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 January 31, 2010

OR

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

For the transition period from ______________ to ______________

Commission File Number 000-52815

CODA OCTOPUS GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	34-200-8348 (I.R.S. Employer Identification Number)
164 West, 25 th Street, 6R, New York (Address of principal executive offices)	10001 (Zip Code)
Registrant's telephone number, including area code:	(212) 924-3442

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ 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 ☒

The number of shares outstanding of issuer's common stock, $0.001 par value as of March 17 2010 is 49,075,244.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
JANUARY 31, 2010 (UNAUDITED) and OCTOBER 31, 2009

	January 31, 2010	October 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 195,661	$ 275,885
Restricted cash, Note 2	966,525	994,081
Short-Term Investments, Note 4	25,500	51,000
Accounts receivable, net of allowance for doubtful accounts	1,739,314	2,033,879
Inventory	2,560,774	2,798,425
Unbilled receivables, Note 3	767,440	690,344
Other current assets, Note 5	212,720	285,691
Prepaid expenses	245,062	247,134
Total current assets	6,712,996	7,376,439
Property and equipment, net, Note 6	220,970	267,964
Deferred financing costs, net Note 13	1,210,638	1,271,170
Goodwill and other intangible assets, net, Note 7	4,189,298	4,221,807
Total assets	$ 12,333,902	$ 13,137,380
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 2,311,029	$ 2,390,039
Accrued expenses and other current liabilities	4,454,068	4,626,164
Warrant liability, Note 10	798,987	-
Deferred revenues, Note 3	333,381	398,482
Deferred payment related to acquisitions	396,971	404,274
Total current liabilities	8,294,436	7,818,959
Loans and notes payable, long term, Note 13	13,612,668	13,233,523
Total liabilities	21,907,104	21,052,482
Defiency in Stockholders' equity:		
Preferred stock, $.001 par value; 5,000,000 shares authorized, 6,287 Series A issued and outstanding, as of January 31, 2010 and October 31, 2009 respectively	6	6
Nil shares Series B issued and outstanding as of January 31, 2010 and October 31, 2009 respectively	-	-
Common stock, $.001 par value; 150,000,000 shares authorized, 49,000,244 shares issued and outstanding as of January 31, 2010 and October 31, 2009 respectively	49,000	49,000
Common Stock subscribed	96,350	96,350
Additional paid-in capital	46,843,356	51,766,495
Accumulated other comprehensive loss	(780,408)	(696,617)
Accumulated deficit	(55,781,506)	(59,130,336)
Total Defiency in stockholders' equity	(9,573,202)	(7,915,102)
Total liabilities and Defiency in stockholders' equity	$ 12,333,902	$ 13,137,380

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

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 and 2009
(UNAUDITED)

	January 31, 2010	January 31, 2009
Net revenue	$ 3,068,210	$ 3,199,106
Cost of revenue	1,305,979	1,442,147
Gross profit	1,762,231	1,756,959
Research and development	477,013	603,681
Selling, general and administrative expenses	1,635,426	2,902,719
Total operating expenses	2,112,439	3,506,400
Operating loss	(350,208)	(1,749,441)
Other income (expenses)	9,983	27,640
Interest expense	(441,582)	(397,424)
Gain on change in fair value of warrant liability	1,554,908	-
Total other income (expense)	1,123,309	(369,784)
Income (Loss) before income taxes	773,101	(2,119,225)
Provision for income taxes	-	-
Net income (loss)	773,101	(2,119,225)
Preferred Stock Dividends:		
Series A	-	(31,149)
Net Income (Loss) Applicable to Common Shares	$ 773,101	$ (2,150,374)
Net Income (Loss) per share, basic and diluted	0.02	(0.04)
Net Loss per share, basic and diluted See Note 1	(0.02)	-
Weighted average shares outstanding	49,000,244	48,902,367
Comprehensive income (loss):		
Net income (loss)	$ 773,101	$ (2,119,225)
Foreign currency translation adjustment	(58,291)	332,900
Unrealized (loss) on investment	(25,500)	(722,500)
Comprehensive income (loss)	$ 689,310	$ (2,508,825)

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

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED JANUARY 31, 2010
(UNAUDITED)

