Jr. (3) (Exhibit 10.4)
10.2	—	Exclusive Lease Referral Agreement, dated May 14, 1996, between the Company and Pelton Company, Inc., an Oklahoma corporation (“Pelton”) (4)
10.3	—	First Amendment to Exclusive Lease Referral Agreement, dated January 15, 1997, between the Company and Pelton (3) (Exhibit 10.17)
10.4	—	Second Amendment to Exclusive Lease Referral Agreement, dated November 24, 1997, between Mitcham Industries, Inc. and Pelton (5) (Exhibit 10.3)
*10.5	—	Mitcham Industries, Inc. 1994 Stock Option Plan (2) (Exhibit 10.9)
10.6	—	Mitcham Industries, Inc. 1994 Non-Employee Director Stock Option Plan (2) (Exhibit 10.12)
*10.7	—	Mitcham Industries, Inc. 1998 Stock Awards Plan (6)
*10.8	—	Mitcham Industries, Inc. 2000 Stock Option Plan (7)
10.9	—	Warrant No. M-7, dated July 18, 2001, issued to Bear Ridge Capital, L.L.C. (8)
10.10	—	Share Sale Agreement, dated December 2002, between Mitcham Industries, Inc. and Nautronix, Inc. (9)
*10.11	—	Agreement, dated April 4, 2003, between Mitcham Industries, Inc. and William J. Sheppard (10) (Exhibit 10.14)
*10.12	—	Second Consultant Agreement, dated April 1, 2003, but effective January 1, 2004, between Mitcham Industries, Inc. and William J. Sheppard (10) (Exhibit 10.16)
10.13	—	Equipment Lease Agreement, dated April 9, 2003, between Mitcham Industries, Inc. and Sercel, Inc., an Oklahoma corporation (“Sercel”) (10) (Exhibit 10.17)
10.14	—	Amendment to the Equipment Lease Agreement, dated as of December 17, 2003, between Mitcham Industries, Inc. and Sercel**

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Exhibit Number		
10.15	—	Promissory Note of Mitcham Industries, Inc., dated as of February 11, 2002, payable to First Victoria National Bank in the original principal amount of \$8,518,919**
10.16	—	Loan Agreement, dated March 30, 2004, by and between Mitcham Industries, Inc. and First Victoria National Bank**
21	—	Subsidiaries of the Company**
23	—	Consent of Hein & Associates LLP**
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, 18 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

** Filed herewith

- (1) Incorporated by reference to the indicated exhibit number of the Company's Registration Statement on Form S-8 (File No. 333-67208), filed with the SEC on August 9, 2001.
- (2) Incorporated by reference to the indicated exhibit number of the Company's Registration Statement on Form SB-2, filed with the SEC on July 5, 1994.
- (3) Incorporated by reference to the indicated exhibit number of the Company's Registration Statement on Form S-1 (File No. 333-19997), filed with the SEC on January 17, 1997.
- (4) Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-3/ A (File No. 333-10555), filed with the SEC on October 25, 1996.
- (5) Incorporated by reference to the indicated exhibit number of the Company's Registration Statement on Form S-3/ A (File No. 333-40507), filed with the SEC on December 17, 1997.
- (6) Incorporated by reference to Exhibit A of the Company's proxy statement for the fiscal year ended January 31, 1998, filed with the SEC on June 1, 1998.
- (7) Incorporated by reference to Exhibit A of the Company's proxy statement for the fiscal year ended January 31, 2000, filed with the SEC on May 26, 2000.
- (8) Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2002, filed with the SEC on May 1, 2002.
- (9) Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K, filed with the SEC on January 13, 2003.
- (10) Incorporated by reference to the indicated exhibit number of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2003, filed with the SEC on May 1, 2003.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders

Mitcham Industries, Inc.
Huntsville, Texas

We have audited the accompanying consolidated balance sheets of Mitcham Industries, Inc. and Subsidiaries as of January 31, 2003 and 2004, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended January 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mitcham Industries, Inc. and Subsidiaries as of January 31, 2003 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended January 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ HEIN & ASSOCIATES LLP

Hein & Associates LLP

Houston, Texas

May 20, 2004

MITCHAM INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

	January 31,	
	2003	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,137,000	\$ 6,834,000
Accounts receivable, net of allowance for doubtful accounts of \$770,000 and \$847,000 at January 31, 2003 and 2004, respectively	2,908,000	5,635,000
Current portion of notes receivable	12,000	811,000
Prepaid expenses and other current assets	611,000	700,000
Current assets of discontinued operations	685,000	898,000
	<hr/>	<hr/>
Total current assets	9,353,000	14,878,000
Seismic equipment lease pool, property and equipment	84,552,000	84,624,000
Accumulated depreciation of seismic equipment lease pool, property and equipment	(51,398,000)	(59,265,000)
Notes receivable, net of allowance for doubtful notes of \$29,000 at January 31, 2004	—	487,000
Long-term assets of discontinued operations	1,789,000	4,000
Other assets	44,000	2,000
	<hr/>	<hr/>
Total assets	\$ 44,340,000	\$ 40,730,000
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,495,000	\$ 1,532,000
Current maturities — long-term debt	2,092,000	2,203,000
Equipment notes payable	—	1,296,000
Deferred revenue	216,000	345,000
Wages payable	414,000	495,000
Accrued expenses and other current liabilities	646,000	1,245,000
Current liabilities of discontinued operations	1,197,000	399,000
	<hr/>	<hr/>
Total current liabilities	6,060,000	7,515,000
Long-term debt	4,622,000	2,418,000
	<hr/>	<hr/>
Total liabilities	10,682,000	9,933,000
Commitments and contingencies (Note 15)		
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; 9,657,801 and 9,714,994 shares issued, respectively	97,000	97,000
Additional paid-in capital	61,814,000	61,913,000
Treasury stock, at cost (915,000 shares)	(4,686,000)	(4,686,000)
Deferred compensation	—	(83,000)
Accumulated deficit	(22,122,000)	(28,411,000)
Accumulated other comprehensive income (loss)	(1,445,000)	1,967,000
	<hr/>	<hr/>
Total shareholders' equity	33,658,000	30,797,000
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 44,340,000	\$ 40,730,000
	<hr/>	<hr/>

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

MITCHAM INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended January 31,

	2002	2003	2004
Revenues:			
Equipment leasing	\$19,994,000	\$ 8,306,000	\$13,765,000
Equipment sales	5,920,000	5,829,000	8,641,000
Commissions	1,269,000	4,000	—
Total revenues	27,183,000	14,139,000	22,406,000
Costs and expenses:			
Direct costs — seismic leasing	2,239,000	1,369,000	2,326,000
Cost of equipment sales	4,993,000	4,561,000	4,715,000
General and administrative	4,374,000	4,502,000	5,095,000
Provision (benefit) for doubtful accounts	5,065,000	(1,920,000)	25,000
Depreciation and amortization	16,015,000	14,681,000	13,677,000
Total costs and expenses	32,686,000	23,193,000	25,838,000
Operating loss	(5,503,000)	(9,054,000)	(3,432,000)
Other income (expense):			
Interest expense (net of interest income of approximately \$331,000, \$186,000 and \$100,000, respectively)	(231,000)	(281,000)	(176,000)
Other, net	2,000	11,000	34,000
Total other income (expense)	(229,000)	(270,000)	(142,000)
Loss from continuing operations before income taxes	(5,732,000)	(9,324,000)	(3,574,000)
Provision (benefit) for income taxes	2,725,000	(1,647,000)	—
Loss from continuing operations	\$ (8,457,000)	\$ (7,677,000)	\$ (3,574,000)
Loss from discontinued operations, net of income taxes of \$0.00 (including impairment charge of \$700,000 in 2004)	—	(2,422,000)	(2,715,000)
Net loss	\$ (8,457,000)	\$ (10,099,000)	\$ (6,289,000)
Loss per common share from continuing operations:			
Basic and diluted	\$ (0.95)	\$ (0.88)	\$ (0.41)
Loss per common share from discontinued operations:			
Basic and diluted	\$ —	\$ (0.28)	\$ (0.31)
Net loss per common share — basic and diluted	\$ (0.95)	\$ (1.15)	\$ (0.72)
Shares used in computing loss per common share:			
Basic	8,870,000	8,747,000	8,772,000
Dilutive effect of common stock equivalents	—	—	—
Diluted	8,870,000	8,747,000	8,772,000

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

MITCHAM INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME

Years Ended January 31, 2002, 2003 and 2004

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Unearned Compensation & Restricted Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount						
Balances, January 31, 2001	9,591,000	\$96,000	\$61,601,000	\$(3,195,000)	\$ (3,566,000)	\$ —	\$ (948,000)	\$ 53,988,000
Comprehensive loss:								
Net loss	—	—	—	—	(8,457,000)	—	—	(8,457,000)
Foreign currency translation	—	—	—	—	—	—	(1,666,000)	(1,666,000)
Comprehensive loss								(10,123,000)
Issuance of common stock upon exercise of warrants and options	67,000	1,000	213,000	—	—	—	—	214,000
Acquisition of treasury stock	—	—	—	(1,476,000)	—	—	—	(1,476,000)
Balances, January 31, 2002	9,658,000	97,000	61,814,000	(4,671,000)	(12,023,000)	—	(2,614,000)	42,603,000
Comprehensive loss:								
Net loss	—	—	—	—	(10,099,000)	—	—	(10,099,000)
Foreign currency translation	—	—	—	—	—	—	1,169,000	1,169,000
Comprehensive loss								(8,930,000)
Acquisition of treasury stock	—	—	—	(15,000)	—	—	—	(15,000)
Balances, January 31, 2003	9,658,000	97,000	61,814,000	(4,686,000)	(22,122,000)	—	(1,445,000)	33,658,000
Comprehensive loss:								
Net loss	—	—	—	—	(6,289,000)	—	—	(6,289,000)
Foreign currency translation	—	—	—	—	—	—	3,412,000	3,412,000
Comprehensive loss								(2,877,000)
Issuance of common stock upon exercise of warrants and options	4,000	—	—	—	—	—	—	—
Restricted stock issued	53,000	—	99,000	—	—	(99,000)	—	—
Amortization of restricted stock grants	—	—	—	—	—	16,000	—	16,000
Balances, January 31, 2004	9,715,000	\$97,000	\$61,913,000	\$(4,686,000)	\$(28,411,000)	\$(83,000)	\$ 1,967,000	\$ 30,797,000

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

MITCHAM INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended January 31,

	2002	2003	2004
Cash flows from operating activities:			
Loss from continuing operations	\$ (8,457,000)	\$ (7,677,000)	\$ (3,574,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	16,015,000	14,681,000	13,677,000
Provision (benefit) for doubtful accounts, net of chargeoffs and recoveries	224,000	(2,398,000)	106,000
Deferred income taxes	2,713,000	—	—
Changes in:			
Trade accounts receivable	2,729,000	2,112,000	(4,167,000)
Federal income taxes, current	787,000	(43,000)	—
Accounts payable, accrued expenses and other current liabilities	(2,139,000)	(6,923,000)	846,000
Other, net	397,000	(228,000)	62,000
Net cash provided by (used in) operating activities	12,269,000	(476,000)	6,950,000
Cash flows from investing activities:			
Purchases of seismic equipment held for lease	(16,442,000)	(4,622,000)	(3,576,000)
Purchases of property and equipment	(1,579,000)	(132,000)	(59,000)
Sale of marketable securities	7,085,000	—	—
Disposal of lease pool equipment	4,562,000	3,853,000	2,975,000
Net cash used in investing activities	(6,374,000)	(901,000)	(660,000)
Cash flows from financing activities:			
Proceeds from debt	1,275,000	2,000,000	—
Payments on borrowings	(1,981,000)	(1,880,000)	(2,093,000)
Purchase of common stock for treasury	(1,476,000)	(15,000)	—
Proceeds from issuance of common stock upon exercise of warrants and options	214,000	—	—
Net cash provided by (used in) financing activities	(1,968,000)	105,000	(2,093,000)
Net increase (decrease) in cash and cash equivalents-continuing operations	3,927,000	(1,272,000)	4,197,000
Net decrease in cash and cash equivalents-discontinued operations	—	(1,835,000)	(2,500,000)
Cash, beginning of year	4,317,000	8,244,000	5,137,000
Cash, end of year	\$ 8,244,000	\$ 5,137,000	\$ 6,834,000

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

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization — Mitcham Industries, Inc. (the “Company”) is a Texas corporation formed on January 29, 1987. The Company and its wholly-owned Canadian subsidiary provide full-service equipment leasing, sales and services to the seismic industry worldwide, primarily in North and South America. Through its wholly-owned U.S. subsidiary, Drilling Services, Inc. (“DSI”), the Company provided seismic survey program design, quality control, permit acquisition, geographical surveying and shot hole drilling, all commonly referred to as “front-end services”. In August 2003, the Company sold the operating assets of DSI. The operating results and assets and liabilities of DSI are presented as discontinued operations and all prior period statements have been restated accordingly. The Company, through its wholly-owned Australian subsidiary, Seismic Asia Pacific Pty Ltd. (“SAP”), provides seismic, oceanographic and hydrographic leasing and sales worldwide, primarily in Asia and Australia. All intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition of Leasing Arrangements — The Company leases various types of seismic equipment to seismic data acquisition companies. The majority of leases at January 31, 2003 and 2004 are for one year or less. Lease revenue is recognized ratably over the term of the lease. The Company does not enter into leases with imbedded maintenance obligations. The standard lease contract provides that the lessee is responsible for maintenance and repairs to the equipment, excluding fair wear and tear. The Company provides technical advice to its customers without additional compensation as part of its customer service practices. Repairs or maintenance performed by the Company is charged to the lessee, generally on a time and materials basis.

