

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2009

or

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

For the transition period from _____ to _____

Commission File Number: 000-25142

MITCHAM INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of
incorporation or organization)

76-0210849

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

8141 SH 75 South

P.O. Box 1175

Huntsville, Texas 77342

(Address of principal executive offices, including Zip Code)

(936) 291-2277

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,813,352 shares of common stock, \$0.01 par value, were outstanding as of September 4, 2009.

MITCHAM INDUSTRIES, INC.
Table of Contents

PART I. FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets as of July 31, 2009 and January 31, 2009</u>	1
	<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended July 31, 2009 and 2008</u>	2
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 31, 2009 and 2008</u>	3
	<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
<u>Item 4.</u>	<u>Controls and Procedures</u>	18

PART II. OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	18
<u>Item 1A.</u>	<u>Risk Factors</u>	19
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	19
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	19
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	20
<u>Item 5.</u>	<u>Other Information</u>	20
<u>Item 6.</u>	<u>Exhibits</u>	20
	<u>Signatures</u>	21
<u>EX-10.2</u>		
<u>EX-31.1</u>		
<u>EX-31.2</u>		
<u>EX-32.1</u>		

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	July 31, 2009 (unaudited)	January 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,188	\$ 5,063
Restricted cash	444	969
Accounts receivable, net	11,649	12,415
Current portion of contracts receivable	569	836
Inventories, net	6,074	3,772
Costs incurred and estimated profit in excess of billings on uncompleted contract	1,240	1,787
Income taxes receivable	—	1,000
Deferred tax asset	1,123	1,682
Prepaid expenses and other current assets	1,039	1,535
Total current assets	28,326	29,059
Seismic equipment lease pool and property and equipment, net	65,824	64,251
Intangible assets, net	2,827	2,744
Goodwill	4,320	4,320
Deferred tax asset	1,657	—
Long-term portion of contracts receivable	3,806	3,806
Other assets	50	47
Total assets	<u>\$ 106,810</u>	<u>\$ 104,227</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,325	\$ 13,561
Income taxes payable	722	—
Deferred revenue	439	424
Accrued expenses and other current liabilities	2,985	3,877
Total current liabilities	14,471	17,862
Non-current income taxes payable	2,966	3,260
Deferred tax liability	—	32
Long-term debt	7,450	5,950
Total liabilities	24,887	27,104
Shareholders' equity:		
Preferred stock, \$1.00 par value; 1,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.01 par value; 20,000 shares authorized; 10,737 and 10,725 shares issued at July 31, 2009 and January 31, 2009, respectively	107	107
Additional paid-in capital	75,488	74,396
Treasury stock, at cost (924 and 922 shares at July 31, 2009 and January 31, 2009, respectively)	(4,827)	(4,826)
Retained earnings	8,637	9,727
Accumulated other comprehensive income (loss)	2,518	(2,281)
Total shareholders' equity	81,923	77,123
Total liabilities and shareholders' equity	<u>\$ 106,810</u>	<u>\$ 104,227</u>

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

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

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2009	2008	2009	2008
Revenues:				
Equipment leasing	\$ 4,802	\$ 7,500	\$ 11,128	\$ 19,873
Lease pool equipment sales	101	1,844	170	2,405
Seamap equipment sales	7,043	3,285	9,641	8,567
Other equipment sales	731	4,866	2,343	5,184
Total revenues	<u>12,677</u>	<u>17,495</u>	<u>23,282</u>	<u>36,029</u>
Cost of sales:				
Direct costs - equipment leasing	925	343	1,453	785
Direct costs - lease pool depreciation	4,416	3,673	8,517	7,313
Cost of lease pool equipment sales	87	1,108	97	1,232
Cost of Seamap and other equipment sales	3,917	5,257	6,111	7,957
Total cost of sales	<u>9,345</u>	<u>10,381</u>	<u>16,178</u>	<u>17,287</u>
Gross profit	3,332	7,114	7,104	18,742
Operating expenses:				
General and administrative	3,969	4,430	7,471	9,210
Provision for doubtful accounts	649	—	649	95
Depreciation and amortization	223	364	477	759
Total operating expenses	<u>4,841</u>	<u>4,794</u>	<u>8,597</u>	<u>10,064</u>
Operating (loss) income	(1,509)	2,320	(1,493)	8,678
Other income (expenses):				
Interest, net	(92)	223	(181)	373
Other, net	163	3	282	8
Total other income	<u>71</u>	<u>226</u>	<u>101</u>	<u>381</u>
(Loss) income before income taxes	(1,438)	2,546	(1,392)	9,059
Benefit (provision) for income taxes	428	(921)	302	(3,156)
Net (loss) income	<u>\$ (1,010)</u>	<u>\$ 1,625</u>	<u>\$ (1,090)</u>	<u>\$ 5,903</u>
Net (loss) income per common share:				
Basic	<u>\$ (0.10)</u>	<u>\$ 0.17</u>	<u>\$ (0.11)</u>	<u>\$ 0.61</u>
Diluted	<u>\$ (0.10)</u>	<u>\$ 0.16</u>	<u>\$ (0.11)</u>	<u>\$ 0.57</u>
Shares used in computing net (loss) income per common share:				
Basic	<u>9,797</u>	<u>9,764</u>	<u>9,790</u>	<u>9,758</u>
Diluted	<u>9,797</u>	<u>10,385</u>	<u>9,790</u>	<u>10,361</u>

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

MITCHAM INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Six Months Ended July 31,	
	2009	2008
Cash flows from operating activities:		
Net (loss) income	\$ (1,090)	\$ 5,903
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	9,055	8,153
Stock-based compensation	840	1,163
Provision for doubtful accounts	649	95
Provision for inventory obsolescence	(75)	249
Gross profit from sale of lease pool equipment	(73)	(1,173)
Excess tax benefit from exercise of non-qualified stock options	(7)	(96)
(Benefit) provision for deferred income taxes	(1,210)	474
Changes in non-current income taxes payable	(294)	331
Changes in working capital items:		
Accounts receivable	501	(1,246)
Contracts receivable	267	(779)
Inventories	(1,677)	916
Prepaid expenses and other current assets	405	942
Income taxes receivable and payable	2,213	(1,190)
Costs incurred and estimated profit in excess of billings on uncompleted contract	973	—
Accounts payable, accrued expenses, other current liabilities and deferred revenue	240	(7,298)
Net cash provided by operating activities	<u>10,717</u>	<u>6,444</u>
Cash flows from investing activities:		
Purchases of seismic equipment held for lease	(11,597)	(15,411)
Purchases of property and equipment	(283)	(470)
Sale of used lease pool equipment	170	2,405
Net cash used in investing activities	<u>(11,710)</u>	<u>(13,476)</u>
Cash flows from financing activities:		
Net proceeds from line of credit	1,500	2,000
Payments on borrowings	—	(1,500)
Proceeds from (purchases of) short-term investments	797	(1,413)
Proceeds from issuance of common stock upon exercise of stock options, net of stock surrendered to pay taxes	(6)	196
Excess tax benefit from exercise of non-qualified stock options	7	96
Net cash provided by (used in) financing activities	<u>2,298</u>	<u>(621)</u>
Effect of changes in foreign exchange rates on cash and cash equivalents	<u>(180)</u>	<u>(79)</u>
Net increase (decrease) in cash and cash equivalents	1,125	(7,732)
Cash and cash equivalents, beginning of period	<u>5,063</u>	<u>13,884</u>
Cash and cash equivalents, end of period	<u>\$ 6,188</u>	<u>\$ 6,152</u>
Supplemental cash flow information:		
Interest paid	\$ 316	\$ 135
Income taxes paid	\$ 649	\$ 3,306
Purchases of seismic equipment held for lease in accounts payable at end of period	\$ 8,196	\$ 6,933

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

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

1. Basis of Presentation

The condensed consolidated balance sheet as of January 31, 2009 for Mitcham Industries, Inc. (for purposes of these notes the “Company”) has been derived from audited consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the Company’s Annual Report on Form 10-K for the year ended January 31, 2009. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of July 31, 2009, the results of operations for the three and six months ended July 31, 2009 and 2008, and the cash flows for the six months ended July 31, 2009 and 2008, have been included in these financial statements. The foregoing interim results are not necessarily indicative of the results of the operations to be expected for the full fiscal year ending January 31, 2010.

2. Organization

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

3. New Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 165, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. SFAS No. 165 provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted SFAS No. 165 during the second quarter of 2009, and its application had no impact on the Company’s consolidated condensed financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was September 9, 2009.

In June 2009, the FASB issued SFAS No.168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (“SFAS 168”). U.S. GAAP will no longer be issued in the form of an “accounting standard,” but rather as an update to the applicable “topic” or “subtopic” within the codification. As such, accounting guidance will be classified as either “authoritative” or “nonauthoritative” based on its inclusion or exclusion from the codification. The codification will be the single source of authoritative U.S. accounting and reporting standards, except for rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. The codification of U.S. GAAP will be effective for interim or annual periods ending after September 15, 2009. We do not expect SFAS 168 to have a material impact on our consolidated financial statements.

4. Restricted Cash

In connection with a contract awarded in May 2008, SAP has pledged approximately \$0.4 million in short-term time deposits to secure performance obligations under the contract. The amount of the security deposits will be reduced as the contract obligations are performed over the remaining life of the contract, which is estimated to be within three months from July 31, 2009.

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

	July 31, 2009	January 31, 2009
Accounts receivable:		
Accounts receivable	\$ 14,572	\$ 14,715
Allowance for doubtful accounts	(2,923)	(2,300)
Total accounts receivable, net	<u>\$ 11,649</u>	<u>\$ 12,415</u>

Contracts receivable:		
Contracts receivable	\$ 4,375	\$ 4,642
Less current portion of contracts receivable	(569)	(836)
Long-term portion of contracts receivable	<u>\$ 3,806</u>	<u>\$ 3,806</u>

Long-term contracts receivable at July 31, 2009 and January 31, 2009 consist of amounts related to a contract receivable from one customer. The customer has defaulted on this contract and the Company is in the process of repossessing the equipment that was pledged as collateral for the obligation. The carrying value of this account has been reduced to the fair market value of the equipment, less the estimated cost to procure the equipment. The Company expects to place the recovered equipment in its leasepool of equipment and, accordingly, has classified this contract receivable as a non-current asset.

	July 31, 2009	January 31, 2009
Inventories:		
Raw materials	\$ 3,224	\$ 2,309
Finished goods	1,463	1,593
Work in progress	2,047	834
	6,734	4,736
Less allowance for obsolescence	(660)	(964)
Total inventories, net	<u>\$ 6,074</u>	<u>\$ 3,772</u>

	July 31, 2009	January 31, 2009
Seismic equipment lease pool and property and equipment:		
Seismic equipment lease pool	\$ 144,016	\$ 127,067
Land and buildings	366	366
Furniture and fixtures	6,122	5,380
Autos and trucks	516	469
	151,020	133,282
Accumulated depreciation and amortization	(85,196)	(69,031)
Total seismic equipment lease pool and property and equipment, net	<u>\$ 65,824</u>	<u>\$ 64,251</u>

6. Goodwill and Other Intangible Assets

	Weighted Average Life at 7/31/09	July 31, 2009			January 31, 2009		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill		<u>\$ 4,320</u>			<u>\$ 4,320</u>		
Proprietary rights	10.9	\$ 3,547	\$ (720)	\$ 2,827	\$ 3,313	\$ (569)	\$ 2,744
Covenants not-to-compete	—	1,000	(1,000)	—	1,000	(1,000)	—
Amortizable intangible assets		<u>\$ 4,547</u>	<u>\$ (1,720)</u>	<u>\$ 2,827</u>	<u>\$ 4,313</u>	<u>\$ (1,569)</u>	<u>\$ 2,744</u>

As of July 31, 2009, the Company had goodwill of \$4,320, all of which was allocated to the Seamap segment. No impairment has been recorded against the goodwill account.