	Preferred Stock Series A		Preferred Stock Series B		Common Stock		Stock	Additional Paid-in	Accumulated Other	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Subscribed	Capital	Comprehensive loss	Deficit	Total
Balance, October 31, 2009	6,287	$ 6	-	$ -	49,000,244	$ 49,000	$ 96,350	$ 51,766,495	$ (696,617)	$ (59,130,336)	$ (7,915,102)
Fair value of options issued as compensation								6,483			6,483
Cumulative effect of warrant liability								(4,929,622)		2,575,729	(2,353,893)
Foreign currency translation adjustment									(58,291)		(58,291)
Unrealized (loss) on marketable securities									(25,500)		(25,500)
Net income										773,101	773,101
Balance, January 31, 2010	6,287	6	-	-	49,000,244	49,000	96,350	46,843,356	(780,408)	(55,781,506)	(9,573,202)

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

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 and 2009
(UNAUDITED)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$ 773,103	$(2,119,225)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	123,376	161,586
Stock based compensation	6,483	196,485
Change in fair value of warrant liability	(1,554,908)	-
Financing costs	383,562	383,571
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	216,390	520,222
Inventory	237,651	(281,987)
Prepaid expenses	2,070	21,586
Other receivables	33,948	(251,692)
Accounts payable and accrued expenses	(211,033)	(446,350)
Due to related parties	-	(40,283)
Net cash provided by/(used in) operating activities	10,642	(1,856,087)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	-	(36,587)
Purchases of intangible assets	(7,690)	-
Cash subject to restriction	(27,556)	1,017,007
Acquisitions	-	(208,495)
Cash acquired in acquisitions	-	877
Net cash used by investing activities	(35,246)	772,802
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayment of) loans	-	38,026
Preferred stock dividend	-	(47,354)
Net cash provided by financing activities	-	(9,328)
Effect of exchange rate changes on cash	(55,620)	(384,059)
Net (decrease) in cash	(80,224)	(1,476,672)
Cash and cash equivalents, beginning of period	275,885	3,896,149
Cash and cash equivalents, end of period	$ 195,661	$ 2,419,477
Cash paid for:		
Interest	$ 58,020	$ 13,853
Income taxes	-	-
Supplemental Disclosures:		
During the three months ended January 31, 2009, 146,580 shares of common stock were issued, 43,694 of which were subscribed for in the year ended October 31, 2008, and the other 102,886 shares were issued as payment of $18,520 compensation.	$ -	$ 18,520.00
Acquisition of Dragon:		
Current assets acquired	-	147,039
Cash acquired	-	877
Equipment acquired	-	51,336
Goodwill and other intangible assets	-	342,013
Liabilities assumed	-	(201,166)
Deferred payments	-	(250,782)
Cash Paid for Acquisition	-	89,317

Acquisition of Tactical:		
Current assets acquired	-	-
Cash acquired	-	-
Equipment acquired	-	5,000
Goodwill and other intangible assets	-	252,400
Options issued	-	(7400)
Deferred note payable	-	(125,000)
Cash Paid for Acquisition	-	125,000

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

CODA OCTOPUS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

General

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with instructions to SEC form 10Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three month period ended January 31,2010, are not necessarily indicative of the results that may be expected for the year ended October 31, 2010. The unaudited condensed financial statements should be read in conjunction with the consolidated October 31, 2009 financial statements and footnotes thereto included in the Company's 10K filed on January 29, 2010 with the Securities Exchange Commission (SEC) as amended.

Business and Basis of Presentation

Coda Octopus Group, Inc. (*"we* " *, "us",* " *our company* " or *"Coda"*), a corporation formed under the laws of the State of Florida in 1992 (since re-domiciled to Delaware in 2004), is a developer of underwater technologies and equipment for imaging, mapping, defense and survey applications. We are based in New York, with research and development, sales and manufacturing facilities located in the Utah, the United Kingdom and Norway, and additional sales locations in Florida and Washington, D.C.

The unaudited condensed consolidated financial statements include the accounts of Coda and our domestic and foreign subsidiaries that are more than 50% owned and controlled. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that we may undertake in the future, actual results may differ from those estimates.

Revenue Recognition

We record revenue in accordance with FASB ASC Topic 605 - Revenue Recognition . Our revenue is derived from sales of underwater technologies and equipment for imaging, mapping, defense and survey applications, as well as from the performance of various engineering and manufacturing contracts. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the contract price is fixed or determinable, and collectability is reasonably assured. No right of return privileges are granted to customers after shipment.

For arrangements with multiple deliverables, we recognize product revenue by allocating the revenue to each deliverable based on the fair value of each deliverable in accordance with ASC 605, and recognize revenue for equipment upon delivery and for installation and other services as performed.
Our contracts sometimes require customer payments in advance of revenue recognition. These deposit amounts are reflected as liabilities and recognized as revenue when the Company has fulfilled its obligations under the respective contracts.