Revenue Recognition of Equipment Sales — Revenue and cost of goods sold from the sale of equipment is recognized upon transfer of title.

Sales allowances and incentives — From time to time the Company will offer incentives to customers as part of leasing transactions. These allowances or incentives may take the form of free equipment rent, credits on future purchases of equipment or credits on existing equipment repair charges. These allowances and incentives are accounted for as a reduction of revenue.

Notes receivable — In certain instances when customers have been unable to repay their open accounts receivable balances, the Company has agreed to a structured repayment program using an interest bearing promissory note. In these cases, the Company provides a reserve for doubtful accounts against the balance. Due to the uncertainty of collection, the Company does not recognize the interest earned until the entire principal balance has been collected. In most cases where the Company has 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.

The Company occasionally offers extended payment terms on equipment sales transactions. These terms are generally less than one year in duration. The sales revenue and cost of goods sold is recognized upon transfer of title of the equipment.

Allowance for doubtful accounts — Trade receivables are uncollateralized customer obligations due under normal trade terms. Payments on trade receivables are allocated to the specific invoices identified on the customer’s remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of trade receivables and notes receivable is reduced by a valuation allowance that reflects management’s best estimate of the amounts that will not be collected. Management reviews all trade receivable balances that exceed 90 days past due and any notes receivable that are delinquent as to payments and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. In addition, management establishes a general allowance based on its assessment of the overall credit risk the Company is exposed to from its trade receivables and notes receivables.

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Property and Equipment — Property and equipment is carried at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the property and equipment. The estimated useful lives of equipment range from three to seven years. Buildings are depreciated over 40 years and property improvements are amortized over 10 years. Leasehold improvements are amortized over the life of the respective leases.

Seismic Equipment Lease Pool — Seismic equipment held for lease consists primarily of remote signal conditioners (channel boxes) and peripheral equipment and is carried at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the equipment, which is five years for channel boxes and 2 - 10 years for other peripheral equipment.

Impairment — SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of*, set forth guidance as to when to recognize an impairment of long-lived assets and how to measure such impairment. The standard required certain assets to be reviewed for impairment whenever events or circumstances indicate the carrying amount may not be recoverable. In October 2001, the FASB approved SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 replaced SFAS 121. SFAS 144 requires that long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. The Company's assessment resulted in the recognition of impairment expense of \$700,000 related to the sale of DSI's operating assets in fiscal 2004.

Income Taxes — The Company files separate federal returns for its foreign subsidiaries. The Company accounts for its taxes under the liability method, whereby the Company recognizes, on a current and long-term basis, deferred tax assets and liabilities which represent differences between the financial and income tax reporting bases of its 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, the Company has recorded a net deferred tax asset of \$9.4 million and \$11.6 million, respectively. The Company believes it is not assured that these net deferred tax assets will be realized and has recorded valuation allowances of \$9.4 million and \$11.6 million at January 31, 2003 and 2004, respectively.

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

Substantial judgment is necessary in the determination of the appropriate levels for the Company's allowance for doubtful accounts because of the extended payment terms the Company often offers to its customers and the limited financial wherewithal of many of these customers. As a result, the Company's allowance for doubtful accounts could change in the future, and such change could be material to the financial statements taken as a whole.

Foreign Currency Translation — All balance sheet accounts of the Canadian and Australian subsidiaries have been translated at the current exchange rate as of the end of the accounting period. Income statement

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

items have been translated at average currency exchange rates. The resulting translation adjustment is recorded as a separate component of comprehensive income within shareholders' equity.

Stock-Based Compensation — 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.

	Years Ended January 31,		
	2002	2003	2004
Pro forma impact of fair value method (FAS 148)			
Reported loss from continuing operations attributable to common shareholders	\$ (8,457,000)	\$ (7,677,000)	\$ (3,574,000)
Less: fair value impact of employee stock compensation	(485,000)	(609,000)	(340,000)
Pro forma loss from continuing operations attributable to common shareholders	\$ (8,942,000)	\$ (8,286,000)	\$ (3,914,000)
Reported loss	\$ (8,457,000)	\$ (10,099,000)	\$ (6,289,000)
Less: fair value impact of employee stock compensation	(485,000)	(609,000)	(340,000)
Pro forma loss	\$ (8,942,000)	\$ (10,708,000)	\$ (6,629,000)
Loss per common share			
Basic and diluted — as reported loss from continuing operations	\$ (0.95)	\$ (0.88)	\$ (0.41)
Basic and diluted — pro forma loss from continuing operations	\$ (1.01)	\$ (0.95)	\$ (0.45)
Basic and diluted — as reported loss	\$ (0.95)	\$ (1.15)	\$ (0.72)
Basic and diluted — pro forma loss	\$ (1.01)	\$ (1.22)	\$ (0.76)

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free rates of 3.0% to 5.0%; volatility of 69%, 63% and 65% for 2002, 2003 and 2004, respectively; no assumed dividend yield; and expected lives of 3-8 years.

Earnings Per Share — For the fiscal years ended January 31, 2002, 2003 and 2004, the following potential common stock was excluded from the per share calculations due to their anti-dilutive effect.

	Years Ended January 31,		
	2002	2003	2004
Stock options	105,600	35,218	90,271
Warrants	2,383	—	—
Total anti-dilutive securities	107,983	35,218	90,271

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

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. New Accounting Pronouncements

SFAS No. 150, issued in May 2003, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, establishes standards for the measurement and classification of such financial instruments. If the instrument has characteristics of a liability, it is to be classified as a debt instrument. The effective date of the statement is June 15, 2003. The Company has adopted the statement; however, management does not believe the effect of adopting this statement will have a material impact on its financial position, results of operations, or cash flows.

In January 2003, the Financial Accounting Standard Board ("FASB") issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and addresses consolidation by business enterprises of variable interest entities (more commonly known as "Special Purpose Entities" or "SPE's"). In December 2003, FASB issued FIN No. 46R which replaced FIN 46 and clarified ARB 51. This interpretation provides guidance on how to identify a variable interest entity and determine when the assets, liabilities, non-controlling interests and results of operations of a variable interest entity should be consolidated by the primary beneficiary. The primary beneficiary is the enterprise that will absorb a majority of the variable interest entity's expected losses or receive a majority of the expected residual returns as a result of holding variable interests. This FIN requires the consolidation of results of variable interest entities in which the Company is the primary beneficiary of the variable interest entity. As of January 31, 2004, the Company did not own an interest in a variable interest entity that met the consolidation requirements and as such the adoption of FIN No. 46R did not have any effect on the financial condition, results of operations, or liquidity of the Company. Interests in entities acquired or created after January 31, 2004 will be evaluated based on FIN No. 46R criteria and consolidated, if required.

3. Long-Term Debt and Equipment Notes Payable

In February 2002, the Company closed an \$8.5 million term loan with First Victoria National Bank. The loan is payable in 48 equal installments of approximately \$197,000 beginning in March 2002 and bears interest at the rate of prime plus one-half percent. The loan is collateralized by lease pool equipment and all proceeds from lease pool leases and asset sales.

In 2004, the Company executed three separate short-term note agreements with three seismic equipment manufacturers related to the purchase of equipment for our lease pool. The aggregate amount financed by the manufacturers was \$1.7 million, of which approximately \$1.3 million remains unpaid as of January 31, 2004. The notes call for monthly principal payments aggregating approximately \$121,000 and bear interest ranging from 0% to 8%. All three notes have twelve-month repayment terms and mature during fiscal 2005.

On March 30, 2004, the Company closed a \$4 million revolving loan agreement and credit line with First Victoria National Bank. The line allows the Company to borrow funds to purchase equipment at any time as necessary and is collateralized by the equipment purchased and any leases on that equipment. Interest is payable monthly at prime plus one-half percent. 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. The Company has not yet borrowed any funds available under this line.

In connection with the formation of DSI, the Company closed a \$75,000 term loan in December 2001 with Regions Bank. This loan amortized over 12 months and bore interest at the rate of prime minus one percent, adjusted daily. The quarterly payments of principal and interest, beginning March 7, 2002, were approximately \$19,000. During fiscal 2003, the Company repaid all outstanding principal under this note.

Long-term debt repayments are scheduled to be \$2,203,000, \$2,304,000 and \$114,000 in fiscal 2005, 2006 and 2007, respectively.

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Supplemental Statements of Cash Flows Information

Supplemental disclosures of cash flow information for the years ended January 31, 2002, 2003 and 2004 are as follows:

	Years Ended January 31,		
	2002	2003	2004
Interest paid, continuing operations	\$ 542,000	\$ 400,000	\$ 273,000
Interest paid, discontinued operations	—	10,000	3,000
Taxes paid (refunded), net	(942,000)	(1,647,000)	—
Seismic equipment acquired in exchange for cancellation of accounts receivable	312,000	3,000	48,000
Seismic equipment acquired as recovery of previously written off receivables	—	1,933,000	—
Seismic equipment acquired from vendor in exchange for debt	—	—	1,733,000

5. Notes Receivable

Notes receivable consisted of \$12,000 due from two customers and \$2,037,000, of which \$739,000 is included in the assets of discontinued operations, due from six customers as of January 31, 2003 and 2004, respectively. These notes bear interest ranging from 0% — 12% with repayment terms ranging from 6 to 48 months.

During fiscal 2004, the Company established seven new notes receivable in the aggregate amount of \$1,960,000 related to the sales of seismic equipment. Additionally, during fiscal 2004, the Company issued a note receivable in the amount of \$800,000 related to the sale of DSI's operating assets. This note bears interest at the rate of 7% annually and has repayment terms of 39 months. The first three monthly payments were interest only and the remaining 36 monthly payments of principal and interest are in the approximate amount of \$25,000. As of January 31, 2004, the outstanding balance of this note was \$739,000. Additionally, during fiscal 2004 the Company received final payments on two notes receivable that had been established in prior fiscal years.

During fiscal 2003, the Company established one new note receivable in the amount of \$30,000 related to the sale of seismic equipment. Also during fiscal 2003, the Company received final payments on two notes receivable that had been established in prior fiscal years. Additionally, during fiscal 2003 the Company wrote off one note receivable in the amount of \$282,000 related to the financing of trade receivables from prior fiscal years due to the customer's insolvency.

6. 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. In the January 31, 2004 financial statements, the Company had recorded an asset impairment charge of \$700,000 related to those assets. The impairment charge is included in the loss from discontinued operations.

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Effective with the January 31, 2004 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 revenue, pretax loss and assets and liabilities is reflected in loss from discontinued operations as follows.

	Years Ended January 31,	
	2003	2004
Revenues	\$ 5,014,000	\$ 4,524,000
Pretax loss	\$(2,422,000)	\$(2,715,000)
Accounts and notes receivable from discontinued operations	\$ 636,000	\$ 815,000
Other current assets from discontinued operations	\$ 49,000	\$ 83,000
Net property plant and equipment from discontinued operations	\$ 1,789,000	\$ 4,000
Accounts payable and accrued liabilities from discontinued operations	\$ 1,197,000	\$ 399,000

7. Concentrations

Credit Risk — As of January 31, 2003 and 2004, amounts due from customers which exceeded 10% of accounts receivable amounted to an aggregate of \$1.1 million from two customers and \$2.5 million from two customers, respectively.

The Company maintains deposits with banks which exceed the Federal Deposit Insurance Corporation ("FDIC") insured limit and has a money market account included in its cash balances which is not FDIC insured. Management believes the risk of loss in connection with these accounts is minimal.