Amortizable intangible assets are amortized over their estimated useful lives of three to 15 years using the straight-line method. Aggregate amortization expense was \$91 and \$127 for the three months ended July 31, 2009 and 2008, respectively, and \$151 and \$282 for the six months ended July 31, 2009 and 2008, respectively. As of July 31, 2009, future estimated amortization expense related to amortizable intangible assets was estimated to be:

For fiscal years ending January 31:	
2010	\$ 129
2011	259
2012	259
2013	259
2014 and thereafter	1,921
Total	<u>\$ 2,827</u>

7. Long-Term Debt and Notes Payable

On September 24, 2008, the Company entered into a new credit agreement with First Victoria National Bank (the "Bank"), which replaced the Company's then existing \$12.5 million agreement with the Bank. The new credit agreement provides for borrowings of up to \$25.0 million on a revolving basis through September 24, 2010. The Company may, at its option, convert any or all balances outstanding under the revolving credit facility into a series of term notes with monthly amortization over 48 months. Amounts available for borrowing are determined by a borrowing base. The borrowing base, which amounted to \$25.0 million as of July 31, 2009, is computed based upon certain outstanding accounts receivable, certain portions of the Company's lease pool and any lease pool assets that are to be purchased with proceeds from the facility. The revolving credit facility and any term loan are secured by essentially all of the Company's domestic assets. Interest is payable monthly at prime, which was 3.25% at July 31, 2009. Up to \$5.0 million of the revolving facility may be utilized to secure letters of credit. The credit agreement contains certain financial covenants that require, among other things, for the Company to maintain a debt to shareholders' equity ratio of no more than 0.7 to 1.0, maintain a current assets to current liabilities ratio of not less than 1.25 to 1.0; and have quarterly earnings before interest, taxes, depreciation and amortization of not less than \$2.0 million. The credit agreement also provides that the Company may not incur or maintain indebtedness in excess of \$1.0 million without the prior written consent of the Bank, except for borrowings related to the credit agreement. The Company was in compliance with each of these provisions as of July 31, 2009.

8. Comprehensive Income

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

[Table of Contents](#)

	Three Months Ended		Six Months Ended	
	July 31,		July 31,	
	2009	2008	2009	2008
Net (loss) income	\$ (1,010)	\$ 1,625	\$ (1,090)	\$ 5,903
Gain (loss) from foreign currency translation adjustment	3,304	(299)	4,799	2
Comprehensive income	\$ 2,294	\$ 1,326	\$ 3,709	\$ 5,905

The gain from foreign currency translation adjustment for the three months and six months ended July 31, 2009 resulted primarily from the improvement in the value of the Canadian dollar, the Australian dollar and the British pound sterling versus the U.S. dollar.

9. Income Taxes

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

The Company and its subsidiaries file consolidated and separate income tax returns in the U.S. federal jurisdiction and in foreign jurisdictions. The Company is subject to U.S. federal income tax examinations for all tax years beginning with its fiscal year ended January 31, 2006. The Internal Revenue Service has not commenced an examination of any of the Company's U.S. federal income tax returns.

The Company is subject to examination by taxing authorities throughout the world, including major foreign jurisdictions such as Australia, Canada, Russia, Singapore and the United Kingdom. With few exceptions, the Company and its subsidiaries are no longer subject to foreign income tax examinations for tax years before 2002. With respect to ongoing audits, in the second quarter of fiscal 2008, the Canadian federal tax authorities commenced an audit of the Company's Canadian income tax returns for tax years ended January 31, 2004 through 2007. To date, adjustments totaling approximately \$360 have been proposed and agreed upon. Those adjustments reduced the net operating loss carryforward available in Canada.

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

The tax returns of MCL, the Company's Canadian subsidiary, for the years ended January 31, 2004 through the year ended January 31, 2007 are being examined by Canadian federal taxing authorities. Accordingly, it is reasonably possible that some uncertain tax positions will be resolved within the next twelve months. Should these uncertain tax positions be resolved, the amount of unrecognized tax benefits would decrease by up to approximately \$3,756, which amount would decrease income tax expense.

10. Earnings (Loss) per Share

Net income (loss) per basic common share is computed using the weighted average number of common shares outstanding during the period, excluding unvested restricted stock. Net income per diluted common share is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period using the treasury stock method. Potential common shares result from the assumed exercise of outstanding common stock options having a dilutive effect, from the assumed vesting of phantom stock units, and from the assumed vesting of unvested shares of restricted stock. The following table presents the calculation of basic and diluted weighted average common shares used in the earnings (loss) per share calculation for the three and six months ended July 31, 2009 and 2008:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2009	2008	2009	2008
Basic weighted average common shares outstanding	9,797	9,764	9,790	9,758
Stock options	121	596	103	583
Unvested restricted stock	8	14	10	15
Phantom stock	2	11	7	5
Total weighted average common share equivalents	131	621	120	603
Diluted weighted average common shares outstanding	9,928	10,385	9,910	10,361

For the three and six months ended July 31, 2009, diluted weighted average common shares were anti-dilutive and were therefore not considered in calculating diluted earnings (loss) per share for that period.

11. Stock-Based Compensation

Total compensation expense recognized for stock-based awards granted under the Company's various equity incentive plans during the three and six months ended July 31, 2009 was approximately \$424 and \$840, respectively, and during the three and six months ended July 31, 2008 was approximately \$527 and \$1,163, respectively. During the six months ended July 31, 2009, options to purchase 254 shares of common stock were granted to employees and to the non-employee members of the Company's Board of Directors.

12. Segment Reporting

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

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

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

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

	<u>As of July 31, 2009</u>	<u>As of January 31, 2009</u>
	<u>Total assets</u>	<u>Total assets</u>
Equipment Leasing	\$ 86,116	\$ 89,240
Seemap	21,180	15,529
Eliminations	(486)	(542)
Consolidated	<u>\$ 106,810</u>	<u>\$ 104,227</u>

Results for the three months ended July 31, 2009 and 2008 were as follows:

	<u>Revenues</u>		<u>Operating (loss) income</u>		<u>(Loss) income before taxes</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Equipment Leasing	\$ 5,634	\$ 14,210	\$ (4,178)	\$ 2,676	\$ (3,941)	\$ 2,928
Seemap	7,172	3,302	2,629	(413)	2,463	(439)
Eliminations	(129)	(17)	40	57	40	57
Consolidated	<u>\$ 12,677</u>	<u>\$ 17,495</u>	<u>\$ (1,509)</u>	<u>\$ 2,320</u>	<u>\$ (1,438)</u>	<u>\$ 2,546</u>

Results for the six months ended July 31, 2009 and 2008 were as follows:

	<u>Revenues</u>		<u>Operating (loss) income</u>		<u>(Loss) income before taxes</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Equipment Leasing	\$ 13,641	\$ 27,462	\$ (4,631)	\$ 7,813	\$ (4,344)	\$ 8,250
Seemap	9,855	8,607	3,000	781	2,814	725
Eliminations	(214)	(40)	138	84	138	84
Consolidated	<u>\$ 23,282</u>	<u>\$ 36,029</u>	<u>\$ (1,493)</u>	<u>\$ 8,678</u>	<u>\$ (1,392)</u>	<u>\$ 9,059</u>

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

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

Cautionary Statement about Forward-Looking Statements

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

- our future financial position and results of operations;
- international and economic instability;
- planned capital expenditures;
- our business strategy and other plans for future operations;
- the future mix of revenues and business;
- our relationship with suppliers;
- our ability to retain customers;
- future demand for our services and
- general conditions in the energy industry and seismic service industry.

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

- decline in the demand for seismic data and our services;
- the effect of fluctuations in oil and natural gas prices on exploration activities;
- the effect of uncertainty in financial markets on our customers' and our ability to obtain financing;
- loss of significant customers;
- defaults by customers on amounts due us;
- possible impairment of our long-lived assets;
- risks associated with our manufacturing operations and
- foreign currency exchange risk.

Other factors that could cause our actual results to differ from our projected results are described in (1) Part II, "Item 1A. Risk Factors" and elsewhere in this Form 10-Q, (2) our Annual Report on Form 10-K for the fiscal year ended January 31, 2009, (3) our reports and registration statements filed from time to time with the Securities and Exchange Commission ("SEC") and (4) other announcements we make from time to time. We caution readers not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

Overview

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

[Table of Contents](#)

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

The following table presents certain operating information by operating segment.

	For the Three Months Ended July 31,		For the Six Months Ended July 31,	
	2009	2008	2009	2008
	(in thousands)		(in thousands)	
Revenues:				
Equipment Leasing	\$ 5,634	\$ 14,210	\$ 13,641	\$ 27,462
Seemap	7,172	3,302	9,855	8,607
Inter-segment sales	(129)	(17)	(214)	(40)
Total revenues	<u>12,677</u>	<u>17,495</u>	<u>23,282</u>	<u>36,029</u>
Cost of sales:				
Equipment Leasing	6,283	8,483	12,190	12,971
Seemap	3,231	1,972	4,340	4,441
Inter-segment costs	(169)	(74)	(352)	(125)
Total cost of sales	<u>9,345</u>	<u>10,381</u>	<u>16,178</u>	<u>17,287</u>
Gross profit	<u>3,332</u>	<u>7,114</u>	<u>7,104</u>	<u>18,742</u>
Operating expenses:				
General and administrative	3,969	4,430	7,471	9,210
Provision for doubtful accounts	649	—	649	95
Depreciation and amortization	223	364	477	759
Total operating expenses	<u>4,841</u>	<u>4,794</u>	<u>8,597</u>	<u>10,064</u>
Operating income (loss)	<u>\$ (1,509)</u>	<u>\$ 2,320</u>	<u>\$ (1,493)</u>	<u>\$ 8,678</u>
EBITDA (1)	\$ 3,324	\$ 6,400	\$ 7,844	\$ 16,839
Adjusted EBITDA (1)	\$ 3,748	\$ 6,927	\$ 8,684	\$ 18,002
Reconciliation of Net (Loss) Income to EBITDA and Adjusted EBITDA				
Net (loss) income	\$ (1,010)	\$ 1,625	\$ (1,090)	\$ 5,903
Interest expense (income), net	92	(223)	181	(373)
Depreciation and amortization	4,670	4,077	9,055	8,153
(Benefit) provision for income taxes	(428)	921	(302)	3,156
EBITDA (1)	<u>3,324</u>	<u>6,400</u>	<u>7,844</u>	<u>16,839</u>
Stock-based compensation	424	527	840	1,163
Adjusted EBITDA (1)	<u>\$ 3,748</u>	<u>\$ 6,927</u>	<u>\$ 8,684</u>	<u>\$ 18,002</u>

(1) EBITDA is defined as net income (loss) before (a) interest income, net of interest expense, (b) provision for (or benefit from) income taxes and (c) depreciation, amortization and impairment. Adjusted EBITDA excludes stock-based compensation. We consider EBITDA and Adjusted EBITDA to be important indicators for the performance of our business, but not measures of performance calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"). We have included these non-GAAP financial measures because management utilizes this information for assessing our performance and as indicators of our ability to make capital expenditures, service debt and finance working capital requirements. The covenants of our revolving credit agreement require us to maintain a minimum level of EBITDA. Management believes that EBITDA and Adjusted EBITDA are measurements that are commonly used by analysts and some investors in evaluating the performance of companies such as us. In particular, we believe that it is useful to our analysts and investors to understand this relationship because it excludes transactions not related to our core cash operating activities. We believe that excluding these transactions allows investors to meaningfully trend and analyze the performance of our core cash operations. EBITDA and Adjusted EBITDA are not measures of financial performance under GAAP and should not be considered in isolation or as alternatives to cash flow from operating activities or as alternatives to net income as indicators of operating performance or any other measures of performance derived in accordance with GAAP. In evaluating our performance as measured by EBITDA, management recognizes and considers the limitations of this measurement. EBITDA and Adjusted EBITDA do not reflect our obligations for the payment of income taxes, interest expense or other obligations such as capital expenditures. Accordingly, EBITDA and Adjusted EBITDA are only two of the measurements that management utilizes. Other companies in our industry may calculate EBITDA or Adjusted EBITDA differently than we do and EBITDA and Adjusted EBITDA may not be comparable with similarly titled measures reported by other companies.

Table of Contents

In our Equipment Leasing segment, we lease seismic data acquisition equipment primarily to seismic data acquisition companies conducting land, transition zone and marine seismic surveys worldwide. We provide short-term leasing of seismic equipment to meet a customer's requirements. The majority of all active leases at July 31, 2009 were for a term of less than one year. Seismic equipment held for lease is carried at cost, net of accumulated depreciation. We acquire some marine lease pool equipment from our Seemap segment. These amounts are reflected in the accompanying condensed consolidated financial statements at the cost to our Seemap segment. From time to time, we sell lease pool equipment to our customers. These sales are usually transacted when we have equipment for which we do not have near term needs in our leasing business and if the proceeds from the sale exceed the estimated present value of future lease income from that equipment. We also occasionally sell new seismic equipment that we acquire from other companies and sometimes provide financing on those sales. In addition to conducting seismic equipment leasing operations, SAP sells equipment, consumables, systems integration, engineering hardware and software maintenance support services to the seismic, hydrographic, oceanographic, environmental and defense industries throughout Southeast Asia and Australia.