Revenues derived from our software license sales are recognized in accordance with FASB ASC Topic 985 - Software. For software license sales for which any services rendered are not considered essential to the functionality of the software, we recognize revenue upon delivery of the software, provided (1) there is evidence of an arrangement, (2) collection of our fee is considered probable and (3) the fee is fixed and determinable.

Foreign Currency Translation

Coda translates the foreign currency financial statements of its foreign subsidiaries in accordance with the requirements of ASC 830 - Foreign Currency Matters. Assets and liabilities are translated at exchange rates existing at the balance sheet dates, related revenue and expenses are translated at average exchange rates in effect during the period and stockholders’ equity, fixed assets and long-term investments are recorded at historical exchange rates. Resulting translation adjustments are recorded as a separate component in stockholders' equity as part of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in the statement of income.

Income Taxes

Deferred income taxes are provided using the asset and liability method for financial reporting purposes in accordance with the provisions of ASC 740 - Income Taxes. Under this method, deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, and for operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be removed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

Cash and Cash Equivalents

Cash equivalents are comprised of highly liquid investments with maturity of three months or less when purchased. We maintain our cash in bank deposit accounts, which at times, may exceed insured limits. We have not experienced any losses in such accounts.

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject us to concentrations of credit risk, consist primarily of cash and cash equivalents and accounts receivable. We place our cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of applicable government mandated insurance limits.

Accounts Receivable

We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was $66,256 for the period ended January 31, 2010 and $255,789 for the year ended October 31, 2009.

Fair Value of Financial Instruments

FASB ASC 825-10-50 - Financial Investments, requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts receivable, other receivables, accounts payable and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments. Our long-term debt has interest rates that approximate market and therefore the carrying amounts approximate their fair values.

FASB ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance. FASB ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASN ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Items recorded or measured at fair value on a recurring basis in the accompanying financial statements consisted of the following items as of January 31, 2010:

	Total	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Restricted Cash	$ 966,525	$ 966,525		
Short term Investment	$ 25,500	$ 25,500		
Total	$ 992,025	$ 992,025	-	-
Liabilities:				
Warrant liability	798,987	-	798,987	-
Notes Payable	$ 13,612,668	$ -	13,612,668	-
Total	$ 14,411,655	$ -	14,411,655	-

With the exception of assets and liabilities included within the scope of FASB ASC 820-10-55, the Company adopted the provisions of FASB ASC 820 prospectively effective as of the beginning of the year ended October 31, 2008. For financial assets and liabilities included within the scope of FASB ASC 820-10-55, the Company will be required to adopt the provisions of FASB ASC 820 prospectively as of the year beginning November 1, 2009. The adoption of FASB ASC 820 did not have a material impact on our financial position or results of operations, and the Company do not believe that the adoption of FASB ASC 820-10-55 will have a material impact on our financial position or results of operations.

The fair value of restricted cash and short term investments at January 31, 2010 was grouped as Level 1 valuation as the market price was readily available.

Loans and notes payables are recorded at their face amounts which approximates fair value.

Debt and Equity Securities

The Company follows the provisions of FASB ASC Topic 320, Accounting for Certain Investments in Debt and Equity Securities (ASC 320). The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. These security classifications may be modified after acquisition only under certain specified conditions. Securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are merely disclosed in the notes to the consolidated financial statements.

Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.

Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

Inventory

Inventory is stated at the lower of cost or market using the first-in first-out method. Inventory is comprised of the following components at January 31, 2010 and October 31, 2009:

	2010	2009
Raw materials	$ 1,213,400	$ 1,384,043
Work in process	11,860	48,389
Finished goods	1,335,514	1,365,993
Total inventory	$ 2,560,774	$ 2,798,425

Property and Equipment

We record our equipment at historical cost. We expense maintenance and repairs as incurred. Depreciation is provided for by the straight-line method over three to four years, the estimated useful lives of the property and equipment.

Long-Lived Assets

FASB ASC Topic 360 Property, Plant and Equipment (ASC 360), which established a "primary asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. No impairment loss was recognized during the period ended January 31, 2010 or the year ended October 31, 2009.

Research and Development

Research and development costs consist of expenditures for the present and future patents and technology, which cannot be capitalized. We are eligible for United Kingdom tax credits related to our qualified research and development expenditures. Tax credits are classified as a reduction of research and development expense. We recorded tax credits of nil during the period ended January 31, 2010 and $358,346 during the year ended October 31, 2009.