Industry Concentration — The Company's revenues are derived from seismic equipment leased and sold to companies providing seismic acquisition services. The seismic industry has rapidly expanded its 3-D seismic acquisition capabilities over the past few years as this technology has gained broad market acceptance from oil and gas exploration companies. With this expansion, many of the seismic acquisition companies in North America, while experiencing rapid growth in 3-D seismic acquisition revenues, have not experienced corresponding increases in profitability and have become increasingly leveraged. Should the financial performance of the companies in this industry not improve, the Company could be exposed to additional credit risk and be subjected to declining demand for its leasing services.

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

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Seismic Equipment Lease Pool, Property and Equipment

Seismic equipment lease pool, property and equipment consisted of the following as of:

	January 31,	
	2003	2004
Remote signal conditioners (channel boxes)	\$ 33,760,000	\$ 32,711,000
Other peripheral equipment	48,798,000	49,681,000
Seismic equipment lease pool	82,558,000	82,392,000
Land	25,000	25,000
Buildings and improvements	574,000	582,000
Furniture and fixtures	1,236,000	1,399,000
Autos and trucks	159,000	226,000
Property and equipment	1,994,000	2,232,000
Seismic equipment lease pool, property and equipment	84,552,000	84,624,000
Less: accumulated depreciation	(51,398,000)	(59,265,000)
	\$ 33,154,000	\$ 25,359,000

9. Leases

The Company leases and subleases seismic equipment to customers under operating leases with non-cancelable terms of one year or less. These leases are generally renewable on a month-to-month basis. All taxes (other than U.S. federal income taxes) and assessments are the contractual responsibility of the lessee. To the extent that foreign taxes are not paid by the lessee, the relevant foreign taxing authorities might seek to collect such taxes from the Company. Under the terms of its lease agreements, any amounts paid by the Company to such foreign taxing authorities may be billed and collected from the lessee. If the Company is unable to collect the foreign taxes it paid on behalf of its lessees, the Company may have foreign tax credits in the amounts paid which could be applied against its U.S. income tax liability subject to certain limitations. The Company is not aware of any foreign tax obligations as of January 31, 2003 and 2004 that have not already been reflected on the accompanying consolidated financial statements.

The Company leases seismic equipment from others under month-to-month operating leases.

Lease expense incurred by the Company in connection with such leases amounted to \$329,000, \$358,000 and \$886,000 for the years ended January 31, 2002, 2003 and 2004, respectively.

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. Income Taxes

The components of income tax expense (benefit) were as follows:

	Years Ended January 31,		
	2002	2003	2004
Current:			
Federal	\$ —	\$(1,647,000)	\$ —
Foreign	12,000	—	—
State	—	—	—
	12,000	(1,647,000)	
Deferred	2,713,000	—	—
	\$2,725,000	\$(1,647,000)	\$ —

The components of the Company's deferred tax assets consisted of the following as of:

	January 31,	
	2003	2004
Deferred tax assets:		
Allowance for doubtful accounts	\$ 262,000	\$ 295,000
Canadian net operating loss carryforward	4,861,000	4,947,000
Australian net operating loss carryforward	—	27,000
U.S. net operating loss carryforward	3,015,000	5,656,000
Inventory valuation allowance	83,000	66,000
Depreciation	905,000	179,000
Accruals not yet deductible for tax purposes	65,000	213,000
AMT credit	202,000	202,000
	9,393,000	11,585,000
Valuation allowance	(9,393,000)	(11,585,000)
	—	—
Net assets	—	—
Deferred tax liabilities:		
Tax accounting change from cash basis to accrual basis	—	—
	—	—
Deferred tax assets, net	\$ —	\$ —

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

	Years Ended January 31,		
	2002	2003	2004
Federal income tax expense (benefit) at 34%	\$(1,949,000)	\$(3,994,000)	\$(2,138,000)
Deferred benefit not currently recognized	4,604,000	2,693,000	2,192,000
Nondeductible expenses	58,000	27,000	21,000
Foreign rate differential	—	(446,000)	(98,000)
Other	12,000	73,000	23,000
	\$ 2,725,000	\$(1,647,000)	\$ —

MITCHAM INDUSTRIES, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company had Canadian net operating loss carryforwards of approximately \$11,800,000 as of January 31, 2004. The Canadian net operating losses expire in various years through 2008. The Company has U.S. net operating losses of approximately \$16,600,000, as of January 31, 2004, which if unused will begin to expire in 2021.

The Company recorded a valuation allowance of approximately \$9,393,000 as of January 31, 2003 and \$11,585,000 as of January 31, 2004 (a change of \$2,192,000).

11. Acquisition

On December 30, 2002, Mitcham Industries, Inc., purchased all of the issued and outstanding shares of capital stock of SAP, for approximately \$764,000. Headquartered in Brisbane, Australia, SAP provides equipment, consumables, systems integration, engineering hardware and software maintenance support services to the geophysical, hydrographic, oceanographic, environment and defense industries throughout South East Asia and Australia.

12. Sales and Major Customers

A summary of the Company's revenues from foreign customers by geographic region is as follows:

	Years Ended January 31,		
	2002	2003	2004
Canada	\$10,637,000	\$ 9,481,000	\$ 9,530,000
UK/ Europe	3,084,000	408,000	808,000
Mexico	380,000	64,000	110,000
South America	7,030,000	1,135,000	1,012,000
Asia	252,000	625,000	4,569,000
Other	351,000	281,000	513,000
Totals	\$21,734,000	\$11,994,000	\$16,542,000

Two customers represented approximately 22% and 11% of fiscal 2002 total revenues and one customer represented approximately 13% of fiscal 2003 total revenues. Two customers represented approximately 11% and 10% of fiscal 2004 total revenues. No other customer exceeded 10% of revenues for fiscal 2002, 2003 and 2004.

13. Fair Value of Financial Instruments

The Company's financial instruments consist of trade receivables, marketable securities, notes receivable and accounts and notes payables. The Company believes the carrying value of these financial instruments approximates their estimated fair value due to the short maturity of these instruments and for the market rates associated with the notes payable.

14. Shareholders' Equity

The Company has 1,000,000 shares of preferred stock authorized, none of which are outstanding as of January 31, 2003 and 2004. The preferred stock may be issued in multiple series with various terms, as authorized by the Company's Board of Directors. The Company has 20,000,000 shares of common stock authorized, of which 9,657,801 and 9,714,994 are issued as of January 31, 2003 and 2004, respectively.

In December 1996, in exchange for services, the Company issued warrants to its legal counsel to purchase 50,000 shares of its common stock at \$9.28 per share (the "December 1996 Warrants"), exercisable

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

beginning December 14, 1997 for a period of five years. During fiscal 2002, all of these warrants were exercised. In October 1997, in exchange for services rendered in connection with the Company's secondary offering, the Company issued warrants to its legal counsel to purchase 25,000 shares of its common stock for \$28.12 per share (the "1997 Warrants"), exercisable beginning October 28, 1998 for a period of five years thereafter. During fiscal 2002, 20,000 of these warrants were exercised. As of January 31, 2002, the exercise price of the remaining 5,000 1997 Warrants was \$3.56 per share, a result of the anti-dilution provisions of those warrants. The remaining 5,000 warrants expired in fiscal 2003.

In July 2001, in exchange for services, the Company issued warrants to an investment banking firm to purchase 20,000 shares of its common stock for \$5.00 per share, exercisable beginning July 18, 2002 for a period of five years thereafter. As of January 31, 2004, the exercise price of the warrants was \$4.42 per share, a result of the anti-dilution provisions of those warrants. Warrants are accounted for pursuant to variable accounting rules at each interim reporting date.

The Company has repurchased 915,000 shares of its common stock at an average cost of \$5.12 per share as of January 31, 2004 and has classified these shares as treasury stock in the accompanying financial statements.

In July 2003, the Compensation Committee of the Company's Board of Directors granted 52,500 shares of restricted stock awards to certain members of management as deferred compensation. The shares vest ratably over three years from the date of grant. On the date of the award, the restricted stock had a market value of \$99,750. The deferred compensation amount is amortized to compensation expense ratably over the three years. The unamortized balance of the deferred compensation is \$83,000 at January 31, 2004 and is classified as a component of shareholders' equity in the financial statements.

15. Commitments and Contingencies

Sercel Lease Agreement — Effective April 9, 2003, the Company renewed its exclusive leasing arrangement with Sercel by entering into a new Equipment Lease Agreement (the "New Sercel Agreement"). The New Sercel Agreement replaces the parties' Exclusive Equipment Lease Agreement that was entered into in December 1999 and that expired December 31, 2002. Under the New Sercel Agreement, the Company is Sercel's exclusive third-party worldwide short-term (for leases of a duration of less than one year) leasing representative for land-based seismic equipment and its non-exclusive leasing representative with respect to certain marine seismic equipment. While there are no restrictions on Sercel's ability to undertake short-term or long-term leasing of either land-based or marine seismic equipment, Sercel will provide the Company with information regarding any potential leases or sales opportunities that Sercel does not undertake. The agreement now expires December 31, 2004, subject to earlier termination by Sercel on the occurrence of certain events.

Purchase Commitment (unaudited) — The Company is committed to purchase \$2.25 million of land data acquisition equipment by December 31, 2004, under the Sercel Purchase Agreement.

Employment Agreement — Effective January 15, 1997, the Company entered into an employment agreement with the Company's president for a term of five years, beginning January 15, 1997, which term is automatically extended for successive one-year periods unless either party gives written notice of termination at least 30 days prior to the end of the current term. The agreement provides for an annual salary of \$150,000, subject to increase by the Board of Directors. It may be terminated prior to the end of the initial term or any extension thereof if the president dies; if it is determined that the president has become disabled; if the Board of Directors determines that the president has breached the employment agreement in any material respect, has appropriated a material business opportunity of the Company or has engaged in fraud or dishonesty with respect to the Company's business that is punishable by imprisonment. If the president's employment is terminated by the Company prior to the end of the initial five-year term other than for a reason enumerated

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

above, the president will be entitled to payments equal to \$450,000, payable ratably over the 24 months following such termination. For a period of two years after the termination of the agreement, the president is prohibited from engaging in any business activities that are competitive with the Company's business and from diverting any of the Company's customers to a competitor.

16. Stock Option Plans

The Company's stock option plans consist of the 1994 Stock Option Plan, the 1998 Stock Awards Plan, the 2000 Stock Option Plan and the 1994 Non-Employee Director Plan (the "Director Plan").

Under the 1994 Stock Option Plan, which is now expired, incentive stock options and non-qualified stock options to purchase a maximum of 350,000 shares of common stock were available to be issued to officers, employee directors, key employees and consultants of the Company.

Under the 1998 Stock Awards Plan, up to 350,000 shares of common stock may be issued in the form of stock options, stock appreciation rights, restricted stock awards, performance awards and phantom stock awards to the Company's employees.

Under the 2000 Stock Option Plan, up to 1,000,000 shares of common stock may be issued in the form of incentive stock options and non-qualified stock options to the Company's employees, consultants and non-employee directors.

With respect to incentive stock options issued under the 1994 Stock Option Plan, the 1998 Stock Awards Plan and the 2000 Stock Option Plan, no option may be granted more than 10 years after the effective date of the stock option plan or exercised more than 10 years after the date of grant (five years if the optionee owns more than 10% of the common stock of the Company at the date of grant). The vesting period for options will be determined by the Compensation Committee, except that no option may be exercised sooner than six months from the date of grant. With regard to incentive stock options, the exercise price of the option may not be less than 100% of the fair market value of the common stock at the date of grant (110% if the optionee owns more than 10% of the common stock of the Company). Subject to certain limited exceptions, options may not be exercised unless, at the time of exercise, the optionee is in the service of the Company.

The Director Plan provides for the grant of up to 50,000 nonqualified stock options. Options granted under the Director Plan must have an exercise price at least equal to the fair market value of the Company's common stock on the date of grant. Pursuant to the Director Plan, which is now expired, options were automatically granted annually to each non-employee director. Outstanding options granted under the Director Plan are fully vested and expire 10 years after the date of the grant.

Restricted Stock Awards — 52,500 shares are outstanding, as more fully discussed in Note 14.