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

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

Business Outlook

Prior to the turmoil in global financial markets that arose in the fall of 2008, the oil and gas exploration industry enjoyed generally sustained growth, fueled primarily by historically high commodity prices for oil and natural gas. We, along with much of the seismic industry, benefited from this growth. These higher commodity prices resulted in increased activity within the oil and gas industry and, in turn, resulted in an increased demand for seismic services. Following the onset of the financial crisis, we saw significant declines in the prices for oil and natural gas. While crude oil prices have recovered somewhat, they remain significantly below the levels seen prior to the fall of 2008. This decline is generally believed to be the result of a slow-down in the global economy, which, in turn, was impacted by unrest and uncertainty in global financial markets. Natural gas prices in North America have not recovered to the same extent as have crude oil prices. This is believed to be the result of the contraction of the U.S. economy and the resulting decline in demand for natural gas.

Our revenues are directly related to the level of worldwide oil and gas exploration activities and the profitability and cash flows of oil and gas companies and seismic contractors, which in turn are affected by expectations regarding the supply and demand for oil and natural gas, energy prices and finding and development costs. Land seismic data acquisition activity levels are measured in terms of the number of active recording crews, known as the "crew count," and the number of recording channels deployed by those crews, known as "channel count." Because an accurate and reliable census of active crews does not exist, it is not possible to make definitive statements regarding the absolute levels of seismic data acquisition activity. Furthermore, a significant number of seismic data acquisition contractors are either private or state-owned enterprises and information about their activities is not available in the public domain. Because of these factors it is difficult to assess the impact of recent petroleum price changes on our business. However, there have been declines in oil and gas exploration activities, especially in certain geographic areas, such as North America and Russia. This is contrasted with indications of continued robust exploration activity in other parts of the world such as South America and Asia.

Historically, our first fiscal quarter, which ends on April 30, has generally been the strongest quarter for our equipment leasing business due to the normal seasonal increase in seismic acquisition operations in Canada and Russia during this period. In the quarter ended April 30, 2009, however, we did not experience the normal increase in our equipment leasing business. Our second fiscal quarter, which ends on July 31, has generally been the weakest quarter for our equipment leasing business due in large part to seasonal factors. In the quarter ended July 31, 2009, we did experience this seasonal decline from the quarter ended April 30, 2009, but the percentage decline was not as large as in the previous year. We believe that this is an indication of the aforementioned decline in oil

Table of Contents

and gas exploration activity. Accordingly, the current outlook for our business is uncertain. However, the geographic breadth of our operations and our expansive lease pool of equipment, as well as our generally stable financial position and our \$25.0 million credit line position us, we believe, to address a sustained downturn in the seismic industry.

The market for products sold by Seemap and the demand for the leasing of marine seismic equipment is dependent upon activity within the offshore, or marine, seismic industry, including the re-fitting of existing seismic vessels and the equipping of new vessels. The ability of our customers to build or re-fit vessels depends, in part, on their ability to obtain appropriate financing. Continued uncertainty in global financial markets could make such financing more difficult to obtain. There have been announcements from some marine seismic contractors of decisions to retire older vessels and to delay the introduction of new vessels, resulting in a decline in the number of seismic vessels operating. This could result in a decline in the demand for Seemap's products. In the quarter ended July 31, 2009, the Polarcus Group of Companies ("Polarcus") cancelled orders for GunLink 4000 and BuoyLink products related to two of the six vessels for which they had placed orders last year. We expect the cancelled orders, which amounted to approximately \$3.5 million, to be reinstated at some point, but there can be no assurance this will occur or what the timing of the new orders, if any, will be. We shipped orders related to two of the remaining four vessels in the quarter ended July 31, 2009 and expect to ship the orders related to the remaining vessels in the third and fourth quarter of fiscal 2010.

We have responded to the decline in demand for our services and products by reducing our additions to our lease pool of equipment. During the six months ended July 31, 2009, we added approximately \$7.8 million of equipment to our lease pool, as compared to \$19.8 million during the six months ended July 31, 2008. During the fiscal years ended January 31, 2009, 2008 and 2007, we added approximately \$34.9 million, \$26.0 million and \$25.5 million, respectively, of equipment to our lease pool in response to the strong demand for our equipment and services during those periods. Despite the recent decline in demand, we have added, and expect to add, certain types of equipment to our lease pool, such as additional equipment for vertical seismic profiling ("VSP") and three component digital sensors, during fiscal 2010. We expect that the cost of these additions will be approximately \$15 million for all of fiscal 2010; however, if demand warrants, we could acquire additional equipment during the balance of this fiscal year.

In September 2009 we entered into a revised exclusive equipment lease agreement with Sercel, Inc. ("Sercel"). Our previous agreement with Sercel expired on December 31, 2008. Under the new agreement, through December 31, 2011 we are Sercel's exclusive third party lessor for its DSU3 428XL system throughout the world, except China and the CIS, and for its VSP tools in North and South America. Under the terms of the agreement Sercel will refer to us any customers seeking short-term leases (12 months or less) for these products in the exclusive territory. Furthermore, Sercel will not sell these products to other companies that would compete with us for the rental of these products in the exclusive territory. We have agreed to purchase a total of 9,000 stations of DSU3 428XL and 300 levels of VSP tools during the term of the agreement. We estimate that the cost for this equipment will total approximately \$21 million, of which we have spent, or expect to spend, approximately \$6.2 million in fiscal 2010. Should we fail to fulfill these purchase commitments, Sercel may terminate our exclusivity and other terms of the agreement.

In response to increased activity in South America, we have recently established branch operations in Peru and in Colombia. We believe the establishment of these branches will allow us to more effectively serve our customers in those countries and in other parts of South America. The cost to establish these branches was not material.

A significant portion of our revenues is generated from sources outside the United States of America. For the three months ended July 31, 2009, revenues from international customers totaled approximately \$10 million. This amount represents 78% of consolidated revenues for this period, as compared to 86% for the second quarter of fiscal 2009. For the first six months of fiscal 2010, revenues from international customers totaled approximately \$18.4 million, or 79% of consolidated revenues, as compared to 78% for the first six months of fiscal 2009. The majority of our transactions with international customers are denominated in United States, Australian and Canadian dollars, Russian rubles and British pounds sterling.

Results of Operations

Revenues for the three months ended July 31, 2009 were approximately \$12.7 million, compared to approximately \$17.5 million for the three months ended July 31, 2008. For the six months ended July 31, 2009, revenues were approximately \$23.3 million, compared to approximately \$36.0 million for the six months ended July 31, 2008. The decline is attributable primarily to a decrease in equipment leasing revenues and lower sales of lease pool equipment and new seismic equipment. For the three months ended July 31, 2009, we generated an operating loss of approximately \$1.5 million as compared to an operating profit of approximately \$2.3 million for the three months ended July 31, 2008. Our operating loss for the six months ended July 31, 2009 was

[Table of Contents](#)

approximately \$1.5 million as compared to an operating profit of approximately \$8.7 million for the six months ended July 31, 2008. The decline in operating profit was due primarily to the decline in leasing revenues and an increase in lease pool depreciation. A more detailed explanation of these variations follows.

Revenues and Cost of Sales*Equipment Leasing*

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2009	2008	2009	2008
	(\$ in thousands)		(\$ in thousands)	
Revenue:				
Equipment leasing	\$ 4,802	\$ 7,500	\$ 11,128	\$ 19,873
Lease pool equipment sales	101	1,844	170	2,405
New seismic equipment sales	17	3,518	27	3,647
SAP equipment sales	714	1,348	2,316	1,537
	<u>5,634</u>	<u>14,210</u>	<u>13,641</u>	<u>27,462</u>
Cost of sales:				
Lease pool depreciation	4,463	3,712	8,609	7,392
Direct costs-equipment leasing	925	343	1,453	785
Cost of lease pool equipment sales	87	1,107	97	1,232
Cost of new seismic equipment sales	14	2,398	19	2,485
Cost of SAP equipment sales	794	923	2,012	1,077
	<u>6,283</u>	<u>8,483</u>	<u>12,190</u>	<u>12,971</u>
Gross (loss) profit	<u>\$ (649)</u>	<u>\$ 5,727</u>	<u>\$ 1,451</u>	<u>\$ 14,491</u>
Gross (loss) profit %	<u>(12)%</u>	<u>40%</u>	<u>11%</u>	<u>53%</u>

Equipment leasing revenues decreased approximately 36% in the second quarter of fiscal 2010 from the second quarter of fiscal 2009. For the first six months of fiscal 2010, leasing revenues declined approximately 44% from the first six months of fiscal 2009. These decreases resulted from a dramatic decline in demand for our equipment and services. The demand for seismic equipment is primarily driven by the global oil and gas exploration activity as previously discussed. As noted above, in the first quarter, we normally experience a significant increase in demand in our equipment leasing business driven in large part by seasonal demand in Canada and Russia, areas in which significant seismic exploration activity occurs in the winter months. Due to the global economic and financial condition discussed above, many seismic programs in these areas have been cancelled or delayed indefinitely. We did not experience the normal seasonal increase in business during the quarter ended April 30, 2009, and this decline in activity carried over into the quarter ended July 31, 2009.

From time to time, we sell equipment from our lease pool based on specific customer demand and as opportunities present themselves in order to redeploy our capital in other lease pool assets. Accordingly, these transactions are difficult to predict. Due to the decline in seismic exploration activity, these transactions were not material in the first six months of fiscal 2010. Often, the equipment that is sold from our lease pool has been in service, and therefore depreciated, for some period of time. Accordingly, the equipment sold may have a relatively low net book value at the time of the sale, resulting in a relatively high gross margin from the transaction. The amount of the margin on a particular transaction varies greatly based primarily upon the age of the equipment.

Periodically, we sell new seismic equipment that we acquire from others. On occasion, these sales may be structured with a significant down payment and the balance financed over a period of time at a market rate of interest. These sales are also difficult to predict and do not follow any seasonal patterns. Due to the current conditions in the energy industry and in global financial markets, these transactions were not material in the first six months of fiscal 2010.

[Table of Contents](#)

SAP regularly sells new hydrographic and oceanographic equipment and provides system integration services to customers in Australia and throughout the Pacific Rim. For the fiscal quarter ended July 31, 2009, SAP incurred a gross loss of approximately \$80,000 from these transactions as compared to a gross profit of approximately \$425,000 in the fiscal quarter ended July 31, 2008. For the six months ended July 31, 2009, SAP produced a gross profit of approximately \$304,000 versus approximately \$460,000 in the six months ended July 31, 2008.

In May 2008, SAP entered into a contract with the Royal Australian Navy to provide certain equipment to the Republic of the Philippines. We account for this contract using the percentage of completion method. In the three months ended July 31, 2009, we recognized approximately \$60,000 in revenues related to this contract, yet recognized costs of approximately \$400,000, which resulted in a loss from this contract during the period of approximately \$340,000. We have incurred approximately \$200,000 in unexpected costs in the fulfillment of this contract and have submitted claims reimbursement for these costs. However, until our claims are approved and accepted, we have not included the benefit from these claims in our calculation of expected profits from the contract. We expect to recognize contract revenues of approximately \$340,000 in the third quarter of fiscal 2010, excluding the effect of the pending claims, and gross profit of approximately \$46,000. These amounts will reflect the completion of the contract. In the six months ended July 31, 2008, we did not recognize any revenues related to this contract. The sales of hydrographic and oceanographic equipment by SAP are generally not related to oil and gas exploration activities and are often made to governmental entities. Accordingly, these sales are not impacted by global economic and financial issues to the same degree as are other parts of our business.

Overall, our Equipment Leasing segment generated a gross loss of approximately \$649,000 in the second quarter of fiscal 2010 as compared to a gross profit of approximately \$5.7 million in the second quarter of fiscal 2009. For the first six months of fiscal 2010, our Equipment Leasing segment generated a gross profit of approximately \$1.5 million, as compared to approximately \$14.5 million in the first six months of fiscal 2009. The gross profit for this period declined due primarily to lower leasing revenues and higher depreciation expense related to our lease pool equipment. During fiscal 2009, we added significant amounts of new equipment to our lease pool. Once new equipment is initially placed in service, we begin depreciating the equipment on a straight-line basis for the balance of its estimated useful life. Therefore, in periods of lower equipment utilization, such as in the three and six months ended July 31, 2009, we experience depreciation expense that is disproportionate to our equipment leasing revenues.