Marketing

We charge the costs of marketing to expense as incurred. For the period ended January 31, 2010 marketing costs were $33,084 and $522,576 for the year ended October 31, 2009.

Goodwill and other Intangible Assets

The Company accounts for goodwill and other intangibles assets in accordance with FASB ASC 350. ASC 350 requires that goodwill and identifiable intangible assets to be tested for impairment at least annually or more often if events and circumstances warrant.

Intangible assets consist principally of the excess of cost over the fair value of net assets acquired (or goodwill), customer relationships, non-compete agreements and licenses. Goodwill was allocated to our reporting units based on the original purchase price allocation. Goodwill is not amortized and is evaluated for impairment annually or more often if circumstances indicate impairment may exist. Customer relationships, non-compete agreements, patents and licenses are being amortized on a straight-line basis over periods of 2 to 10 years. The Company amortizes its amortizable intangible assets using the straight-line method over their estimated period of benefit.

We test for impairment at the reporting unit level as defined in FASB ASC Topic 350 - Intangibles - Goodwill and Other (ASC 350). This test is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value, which is based on future cash flows, exceeds the carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the fair value, the second step must be performed to measure the amount of the impairment loss, if any. The second step compares the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. In the fourth quarter of each year, we evaluate goodwill on a separate reporting unit basis to assess recoverability, and impairments, if any, are recognized in earnings. An impairment loss would be recognized in an amount equal to the excess of the carrying amount of the goodwill over the implied fair value of the goodwill. ASC 350 also requires that intangible assets with determinable useful lives be amortized over their respective estimated useful lives.

Stock Based Compensation

Effective January 1, 2006, the Company adopted FASB ASC Topic 718 - Compensation - Stock Compensation, (ASC 718) which requires the recognition of the expense related to the fair value of stock-based compensation awards within the statement of income. The Company elected the modified prospective transition method as permitted by (ASC 718). Under this transition method, stock-based compensation expense for the years ended October 31, 2009 and 2008 includes compensation expense for unvested stock-based compensation awards that were outstanding as of January 1, 2006, respectively, for which the requisite service was rendered during the year. The stock-based compensation costs for these awards granted prior to January 1, 2006 were based on the grant date fair value estimated in accordance with the original provisions of ASC 718. Compensation expense for all stock-based compensation awards granted subsequent to January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of ASC 718 recorded over the requisite service period.

We use the fair value method for equity instruments granted to non-employees and use the Black Scholes model for measuring the fair value. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the periods in which the related services are rendered.

Comprehensive Income

FASB ASC Topic 220 - Comprehensive Income, (ASC 220) establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income includes gains and losses on foreign currency translation adjustments and is included as a component of stockholders' equity.

Deferred Financing Costs

Deferred financing costs primarily include debt issuance costs incurred by the Company in connection with the issuance of convertible debt in February 2008 (see Note 13). Amortization is provided on a straight-line basis over the terms of the respective debt instruments to which the costs relate and is included in interest expense. Deferred financing cost expense was $60,532 and $ 242,128 in the period ended January 31,2010 and the year ended October 31, 2009, respectively.

Loss Per Share

Net income (loss) per share

Dilutive common stock equivalents consist of shares issuable upon conversion of warrants and the exercise of the Company's stock options and warrants. In accordance with ASC 260-45-20, common stock equivalents derived from shares issuable in conversion of the warrants are not considered in the calculation of the weighted average number of common shares outstanding because the adjustments in computing income available to common stockholders would result in a loss. Accordingly, the diluted EPS would be computed in the same manner as basic earnings per share.

The following reconciliation of net income and share amounts used in the computation of loss per share for the three months ended January 31, 2010

	Three Months Ended January 31, 2010
Net income used in computing basic net income per share	$ 773,101
Impact of assumed assumptions:	
Gain on warrant liability marked to fair value	(1,554,908)
Net loss in computing diluted net loss per share:	$ (781,807)

Per share basic and diluted net income amounted to $0.02 for the period ended January 31, 2010. Per share basic and diluted net loss amounted to $0.04 for the period ended January 31, 2009. For the periods ended January 31, 2010 and 2009, 50,999,796 and 46,203,559 potential shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued guidance now codified under Accounting Standards Codification ("ASC") Topic 105-10, which establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with GAAP. ASC Topic 105-10 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission ("SEC") under federal securities laws as authoritative GAAP for SEC registrants. Upon adoption of this guidance under ASC Topic 105-10, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. The guidance under ASC Topic 105-10 became effective for the Company as of September 30, 2009. References made to authoritative FASB guidance throughout this document have been updated to the applicable Codification section.