The following is a summary of outstanding options as of January 31, 2004:

- *1994 Stock Option Plan* — Granted shares total 33,020 and options to purchase 204,900 shares of common stock are issued and outstanding, 45,750 of which are exercisable at \$5.00 per share, 21,000 of which are exercisable at \$3.29 per share, 11,500 of which are exercisable at \$5.75 per share, 19,150 of which are exercisable at \$22.00 per share, 15,000 of which are exercisable at \$5.38 per share, 5,000 of which are exercisable at \$1.38 per share and 87,500 of which are exercisable at \$1.90 per share.
- *1998 Stock Awards Plan* — Options to purchase an aggregate of 221,250 shares have been granted and options to purchase 215,150 shares of common stock are issued and outstanding, 60,000 of which are exercisable at \$7.38 per share and 155,150 of which are exercisable at \$3.56 per share.
- *2000 Stock Option Plan* — Options to purchase an aggregate of 933,740 shares of common stock are issued and outstanding, 205,500 of which are exercisable at \$5.13 per share, 750 of which are

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

exercisable at \$5.53 per share, 238,450 of which are exercisable at \$5.00 per share, 10,000 of which are exercisable at \$4.60 per share, 2,500 of which are exercisable at \$4.00 per share, 256,540 of which are exercisable at \$1.99 per share, 130,000 of which are exercisable at \$1.25 per share and 90,000 of which are exercisable at \$1.90 per share.

- *Director Plan* — Options to purchase an aggregate of 41,000 shares of common stock were issued and outstanding, 1,000 of which are exercisable at \$2.88 per share, 1,000 of which are exercisable at \$3.13 per share, 10,000 of which are exercisable at \$4.06 per share, 15,000 of which are exercisable at \$5.13 per share, 2,000 of which are exercisable at \$7.38 per share, 10,000 of which are exercisable at \$11.00 per share and 2,000 of which are exercisable at \$11.13 per share.

Stock option activity in the 1994 Stock Option Plan, 1998 Stock Awards Plan, 2000 Stock Option Plan and Director Plan for the years ended January 31, 2002, 2003 and 2004 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share on Grant Date
Outstanding, January 31, 2001	860,350	\$5.75	
Exercised	(6,100)	3.56	
Granted	274,600	4.99	\$3.49
Expired	(166,650)	5.90	
Outstanding, January 31, 2002	962,200	\$5.52	
Exercised	—	—	
Granted	410,120	1.77	\$1.18
Expired	(5,450)	4.64	
Outstanding, January 31, 2003	1,366,870	\$4.40	
Exercised	(10,000)	1.99	
Granted	182,500	1.89	\$1.34
Expired	(144,580)	6.10	
Outstanding, January 31, 2004	1,394,790	\$3.91	

The weighted average remaining contractual life at January 2002, 2003 and 2004 was 7.4 years, 6.5 years and 7.0 years, respectively.

As of January 31, 2004, options to acquire 930,112 shares of the Company's common stock were fully vested and exercisable at a weighted average exercise price of \$4.75 per share. The remaining options, which have a weighted average exercise price of \$2.23 per share, will vest during the next three fiscal years. If not previously exercised, options outstanding at January 31, 2004 will expire as follows: 45,750 shares in 2004, 23,000 shares in 2005, 13,500 shares in 2006, 21,150 shares in 2007, 85,000 shares in 2008, 165,150 shares in 2009, 221,250 shares in 2010, 248,450 shares in 2011, 389,040 shares in 2012 and 182,500 shares in 2013.

MITCHAM INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

17. Quarterly Financial Data (Unaudited)

	Fiscal Year	April 30	July 31	October 31	January 31
		(In thousands, except per share amounts)			
Net sales, continuing operations:	2004	\$ 5,868	\$ 3,929	\$ 7,275	\$ 5,334
	2003	7,048	1,008	2,680	3,403
Gross profit:	2004	4,332	2,860	4,824	3,349
	2003	3,504	479	1,692	2,534
Income (loss) from continuing operations before income taxes:	2004	(526)	(2,264)	105	(889)
	2003	(1,412)	(2,790)	(3,013)	(2,109)
Income taxes (benefit):	2004	—	—	—	—
	2003	288	—	(1,935)	—
Net income (loss) from continuing operations:	2004	(526)	(2,264)	105	(889)
	2003	(1,700)	(2,790)	(1,078)	(2,109)
Income (loss) from discontinued operations:	2004	(914)	(1,879)	—	78
	2003	(354)	(458)	(788)	(822)
Net income (loss):	2004	(1,440)	(4,143)	105	(811)
	2003	(2,054)	(3,248)	(1,866)	(2,931)
Income (loss) per common share from continuing operations, basic and diluted	2004	\$ (0.06)	\$ (0.26)	\$ 0.01	\$ (0.10)
	2003	\$ (0.19)	\$ (0.32)	\$ (0.12)	\$ (0.24)
Net income (loss) per common share from discontinued operations, basic and diluted	2004	\$ (0.10)	\$ (0.21)	\$ —	\$ 0.01
	2003	\$ (0.04)	\$ (0.05)	\$ (0.09)	\$ (0.09)
Net income (loss) per common share-basic and diluted	2004	\$ (0.16)	\$ (0.47)	\$ 0.01	\$ (0.09)
	2003	\$ (0.23)	\$ (0.37)	\$ (0.21)	\$ (0.34)

**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors and Shareholders

Mitcham Industries, Inc.
Huntsville, Texas

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Mitcham Industries, Inc. and Subsidiaries included in this Form 10-K and have issued our report thereon dated May 20, 2004. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule listed in Item 15(a) herein (Schedule II — Valuation and Qualifying Accounts) is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The financial statement schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects with the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ HEIN & ASSOCIATES LLP

Hein & Associates LLP

Houston, Texas

May 20, 2004

SCHEDULE II

MITCHAM INDUSTRIES, INC.

VALUATION AND QUALIFYING ACCOUNTS

Col. A	Col. B	Col. C(1)	Col. D	Col. E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions — Describe	Balance at End of Period
January 31, 2002				
Allowance for doubtful accounts	\$1,230,000	\$5,065,000	\$4,841,000(A)	\$1,454,000
January 31, 2003				
Allowance for doubtful accounts	\$1,454,000	\$ (500,000)	\$ 184,000(A)	\$ 770,000
January 31, 2004				
Allowance for doubtful accounts	\$ 770,000	\$ 103,000	\$ (3,000)(A)	\$ 876,000

(A) Represents recoveries and uncollectible accounts written off.

Note: Column C(2) has been omitted, as all answers would be "none."

INDEX TO EXHIBITS

Exhibit Number		
3.1	—	Amended and Restated Articles of Incorporation of Mitcham Industries, Inc. (1) (Exhibit 3.1)
3.2	—	Second Amended and Restated Bylaws of Mitcham Industries, Inc.**
9	—	Voting Agreement, dated September 20, 1993, between the Company, Billy F. Mitcham, Jr. and certain shareholders (2) (Exhibit 9)
*10.1	—	Employment Agreement, dated January 15, 1997, between the Company and Billy F. Mitcham, Jr. (3) (Exhibit 10.4)
10.2	—	Exclusive Lease Referral Agreement, dated May 14, 1996, between the Company and Pelton Company, Inc., an Oklahoma corporation (“Pelton”) (4)
10.3	—	First Amendment to Exclusive Lease Referral Agreement, dated January 15, 1997, between the Company and Pelton (3) (Exhibit 10.17)
10.4	—	Second Amendment to Exclusive Lease Referral Agreement, dated November 24, 1997, between Mitcham Industries, Inc. and Pelton (5) (Exhibit 10.3)
*10.5	—	Mitcham Industries, Inc. 1994 Stock Option Plan (2) (Exhibit 10.9)
10.6	—	Mitcham Industries, Inc. 1994 Non-Employee Director Stock Option Plan (2) (Exhibit 10.12)
*10.7	—	Mitcham Industries, Inc. 1998 Stock Awards Plan (6)
*10.8	—	Mitcham Industries, Inc. 2000 Stock Option Plan (7)
10.9	—	Warrant No. M-7, dated July 18, 2001, issued to Bear Ridge Capital, L.L.C. (8)
10.10	—	Share Sale Agreement, dated December 2002, between Mitcham Industries, Inc. and Nautronix, Inc. (9)
*10.11	—	Agreement, dated April 4, 2003, between Mitcham Industries, Inc. and William J. Sheppard (10) (Exhibit 10.14)
*10.12	—	Second Consultant Agreement, dated April 1, 2003, but effective January 1, 2004, between Mitcham Industries, Inc. and William J. Sheppard (10) (Exhibit 10.16)
10.13	—	Equipment Lease Agreement, dated April 9, 2003, between Mitcham Industries, Inc. and Sercel, Inc., an Oklahoma corporation (“Sercel”) (10) (Exhibit 10.17)
10.14	—	Amendment to the Equipment Lease Agreement, dated as of December 17, 2003, between Mitcham Industries, Inc. and Sercel**
10.15	—	Promissory Note of Mitcham Industries, Inc., dated as of February 11, 2002, payable to First Victoria National Bank in the original principal amount of \$8,518,919**
10.16	—	Loan Agreement, dated March 30, 2004, by and between Mitcham Industries, Inc. and First Victoria National Bank**
21	—	Subsidiaries of the Company**
23	—	Consent of Hein & Associates LLP**
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

* Management contract or compensatory plan or arrangement

** Filed herewith

(1) Incorporated by reference to the indicated exhibit number of the Company’s Registration Statement on Form S-8 (File No. 333-67208), filed with the SEC on August 9, 2001.

(2) Incorporated by reference to the indicated exhibit number of the Company’s Registration Statement on Form SB-2, filed with the SEC on July 5, 1994.

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- (3) Incorporated by reference to the indicated exhibit number of the Company's Registration Statement on Form S-1 (File No. 333-19997), filed with the SEC on January 17, 1997.
- (4) Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-3/ A (File No. 333-10555), filed with the SEC on October 25, 1996.
- (5) Incorporated by reference to the indicated exhibit number of the Company's Registration Statement on Form S-3/ A (File No. 333-40507), filed with the SEC on December 17, 1997.
- (6) Incorporated by reference to Exhibit A of the Company's proxy statement for the fiscal year ended January 31, 1998, filed with the SEC on June 1, 1998.
- (7) Incorporated by reference to Exhibit A of the Company's proxy statement for the fiscal year ended January 31, 2000, filed with the SEC on May 26, 2000.
- (8) Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2002, filed with the SEC on May 1, 2002.
- (9) Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K, filed with the SEC on January 13, 2003.
- (10) Incorporated by reference to the indicated exhibit number of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2003, filed with the SEC on May 1, 2003.

**SECOND AMENDED AND RESTATED BYLAWS OF
MITCHAM INDUSTRIES, INC.**

June 2, 2003

**ARTICLE I
Offices and Agent**

The Corporation may have such offices, either within or without the State of Texas, as the board of directors of the Corporation (the "**Board of Directors**") may designate or as the business of the Corporation may require from time to time. The registered office of the Corporation required by the Texas Business Corporation Act (the "**TBCA**") to be maintained in the State of Texas may be, but need not be, identical with the principal office of the Corporation in the State of Texas, as designated by the Board of Directors. The address of the registered office or the identity of the registered agent may be changed from time to time by the Board of Directors, pursuant to the provisions of the TBCA.

**ARTICLE II
Shareholders**

SECTION 1. Annual Meeting. The annual meeting of the shareholders shall be held on such date in each year and at such time and place as may be determined by the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the election of directors shall not be held on the day designated for any annual meeting of the shareholders or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as may be convenient.

SECTION 2. Special Meetings. Special meetings of the shareholders, for any purpose or purposes, may be called by the President or by the Board of Directors, and shall be called by the President at the request of the holder(s) of not less than 10% of the outstanding shares of the Corporation entitled to vote at the meeting.

SECTION 3. Place of Meeting. The Board of Directors may designate any place, either within or without the State of Texas, as the place of meeting for any annual or special meeting called by the Board of Directors. If no designation is made, or if a special meeting be called otherwise than by the Board of Directors, the place of meeting shall be the registered office of the Corporation in the State of Texas.

SECTION 4. Notice of Meeting. Written or printed notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the President, the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his address as it appears on the stock transfer books of the Corporation, with postage thereon prepaid.

SECTION 5. Closing of Transfer Records and Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any distribution, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may provide that the stock transfer books shall be closed for a stated period not to exceed 60 days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may, by resolution, fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 60 days and, in case of a meeting of shareholders, not less than ten days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a distribution, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such

determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof except where the determination has been made through the closing of the stock transfer books and the stated period of closing has expired.