Direct costs related to equipment leasing for the three and six months ended July 31, 2009 increased approximately 170% and 85%, respectively, over the same periods in the prior year, despite the decrease in equipment leasing revenues. This increase was due to the subleasing of certain equipment during the fiscal 2010 periods. Direct costs typically fluctuate with leasing revenues, as the three main components of direct costs are freight, repairs and sublease expense.

Seamap

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

	<u>Three Months Ended July 31,</u>		<u>Six Months Ended July 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(\$ in thousands)		(\$ in thousands)	
Equipment sales	\$ 7,172	\$ 3,302	\$ 9,855	\$ 8,607
Cost of equipment sales	3,231	1,972	4,340	4,441
Gross profit	<u>\$ 3,941</u>	<u>\$ 1,330</u>	<u>\$ 5,515</u>	<u>\$ 4,166</u>
Gross profit %	55%	40%	56%	48%

The sale of Seamap products, while not generally impacted by seasonal factors, can vary significantly from quarter to quarter due to customer delivery requirements. In the three months ended July 31, 2009, we shipped two GunLink 4000 systems and two BouyLink systems related to orders from Polarcus for two vessels. These shipments produced revenues of approximately \$3.8 million. In the three months ended April 30, 2009, we did not ship significant GunLink 4000 or BouyLink product orders and shipped two GunLink 2000 systems, which amounted to approximately \$0.7 million. The balance of the revenues relates primarily to parts, repairs and support services. Changes in product prices did not contribute materially to the difference in sales between the fiscal 2010 and fiscal 2009 periods.

The gross profit from the sale of Seamap equipment amounted to approximately 55% and 56% of Seamap revenues for the three and six months ended July 31, 2009, respectively, as compared to approximately 40% and 48% of Seamap revenues for the three and six months ended July 31, 2008, respectively. The increase in the gross profit percentage resulted from the higher level of revenues compared to certain fixed costs in the fiscal 2010

periods, differences in product mix between the periods and continued improvements in the cost structure of our Singapore production facility.

Operating Expenses

General and administrative expenses for the quarter ended July 31, 2009 were approximately \$4.0 million, compared to approximately \$4.4 million for the quarter ended July 31, 2008. For the six months ended July 31, 2009, general and administrative expenses were approximately \$7.5 million, compared to approximately \$9.2 million in the six months ended July 31, 2008. This decrease resulted primarily from lower stock-based compensation expense, lower incentive compensation expense and reduced travel costs. In the three months ended July 31, 2009, we recorded an additional provision for doubtful accounts receivable of approximately \$649,000. This additional expense relates primarily to two customers who filed for bankruptcy during the period.

Interest and Other Income (Expense), net

Net interest expense for the second quarter and first six months of fiscal 2010 amounted to approximately \$92,000 and \$181,000, respectively. In the second quarter and first six months of fiscal 2009, we had approximately \$223,000 and \$373,000, respectively, of net interest income. This decrease was due to higher interest expense related to higher average borrowings under our line of credit and the absence of interest income related to a contract receivable. The proceeds from the line of credit were used to purchase lease pool equipment. The contract receivable went into default in fiscal 2009 and we are in the process of repossessing the equipment that secures the agreement. Recognition of interest income has been deferred until these amounts are realized. The increase in other income for the three and six months ended July 31, 2009 relates primarily to foreign exchange gains at our foreign subsidiaries.

Provision for Income Taxes

Our tax benefit for the three and six months ended July 31, 2009 was approximately \$428,000 and \$302,000, respectively, which indicates effective tax rates of approximately 30% and 22% for the respective periods. For the three and six months ended July 31, 2008 our provision for tax expense was approximately \$921,000 and \$3.2 million, respectively, which indicates effective tax rates of 36% and 35%, for the respective periods. These effective tax rates differ from that expected from the statutory rate of 34% due primarily to the effect of foreign taxes and the effect of estimated potential penalties and interest recognized in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109, Accounting for Income Taxes*, which we adopted in the first quarter of fiscal 2008. Pursuant to this accounting standard, we have estimated and recorded the potential effect on our liabilities for income taxes should specific uncertain tax positions be resolved not in our favor. We are further required to estimate and record potential penalties and interest that could arise from these positions. We record these estimated penalties and interest as income tax expense. For the three months ended July 31, 2009, we recognized a reduction of estimated penalties and interest of approximately \$40,000, as compared to a provision for additional penalties and interest of approximately \$126,000 in the three months ended July 31, 2008. For the six months ended July 31, 2009 and 2008, we recorded provisions for estimated penalties and interest of \$69,000 and \$331,000, respectively.

Liquidity and Capital Resources

As of July 31, 2009, we had working capital of approximately \$13.9 million, including cash and cash equivalents and restricted cash of approximately \$6.6 million, as compared to working capital of approximately \$11.2 million including cash and cash equivalents and restricted cash of approximately \$6.0 million at January 31, 2009. Our working capital increased during the six months ended July 31, 2009 primarily due to working capital generated from operations.

Net cash flows from operating activities were approximately \$10.7 million in the first six months of fiscal 2010 as compared to cash flows provided by operating activities of approximately \$6.4 million in the same six months in fiscal 2009. This increase, despite the significant decrease in net income in the first six months of fiscal 2010, resulted primarily from a change in the effect of accounts payable, accounts receivable and inventories between the periods and the receipt of income tax refunds in the fiscal 2010 period.

Net cash flows from investing activities for the six months ended July 31, 2009 included purchases of seismic equipment held for lease totaling approximately \$11.6 million. This amount reflects approximately \$8.2 million attributable to equipment purchased in fiscal 2009, but not paid for until fiscal 2010. There were approximately \$4.4 million in accounts payable at July 31, 2009 related to lease pool purchases made during the first six months of fiscal 2010. Accordingly, additions to our lease pool amounted to approximately \$7.8 million in the first six months of fiscal 2010, as compared to approximately \$19.8 million in the first six months of fiscal 2009. Due to

[Table of Contents](#)

the decline in demand for our equipment and services, we have materially reduced our purchases of lease pool equipment in fiscal 2010. We expect the cost of purchases of lease pool equipment to total approximately \$15.0 million for all of fiscal 2010. However, should demand warrant, we may acquire more lease pool equipment. As of July 31, 2009, approximately \$3.8 million related to lease pool purchases made in fiscal 2009 remained in accounts payable. We have arranged extended payment terms for these purchases and expect to make payment for all remaining amounts prior to December 31, 2009.

In the first six months of fiscal 2010, proceeds from the sale of lease pool equipment were not material. We generally do not seek to sell our lease pool equipment, but may do so from time to time. In particular we may sell lease pool equipment in response to specific demand from customers if the selling price exceeds the estimated present value of projected future leasing revenue from that equipment. Due to current market conditions, we do not expect sales of lease pool equipment to be material during the balance of fiscal 2010.

During the six months ended July 31, 2009, we incurred net borrowings of \$1.5 million under our revolving credit agreement. In September 2008, we entered into a new \$25.0 million revolving credit agreement with First Victoria National Bank (the "Bank"), which replaced our then existing \$12.5 million facility with the Bank. Amounts available for borrowing are determined by a borrowing base. The borrowing base is computed based upon eligible accounts receivable and eligible lease pool assets. Based upon the latest calculation of the borrowing base, we believe that the entire \$25.0 million of the facility is available to us. The revolving credit facility matures on September 24, 2010. However, at any time prior to maturity, we can convert any or all outstanding balances into a series of 48-month notes. Amounts converted into these notes are due in 48 equal monthly installments. The revolving credit facility is secured by essentially all of our domestic assets. Interest is payable monthly at the prime rate. The revolving credit agreement contains certain financial covenants that require us, among other things, to maintain a debt to shareholders' equity ratio of no more than 0.7 to 1.0, maintain a current assets to current liabilities ratio of not less than 1.25 to 1.0 and produce quarterly earnings before interest, taxes, depreciation and amortization ("EBITDA") of not less than \$2.0 million.

As indicated by the following chart, we were in compliance with all financial covenants as of July 31, 2009:

Description of Financial Covenant	Required Amount	Actual as of July 31, 2009 or for period then ended
Ratio of debt to shareholder's equity	Not more than 0.7:1.0	0.09:1.0
Ratio of current assets to current liabilities	Not less than 1.25:1.0	1.96:1.0
Quarterly EBITDA	Not less than \$2.0 million	\$3.3 million

The revolving credit agreement also provides that we may not incur or maintain indebtedness in excess of \$1.0 million without the prior written consent of the Bank, except for borrowings related to the revolving credit agreement. As of September 4, 2009, we had approximately \$8.8 million outstanding under this revolving credit agreement.

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

As of July 31, 2009, we had deposits in foreign banks consisting of both U.S. dollar and foreign currency deposits equal to approximately \$5.7 million. These funds may generally be transferred to our accounts in the United States without restriction. However, the transfer of these funds may result in withholding taxes payable to foreign taxing authorities. Any such withholding taxes generally may be credited against our federal income tax obligations in the United States. Additionally, the transfer of funds from our foreign subsidiaries to the United States may result in currently taxable income in the United States.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

We are exposed to market risk, which is the potential loss arising from adverse changes in market prices and rates. We have not entered, or intend to enter, into derivative financial instruments for hedging or speculative purposes.

Foreign Currency Risk

We operate in a number of foreign locations, which gives rise to risk from changes in foreign exchange rates. To the extent possible, we attempt to denominate our transactions in foreign locations in U.S. dollars. For those cases in which transactions are not denominated in U.S. dollars, we are exposed to risk from changes in exchange rates to the extent that non-U.S. dollar revenues exceed non-U.S. dollar expenses related to those operations. Our non-U.S. dollar transactions are denominated primarily in British pounds sterling, Canadian dollars, Australian dollars, Singapore dollars and Russian rubles. As a result of these transactions, we generally hold cash balances that are denominated in these foreign currencies. At July 31, 2009, our consolidated cash and cash equivalents included foreign currency denominated amounts equivalent to approximately \$3.7 million in U.S. dollars. A 10% increase in the value of the U.S. dollar as compared to the value of each of these currencies would result in a loss of approximately \$0.4 million in the U.S. dollar value of these deposits, while a 10% decrease would result in an equal amount of gain. We do not currently hold or issue foreign exchange contracts or other derivative instruments to hedge these exposures.

Some of our foreign operations are conducted through wholly owned foreign subsidiaries that have functional currencies other than the U.S. dollar. We currently have subsidiaries whose functional currencies are the Canadian dollar, British pound sterling, Australian dollar, Russian ruble and the Singapore dollar. Assets and liabilities from these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each balance sheet date. The resulting translation gains or losses are reflected as accumulated other comprehensive income (loss) in the shareholders' equity section of our consolidated balance sheets. Approximately 57% of our net assets are impacted by changes in foreign currencies in relation to the U.S. dollar.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of July 31, 2009 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended July 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The Risk Factors included in our Annual Report on Form 10-K for the year ended January 31, 2009 have not materially changed other than the addition of the following risk factor. In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended January 31, 2009, which could materially affect our business, financial condition or future results. The risks described in this Form 10-Q and in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

The financial soundness of our customers could materially affect our business and operating results.

As a result of the disruptions in the financial markets and other macro-economic challenges currently affecting the economy of the United States and other parts of the world, our customers may experience cash flow concerns and/or enter into bankruptcy proceedings. If customers’ operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of, accounts receivable owed to us. Any inability of current and/or potential customers to pay us for services may adversely affect our financial condition and results of operations.

In the period ended July 31, 2009, two of our customers filed for bankruptcy, which resulted in our recording an additional provision for doubtful accounts receivable of approximately \$649,000. If any of our other existing or future customers enters into bankruptcy proceedings and rejects its contract with us, fails to renew its contracts with us upon expiration, or if the renewal terms with any such customers are less favorable to us than under our current contracts, it could result in declines in our revenues and gross profits.

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

(a) Not applicable.

(b) Not applicable.