In February 2007, the FASB issued FASB ASC Topic 825, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of ASC 320" (ASC 825) which permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of (ASC 825) apply only to entities that elect the fair value option. However, the amendment to ASC 320 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. ASC 825 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of ASC 820, "Fair Value Measurements". The adoption of ASC 825 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued FASB ASC Topic 805, “Business Combinations” (ASC 805), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. ASC 805 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited.The adoption of ASC 805 did not have a material impact on the Company’s consolidated financial position, results of operations or cash flow.

In December 2007, the FASB FASB ASC Topic 810, “Noncontrolling Interest in Consolidated Financial Statements, an amendment of ASC 810-12-15” (ASC 810), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. ASC 810 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any that the adoption will have on its consolidated financial position, results of operations or cash flows.

In June 2007, the FASB issued FASB ASC Topic 730-20, “Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities” ASC 730-20, which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development (R&D) activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. ASC 730-20 will be effective for fiscal years beginning after December 15, 2007. The Company does not expect that the adoption of ASC 730-20 will have a material impact on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued FASB ASC Topic 808-10-15, “Accounting for Collaborative Arrangements” (ASC 808-10-15) which defines collaborative arrangements and requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) the other collaborators based on other applicable authoritative accounting literature, and in the absence of other applicable authoritative literature, on a reasonable, rational and consistent accounting policy is to be elected. ASC 808-10-15 also provides for disclosures regarding the nature and purpose of the arrangement, the entity’s rights and obligations, the accounting policy for the arrangement and the income statement classification and amounts arising from the agreement. ASC 808-10-15 will be effective for fiscal years beginning after December 15, 2008, which will be the Company’s fiscal year 2009, and will be applied as a change in accounting principle retrospectively for all collaborative arrangements existing as of the effective date. The Company has not yet evaluated the potential impact of adopting ASC 808-10-15 on its consolidated financial position, results of operations or cash flows.

In March 2008, the FASB” issued FASB ASC Topic 815-10-65, “Disclosures about Derivative Instruments and Hedging Activities – an amendment to 815-10-05 (ASC 815-10-65) which is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under 815-10-05 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged.

In 2008, the FASB issued FASB ASC 815-40 (Previously known as: EITF 07-05, Determining whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock). FASB ASC 815-40 provides guidance on determining what types of instruments or embedded features in an instrument held by a reporting entity can be considered indexed to its own stock for the purpose of evaluating the first criteria of the scope exception in FASB ASC 810-10-15 (Prior authoritative literature: paragraph 11(a) of SFAS 133).

In May 2008, the FASB FASB ASC Topic 470-20-15, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (ASC 470-20-15) which requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer’s non-convertible debt borrowing rate. ASC 470-20-15 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The Company is currently evaluating the potential impact, if any, of the adoption of ASC 470-20-15 on its consolidated financial position, results of operations or cash flows.

In June 2008, the FASB issued FASB ASC Topic 260-10-45, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” FASB ASC Topic 260-10-45, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company does not expect the adoption of ASC 260-10-45 to have a material effect on its consolidated financial position, results of operations or cash flows.

In May 2009, the FASB issued FASB ASC 855-10 (Previously known as: SFAS No. 165, “Subsequent Events”) FASB ASC 855-10 establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are available to be issued (“subsequent events”). More specifically, FASB ASC 855-10 sets forth 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 in the financial statements, identifies 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 should be made about events or transactions that occur after the balance sheet date. FASB ASC 855-10 provides largely the same guidance on subsequent events which previously existed only in auditing literature. The guidance under ASC Topic 855-10 became effective for the Company as of June 30, 2009.

Liquidity

As of January 31, 2010, we have cash and cash equivalents of $ 195,661 and restricted cash of 966,525, a working capital deficit of $1,581,440 and a deficiency in stockholders' equity of $9,573,202. For the period ended January 31, 2010, we had net income of $773,101 and positive cash flow from operations of $10,642. We also have an accumulated deficit of $55,781,506 at January 31, 2010.

NOTE 2 – RESTRICTED CASH

Under terms of the Company’s secured convertible debenture dated February 26, 2008, we maintained a $1,000,000 interest-bearing deposit in a restricted bank account until such time as advances under an accounts receivable factoring agreement were repaid in full and the agreement and related liens were terminated. As of October 31, 2008, the Company had $1,017,007 in the restricted cash account, which was released to the Company in December 2008 after the factoring agreement was terminated and settled in full in October 2008 and the debenture holders perfected their security in December 2008.