SECTION 6. Fixing Record Dates for Consents to Action. Unless a record date shall have previously been fixed or determined pursuant to Section 5 of this Article II, whenever action by shareholders is proposed to be taken by consent in writing without a meeting of shareholders, the Board of Directors may fix a record date for the purpose of determining shareholders entitled to consent to that action, which record date shall not precede, and shall not be more than ten days after, the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors and the prior action of the Board of Directors is not required by the TBCA, the record date for determining shareholders entitled to consent to action in writing without a meeting shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office, its principal place of business, or an officer or agent of the Corporation having custody of the books in which proceedings of meetings of shareholders are recorded. Delivery shall be by hand or by certified or registered mail, return receipt requested. Delivery to the Corporation's principal place of business shall be addressed to the President or the Chief Executive Officer. If no record date shall have been fixed by the Board of Directors and prior action of the Board of Directors is required by the TBCA, the record date for determining shareholders entitled to consent to action in writing without a meeting shall be at the close of business on the date on which the Board of Directors adopts a resolution taking such prior action.

SECTION 7. Voting Lists. The officer or agent having charge of the stock transfer books of the Corporation shall make, at least ten days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting, or any adjournment thereof, arranged in alphabetical order, with the address and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the registered office or the principal place of business of the Corporation, and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and opened at the time and place of the meeting and shall be subject to the inspection by any shareholder during the whole time of the meeting. The original stock transfer books shall be prima facie evidence as to who are the shareholders entitled to examine such list or transfer books or to vote at any meeting of shareholders.

SECTION 8. Quorum. A majority of the outstanding shares of the Corporation entitled to vote, and represented in person or by proxy, shall constitute a quorum at a meeting of shareholders unless otherwise provided in the Articles of Incorporation of the Corporation, as same may be amended from time to time (the "**Articles of Incorporation**"). If less than a quorum is represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At any reconvened meeting at which a quorum shall be present or represented, any business may be transacted that might have been transacted as originally notified. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

SECTION 9. Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. A telegram, telex, cablegram or similar transmission by the shareholder or his duly authorized attorney in fact, or a photographic, photostatic, facsimile or similar reproduction of a writing executed by the shareholder or his duly authorized attorney in fact shall be treated as an execution in writing for purposes of this section. Such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. No proxy shall be valid after 11 months from the date of its execution, unless otherwise provided in the proxy. Each proxy shall be revocable before it has been voted unless the proxy form conspicuously states that the proxy is irrevocable and the proxy is coupled with an interest, including the appointment as proxy of (a) a pledgee, (b) a person who purchased or agreed to purchase, or owns or holds an option to purchase, the shares, (c) a creditor of the corporation who extends its credit under terms requiring the appointment, (d) an employee of the corporation whose employment contract requires the appointment, or (e) a party to a voting agreement created under the TBCA. A revocable proxy shall be deemed to have been revoked if the Secretary of the Corporation shall have received at or before the meeting instructions of revocation or a proxy bearing a later date, which instructions or proxy shall have been duly executed and dated in writing by the shareholder.

SECTION 10. Voting of Shares. Except as otherwise provided by the TBCA, and unless otherwise expressly provided in the Articles of Incorporation or in any resolution of the Board of Directors adopted with regard to a

class or series of preferred stock authorized by the Articles of Incorporation, each outstanding share entitled to vote shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders.

SECTION 11. Actions Without a Meeting. Any action required or permitted by the TBCA to be taken at any annual or special meeting of shareholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take such action at a meeting at which the holders of all shares entitled to vote on the action were presented and voted. Such writing, which may be in counterparts, shall be manually executed if practicable; provided, however, that if circumstances so require, effect shall be given to written consent transmitted by telegraph, telex, telecopy or similar means of visual data transmission.

Every written consent shall bear the date of signature of each shareholder who signs the consent. No written consent shall be effective to take the action that is the subject of the consent unless, within 60 days after the date of the earliest dated consent delivered to the Corporation in the manner required by this Section 11, a consent or consents signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take the action that is the subject of the consent are delivered to the Corporation by delivery to its registered office, its principal place of business, or an officer or agent of the Corporation having custody of the books in which proceedings of meetings of shareholders are recorded. Delivery shall be by hand or by certified or registered mail, return receipt requested. Delivery to the Corporation's principal place of business shall be addressed to the President or principal executive officer of the Corporation.

Prompt notice of the taking of any action by shareholders without a meeting by less than unanimous written consent shall be given to those shareholders who did not consent in writing to the action.

SECTION 12. Telephone Meetings. Subject to the provisions required by the TBCA for notice of meetings, meetings of the shareholders of the Corporation may be conducted by means of conference telephone or similar communications equipment whereby all persons participating in the meeting can hear and speak to each other.

ARTICLE III Board of Directors

SECTION 1. General Power. The powers of the Corporation shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed by its Board of Directors except as the Board of Directors shall delegate the power to so manage to the Executive Committee or other committee.

SECTION 2. Number, Tenure and Qualifications. Upon resolution of the Board of Directors, the number of directors may be increased or decreased, but no decrease shall have the effect of shortening the term of any incumbent director. Each director shall hold office until the next annual meeting of the shareholders, unless earlier removed, and until his successor shall have been elected and qualified. A director need not be a resident of the State of Texas or a shareholder of the Corporation.

SECTION 3. Regular Meetings. A regular meeting of the Board of Directors shall be held without notice other than this bylaw immediately after, and at the same place as, the annual meeting of shareholders. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Texas for the holding of additional regular meetings without notice other than such resolution.

SECTION 4. Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the President or a majority of the elected and acting directors from time to time. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Texas, as the place for holding any special meeting called by them.

SECTION 5. Notice. Written notice of any special meeting shall be delivered personally to each director or by mail or telegram, telex, telecopy or similar means of visual data transmission to each director at his business address, in all cases at least one day prior to such meeting. If mailed, such notice shall be deemed to be delivered two days after such notice has been deposited in the United States mail so addressed, with postage thereon prepaid. If notice

is given by telegram, telex, telecopy or similar means of visual data transmission, such notice shall be deemed to be delivered when transmitted for delivery to the recipient at such address. Any director may waive notice of any meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because that meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of any regular or special meeting of the Board of Directors need be specified in the notice, or waiver of notice of such meeting.

SECTION 6. Quorum. A majority of the number of directors fixed in accordance with Section 2 of this Article III shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

SECTION 7. Manner of Acting.

(a) Actions at a Meeting. Except as provided in Paragraph (b) of this Section 7, the act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

(b) Actions Without a Meeting. Any action required or permitted to be taken at a meeting of the Board of Directors or any committee may be taken without a meeting, if a consent in writing, setting forth the action so taken, is signed by all of the members of the Board of Directors, Executive Committee or other committee, as the case may be. Such consent shall have the same force and effect as a unanimous vote at a meeting. Such writing, which may be in counterparts, shall be manually executed if practicable; provided, however, that if circumstances so require, effect shall be given to written consent transmitted by telegraph, telex, telecopy, or similar means of visual data transmission.

(c) Telephone Meetings. Subject to the provisions required by the TBCA for notice of meetings, meetings of the Board of Directors of the Corporation or any committee may be conducted by means of conference telephone or similar communications equipment whereby all persons participating in the meeting can hear and speak to each other.

SECTION 8. Vacancies. Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of (a) the holders of a majority of the outstanding shares entitled to vote thereon at an annual or special meeting of shareholders called for that purpose, or (b) a majority of the remaining directors though less than a quorum of the Board of Directors. A person elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

A vacancy shall be deemed to exist by reason of the death or resignation of the person elected, or upon the failure of shareholders to elect directors to fill the unexpired term of directors removed in accordance with the provisions of Section 9 of this Article III.

A directorship to be filled by reason of an increase in the number of directors may be filled by (a) the affirmative vote of the holders of a majority of the outstanding shares entitled to vote thereon at an annual or special meeting of shareholders called for that purpose or (b) the Board of Directors for a term of office continuing only until the next election of one or more directors by the shareholders; provided, that the Board of Directors may not fill more than two such directorships during the period between any two successive annual meetings of shareholders.

SECTION 9. Removal. At any meeting of shareholders called expressly for the purpose of removal, any director or the entire Board of Directors may be removed, with or without cause, by a vote of the holders of a majority of the shares then entitled to vote at an election of directors. Removal of directors with or without cause may also be accomplished by unanimous written consent of the shareholders without a meeting. In case the entire board or any one or more of the directors are so removed, new directors may be elected at the same meeting, or by the same written consent, for the unexpired term of the director or directors so removed. Failure to elect directors to fill the unexpired term of the directors so removed shall be deemed to create a vacancy or vacancies in the Board of Directors.

SECTION 10. Compensation. By resolution of the Board of Directors, the directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a fixed sum for attendance at

each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 11. Presumption of Assent. A director of the Corporation who is present at a meeting of the Board of Directors in which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting, or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof, or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 12. Executive and Other Committees. There may be established an Executive Committee, and one or more other committees, composed of one or more directors designated by resolution adopted by a majority of the full number of directors of the Board of Directors as fixed in accordance with Section 2 of this Article III. The Executive Committee or such other committees may meet at stated times, or on notice to all members by any one member. Vacancies in the membership of the Executive Committee or such other committees shall be filled by a majority vote of the full number of directors on the Board of Directors at a regular meeting or at a special meeting called for that purpose. During the intervals between meetings of the Board, the Executive Committee, if it shall have been established, may advise and aid the officers of the Corporation in all matters concerning its interest and the management of its business, and shall generally perform such duties and exercise such powers as may be directed to delegated by the Board of Directors from time to time. The Board of Directors may delegate to the Executive Committee or such other committees the authority to exercise all the powers of the Board of Directors, except the power to declare dividends or to authorize the issuance of shares of the Corporation, and where action of the full Board of Directors is required by the TBCA. The designation of and delegation of power to the Executive Committee shall not operate to relieve the Board of Directors, or any members thereof, of any responsibility imposed upon it or him by law.

ARTICLE IV Officers

SECTION 1. Principal Officers. The officers of the Corporation shall be elected by the Board of Directors and shall consist of a President, a Secretary, and such other officers and assistant officers as the Board of Directors may deem necessary, including, without limitation, a Chairman of the Board of Directors, a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer, a Controller, a Treasurer and one or more Vice Presidents. The officers of the Corporation shall have the respective responsibilities and duties indicated herein, if any, as well as any other responsibilities and duties designated to each such officer by the Board of Directors. Any two or more offices may be held by the same person.

SECTION 2. Election and Term of Office. The officers of the Corporation shall be elected annually by the Board of Directors at the regular meeting of the Board of Directors held after each annual meeting of the shareholders. If the election shall not be held at such meeting such election shall be held as soon thereafter as may be convenient. Each officer shall hold office until his successor shall have been duly elected or until his death, or until he shall resign or shall have been removed in the manner hereinafter provided.

SECTION 3. Removal. Any officer may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

SECTION 4. Vacancies. A vacancy in any office, because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 5. Chairman of the Board. The Chairman of the Board of Directors, if there is one, shall be an executive officer of the Corporation and shall: (a) preside over all meetings of the Board of Directors at which he is present; (b) supervise the implementation of the policies adopted or approved by the Board of Directors; and (c) shall have and exercise such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors.

SECTION 6. Chief Executive Officer. Under the direction and subject to the control of the Board of Directors, the Chief Executive Officer, if there is one, shall: (a) be responsible for the general management of the affairs of the Corporation; (b) see that all orders and resolutions of the Board of Directors and any committee thereof are carried into effect; (c) perform all duties customarily performed by persons occupying the office of chief executive officer; (d) preside at all meetings of shareholders and, in the absence of or because of the inability to act of the Chairman of the Board (if there is one), perform all duties of the Chairman of the Board, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chairman of the Board; and (e) have and exercise such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors or any committee thereof. The Chief Executive Officer may sign, alone or with the Secretary or any other properly authorized officer of the Corporation, certificates for shares of the Corporation's capital stock, contracts, and other instruments of the Corporation as authorized by the Board of Directors.

SECTION 7. President. Under the direction and subject to the control of the Board of Directors and the Chief Executive Officer (if there is one), the President shall: (a) act in a general executive capacity; (b) assist the Board of Directors and the Chief Executive Officer in the administration and operation of the Corporation's business and the general supervision of its policies and affairs; (c) in the absence of or because of the inability to act of the Chief Executive Officer, perform all duties of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer; (d) perform all duties customarily performed by persons occupying the office of president; and (e) have and exercise such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors or any committee thereof or the Chief Executive Officer (if there is one). The President may sign, alone or with the Secretary or any other properly authorized officer of the Corporation, certificates for shares of the Corporation's capital stock, contracts, and other instruments of the Corporation as authorized by the Board of Directors.