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

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the quarter ended July 31, 2009:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs(1)
May 1-31, 2009	1,020 ⁽²⁾	\$ 5.01	—	—
June 1-30, 2009	—	—	—	—
July 1-31, 2009	—	—	—	—
Total	<u>1,020</u>	<u>\$ 5.01</u>	<u>—</u>	<u>—</u>

- (1) In connection with the lapsing of restrictions on restricted shares granted by our Company under our 2006 Stock Incentive Plan (the “Plan”), we adopted a policy that enables employees the ability to surrender shares to cover the associated tax liability. We are unable to determine at this time the total amount of securities or the approximate dollar value of those securities that could potentially be surrendered to us pursuant to the Plan.
- (2) These shares represent shares surrendered to us by a participant in the Plan to settle the personal tax liability that resulted from the lapsing of restrictions on Plan awards.

Item 3. Defaults Upon Senior Securities

Not applicable.

Table of Contents

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

We held our Annual Meeting of Shareholders on July 23, 2009. Shareholders of record as of the close of business on May 26, 2009 were entitled to vote.

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

<u>Name of Nominee</u>	<u>For</u>	<u>Withheld</u>
Billy F. Mitcham, Jr.	7,920,745	609,815
Peter H. Blum	7,784,311	746,249
Robert P. Capps	7,803,210	727,350
R. Dean Lewis	7,769,446	761,114
John F. Schwalbe	7,768,986	761,574
Robert J. Albers	7,915,911	614,649

The shareholders approved an Amendment to the Mitcham Industries, Inc. Stock Awards Plan to increase the shares of common stock authorized for issuance under the plan by 350,000 shares. The votes were as follows:

<u>For</u>	<u>Against</u>	<u>Abstaining</u>	<u>Broker Non-Votes</u>
5,351,863	999,819	8,810	2,170,068

The shareholders ratified the appointment of Hein & Associates LLP as our independent registered public accounting firm for the fiscal year ending January 31, 2010. The votes were as follows:

<u>For</u>	<u>Against</u>	<u>Abstaining</u>
8,377,318	112,323	40,918

Item 5. Other Information

On September 4, 2009 we entered into a revised exclusive equipment lease agreement with Sercel. Our previous agreement with Sercel expired on December 31, 2008. Under the new agreement, through December 31, 2011 we are Sercel's exclusive third party lessor for its DSU3 428XL system throughout the world, except China and the CIS, and for its VSP tools in North and South America. Under the terms of the agreement Sercel will refer to us any customers seeking short-term leases (12 months or less) for these products in the exclusive territory. Furthermore, Sercel will not sell these products to other companies that would compete with us for the rental of these products in the exclusive territory. We have agreed to purchase a total of 9,000 stations of DSU3 428XL and 300 levels of VSP tools during the term of the agreement. Should we fail to fulfill these purchase commitments, Sercel may terminate our exclusivity and other terms of the agreement.

Item 6. Exhibits

Exhibits

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

SIGNATURES

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

MITCHAM INDUSTRIES, INC.

Date: September 9, 2009

/s/ Robert P. Capps
Robert P. Capps
Executive Vice President-Finance and Chief Financial Officer
(Duly Authorized Officer and Chief Accounting Officer)

EXHIBIT INDEX

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

<u>Exhibit Number</u>	<u>Document Description</u>	<u>Report or Registration Statement</u>	<u>SEC File or Registration Number</u>	<u>Exhibit Reference</u>
3.1	Amended and Restated Articles of Incorporation of Mitcham Industries, Inc.	Incorporated by reference to Mitcham Industries, Inc.'s Registration Statement on Form S-8, filed with the SEC on August 9, 2001.	333-67208	3.1
3.2	Second Amended and Restated Bylaws of Mitcham Industries, Inc.	Incorporated by reference to Mitcham Industries, Inc.'s Annual Report on Form 10-K for the fiscal year ended January 31, 2004, filed with the SEC on May 28, 2004.	000-25142	3.2
10.1	Mitcham Industries, Inc. Amended and Restated Stock Awards Plan	Incorporated by reference to Mitcham Industries, Inc.'s Current Report on Form 8-K, filed with the SEC on July 27, 2009.	000-25142	10.1
10.2†	Exclusive Equipment Lease Agreement dated September 4, 2009 between Mitcham Industries, Inc. and Sercel Inc.			
31.1†	Certification of Billy F. Mitcham, Jr., Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended			
31.2†	Certification of Robert P. Capps, Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended			
32.1†	Certification of Billy F. Mitcham, Jr., Chief Executive Officer, and Robert P. Capps, Chief Financial Officer, under Section 906 of the Sarbanes Oxley Act of 2002, 18 U.S.C. § 1350			

EXCLUSIVE EQUIPMENT LEASE AGREEMENT

Exclusive Equipment Lease Agreement (the "Agreement") is entered into as of the 4th day of September, 2009 (the "Effective Date") between Mitcham Industries, Inc., a Texas corporation ("Mitcham"), and SERCEL, Inc., a corporation organized under the laws of Oklahoma ("SERCEL"), which parties agree as follows:

0. DEFINITIONS AND INTERPRETATION

In this Agreement, the following terms have the meanings set forth below, which shall be equally applicable to both the singular and the plural form:

- i. "Affiliate" shall mean with respect to any person, any other person directly or indirectly controlling, controlled by or under common control with the first person. For the purposes of this Agreement, "control," when used with respect to any Person, means the possession, directly or indirectly, of the power to vote 50% or more of the securities having ordinary voting power for the election of directors (or comparable positions) of such person or any one or more business entities which are: (a) owned or controlled by, (b) owning or controlling, or (c) owned or controlled by the business entity owning directly or indirectly, at least fifty percent (50%) of the voting stock ordinarily entitled to vote in the election of directors.

In the case of SERCEL, "Affiliate" shall be further limited to business entities, which are engaged in the manufacturing of seismic equipment.

- ii. "Agreement" shall mean the present agreement (including the Schedules) as amended in writing from time to time.
- iii. "Confidential Information" shall mean any and all non-public technical, business and/or proprietary information disclosed by one Party to the other Party, directly or indirectly, in writing with respect to a Party's business strategies and practices, methodologies, trade secrets, know-how, pricing, technology, software, products, product plans, services, and other information the confidential or proprietary nature of that is reasonably apparent under the circumstances. The existence and terms of this Agreement shall be deemed Confidential Information, unless otherwise agreed.
- iv. "Effective Date" shall mean January 1st, 2009.
- v. "Exclusive Authorized Third Party Lessor" shall mean that Mitcham shall receive first opportunity from Sercel to rent or lease Sercel's products.

- vi. "Levels" shall mean (1) one 3-component station of Slimwave, Geowave or Maxiwave.
- vii. "MITCHAM" shall mean Mitcham Industries Inc, and its Affiliates engaged in the rental, lease, and sales of seismic data acquisition systems and equipment throughout the world.
- viii. "Parties" shall mean MITCHAM and Sercel; "Party" shall mean one of them.
- ix. "Products" shall mean any land, transition zone, marine or seabed seismic equipment, down hole acquisition equipment and/or software. "Sercel" shall mean Sercel Inc. and its Affiliates engaged in the manufacture and marketing of seismic equipment.
- x. "VSP Tools" shall mean Sercel VSP products including Slimwave, Geowave and Maxiwave
- xi. "Year" shall mean one of the three 365-day periods commencing on the Effective Date or the first two anniversaries thereof.

1. Introduction. SERCEL and certain of its Affiliates design, manufacture and market fully-configured seismic data acquisition systems (the "SERCEL Systems"), the components thereof and equipment related thereto, including station units that are sometimes called "channel boxes." At the present time, SERCEL and certain of its Affiliates manufacture equipment as described on Schedule 1a and Schedule 1b (collectively the "Products"). Mitcham and certain of its Affiliates provides full service leasing services to customers in the oil and gas industry, including the leasing of new and used channel boxes to customers who have SERCEL Systems. For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged for all purposes, Mitcham and SERCEL agree to the terms set forth herein.

2. Exclusive Authorized Third Party Lessor.

(a) Mitcham hereby represents to SERCEL that Mitcham has the necessary skills, experience, personnel, facilities and equipment to effectively perform its responsibilities as the exclusive leasing representative for SERCEL as described in the Agreement. In reliance upon that representation, SERCEL hereby appoints Mitcham as the exclusive authorized lessor of the Products listed on Schedule 1a (the "Exclusive Products") throughout the world (the "Territory") and as the non-exclusive authorized lessor of the Products listed on Schedule 1b throughout the Territory; except that Mitcham shall not offer financing leases or leases equal to or greater than one year except with SERCEL's prior written consent. SERCEL has the right to undertake equipment leases with a term greater than or equal to one year without any prior notice given to Mitcham. During the term of this Agreement, Mitcham will actively promote and solicit the leasing of the Products.

(b) During the term of this Agreement, SERCEL shall not recommend or suggest any competitor of Mitcham (including without limitation the competitors listed in Schedule 2a) or any other third party known by SERCEL or its Affiliates as a source from which any of the Exclusive Products may be leased in the Territory.

(c) During the term of this Agreement, SERCEL and/or any Affiliate shall remain free to perform, directly or indirectly, with any third party any operating or financial lease with a term greater than or equal to one year or, subject to the provisions of paragraph 2(f) herein, with respect to Land, Marine, OBC, VSP Tools Product throughout the Territory. The Parties acknowledge that the purpose of this Agreement is the lease of Products by Mitcham. This Agreement does not allow Mitcham to act as distributor, agent, commercial representative or reseller of brand-new Products.

(d) Mitcham's exclusive rights to lease the DSU3 428XL system shall apply throughout the Territory except that:

(i) Mitcham will not rent DSU3 428XL system for use in mainland China to any seismic contractor that is owned or controlled by Chinese nationals without SERCEL's prior written consent; and

(ii) Mitcham will have non-exclusive rights of rental of the 428XL DSU3 system in the countries of the Commonwealth of Independent States, including Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

(e) Mitcham's exclusive rights to lease VSP Tools shall apply throughout North and South America except that:

(i) Mitcham will not rent VSP Tools for use in mainland China to any seismic contractor that is owned or controlled by Chinese nationals without SERCEL's prior written consent; and

(ii) Mitcham will have non-exclusive rights of rental of VSP Tools for Europe, Asia, Africa and the Australia Continents.

(f) During the term of the Agreement, in the event that a third party makes inquiry of SERCEL as to the possibility of leasing any of the Products anywhere in the Territory, then and upon each inquiry, SERCEL shall contact Mitcham (by phone, email or letter) and explain in reasonable detail the identity of the third party and the terms, if any, that have been discussed with regard to such lease, and Mitcham shall promptly contact such third party and negotiate the terms of the proposed lease. Mitcham shall have discretion to accept or reject any third party referred by SERCEL for leasing as a result of (i) possessing an insufficient amount of the Products for lease to such third party (provided, however, the continued failure of Mitcham to maintain a sufficient amount of products to satisfy demand could be evidence that Mitcham is not actively promoting the leasing of Products, as required hereunder unless caused by the

failure of SERCEL to deliver Products to Mitcham), (ii) reasonably apparent credit risk or any other reasonable business-related factor, or (iii) inability to reach agreement on the terms of such lease. Notwithstanding the previous sentence, Mitcham shall use commercially reasonable best efforts to service every third party referred by SERCEL for leasing. Mitcham shall be deemed to have rejected such a third party as a result of inability to agree on the terms within fifteen (15) business days of such third party's first contact by Mitcham with regard to such proposed lease. SERCEL may then respond to this one time business opportunity in any means it sees fit. If SERCEL leases to such third party, then SERCEL shall have the right to continue to lease to such third party after the term of the initial lease between them shall terminate; provided, however, that if (x) the lease between such a third party and SERCEL shall terminate, (y) the leased Product is returned to SERCEL, and/or (z) such third party shall later make an inquiry concerning leasing of the Products, SERCEL shall again follow the procedure set forth in this Sub-Section (f); and provided further that when such lease ends, SERCEL will offer to sell any Products leased thereunder to Mitcham, on mutually agreed terms. The purchase of these products will not count toward the minimum purchase commitment made by Mitcham to SERCEL in this agreement.

(g) In no event shall either SERCEL or Mitcham have any right to require that the other party charge any specific price or follow any pricing guidelines or establish or require any other specific or general term with regard to the leasing of any of the Products, or the provision of any other good or service by either of them. Notwithstanding the foregoing, Mitcham shall use its commercially reasonable best efforts to have a reasonable quantity of the Products available for lease at prices which Mitcham believes reflects the supply of and demand for the Products.