On March 16, 2009, the Company and the holder of the secured convertible debenture (“The Noteholder”) entered into a Cash Control Framework Agreement, pursuant to which it is assumed that, subject to the Company being fully compliant with the terms of this agreement and those set out in the Transaction Documents entered into between the Company and the Noteholder on February 21, 2008, no adverse actions will be taken by the Noteholder. The agreement provides, among other things, for the placement of approximately $2.15 million into a segregated cash account. Under the terms of the agreement, we may request the release of funds from the account from time to time for working capital purposes, subject to the Noteholder’s consent and agreed upon terms and conditions. Under the terms of the agreement, we must also adhere to a strict cost cutting program which involves reducing our SG&A, R&D and capital expenditure by an annualized $3.35 million. This agreement was extended for a further period of one year, expiring on March 16, 2011. We have also received a waiver letter from the Noteholder dated January 18, 2010, under which it has waived its right to demand repayment of the loan as a result of the failure to observe certain specified loan covenants. The waiver will expire on the first anniversary of the waiver letter. We believe that the terms of this agreement may provide us with sufficient liquidity to operate for fiscal 2010.

At January 31, 2010 we have received net advances from this facility of $1,183,475.

NOTE 3 - CONTRACTS IN PROGRESS

Costs and estimated earnings in excess of billings on uncompleted contracts represent accumulated project expenses and fees which have not been invoiced to customers as of the date of the balance sheet. These amounts are stated on the balance sheet as Unbilled Receivables of $767,440 and $690,344 as of January 31, 2010 and October 31, 2009 respectively.

Billings in excess of cost and estimated earnings on uncompleted contracts represent project invoices billed to customers that have not been earned as of the date of the balance sheet. These amounts are stated on the balance sheet as Deferred Revenue of $32,349 and $111,463 as of January 31, 2010 and October 31, 2009 respectively.

Revenue received as part of sales of equipment includes a provision for warranty and is treated as deferred revenue, along with extended warranty sales, with these amounts amortized over 12 months from the date of sale. These amounts are stated on the balance sheet as Deferred Revenue of $301,032 and $287,018 as of January 31, 2009 and October 31, 2009 respectively.

NOTE 4 - INVESTMENTS

FASB ASC Topic 820 - Fair Value Measurements and Disclosures ("ASC 820") defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Items recorded or measured at fair value on a recurring basis in the accompanying financial statements consisted of the following items as of January 31, 2010:

	Total	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Restricted Cash	$ 966,525	$ 966,525	$ -	$ -
Short term Investment	$ 25,500	$ 25,500	$ -	$ -
Total	$ 992,025	$ 992,025	$ -	-
Liabilities:				
Warrant liability	798,897	-	798,897	-
Loans and Notes Payable	$ 13,612,668	$ -	$ 13,612,668	$ -
Totals	$ 14,411,655	$ -	$ 14,411,655	$ -

With the exception of assets and liabilities included within the scope of ASC 820-10-15, the Company adopted the provisions of ASC 820 prospectively effective as of the beginning of the year ended October 31, 2008. For financial assets and liabilities included within the scope of ASC 820-10-15, the Company will be required to adopt the provisions of ASC 820 prospectively as of the year beginning October 31, 2009. The adoption of ASC 820 did not have a material impact on our financial position or results of operations, and the Company do not believe that the adoption of ASC 820-10-15 will have a material impact on our financial position or results of operations.

The fair value of the restricted cash and short term investments, at January 31, 2010 was grouped as Level 1 valuation as the market price was readily available, compared to a fair value of $51,000 for short term investments at October 31, 2009.

Loans and notes payable are recorded at their face amounts which approximates fair value.

During the year ended October 31, 2007, the Company received marketable securities in settlement of $533,147 loan and $316,853 of accounts receivable. As of October 31, 2008, the Company had an investment of $153,000 that was considered available-for-sale for financial reporting purposes which included an unrealized loss of $697,000 included in the determination of comprehensive loss. As of April 30, 2009, this investment had a value of $68,000, with an unrealized loss of $782,000. This unrealized loss had, until now been included in the determination of comprehensive loss, but during the year ended October 31, 2009 , we have determined that this investment in marketable securities is impaired because we believe that the fair market value of the investment has permanently declined. Accordingly, we have written off the $782,000 during the year ended October 31,2009. The remaining fair value of this investment is $25,500 as of January 31, 2010.