SECTION 8. Chief Operating Officer. Under the direction and subject to the control of the Board of Directors, the Chief Executive Officer (if there is one) and the President, the Chief Operating Officer, if there is one, shall: (a) have general charge and supervision of the day to day operations of the Corporation; (b) perform all duties customarily performed by persons occupying the office of chief operating officer; and (c) have and exercise such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors or any committee thereof, the Chief Executive Officer (if there is one) or the President.

SECTION 9. Chief Financial Officer. Under the direction and subject to the control of the Board of Directors, the Chief Executive Officer (if there is one) and the President, the Chief Financial Officer, if there is one, shall: (a) assist the Chief Executive Officer (if there is one) and the President in the performance of their respective duties; (b) perform all duties relating to the general management and operation (with specific attention to financial matters) of the Corporation customarily performed by persons occupying the office of chief financial officer; and (c) have and exercise such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors or any committee thereof, the Chief Executive Officer (if there is one) or the President. The Chief Financial Officer may, alone or with the Controller (if there is one) or the Treasurer when so authorized by the Board of Directors, sign and endorse checks, deposit slips and other monetary instruments for and on behalf of the Corporation as authorized by the Board of Directors.

SECTION 10. The Vice Presidents. In the absence of or because of the inability to act of the Chief Executive Officer (if there is one) and the President, the Vice President (or should there be more than one Vice President, the Vice Presidents in the order designated at the time of their election, or in the absence of any designation then in the order of their election) shall, subject to the control of the Board of Directors, perform the duties of President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall have and exercise such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors or any committee thereof, the Chief Executive Officer (if there is one), the President or the Chief Operating Officer (if there is one).

SECTION 11. The Secretary. The Secretary shall: (a) keep the minutes of the shareholders' and the Board of Directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Amended and Restated Bylaws, or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation, and see that the seal of the Corporation is affixed to all documents as may be necessary or appropriate; (d) keep a register of the post office address of each shareholder which shall be

furnished to the Secretary by each such shareholder; (e) have general charge of the share transfer records of the Corporation; (f), perform all duties customarily performed by persons occupying the office of secretary; and (g) have and exercise such other powers and perform such other duties as may be designated to him from time to time by the Board of Directors or any committee thereof, the Chief Executive Officer (if there is one), the President or the Chief Operating Officer (if there is one).

SECTION 12. Controller. The Controller, if there is one, shall be the chief accounting officer of the Corporation. Under the direction and subject to the control of the Board of Directors, the Chief Executive Officer (if there is one) and the Chief Financial Officer (if there is one), the Controller shall: (a) maintain records of all assets, liabilities, and transactions of the Corporation; (b) be responsible for the design, installation and maintenance of accounting and cost control systems and procedures for the Corporation, including, without limitation, reviewing and approving all vendor invoices and customer invoices, reviewing the financial information of the Corporation's subsidiaries, and preparing the Corporation's consolidated financial statements and other information; and (c) have and exercise such other powers and perform such other duties as may be designated to him from time to time by the Board of Directors or any committee thereof, the Chief Executive Officer (if there is one), the President or the Chief Financial Officer (if there is one). The Controller may, alone or with the Chief Financial Officer (if there is one) or the Treasurer when so authorized by the Board of Directors, sign and endorse checks, deposit slips and other monetary instruments for and on behalf of the Corporation as authorized by the Board of Directors.

SECTION 13. The Treasurer. Under the direction and subject to the control of the Board of Directors, the Chief Executive Officer (if there is one) and the Chief Financial Officer (if there is one), the Treasurer, if there is one, shall: (a) have charge and custody of, and be responsible for, all funds and securities of the Corporation from any source whatsoever; (b) deposit all such moneys in the name of the Corporation in such banks, trust companies, or other depositories as shall be selected by the Board of Directors; (c) perform all duties customarily performed by persons occupying the office of treasurer; and (d) have and exercise such other powers and perform such other duties as may be designated to him from time to time by the Board of Directors or any committee thereof, the Chief Executive Officer (if there is one), the President or the Chief Financial Officer (if there is one). If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum, and with such surety or sureties, as the Board of Directors shall determine.

SECTION 14. Assistant Secretaries. The Assistant Secretaries, when authorized by the Board of Directors, may sign with the Chief Executive Officer, the President, or a Vice President, certificates for shares of the Corporation's capital stock the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Secretaries, in general, shall have and exercise such other powers and perform such other duties as shall be assigned to them by the Board of Directors or any committee thereof, the Chief Executive Officer (if there is one), the President, the Chief Operating Officer (if there is one), or the Secretary.

SECTION 15, Assistant Treasurers. The Assistant Treasurers shall, respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Treasurers, in general, shall have and exercise such other powers and perform such other duties as shall be assigned to them by the Board of Directors or any committee thereof, the Chief Executive Officer (if there is one), the President, the Chief Financial Officer (if there is one), the Controller or the Treasurer.

SECTION 11. Salaries. The salaries, if any, of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the Corporation.

ARTICLE V

Certificates for Shares, Transfer and Replacement

SECTION 1. Certificates for Shares. Certificates representing shares of the Corporation's capital stock shall be in such form as shall be approved from time to time by the Board of Directors. Such certificates shall be signed by the Chief Executive Officer or the President and by the Secretary or an Assistant Secretary. If such certificates are signed or countersigned by a transfer agent or registrar, other than the Corporation, such signature of the Chief Executive Officer or the President and Secretary or Assistant Secretary, and the seal of the Corporation, or any of them, may be

executed in facsimile, engraved or printed. If any officer who has signed or whose facsimile signature has been placed on any certificate shall have ceased to be such officer before the certificate is issued, it may be issued by the Corporation with the same effect as if the officer has not ceased to be such at the date of issue. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued with the number of shares and date of issue, shall be entered on the share transfer records of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, stolen or destroyed certified a new one may be issued therefor as provided in Section 3 of this Article V.

SECTION 2. Transfer of Shares. Transfer of shares of the Corporation's capital stock shall be made only on the stock transfer books of the Corporation upon surrender for cancellation of the certificate for such shares, together with a request to transfer and such other documents and opinion as counsel to the Corporation may require. The person in whose name shares stand on the stock transfer books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

SECTION 3. Lost, Stolen or Destroyed Certificates. The Corporation shall issue a new certificate in place of any certificate for shares previously issued if the registered owner of the certificate: (a) makes proof in affidavit form that it has been lost, destroyed or wrongfully taken; (b) requests the issuance of a new certificate before the Corporation has notice that the certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim; (c) gives a bond in such form, and with such surety or sureties, with fixed or open penalty, as the Corporation may direct, or indemnifies the Corporation (and its transfer agent and registrar, if any) against any claim that may be made on account of the alleged loss, destruction or theft of the certificates; and (d) satisfies any other reasonable requirements imposed by the Corporation. When a certificate has been lost, apparently destroyed or wrongfully taken, and the holder of record fails to notify the Corporation within a reasonable time after he has notice of it, and the Corporation registers a transfer of the shares represented by the certificate before receiving such notification, the holder of record is precluded from making any claim against the Corporation for the transfer or for a new certificate.

ARTICLE VI Fiscal Year

The Board of Directors shall, by resolution, fix the fiscal year of the Corporation.

ARTICLE VII Distributions

The Board of Directors may from time to time make distributions in the manner provided by law.

ARTICLE VIII Seal

The Board of Directors shall adopt a corporate seal, which shall be circular in form and shall have inscribed thereon the name of the Corporation, the state of incorporation, and the five-pointed Texas star.

ARTICLE IX Waiver of Notice

Whenever any notice is required to be given to any shareholder or director of the Corporation under the provisions of these Amended and Restated Bylaws, the Articles of Corporation or the TBCA, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE X
Procedure

Meetings of the shareholders and of the Board of Directors shall be conducted in accordance with the procedure as contained in Robert's Rules of Order, to the extent applicable.

ARTICLE XI
Participation of Directors and Officers in Related Business

Unless otherwise provided by contract, officers and directors of this Corporation may hold positions as officers and directors of other corporations, in related businesses, and their efforts to advance the interest of those corporations will not create a breach of fiduciary duty to this Corporation in the absence of bad faith.

ARTICLE XII
Amendments

The Board of Directors shall have the power to alter, amend or repeal these Amended and Restated Bylaws or adopt new bylaws, subject to amendment, repeal or adoption of new bylaws by action of the shareholders and unless the shareholders in amending, repealing or adopting a particular bylaw expressly provide that the Board of Directors may not amend or repeal such bylaw. The Board of Directors may exercise this power at any regular or special meeting at which a quorum is present by the affirmative vote of a majority of the Directors present at the meeting and without any notice of the action taken with respect to the Bylaws having been contained in the notice of waiver of notice of meeting.

AMENDMENT TO THE EQUIPMENT LEASE AGREEMENT

This Amendment, hereinafter referred to as "Amendment" is made and entered into effective as of this the 17th day of December 2003, to that certain Equipment Lease Agreement and, together herein referred to as "Agreement", which was made and entered into on or about the 9 April, 2003, between Mitcham Industries, Inc., a Texas Corporation "MITCHAM", and Sercel, Inc. with its principal place of business at Houston, Texas, U.S.A. (Sercel).

Sercel and MITCHAM have entered into the Agreement of which the term is 31 December 2003;

Sercel and MITCHAM are now willing to renew their relationship under the following terms and conditions:

WITNESSETH:

NOW, THEREFORE, in consideration of the premises and the mutual promises and undertakings set forth below and intending to be legally bound hereby, the parties agree as follows:

1. Both parties mutually agree to extend the Agreement for an additional year from January 1st to December 31, 2004. Any further renewal may only be agreed upon between the Parties through written agreement signed by both Parties.
2. Except, as specifically mentioned herein, all other Terms and Conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF MITCHAM and Sercel each has caused this Amendment to be executed and effective as of the date first written above.

For and on behalf of Sercel:

For and on behalf of Mitcham Industries, Inc.

By: /s/ Mark Farine
 Printed Name: Mark Farine
 Title: Vice President of Sales
 Date: 31 Dec. 2003

By: /s/ Billy F. Mitcham, Jr.
 Printed Name: Billy F. Mitcham, Jr.
 Title: President — CEO
 Date: Dec. 31, 2003

PROMISSORY NOTE

Borrower: Mitcham Industries, Inc.
(TIN: 76-0210849
44000 Hwy. 75 S
Huntsville, TX 77340

Lender: First Victoria National Bank
Main Bank
101 South Main Street
P.O. Box 1338
Victoria, TX 77902-1338

Principal Amount: \$8,518,919.00

Initial Rate: 5.250%

Date of Note: February 11, 2002

PROMISE TO PAY. MITCHAM INDUSTRIES, INC., (“Borrower”) promises to pay to First Victoria Bank (“Lender”), or order, in lawful money of the United States of America, the principal amount of Eight Million Five Hundred Eighteen Thousand Nine Hundred Nineteen & 00/100 Dollars (\$8,518,919.00), together with interest on the unpaid principal balance from February 11, 2002, until maturity. The interest rate will not increase above 18.000%.

PAYMENT. Subject to any payment changes resulting from changes in the Index, Borrower will pay this loan in 48 payments of \$197,125.14 each payment. Borrower’s first payment is due March 11, 2002, and all subsequent payments are due on the same day of each month after that. Borrower’s final payment will be due on February 11, 2006, and will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs. Interest on this Note is computed on a 365/365 simple interest basis; that is, by applying the ration of the annual interest rate over the number of days in a year, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender’s address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an independent index which is the WALL STREET JOURNAL PRIME AS ANNOUNCED IN THE WALL STREET JOURNAL (the “Index”). The Index is not necessarily the lowest rate charged by Lender on its loans. If the Index becomes unavailable during the term of this loan, Lender may designate a substitute index after notice to Borrower. Lender will tell Borrower the current Index rate upon Borrower’s request. The interest rate change will not occur more often than each DAY. Borrower understands that Lender may make loans based on other rates as well. The Index currently is 4.750% per annum. The interest rate to be applied prior to maturity to the unpaid principal balance of this Note will be at a rate of 0.500 percentage points over the Index, resulting in an initial rate of 5.250% per annum. Notwithstanding the foregoing, the variable interest rate or rates provided for in this Note will be subject to the following maximum rate. **NOTICE:** Under no circumstances will the interest rate on this Note be more than (except for any higher default rate or Post Maturity Rate shown below) the lesser of 18.000% per annum or the maximum rate allowed by applicable law. For purposes of this Note, the “maximum rate allowed by applicable law” means the greater of (A) the maximum rate of interest permitted under federal or other law applicable to the indebtedness evidenced by this note, or (B) the “Weekly Ceiling” as referred to in Sections 303.002 and 303.003 of the Texas Finance Code. Whenever increases occur in the interest rate, Lender, at its option, may do one of the following: (A) increase Borrower’s payments to ensure Borrower’s loan will pay off by its original final maturity date, (B) increase Borrower’s payments to cover accruing interest, (C) increase the number of Borrower’s payments, and (D) continue Borrower’s payments at the same amount and increase Borrower’s final payment.

PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Any partial payment shall be in an amount equal to one or more full installments. Prepayment in full shall consist of payment of the remaining unpaid principal balance together with all accrued and unpaid interest and all other amounts, costs and expenses for which Borrower is responsible under this Note or any other agreement with Lender pertaining to this loan, and in no event will Borrower ever be required to pay any unearned interest. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower’s obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower’s making fewer payments. Borrower agrees not to send Lender payments marked “paid in full”, “without recourse”, or similar language.

If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: First Victoria National Bank, Loan Operations, P.O. Box 1338, Victoria, TX 77902.

POST MATURITY RATE. The Post Maturity Rate on this Note is the lesser of the maximum rate allowed by applicable law or 18.000% per annum. Borrower will pay interest on all sums due after final maturity, whether by acceleration or otherwise, at that rate.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note. In the event of a death, Lender, at its option, may, but shall not be required to, permit the guarantor's estate to assume unconditionally the obligations arising under the guaranty in a manner satisfactory to Lender, and, in doing so, cure any Event of Default.

Change in Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable, it may be cured (and no event of default will have occurred) if Borrower, after receiving written notice from Lender demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately

initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire indebtedness, including the unpaid principal balance on this Note, all accrued unpaid interest, and all other amounts, costs and expenses for which Borrower is responsible under this Note or any other agreement with Lender pertaining to this loan, immediately due, without notice, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire an attorney to help collect this Note if Borrower does not pay, and Borrower will pay Lender's reasonable attorneys' fees. Borrower also will pay Lender all other amounts Lender actually incurs as court costs, lawful fees for filing, recording, releasing to any public office any instrument securing this Note; the reasonable cost actually expended for repossessing, storing, preparing for sale, and selling any security; and fees for noting a lien on or transferring a certificate of title to any motor vehicle offered as security for this Note, or premiums or identifiable charges received in connection with the sale of authorized insurance.

GOVERNING LAW. This Note will be governed by, construed and enforced in accordance with federal law and the laws of the State of Texas. This Note has been accepted by Lender in the State of Texas.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorized Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

THIS NOTE IS BASED ON FINANCIAL STATEMENT DATED, 10-31-2001.

COLLATERAL. Borrower acknowledges this Note is secured by SECURITY AGREEMENT DATED 02-11-2002 COVERING PURCHASE MONEY SECURITY INTEREST ON ALL EQUIPMENT AND INVENTORY PURCHASED FROM SERCEL, LTD., GEOSPACE CORP., AND MARK PRODUCTS, INPUT OUTPUT; AND ASSIGNMENT OF ALL LEASES AND REVENUES GENERATED FROM SAID EQUIPMENT AND INVENTORY.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Borrower does not agree or intend to pay, and Lender does not agree or intend to contract for, charge, collect, take, reserve or receive (collectively referred to herein as "charge or collect"), any amount in the nature of interest or in the nature of a fee for this loan, which would in any way or event (including demand, prepayment, or acceleration) cause Lender to charge or collect more for this loan than the maximum Lender would be permitted to charge or collect by federal law or the law of the State of Texas (as applicable). Any such excess interest or unauthorized fee shall, instead of anything stated to the contrary, be applied first to reduce the principal balance of this loan, and when the principal has been paid in full, be refunded to Borrower. The right to accelerate maturity of sums due under this Note does not include the right to accelerate any interest which has not otherwise accrued on the date of such acceleration, and Lender does not intend to charge or collect any unearned interest in the event of acceleration. All sums paid or agreed to be paid to Lender for the use, forbearance or detention of sums due hereunder shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of the loan evidenced by this Note until payment in full so that the rate or amount of interest on account of the loan evidenced hereby does not exceed the applicable usury ceiling. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, notice of dishonor, notice of intent to accelerate the maturity of this Note, and notice of acceleration of the maturity of this Note. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time)

this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

MITCHAM INDUSTRIES, INC.

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

BILLY F. MITCHAM, JR., President of
MITCHAM INDUSTRIES, INC.

LOAN AGREEMENT

THIS AGREEMENT made and entered into on this 30 day of March, 2004, by and between MITCHAM INDUSTRIES, INC. a Texas corporation, with principal offices at Huntsville, in Walker County, Texas (herein referred to as "Borrower"), and First Victoria National Bank, a national banking corporation, with its offices and domicile in Victoria, Victoria County, Texas, (herein referred to as "Lender") to induce Lender to extend credit to Borrower in the amounts evidenced by the promissory notes described in Paragraphs II of this agreement (herein referred to as the "Loan") and evidencing the line of credit described herein.

In consideration of their mutual warranties, covenants and agreements contained herein and Lender's extension of credit to Borrower in the amount aforesaid, Borrower and Lender hereby warrant, covenant and agree as follows:

I. WARRANTIES OF BORROWER

A. That Borrower is a Texas corporation currently authorized to do business in the State of Texas, and that all franchise taxes, employment taxes, withholding taxes, income taxes, sales taxes, use taxes and all other taxes have been paid current to the date of this agreement.

B. That the execution by Borrower of this agreement and the other documents described herein has been duly authorized by its corporate board and that all of the agreements, indentures, or conveyances described herein to be made or undertaken by Borrower are within its corporate powers and not prohibited by law or its governing documents.

C. That this Loan Agreement and all promissory notes and security documents referenced herein are legal, valid and binding obligations of Borrower which are enforceable against Borrower in accordance with the respective terms thereof.

D. That all audits and financial information submitted to Lender may be relied upon by Lender as fairly representing the financial condition of the companies or individuals to which the same relate, and that there has been no adverse change in the financial condition of Borrower subsequent to the presentment of the financial information now held by Lender.

E. That there is no litigation, arbitration or governmental or regulatory proceedings pending or threatened against Borrower which, if adversely determined, could have a material adverse effect on Borrower's financial condition or affect the legality, validity or enforceability of this Loan Agreement or any promissory notes or security documents referenced herein and that Borrower has no material contingent liabilities or material forward commitments which are not disclosed in the financial information now held by Lender.

F. That there are no other liens or encumbrances against the property given as security for the payment of the hereinafter described loan, except as stated herein.

II. INDEBTEDNESS

A. Lender shall advance to Borrower, according to the terms thereof and subject to the limitations expressed therein and in this agreement, the principal sums of such promissory notes as are executed by Borrower and delivered to Lender from time to time to evidence advances to Borrower for the purposes and on the terms and subject to the limitations set forth in Paragraph V.A.2 of this Agreement, pursuant to a line of credit established therein for the purchase of seismic survey equipment for the purposes of sale to others. Each such promissory note shall bear interest at the prime rate published in the Wall Street Journal (Southwest Edition) as the base rate on corporate loans established by a selected number of the largest banks in the United States, plus one-half of one percent (0.50%) per annum, as such rate is determined daily by Lender on the outstanding principal balance of such note, and shall provide for monthly installments of interest, as it accrues, and for payments of principal as follows:

1. Two equal principal payments in the amount of twenty-five percent (25.00%) of the entire principal balance of the note on the date of the first of such principal payments. The first of such payments shall be due on the date six months after the date of the note and the second of such payments shall be due on the date nine months after the date of the note.
2. One final principal payment in the amount of the entire remaining principal balance of the note (together with any accrued and unpaid interest). The final principal payment shall be due, together with any unpaid interest, on the date one year after the date of the note.

B. Borrower agrees to execute and deliver to Lender such promissory notes in the form prescribed by Lender and on terms described herein, evidencing the indebtedness created by such advances.

C. Borrower hereby acknowledges and agrees that Lender has and shall have the right, at any time, without the consent of or notice to Borrower, to grant participations in all or part of the obligations of Borrower evidenced by this note, together with any liens or collateral securing the payment hereof. In the event Lender elects to participate any Overline Portion (as hereinafter defined) of the obligations evidenced by this note and if Lender is unable to procure a participant or a participant fails or refuses to advance to Borrower any Overline Portion through no fault of Lender, it is agreed that Lender shall have no liability to Borrower to fund such Overline Portion, nor shall Lender have any obligation to procure funds from other sources or fund any amounts that would cause Lender to be in violation of any state or federal law with respect to Borrower being liable to Lender in an amount in excess of that permitted by such applicable law. The term "Overline Portion" shall mean the amount of loan proceeds in excess of the amount that Lender is permitted by applicable law or Lender's loan policy limitations to loan to Borrower.

D. Notwithstanding any other provision in this agreement or the provisions of any promissory note or other loan document to the contrary, Lender shall not charge or collect and Lender does not intend to contract for interest in excess of that permitted by law for loans of this kind and to prevent such occurrence, Lender will, at maturity, or an earlier final payment of any promissory note described above, determine the total amount of interest that can be lawfully charged or collected by applying the highest lawful rate of interest to the full periodic balances of principal for the period each is outstanding and unpaid and compare such amount with the total interest that has accrued under the terms of such note, and, if necessary to prevent usury, reduce the total amount of interest payable by Borrower to the lesser amount. If the amount of interest that has been collected exceeds the lawful amount, Lender shall either make direct refund of such excess to Borrower or credit it against other sums owed by Borrower to Lender, whichever Lender deems appropriate. If at any time the rate of interest provided for in any note shall exceed the highest lawful rate, the annual rate which interest shall accrue on such note shall be limited to such highest lawful rate. The highest lawful rate shall thereafter be the rate at which interest is accrued on such note until the total amount of interest accrued equals the amount of interest that would have accrued if the interest rate provided in such note had at all times been in effect, after which the interest rate provided in such note, if it does not exceed the highest lawful rate, shall apply. As used herein, the term "highest lawful rate" means the highest rate of interest permitted to be charged or collected under the applicable state or federal law for this type of loan applied to the full periodic balances of principal advances for the period each is outstanding and unpaid.

III. SECURITY

A. As security for the loan, Borrower shall execute and deliver to, procure for, deposit with, and pay to Lender the following:

1. Security agreements, financing statements, and title documents in form and content acceptable to Lender, executed by Borrower and covering all equipment purchased by Borrower with the proceeds of each promissory note delivered by Borrower from time to time pursuant to Paragraph II.A hereof, together with all accessions, repairs, replacements and substitutions thereto and therefor and all instruments, chattel paper, general intangibles, proceeds and cash proceeds arising therefrom, securing payment of the note and all other and future indebtedness of Borrower to Lender and evidencing a first lien and prior security interest in such collateral, whether now owned or hereinafter acquired by Borrower.

2. Collateral Assignment to Lender, in form and content acceptable to Lender, of Borrower's rights under any leases of equipment purchased with proceeds of any note delivered by Borrower hereunder which has not been paid in full.
3. Such other documents and instruments as Lender may require for the perfection of liens and their registration under the laws of the State of Texas or of the United States.
4. Hazard insurance policy or policies in form and content and issued by a company or companies with loss payable endorsements acceptable to Lender, insuring all collateral given as security against loss or damage and against vandalism and malicious mischief and insuring said collateral against the usual and customary risks and hazards as Lender may request, all of such policy or policies to be for a total amount acceptable to Lender.
5. Such security agreements and pledges as are required by Lender to provide that all collateral for Borrower's other and future indebtedness to Lender secures the indebtedness of Borrower arising from the Loan governed by this Agreement.

B. Borrower shall execute and deliver to Lender such other documents and instruments as Lender may require to evidence the status or authority of Borrower and to evidence, govern or secure the payment of the Loan or any portion thereof.