3. Purchase of Products from SERCEL.

(a) Subject to the other provisions of this Agreement, Mitcham agrees that it will purchase from SERCEL and SERCEL agrees that it will sell to Mitcham, all of the Products necessary to meet Mitcham's obligations under each lease as provided herein. The terms and conditions of purchases by Mitcham of the Products hereunder shall be governed by SERCEL's standard terms and conditions, a copy of which is attached hereto as Schedule 3(a); provided, however, that in the event of any conflict between the terms of such terms hereof, the terms of the Agreement shall prevail. SERCEL may update Schedule 3(a) from time to time after written notice to Mitcham.

(b) The price of the Products shall be determined in accordance with the discount(s) set forth on Schedule 3(b), and Mitcham shall receive the discounts set forth on Schedule 3(b) with regard to the Products ordered by Mitcham in each order, subject to adjustment agreed to by the parties pursuant to paragraph 3(c) herein.

(c) The Parties acknowledge that SERCEL's prices for the products are based on discounts offered by SERCEL based on volume. SERCEL agrees to offer Mitcham discounts on the Products that are at least as favorable to Mitcham as SERCEL offers to its other customers for comparable volumes and consideration to payment terms.

(d) Delivery is Ex-Works Sercel Plant(s). Packing charges will be quoted to Mitcham and the purchase order received from Mitcham will reflect the full value of the quotation including packing charges. Mitcham may instruct Sercel at their discretion to include freight and insurance in the proposal. This will be quoted at Sercel's cost plus a handling fee of ten percent (10%).

(e) Sercel reserves the right to increase prices of product and repair services up to five (5%) percent per year. This only includes products and repair services that involve Sercel manufactured products. Out sourced services and products will be increased at a proportionate level to increases imposed on Sercel.

4. Minimum Purchase Requirements for 428XL DSU3.

(a) Subject to the terms hereof, Mitcham will issue a Purchase Order for 27,000 DSU3 428XL system channels within two weeks of signing this agreement. This PO will be called a Master PO. Subsequently, Mitcham will issue PO's which reference the Master PO to draw against the 27,000 channels. These PO's will be called Supply PO's. Orders that Mitcham places with SERCEL affiliates apply toward the minimum purchase requirements for 428XL DSU3. In the event that Mitcham does not purchase Products from SERCEL via Supply PO's under the Agreement in an amount that satisfies the Minimum Purchase Requirements (set forth below), at SERCEL's option but subject to Section 4(c) below, SERCEL may terminate this Agreement on 30 days written notice; and upon such termination Mitcham shall not be obligated to purchase any Products other than the Products that it has ordered prior to the effective date of such termination.

(b) For purposes hereof, the term "Minimum Purchase Requirement" shall mean Products purchased and delivered to Mitcham via Supply PO's from SERCEL as follows:

From July 1, 2009 to December 31, 2009: 3,000 428XL DSU3; 9,000 Channels

From January 1, 2010 to December 31, 2010: 3,000 428XL DSU3; 9,000 Channels

From January 1, 2011 to December 31, 2011: 3,000 428XL DSU3; 9,000 Channels

(c) Notwithstanding anything herein to the contrary, in the event that a Minimum Purchase Requirement is not satisfied by Mitcham in any period ending before December 31, 2011, this Agreement may not be terminated by SERCEL due to such failure if Mitcham meets the Minimum Purchase Requirement for the subsequent period (i.e., Mitcham will have one period that equals (1) one year in which to cure any failure to meet the Minimum Purchase Requirement).

(d) For purposes of determining whether Mitcham has satisfied the Minimum Purchase Requirement, Products purchased by Mitcham shall include Products ordered by Mitcham via Supply PO's regardless of when such Products are delivered so long as such

Products are ordered before 90 days of the end of a period and paid for in accordance with the terms and conditions set forth in Schedule 3(a). If Mitcham orders within the specified period and SERCEL is not able to deliver due to manufacturing delivery issues, there will be no penalty against Mitcham and such orders will be applied to satisfy the Minimum Purchase Requirement. In the event Mitcham purchases more than the Minimum Purchase Requirement in any given period, such excess shall be applied in meeting the Minimum Purchase Requirement for any subsequent period.

5. Minimum Purchase Requirement for VSP Tools

(a) Subject to the terms hereof, Mitcham will issue a Purchase Order for 300 levels of VSP Tools within two weeks of signing this agreement. This PO will be called a Master PO. Subsequently, Mitcham will issue PO's which reference the Master PO to draw against the 300 levels. These PO's will be called Supply PO's. In the event that Mitcham does not purchase Products from SERCEL via Supply PO's under the Agreement in an amount that satisfies the Minimum Purchase Requirements (set forth below), at SERCEL's option but subject to Section 5(c) below, SERCEL may terminate this Agreement on 30 days written notice; and upon such termination Mitcham shall not be obligated to purchase any Products other than the Products that it has ordered prior to the effective date of such termination.

(b) For purposes hereof, the term "Minimum Purchase Requirement" shall mean Products purchased and delivered to Mitcham via Supply PO's from SERCEL as follows:

From July 1, 2009 to December 31, 2009: 100 levels of VSP Tools

From January 1, 2010 to December 31, 2010: 100 levels of VSP Tools

From January 1, 2011 to December 31, 2011: 100 levels of VSP Tools

NOTE: At time of agreement Sercel acknowledges receipt of Purchase Orders for 102 Maxiwave tools and 13 Slimwave tools which order shall be applied towards the Minimum Purchase Requirement.

(c) Notwithstanding anything herein to the contrary, in the event that a Minimum Purchase Requirement is not satisfied by Mitcham in any period ending before December 31, 2011, this Agreement may not be terminated by SERCEL due to such failure if Mitcham meets the Minimum Purchase Requirement for the subsequent period (i.e., Mitcham will have one period that equals (1) one year in which to cure any failure to meet the Minimum Purchase Requirement).

(d) For purposes of determining whether Mitcham has satisfied the Minimum Purchase Requirement, Products purchased by Mitcham shall include Products ordered by Mitcham via Supply PO's regardless of when such Products are delivered so long as such Products are ordered before 90 days of the end of a period and paid for in accordance with the terms and conditions set forth in Schedule 3(a). If Mitcham orders within the specified period

and SERCEL is not able to deliver due to manufacturing delivery issues, there will be no penalty against Mitcham and such orders will be applied to satisfy the Minimum Purchase Requirement. In the event Mitcham purchases more than the Minimum Purchase Requirement in any given period, such excess shall be applied in meeting the Minimum Purchase Requirement for any subsequent period.

6. Third Party Replacement Parts. Mitcham shall not order from any third party any replacement parts for any Products that are not qualified by SERCEL. Any use of replacement parts that have not been qualified by SERCEL will give SERCEL the right, in any case, to cancel any warranty remaining on the equipment for which such unqualified parts are used and/or SERCEL shall be entitled to terminate this Agreement should Mitcham fail to remedy such situation within 10 days of SERCEL giving notice to Mitcham.

7. Resale of Purchased Equipment by Mitcham. Without SERCEL's prior written consent, Mitcham hereby agrees that it will not sell any of the Products purchased under this Agreement until a period of three (3) years from the date it received the relevant Product. Without limiting the foregoing, Mitcham may approach SERCEL with a lease to purchase or sales opportunity for equipment purchased hereunder, and SERCEL may then grant Mitcham the right to pursue that opportunity. Notwithstanding anything to the contrary contained in this Agreement, Mitcham is not, in any case, entitled to sell within or outside mainland China any of the Products purchased under this Agreement to any seismic contractor owned or controlled by Chinese nationals.

8. Provision of Certain Goods and Services by SERCEL. SERCEL hereby agrees that Mitcham shall have the right to send a reasonable number of its employees and representatives of its customers who lease the Products from Mitcham to such technical, training, operations and maintenance classes as SERCEL provides to SERCEL's customers who lease or purchase the Products from SERCEL, at SERCEL standard rates. SERCEL will provide Mitcham (4) four free training courses per year to be used for any of the SERCEL training courses. This does not include the cost of travel, lodging, food or incidental expenses. As part of this agreement, Mitcham will receive (2) two "no charge" training courses for each central recording system purchased from Sercel. These courses may be used for Mitcham employees or lease/rent customers of Mitcham. SERCEL will have no responsibility for travel, lodging, food or incidental expenses of the Mitcham attendees. SERCEL hereby agrees to send to Mitcham such quantities of all manuals and selling information, marketing brochures and literature regarding the Products (other than proprietary information) as SERCEL develops and as Mitcham shall reasonably request in connection with its Leasing activities, at no charge to Mitcham. SERCEL's current training price schedule can be changed any anytime as long as Mitcham is so notified 30 days in advance: Sercel agrees to supply up to three (3) total TMS units to be used for the testing and repair of 408UL or 428XL units to Mitcham at a cost of Thirty thousand five hundred sixty-eight United States Dollars (\$30,568.00) per TMS unit. The list price of this unit, for future reference, is thirty-eight thousand two hundred ten United States Dollars (\$38,210.00) per TMS unit.

9. Warranty and Service.

(a) SERCEL warrants to Mitcham all of the Products sold by SERCEL to Mitcham are new and are subject to SERCEL's standard warranty terms.

(b) SERCEL makes no warranties or representations whatsoever with respect to any non- SERCEL products, however, any warranty information from the manufacturers of the non-SERCEL products shall be passed on to Mitcham.

(c) The standard SERCEL warranty is given expressly and in lieu of all other express or implied warranties, including a warranty of merchantability or fitness and in no event shall SERCEL be liable for consequential damages resulting from the use of any of the Products.

(d) In no event shall Mitcham have any authority whatsoever, express or implied, to make warranties other than those provided for herein without prior written permission from the SERCEL.

10. Maintenance and Repair of Leased Equipment.

(a) Mitcham and Sercel acknowledges that third party lessee of the Products from Mitcham may return the leased Products directly to SERCEL after the termination of such third party's leases. In such event, SERCEL shall perform its standard maintenance check of such Products and inform Mitcham of any necessary repairs.

(b) The maintenance checks and the repairs performed by SERCEL on the Products received from the lessees shall be invoiced by SERCEL to Mitcham at the SERCEL standard price. With respect to the repair undertaken by SERCEL, Mitcham will be entitled to a five percent (5%) discount on the repair pricing listed herein on attached *Schedule 5(a)*. Mitcham shall also pay the reasonable and ordinary freight and storage charges incurred by SERCEL with respect to such Products.

(c) For any repairs performed by SERCEL, Mitcham shall be entitled to receive 5.0% discount on the repair price listed herein on attached *Schedule 5(a)*.

(d) Following such maintenance check and needed repairs, SERCEL shall ship such Products to Mitcham at Mitcham's expense to a location designated by Mitcham.

11. Right to Use Name. Mitcham shall have the right during the Term of this Agreement to (i) identify itself as the exclusive third party lessor of the Exclusive Products, (ii) use all SERCEL trademarks and tradenames related to the Products that Mitcham leases to third parties in advertisements and promotional materials; provided, however, that Mitcham shall obtain the prior written approval of SERCEL to any such advertisements and promotional materials. No rights to manufacture are granted by this Agreement and such SERCEL trademarks and tradenames related to the Products are and shall remain the sole and exclusive property of

SERCEL and Mitcham shall have no rights therein other than as specifically set forth in this Agreement.

12. Relationship of the Parties. Neither Mitcham nor SERCEL shall have (i) any liability for leases or sales of any of the Products by the other, or (ii) any authority to control, act for or obligate the other in any way. This Agreement shall not be construed as creating an agency, partnership or joint venture between Mitcham and SERCEL. Neither Mitcham nor SERCEL (or any of their employees or representatives) shall be construed as an agent, consultant or employee of the other for any purpose. Mitcham shall not have the authority to bind SERCEL in any respect, it being intended that Mitcham shall act as an independent contractor and not as an agent, with the understanding that SERCEL shall not be responsible for any obligations and/or liabilities incurred by Mitcham in connection with its business activities.

13. Term of Agreement. Unless sooner terminated in accordance with the provisions hereof, this Agreement shall be effective from the Effective Date through December 31, 2011(the "Term"). This Agreement may only be renewed through written agreement of both Parties.

14. No Effect on Right to Sell.

(a) This Agreement shall not be construed to have any effect on SERCEL's rights to sell (as opposed to lease) its products and services to any party, except that SERCEL shall not knowingly sell any of the Exclusive Products to any party that will lease the Products in the Territory, including without limitation Mitcham's competitors listed on Schedule 2(a).