NOTE 5 - OTHER CURRENT ASSETS

Other current assets on the balance sheet total $212,720 and $285,690 at January 31,2010 and October 31, 2009 respectively. These totals comprise the following:

	2010	2009
Deposits	$ 103,755	$ 96,277
Value added tax (VAT)	75,337	113,636
Other receivable	33,628	75,778
Total	$ 212,720	$ 285,690

NOTE 6 - FIXED ASSETS

Property and equipment at January 31,2010 and October 31, 2009 is summarized as follows:

	2010	2009
Machinery and equipment	$ 928,326	$ 1,001,385
Accumulated depreciation	(707,356)	(733,420)
Net property and equipment assets	$ 220,970	$ 267,964

Depreciation expense recorded in the statement of operations for the period ended January 31, 2010 and year ended October 31, 2009 is $30,076 and $238,632, respectively.

NOTE 7 - INTANGIBLE ASSETS AND GOODWILL

The Company accounts for intangible assets and goodwill in accordance with ASC 350. Goodwill and Other Intangible Assets, are evaluated on an annual basis, and when there is reason to believe that their values have been diminished or impaired write-downs will be included in results from operations.

The identifiable intangible assets acquired and their carrying value at January 31, 2010 and October 31, 2009 is:

	2010	2009
Customer relationships (weighted average life of 10 years)	$ 784,243	$ 784,243
Non-compete agreements (weighted average life of 3 years)	278,651	278,651
Patents (weighted average life of 10 years)	73,805	67,837
Licenses (weighted average life of 2 years)	100,000	100,000
Total amortized identifiable intangible assets - gross carrying value	1,236,699	1,230,731
Less accumulated amortization	(571,939)	(533,462)
Net	**664,760**	**697,269**
Residual value	**$ 664,760**	**$ 697,269**

Our acquisition of Dragon Design Ltd (“Dragon”) in December 2008 resulted in the valuation of Dragon’s customer relationships and covenants not to compete as intangible assets (see Note 14), which have an estimated useful life of 3 years each, and as such are being amortized on a straight-line basis over that period. In addition, we recognized goodwill of $282,533 that represents the excess of the purchase price we paid over the fair value of Dragon’s net tangible and intangible assets we acquired.

Our acquisition of the assets of Tactical Intelligence, LLC (“Tactical”) In November 2008 resulted in the valuation of Tactical’s customer relationships and covenants not to compete as intangible assets (see Note 14), which have an estimated useful life of 3 years each, and as such are being amortized monthly over that period. In addition, we recognized goodwill of $142,500 that represents the excess of the purchase price we paid over the fair value of Tactical’s net tangible and intangible assets acquired.

Estimated annual amortization expense as of January 31, 2010 is as follows:

2010	$ 99,703
2011	151,364
2012	77,685
2013 and thereafter	336,008
Total	**$ 664,760**

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to $ 38,477 and $231,321 for the period ended January 31, 2010 and year ended October 31, 2009, respectively. Goodwill is not being amortized.

As a result of the acquisitions of Martech, Colmek, Dragon and Tactical, the Company has goodwill in the amount of $ 3,524,538 as of January 31, 2010.The carrying amount of goodwill for the period ended January 31, 2010 and October 31, 2009 is recorded below.

	2010	2009
Beginning goodwill balance at November 1:		
CodaOctopus Colmek, Inc.	$ 2,038,699	$ 2,038,699
CodaOctopus Martech Ltd	998,591	998,591
CodaOctopus Products Ltd	62,315	62,315
Goodwill recorded upon acquisition:		
CodaOctopus Tactical Intelligence, Inc.	142,400	142,430
Dragon Design Ltd	282,533	282,533
Balance at January 31, 2010 and October 31, 2009	**$ 3,524,538**	$ 3,524,538

Considerable management judgment is necessary to estimate fair value. We enlist the assistance of an independent valuation consultant to determine the values of our intangible assets and goodwill, both at the dates of acquisition and at specific dates annually. Based on various market factors and projections used by management, actual results could vary significantly from managements' estimates.

NOTE 8 - CAPITAL STOCK

The Company is authorized to issue 150,000,000 shares of common stock with a par value of $.001 per share. As of January 31, 2010 and October 31, 2009, the Company has issued and outstanding 49,000,244 shares and 49,000,244 shares of common stock respectively. The Company is also authorized to issue 5,000,000 shares of preferred stock with a par value of $.001 per share. We have designated 50,000 preferred shares as Series A preferred stock and have designated 50,000 preferred shares as Series B preferred stock. The remaining 4,900,000 shares of preferred stock is undesignated. There were 6,287 Series A preferred shares outstanding at January 31, 2010 and October 31, 2009 respectively, and nil Series B preferred shares outstanding at the same dates.