IV. COVENANTS OF BORROWER

A. For so long any portion of the Loan remains unpaid, Borrower covenants and agrees as follows:

POSITIVE COVENANTS

1. That Borrower agrees to pay Lender, upon demand, all expenses of every nature incurred by Lender in connection with the consummation of the transaction contemplated by this agreement, or the enforcement or preservation of Lender's rights hereunder, including attorney's fees and expenses of Lender's counsel, hazard insurance premiums, filing and recording fees, court costs, and other fees and reasonable expenses incurred by Lender.
2. That Borrower shall furnish or cause to be furnished at its expense to Lender statements or reports in form and content acceptable to Lender on the forty-fifth (45th) day after the end of each quarter of Borrower's fiscal year which shall set forth an operating statement and balance sheet for Borrower herein named as Borrower an ageing of notes, contract rights, accounts receivable and accounts payable of Borrower for the preceding calendar quarter. Lender shall be allowed to make reasonable inspections of all assets securing said loan and shall further have the right to inspect the books of Borrower or other records relating to the affairs of Borrower. The reasonable costs of any such inspection are to be borne by Borrower.
3. That Borrower shall furnish at its expense to Lender annually, within ninety (90) days after the end of Borrower's income tax reporting year, a report prepared and audited by a Certified Public Accountant for Borrower, including a balance sheet, income statement, sources and uses of funds statement, and a reconciliation of net worth.
4. That while Borrower is indebted to Lender hereunder Borrower will:
 - a. Perform all of its obligations to appropriate regulatory agencies;
 - b. Punctually pay all indebtedness from time to time owing hereunder when due;
 - c. Perform all of its obligations under the Security Instruments described herein;

- d. Promptly pay and discharge any and all indebtedness or obligations when due and owing, including all taxes of every kind and character, all assessments, and other claims which might give rise to a lien on the property given as security for this loan or impair Borrower's obligation to conduct its business, except as it may in good faith contest or as to which a bona fide dispute may arise, provided provision is made to the satisfaction of Lender for eventual payment thereof in the event that it is found that such indebtedness or obligation or tax or claim is an obligation of Borrower, and when such dispute or contest is settled or determined, it will promptly pay the amount then due.
 - e. Maintain and keep in force insurance of the types and in the amounts customarily carried by companies in similar lines of business, including adequate amounts of fire, windstorm, explosion, public liability, property damage, and workman's compensation insurance; all insurance is to be carried in company or companies satisfactory to Lender, and Borrower will deliver to Lender from time to time, at the request of Lender, a schedule setting forth all insurance in effect;
 - f. Maintain a standard and modern accounting system in accordance with generally accepted principles of accounting permit Lender to inspect its books of account and records at all reasonable times, furnish to Lender such information respecting the business affairs and financial condition of Borrower as Lender may reasonably request.
 - g. Preserve all rights, privileges, franchises, licenses, and permits connected with its business and to the extent of its ability will conduct its business in an orderly, efficient manner without voluntary interruptions, and comply with all applicable laws and regulations of government agencies;
 - h. Maintain preserve and keep all properties and equipment in good repair, working order and condition, and from time to time make all necessary and proper repairs, renewals, replacements, and improvements thereto so that at all times the efficiency and value thereof shall be fully preserved and maintained, and maintain leases, licenses and permits, but nothing herein contained shall prevent Borrower from in good faith contesting or seeking legal construction of any dispute, terms or conditions of a contract, lease or other obligation, Lender may, at reasonable times, visit and inspect any of the properties of Borrower;
 - i. Maintain Borrower's financial condition in compliance with the following ratio, as determined by Lender based on generally accepted accounting principals and computation methods adopted by Lender in Lender's sole and exclusive discretion:
 - a. A ratio of total debt to shareholders' equity of not more than 0.6:1.0.
 - j. To give notice in writing to Lender within 30 days of any proceedings by any public or private body, agency, or authority, pending or threatened, which may have a substantial adverse effect on Borrower, and of any litigation involving the possibility of judgments or liabilities in excess of an aggregate of \$1,000,000.00 not covered by insurance.
5. That Borrower will pay to Lender, at the time of each advance by Lender of the amount of one of the promissory notes described in Paragraph II.A hereof, a fee in the amount of one-quarter of one percent (0.25%) of the amount of such advance, such fee being in addition to all other charges and interest due to Lender under the terms of this Agreement and such note.

NEGATIVE COVENANTS

6. Borrower will not, except with the prior written consent of Lender:

- a. Permit any lien (other than for taxes not delinquent and for taxes and other items being contested in good faith) to exist on property given as security for this loan or on the income or profits thereof, excepting liens existing as of the date hereof and as otherwise provided herein.
 - b. Assign any leases or the proceeds thereof to anyone except Lender;
7. Borrower will take no action which would result in any change in the form of the corporate entity of Borrower or result in any reorganization, merger or consolidation of Borrower with any other entity during the term of this agreement without prior written consent of Lender.
 8. That Borrower may not assign or otherwise transfer this Agreement or any rights hereunder, and that this Agreement shall be binding upon Borrower and the representatives, heirs, executors, legal representatives and successors of Borrower.
 9. That Borrower shall not (i) borrow from any source in any amount; (ii) incur any obligations other than in the usual and normal course of Borrower's operation; or (iii) guarantee the debt or obligation of others without the prior written approval of Lender.
 10. That, except after written notice to Beneficiary and where such use and the activities relating thereto are in strict compliance with all applicable laws and regulations, Borrower shall not hereafter permit any property which is (a) given as security for this Loan, (b) used by Borrower for any business or other activities financed by Lender, or (c) the source of repayment of this Loan, to be used in any way for the generation, transportation, treatment, disbursement, storage, discharge or disposal of any pollutants, hazardous or toxic substances, or hazardous wastes as defined or regulated by any of the following federal statutes: (a) The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), as amended by the Superfund Amendments and Re-Authorization Act of 1986 ("SARA"), (b) the Resource Conservation and Recovery Act ("RCRA"), (c) the Toxic Substance Control Act ("TSCA"), (d) any amendments to or regulations promulgated by any agency under any of the above statutes, and (e) any other state or federal statute or regulation for the control of hazardous or toxic substances.

V. COVENANTS OF LENDER

- A. Subject to the terms of this agreement and of the notes and security instruments described herein, Lender covenants and agrees as follows:
 1. Lender shall, from time to time, advance to Borrower sums requested by Borrower for the purchase of seismic survey equipment by Borrower, with such advances to be evidenced by Borrower's promissory notes executed pursuant to Paragraph II.A. of this Agreement. Each such advance shall be evidenced by a separate note in the form prescribed by Lender and payable to the order of the Borrower in the amount of such advance, as provided in Paragraph II.A. Such sums shall not in any case exceed eighty percent (80.00%) of the actual net cost to Borrower of the purchased equipment. In no event shall the total unpaid principal balance of all advances to Borrower under this Paragraph V.A.2 and Paragraph II.A.2 at any one time exceed Four Million Dollars (\$4,000,000.00) in the aggregate and Lender shall have no obligation to Advance any sums in any amount which would cause the total of such advances in the aggregate to exceed such sum. Borrower's right to request and Lender's obligation to make the advances provided in this paragraph shall expire on the 30 day of June, 2005.
 2. Lender's obligation to make any of the advances described in this Agreement will be subject to performance and fulfillment of the following conditions as well as those of the Security agreements described in Paragraph II.A.

- a. Presentation by Borrower of a request for advance in the amount of eighty-percent (80%) of the net cost to Borrower of the equipment to be purchased, together with an executed contract for the sale of the same equipment by Borrower to a bona fide third party.
- b. Compliance by Borrower with all terms and conditions of this Loan Agreement, with respect to said Loan and the absence of any default by Borrower hereunder.
- c. Payment of all fees and expenses contemplated by this Agreement.
- d. Execution of all notes, security agreements and other documents required by Lender.
- e. Furnishing of financial statements evidencing sound and satisfactory financial condition of each Borrower.

VI. DEFAULT AND REMEDIES

A. The occurrence of any one of the following events of default shall, at the option of Lender and without notice or demand, except as described hereunder, make all or such parts of the sums owing from Borrower to Lender hereunder, as Lender in its discretion shall determine, immediately due and payable:

1. Failure of Borrower to pay within 10 days after demand any sum past due hereunder;
2. Failure of Borrower to pay upon demand any debt hereunder, the maturity of which has been accelerated;
3. The breach of any warranties of Borrower herein contained in any material respect;
4. Insolvency;
5. The making by Borrower of an assignment for the benefit of creditors;
6. The levy of any attachment, execution, or other like process against any of Borrower's property;
7. The voluntary suspension of business by Borrower;
8. The entry of any decree or order of a court having jurisdiction in the premises appointing a receiver of all or any substantial part of Borrower's property;
9. The breach by Borrower of any of the provisions of this Agreement, or of any of the promissory notes or security instruments described herein, if the same is not remedied within 10 days after written notice from Lender.
10. Any default by Borrower in the payment or performance of any other obligation of Borrower to Lender, including but not limited to any event of default under any other loan agreement between Borrower and Lender or any failure of Borrower to timely pay any sum when due on any indebtedness owing by Borrower to Lender, regardless of how arising, or any breach by Borrower of any covenant in any security agreement relating to any indebtedness of Borrower to Lender.

B. That no waiver of any default on the part of Borrower shall be considered waiver of any other or subsequent default and no forbearance, delay, or omission in exercising or enforcing the rights and powers of Lender shall be construed as a waiver of such rights and powers, and likewise no exercise or partial exercise of any rights or powers hereunder by Lender shall be held to preclude further exercise of such rights and powers, and every such right and power may be exercised from time to time.

C. The rights, powers and remedies given to Lender hereunder shall be in addition to all rights, powers and remedies given to Lender by law against Borrower and any other person.

D. No action shall be commenced by Borrower for any claim against Lender under the terms of this Loan Agreement or arising from the subject loan relationship unless a notice in writing specifically setting forth the claim of Borrower shall have been given to Lender within six (6) months after the occurrence of the event which Borrower alleges gave rise to such claim. Failure to give such notice shall constitute a waiver of any such claim.

VII. GENERAL PROVISIONS

A. Any notice or demand required or permitted to be given hereunder by Lender may be given in writing by depositing such notice in the United States Mail, postage prepaid, addressed to Borrower at P. O. Box 1175, Huntsville, Texas 77342-1175, Attn: Blake Dupuis, or such other place as Borrower shall have designated in writing. Notice shall be deemed to have been given 48 hours after being so deposited in the United States Mail.

B. This agreement shall be construed under and in accordance with the laws of the State of Texas, and all obligations of the parties created hereunder are performable in Victoria County, Texas. Notwithstanding the provisions of this paragraph, Chapter 346 of the Texas Finance Code shall not apply to the loan governed by this agreement or any part thereof

C. In any case, if any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

D. This Agreement constitutes the sole and only agreement of the parties hereto and supersedes any prior understandings or written or oral agreements between the parties respecting the within subject matter.

E. This agreement shall apply to and govern the herein described extensions of credit and all renewals, extensions and rearrangements of such indebtedness of Borrower to Lender.

EXECUTED on the date first hereinabove mentioned in Victoria, Victoria County, Texas.

MITCHAM INDUSTRIES, INC.

By: /s/ P. Blake Dupuis _____

P. Blake Dupuis
Its Vice President

BORROWER

FIRST VICTORIA NATIONAL BANK

By: /s/ John Howard _____

John Howard
Its Senior Vice President

LENDER

THE STATE OF TEXAS §
 §
COUNTY OF WALKER §

This instrument was acknowledged before me on March 20, 2004, by P. Blake Dupuis, as Vice President of MITCHAM INDUSTRIES, INC., on behalf of said corporation.

/s/ Susan Annette Lester
Notary Public, State of Texas

[SEAL AFFIXED]

THE STATE OF TEXAS §
 §
COUNTY OF VICTORIA §

This instrument was acknowledged before me on March 17, 2004, by John Howard, as Senior Vice President, as of FIRST VICTORIA NATIONAL BANK, on behalf of said corporation.

/s/ Christine M. Diaz
Notary Public, State of Texas

[SEAL AFFIXED]

SUBSIDIARIES OF MITCHAM INDUSTRIES, INC.

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

1. Drilling Services, Inc., a Delaware corporation;
2. Mitcham Canada Ltd., an Alberta corporation; and
3. Seismic Asia Pacific Pty Ltd., an Australian corporation.

CONSENT OF INDEPENDENT AUDITORS

We consent to incorporation by reference in the registration statements (No. 333-11097 and 333-67208) on Form S-8 of Mitcham Industries, Inc. of our report dated May 20, 2004, which report appears in the January 31, 2004 annual report on Form 10-K of Mitcham Industries, Inc.

Hein & Associates LLP
Certified Public Accountants
Houston, Texas
May 27, 2004

CERTIFICATION

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

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

/s/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer
May 28, 2004

CERTIFICATION

I, Christopher C. Siffert, certify that:

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

/s/ Christopher C. Siffert

Christopher C. Siffert
Vice President & Corporate Controller
May 28, 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 Annual Report of Mitcham Industries, Inc. (the "Company") on Form 10-K for the fiscal year ended January 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. §1350, as adopted pursuant to §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, except as to the late filing; 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
May 28, 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 Annual Report of Mitcham Industries, Inc. (the "Company") on Form 10-K for the fiscal year ended January 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. § 1350, as adopted pursuant to § 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, except as to the late filing; 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
May 28, 2004