(b) This Agreement shall not be construed to have any effect on Mitcham's rights to sell any other products or services to any party.

15. Indemnity. SERCEL and Mitcham hereby agree to the following indemnification obligations:

(a) Mitcham shall indemnify and hold harmless SERCEL, its directors, officers, employees and Affiliates (hereinafter the "SERCEL Indemnities") against any and all liability, loss, damages, fines, penalties, costs and expenses (including, without limitation, court costs and reasonable attorneys fees) incurred by any of the SERCEL Indemnities as a result of any breach or violation by Mitcham or others acting on its behalf of any obligation, covenant, representation or warranty of Mitcham set forth in this Agreement.

(b) SERCEL shall indemnify and hold harmless Mitcham, its directors, officers, employees and Affiliates (hereinafter the "Mitcham Indemnities") against any and all liability, loss, damages, fines, penalties, costs and expenses (including, without limitation, court costs and reasonable attorneys fees) incurred by any of the Mitcham Indemnities (i) as a result of any breach or violation by SERCEL or others (other than Mitcham) acting on its behalf of any obligation, covenant, representation or warranty of SERCEL set forth in this Agreement, (ii) that arise out of or are based upon losses, claims, damages or liabilities suffered by any third parties

(meaning any party other than Mitcham, SERCEL, Mitcham's customer and their respective affiliates) resulting from design, manufacture, and/or operation of any Products, from the failure of any such Products to satisfy any warranties (whether expressed or implied, if any), or from any defect in the Products.

(c) It is expressly acknowledged by Mitcham that all liabilities and indemnification in relation thereto between SERCEL and Mitcham and Mitcham's customers, when leasing, renting or selling Sercel equipment to Mitcham's customers, will be exclusively governed by SERCEL's general conditions of sale as mentioned in *Schedule 3(a)* of the Agreement.

(d) Patent infringement. The parties acknowledge that if any Mitcham customer issues a claim against Mitcham or Sercel on the basis that the Products are infringing a third party valid and enforceable patent, Sercel agrees to do its best efforts to protect its patents and shall be responsible for the compensation regarding that claim under the conditions hereunder defined. Without limiting the foregoing, if a final injunction is, or Sercel believes, in its sole discretion, is likely to be, entered, prohibiting the use of Products by Mitcham's customers, Sercel will, at its sole option and expense, either: (a) procure for Mitcham or its clients the right to use the relevant Products herein, or (b) replace the infringing Products with non-infringing, functionally equivalent products, or (c) suitably modify the Products so that they are not infringing; or, (d) in the event (a), (b) and (c) are not commercially reasonable, refund to Mitcham the infringing Products at a price which is the purchase price less depreciation based on five (5) years straight-lined depreciation). Except as specified above, Sercel will not be liable for any costs or expenses incurred without its prior written authorization. Notwithstanding the foregoing, Sercel assumes no liability for infringement claims arising from (i) combination of the Products with other products not provided by Sercel, (ii) any modifications to the Products unless such modification was made by Sercel or, (iii) any part or component supplied by third party. The liability that Sercel may incur with respect to any infringement claim is expressly limited to 100% of the amount Mitcham paid as purchase price of the Products.

(e) Either party seeking indemnification hereunder shall notify the other party in writing of any legal action commenced against SERCEL Indemnities or the Mitcham Indemnities, as the case may be, as soon as practicable. The indemnity obligations of Mitcham and SERCEL shall survive the expiration or termination of the Agreement.

(f) In no event will SERCEL be liable to Mitcham, whether in contract or tort including negligence, under this Agreement as amended for special, incidental, indirect or consequential damages, nor any other losses or damages whatsoever resulting from loss of use, time, profits or business resulting from its performance or non-performance, or its termination of this Agreement as amended in accordance with the terms of this Agreement.

16. General.

(a) The addresses of Mitcham and SERCEL for purposes of giving any notice or other communication under this Agreement are as set forth below. Any such notice or

communication shall be in writing and signed by an officer or authorized representative of Mitcham or SERCEL, as applicable. Any such notice or communication shall be deemed to have been given (i) immediately upon physical delivery to the addressee, or (ii) three days after such notice or communication has been deposited in the United States mail, addressed as set forth below, first-class postage prepaid, certified mail, return receipt requested.

Mitcham: Mitcham Industries, Inc.
P. O. Box 1175
Huntsville, Texas 77342-1175
Attn: Billy F. Mitcham, Jr.

SERCEL: SERCEL Incorporated
17200 Park Row
Houston, Texas 77084
Attn: Mark Farine

Notice may be served in any other manner, including telex, telecopy, telegram, etc., but shall be deemed delivered and effective as of the time of actual delivery.

(b) Mitcham and SERCEL represent and warrant to each other that the execution, delivery and performance of this Agreement have been authorized by all necessary corporate action, and that this Agreement is a valid and binding obligation of each of them, respectively. Mitcham and SERCEL represent and warrant to each other that, to the best of their knowledge, neither the execution and delivery nor the performance of this Agreement will conflict with or result in a breach of any (i) law or of any regulation, order, writ, injunction, or decree of any court or government authority of any country or state in which this Agreement is to be performed, or (ii) any agreement to which they are a party.

(c) This Agreement represents the entire agreement between Mitcham and SERCEL with regard to the subject matter hereof, and supersedes all prior or contemporaneous agreements, understandings or arrangements related to the subject matter hereof, including without limitation the Exclusive Lease Agreement between the parties dated June 1 2006 as amended and extended. This Agreement may not be amended or modified except by a written document signed by duly authorized officers of Mitcham and SERCEL.

(d) This Agreement may not be assigned by either party hereto without the prior written consent of the other party. This Agreement shall bind and be enforceable against the parties hereto and their respective successors and permitted assigns. Notwithstanding such authorized assignment, Mitcham shall continue to be liable for all obligations of Mitcham set forth in this Agreement.

(e) In the event Billy F. Mitcham, Jr. is no longer employed by Mitcham in a senior management capacity or is considered by Sercel to be not sufficiently and actively involved in

the performance of this Agreement, SERCEL shall have the option upon 30 days written notice to terminate this Agreement.

17. Compliance with Laws. In all of its activities pursuant to this Agreement, Mitcham and SERCEL shall comply with all laws, decrees, statutes, rules, regulations, codes and ordinances of any jurisdiction which may be applicable to such activities, including without limitation, laws imposing registration and disclosure requirements on Mitcham; provided, however, insignificant violations of any of the foregoing that have no more than a minimal effect on Mitcham or SERCEL shall not be a violation of this Agreement. In leasing the Products hereunder, Mitcham shall act at all times in a manner demonstrating a high level of integrity and ethical standards. Without limiting the scope of its general obligations set forth above this section, Mitcham hereby represents and warrants to SERCEL in connection with its activities performed with regard to the Products in the past (if any), and hereby covenants and agrees with SERCEL in connection with its activities to be performed in connection with the Products in the future, that Mitcham and any person or firm acting in association with or on behalf of Mitcham:

- (a) has not offered, paid, given, promised to pay or give, or authorized the payment or gift of, and
- (b) will not offer, pay, promise to pay or give, or authorize the payment or gift of,
- (c) any money or thing of value to:
 - (i) any "Foreign Official" as defined in the United States Foreign Corrupt Practices Act (Pub. L. No. 95-213, 94 Stat. 1494), together with all amendments to that Act which are effective during the term hereof (the "FCPA")
 - (ii) any political party or party official, or any candidate for political office; or
 - (iii) any other person for the purpose of (A) influencing any act or decision of such Foreign Official, political party, party official, or candidate in his or its official capacity, (B) inducing such Foreign Official, political party, party official or candidate to do or omit to do an act in his violation of his or its official duty; or (C) Inducing such Foreign Official, political party, party official or candidate to use his or its influence with a foreign government or an instrumentality of such government to affect or influence any act or decision of such government or instrumentality in order to assist SERCEL to obtain or retain business with any person or to direct business to any person.

Further, Mitcham hereby represents and warrants to SERCEL that no person having a direct or indirect financial interest in Mitcham as of the date hereof is: (i) a Foreign Official, (ii) an official of any political party, or (iii) a candidate for political office; provided, however, for

purposes hereof, a person shall not be deemed to have a direct or indirect financial interest in Mitcham as a result of owning less than (5%) of the outstanding shares of common stock of Mitcham. In connection with determining whether a person owns five percent (5%) or more of the stock, Mitcham shall be permitted to rely upon filings made by its shareholders under the Securities Exchange Act of 1934, as amended, or filings made under other applicable federal securities laws. Mitcham shall immediately notify SERCEL in the event that any person now or hereafter having such a financial interest in Mitcham shall assume such a status.

From time to time as requested by SERCEL, Mitcham shall, within five (5) days after request from SERCEL, certify to SERCEL in writing that the obligations, representations and warranties of Mitcham set forth in this Section have not been violated. SERCEL shall not be permitted to request such certification more often than once each calendar quarter unless it has reason to believe a violation has occurred. Mitcham shall cooperate fully with any investigation which may be conducted by representatives of SERCEL for the purpose of determining whether or not Mitcham has violated any of those obligations, representations and warranties. In the event that amendments in the FCPA reasonably necessitate modifications to this Section 17, the parties hereto agree to negotiate in good faith in connection therewith and enter into such modifications.

18. Mitcham Undertakings. Mitcham hereby agrees:

- (a) To use its commercially reasonable best efforts to actively promote and solicit the leasing of the Products.
- (b) To participate in training programs that may be offered by SERCEL or by others relating to the Products.
- (c) To obtain approval of SERCEL prior to the commencement of any advertising relating to the lease of the Products which advertising has not been previously approved by SERCEL.
- (d) Not knowingly to lease the Products to companies or countries that are precluded by United States law from trading with the United State or its residents and, to make reasonable inquiry in connection therewith, including inserting provisions in the leases with their customers that are reasonably intended to keep Mitcham's customers from using the Products in the countries in which United States law prohibits the use of the Products.
- (e) To make all reasonable effort to use the distributors described on Schedule 4(a) and that have been designated by SERCEL in locations outside of the United States or Canada so as to minimize conflicts between distributors, except in India where Mitcham currently has an agent in such country. However, if conflicts arise as a result of multiple distributors, both parties will make a reasonable attempt to use the same distributor.

- (f) To use commercially reasonable efforts to continue to maintain an organization commensurate with the growth of leasing of the Products.
- (g) To return to SERCEL on termination of this Agreement any and all catalogs, samples, price lists, and any other data, information and/or supplies or materials furnished by SERCEL which are in the possession of Mitcham or any of its employees, agents, representatives or consultants.
- (h) Not to alter, hide nor secrete SERCEL's name on any of the Products or on any sales promotion material furnished by SERCEL.

19. SERCEL's Undertakings. SERCEL hereby agrees:

- (a) To cooperate with Mitcham in joint marketing programs for the Products.
- (b) Upon request by Mitcham, to notify SERCEL's affiliates, distributors and employees regarding Mitcham's exclusive leasing rights for the Products under this Agreement and to instruct those affiliates, agents and employees to cooperate with Mitcham in the exercise of its exclusive rights hereunder.
- (c) At its sole discretion and option, to invite Mitcham to meetings in order to joint market the Products.
- (d) To provide such reasonable support and technical services for the Products as Mitcham may reasonably request from time to time and at Mitcham obligation as per Sercel's current price list for said support and technical services without any discount.
- (e) To honor all of SERCEL's manufacturer warranties in accordance with SERCEL's standard warranty terms and conditions for the Products leased by Mitcham.
- (f) To provide Mitcham with the right to transfer licenses to use SERCEL software to customers solely in connection with the use of the Products.
- (g) To provide Mitcham with the right to transfer the SERCEL manufacturer's warranties in connection with any lease, or lease to purchase of the Products.
- (h) Not to grant to any competitor of Mitcham, as listed in Schedule 2(a), with more favorable terms or rights than provided Mitcham within the terms and conditions of this Agreement.

20. Purchase Order Acceptance and Payment.

(a) All sales of the Products are subject to SERCEL's standard conditions of sale, however, SERCEL reserves the right to, at any time, change, alter or amend these conditions by giving prior written notice to Mitcham.

(b) Mitcham shall confirm with SERCEL all relevant delivery information prior to submission of a purchase order for any of the Products.

(c) Upon receiving purchase order from Mitcham, SERCEL shall confirm delivery date with formal acceptance or order acknowledgment.

(d) SERCEL shall have the right to reject, in whole or in part, any purchase order from Mitcham, to refuse in whole or part, to consent to any cancellation requested by Mitcham, and to reject in whole or part, any and all returns of the Products or to refuse to grant refunds or allowances on such returns, based upon reasonable grounds. Any Purchase Order shall be binding on SERCEL only upon receipt by Mitcham of a SERCEL's formal acceptance or acknowledgement of order.

(e) All sales by SERCEL to Mitcham shall be payable in U.S. dollars net thirty (30) days from the date of the invoice. Continued late payment could result in Sercel termination of this agreement.

(f) If SERCEL agrees to modify, alter or amend any of the payment terms contained herein in order to meet the requirements of a specific transaction, such deviation from the provisions of this Agreement shall not be construed as a permanent modification, alteration or amendment of the payment terms nor shall the same be used to establish a precedent for future transactions.

21. Confidential Information. Mitcham agrees that it will maintain in strict confidence, and not disclose to any other person or firm except with the prior written permission of an authorized officer of SERCEL, any and all information received from SERCEL or prepared by Mitcham for SERCEL regarding prices, customer lists, business plans, strategies, forecasts, studies, reports and any other information which may be considered confidential or proprietary by SERCEL and which is not publicly available. The confidentiality obligation of Mitcham under this Section 21 shall survive the expiration or termination of this Agreement. In the event that Mitcham receives a request to disclose all or any part of the confidential information under terms of a subpoena or order issued by a court or by a governmental body, Mitcham agrees (i) to notify SERCEL immediately of the existence, terms, and circumstances surrounding such request, (ii) to consult with SERCEL on the advisability of taking legally available steps to resist or narrow such request, and (iii) if disclosure of such information is required to prevent Mitcham from being held in contempt or subject to other penalty, to furnish only such portion of the information as, in the written opinion of counsel reasonably satisfactory to SERCEL, it is legally compelled to disclose and to exercise its best efforts to obtain an order or other reliable assurance that confidential treatment will be accorded to the disclosed information. The provisions of this

Section are mandatory, Mitcham hereby acknowledges that the provisions of this Agreement may be specifically performed and enforced, and Mitcham consents and agrees that it may be restrained, enjoined or otherwise prevented from divulging any such confidential information if at any time SERCEL reasonably fears that such event may occur.

22. Force Majeure. All transactions under this Agreement and all purchase orders accepted hereunder are subject to modification or cancellation in the event of strikes, labor disputes, lock-outs, accidents, fires, delays in manufacturing or in transportation or delivery of materials, floods severe weather or other acts of God, embargoes, governmental actions, or any other cause beyond the reasonable control of the party concerned, whether similar to or different from the causes above enumerated; and including any special, indirect, incidental, or consequential damages arising from SERCEL'S delay in delivery or failure to deliver as a result of any such cause.

23. Security Interests. Until full payment of the purchase price for a Product, SERCEL hereby retains, and Mitcham hereby grants to SERCEL, a purchase money security interest in that Product sold to Mitcham on account. Mitcham consents to actions by SERCEL that are appropriate to perfect SERCEL'S purchase money security interest and agree to execute such financing statements as are reasonably requested by SERCEL in connection with the foregoing.

24. Termination.

(a) This Agreement may be terminated at any time:

(i) by the mutual agreement of the parties; or

(ii) by either party upon giving a notice of termination to the other party in the event the other party fails to perform, observe or comply with any of the obligations or under-takings of such other party which are contained in this Agreement, and such failure has not been cured within fifteen (15) days after the terminating party has given a written notice specifying such failure to the other party.

(b) In addition, SERCEL shall be entitled to immediately terminate this Agreement effective upon the giving of notice to Mitcham in the event that:

(i) SERCEL has reasonable cause to believe that Mitcham or others acting in association with or on the behalf of Mitcham have committed, or intend to commit, a violation of the FCPA; (ii) Mitcham refuses or is unable to make the certification described in Section 17; (iii) Mitcham ceases doing business as a going concern, makes an assignment for the benefit of creditors, admits in writing its inability to pay its debts as they become due or such fact is determined by judicial proceedings, files a voluntary petition in bankruptcy, is adjusted a bankrupt or an Insolvent entity, files a petition seeking for itself any reorganization, rearrangement, composition, readjustment, liquidation, dissolution, or similar arrangement under any present or future statute, law or regulation, or files an answer admitting the material allegations of a petition filed against it in any such proceedings, consents

to or acquiesces in the appointment of a trustee, receiver, or liquidator of, all or any substantial part of its assets or properties, or if it or the holders of its common stock shall take any action contemplating its dissolution or liquidation. In such event, SERCEL shall have no further liability to Mitcham under this Agreement.

(c) Upon the termination of this Agreement in accordance with the terms hereof, neither party shall have any further liability to the other party under this Agreement except for obligations and liabilities arising or related to events or circumstances prior to the effective date of termination.

(d) Notwithstanding the foregoing, it is expressly acknowledged between the Parties that the modification, amendment or termination of this Agreement by SERCEL in accordance with the terms of this Agreement, or the non renewal of this Agreement, will not entitle Mitcham to claim for any damage, penalty or indemnity whatsoever.

25. Arbitration. All disputes involving this Agreement shall be submitted to an arbitrator appointed by, and operating under, the rules of the Judicial Arbitration and Mediation Service ("JAMS"). The choice of the individual arbitrator shall be upon mutual agreement of SERCEL and Mitcham, and the parties agree to negotiate in good faith in connection with the selection of the individual arbitrator. The written decision of the arbitrator shall be final and binding upon all parties, and shall be convertible to a court judgment in the State of Texas. The arbitration shall take place in the State of Texas. The prevailing party as determined by the arbitrator shall be entitled to receive reasonable costs and reasonable attorney's fees from the non-prevailing party in addition to any other relief granted. No demand for arbitration shall be made after the date when the institution of a legal or equitable proceeding based upon the claim or dispute would be barred by the applicable statute of limitations of the State of Texas. All demands for arbitration shall be made in accordance with Section 16a and shall be deemed made as of the sooner of actual receipt or the date the demand is placed in the United States Mail. Any party shall be entitled to file a lawsuit to specifically enforce the parties' agreement to arbitrate and for the purpose of obtaining injunctive relief to enforce this Agreement.

26. Applicable Law. This Agreement shall be governed by the laws of the United States of America and the State of Texas.

27. Export Control Laws. Any shipments made by SERCEL to Mitcham or third parties shall at all times be subject to the export control laws and regulations of the United States of America, as such laws shall be amended from time to time. Mitcham agrees that it shall not assist in the disposition of U.S. origin SERCEL Products, by way of transshipment, re-export, and diversion or otherwise, except as said laws and regulations may expressly permit.

28. Standard of Business Conduct. Mitcham agrees not to pay any commissions, fees or grant any rebates to any employee or officer of any proposed customer or its Affiliates or favor employees or officers of such proposed customer with gifts or entertainment of significant costs or value or enter into any business arrangements with employees or officers of any such proposed customer, other than as a representative of that proposed customer, without the proposed customer's prior written approval.

29. Waiver. The failure of a party to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of, or estoppel against asserting, the right to require performance in the future. A waiver or estoppel in any one instance shall not constitute a waiver or estoppel with respect to a later breach.

30. Severability. If any of the terms and conditions of this Agreement are held by any court of competent jurisdiction to contravene, or to be invalid under, the laws of any political body having jurisdiction over the subject matter hereof, such contravention or invalidity shall not invalidate the entire Agreement. Instead, this Agreement shall be construed by reforming the particular offending provision or provisions held to be invalid so that it or they are valid and enforceable while remaining as faithful as possible to the or intent of the provision or provisions, the rights and obligations of the parties shall be construed and enforced accordingly, and this Agreement shall remain in full force and effect.

31. Construction. The headings in this Agreement are inserted for convenience and identification only and are not intended to describe, interpret, define, or limit the scope, extent, or intent of this Agreement or any other provision hereof. Whenever the context requires, the gender of all words used in this Agreement shall include masculine, feminine, and neuter, and the number of all words shall include the singular and the plural.

32. Counterpart Execution. This Agreement may be executed in any number of counterparts with the same effect as if all the parties had signed the same document. Any counterparts shall be construed together and shall constitute one and the same instrument.

33. Cumulative Rights. The rights and remedies provided by this Agreement are cumulative, and the use of any right or remedy by any part shall not preclude or waive its right to use any or all other remedies. These rights and remedies are given in addition to any other rights a party may have by law, statute, in equity or otherwise.

34. Reliance. All factual recitals, covenants, agreements, representations and warranties made herein shall be deemed to have been relied on by the parties in entering into this Agreement.

35. No Third Party Beneficiary. Any Agreement herein contained, express or implied, shall be only for the benefit of the undersigned parties and their permitted successors and assigns, and such agreements and assumption shall not inure to the benefit of the obligees of any other party, whomsoever, it being the intention of the undersigned that no one shall be deemed to be a third party beneficiary of this Agreement.

36. Drafting Party. This Agreement expresses the mutual intent of the parties to this Agreement. According, regardless of the preparing party, the rule of construction against the drafting party shall have no appreciation to this Agreement.

37. Time is of the Essence. Time is of the essence with respect to all provisions of this Agreement.

38. Survival. Articles 15, 21, 23, 24, 25, 26 and 38 of the Agreement shall survive expiration or termination of this Agreement for whatever reason.

39. Incorporation of Schedules. All schedules attached to this Agreement are incorporated into this Agreement as fully as if stated within the body of this Agreement.

40. MOST FAVORED LEASING AGENT/SUPPLIER STATUS

(a) Most favored leasing agent status. In consideration of the above understandings and of compliance by MITCHAM of its obligation under Section 4, Sercel shall grant Mitcham the status of the "most favored leasing agent" for Sercel's: Land acquisition systems and products including 408UL, 408ULS, 428XL, Unite, vibrators, vibrator controls, geophone sensors, hydrophone sensors, and all other related 408 and 428 land conventional and multicomponent equipment including the DSU3 products; Marine acquisition systems and products including Seal, SeaRay, G Guns; VSP Tools including SlimWave, GeoWaves, MaxiWave and will provide Mitcham with the best competitive offer taking into account, the current and domestic prevailing market conditions, the quantities, the delivery times, the support services required, and the fact that the relevant equipment is purchased. This offer will include the best available pricing that is at least as favorable as that made available by Sercel to any of its customers.

(b) Most favored supplier status. In consideration of Sercel's commitments under this Agreement, Mitcham shall grant Sercel the status of the "most preferred supplier" for the supply of any conventional or multi-component land acquisition, marine acquisition or transition zone equipment. Such equipment shall include, but is not limited to conventional land acquisition systems, transition zone acquisition systems, geophone sensors, hydrophone sensors, digital sensors, VSP tools, vibrators, vibrator control systems and G Guns. Mitcham shall use its commercially reasonable best efforts to purchase all such equipment from Sercel and not from other suppliers. Should Mitcham seek to purchase comparable equipment from another supplier, it will first provide Sercel with reasonable prior notice. Such notice will specify the equipment required, the quantity required, the delivery period and the country of delivery. Sercel will then be provided the opportunity to provide a proposal for such equipment within fifteen (15) business days. Should Sercel not provide a proposal within the time frame required, or should Mitcham determine that Sercel's proposal is not competitive in terms of price, quality, support services, delivery dates, technical specifications or commercially viable, Mitcham shall be free to purchase such equipment from another supplier.

IN WITNESS WHEREOF, This Agreement has been executed on behalf of the parties by their duly authorized representative as of the date first written above.

SERCEL Inc.

By: /s/ Mark Farine
Mark Farine

MITCHAM INDUSTRIES, INC.

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

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended July 31, 2009 of Mitcham Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer
September 9, 2009

CERTIFICATION

I, Robert P. Capps, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended July 31, 2009 of Mitcham Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert P. Capps

Robert P. Capps

Executive Vice President-Finance and Chief Financial Officer

September 9, 2009

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

In connection with the Quarterly Report of Mitcham Industries, Inc. (the "Company") on Form 10-Q for the quarterly period ended July 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Billy F. Mitcham, Jr., Chief Executive Officer of the Company, and Robert P. Capps, Executive Vice President-Finance and Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Billy F. Mitcham, Jr.

Billy F. Mitcham, Jr.
Chief Executive Officer
September 9, 2009

/s/ Robert P. Capps

Robert P. Capps
Executive Vice President-Finance and Chief Financial Officer
September 9, 2009