Series A Preferred Stock

We designated 50,000 shares of our preferred stock, par value $.001, as Series A Preferred Stock. The Series A Preferred Stock ranks senior to all classes of common and preferred stock and has no liquidation preference above par. The Series A Preferred Stock is sold as units of $100 (or £100 where stock has been sold to investors in British Pounds) and has a dividend rate of 12% per year, ie. $12 per $100 unit, paid every six months, in May and November each year. The Series A Preferred Stock and accrued dividends is convertible at the option of the holder into shares of our common stock at a conversion price of $1.00 per share, and at the option of the Company when the stock price reaches or exceeds $3.00.

During the year ended October 31, 2008, we issued 200 shares of Series A Preferred Stock, which were subscribed for in March 2007 and converted 320 shares of Series A Preferred Stock into 32,000 shares of common stock. The original transaction was concluded in GBP at a price of £32,000. The fixed exchange rate at which the Preferred Stock was issued is $1.77 to GPB 1.00. This is equivalent to 320 Series A Preferred Stock (GBP 100 each). 320 units of Series A Preferred Stock were issued in exchange for consultancy services provided by a consultant to the Company. The total of Series A preferred stock outstanding is 6,287 shares at October 31, 2009, convertible into 1,013,670 shares of common stock.

Series B Preferred Stock

We designated 50,000 shares of our preferred stock, par value $.001, as Series B Preferred Stock. The Series B Preferred Stock ranks junior to our issued and outstanding Series A preferred Stock and senior to all classes of common stock. The Series B Preferred Stock has a dividend rate of 8% per year. The Series B Preferred Stock and accrued dividends are convertible at the option of the holder into shares of our common stock at a conversion price of $1.00 per share. As of October 31, 2009 and October 31, 2008 respectively, we have no shares of Series B Preferred Stock outstanding.

Common Stock

During the period ending January 31, 2010, we did not issue any common stock.

During the year ending October 31, 2009 we issued 146,580 shares of common stock, valued at $30,310, to employees, directors and consultants for services, of which $11,790 was subscribed for during the year ending October 31, 2008, leaving a charge for compensation in the period ending October 31, 2009 of $18,520.

Other Equity Transactions

During the period ending January 31, 2010, we did not issue any common share purchase options. However, options issued in earlier periods vested resulting in a charge of $6,483 in this period.

During the year ended October 31, 2009, we issued 50,000 common share purchase options in relation to the Tactical acquisition. However, options issued in earlier periods vested, resulting in a charge of $295,853 in this period. There were also 210,000 options cancelled connected with staff departures, of which 95,000 were exercisable.

NOTE 9 - WARRANTS AND STOCK OPTIONS

Transactions involving stock options and warrants issued are summarized as follows:

Warrants	Three months ended January 31, 2010		Year ended October 31, 2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	32,583,418	$ 1.42	32,583,418	$ 1.42
Granted during the period	-	-	-	-
Terminated during the period	-	-	-	-
Outstanding at the end of the period	32,583,418	$ 1.42	32,583,418	$ 1.42
Exercisable at the end of the period	32,583,418	$ 1.42	32,583,418	$ 1.42

The number and weighted average exercise prices of warrants outstanding as of January 31, 2010 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
0.50	750,000	1.24	750,000
0.58	400,000	1.16	400,000
1.00	2,750,000	2.10	2,750,000
1.30	14,341,709	1.92	14,341,709
1.50	-	-	-
1.70	14,341,709	1.92	14,341,709
1.80	-	-	-
Totals	32,583,418	1.97	32,583,418

Stock Options	Three months ended January 31, 2010		Year ended October 31, 2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	5,595,900	$ 1.18	5,755,900	$ 1.18
Granted during the period	-	-	50,000	1.30
Terminated during the period	(1,170,000)	1.29	(210,000)	1.32
Outstanding at the end of the period	4,425,900	$ 1.15	5,595,900	$ 1.18
Exercisable at the end of the period	4,174,499	$ 1.14	5,214,149	$ 1.17

The number and weighted average exercise prices of stock purchase options outstanding as of January 31, 2010 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
0.50	-	-	-
0.58	-	-	-
1.00	2,650,900	0.57	2,650,900
1.30	1,325,000	3.00	1,073,600
1.50	190,000	2.09	190,000
1.70	260,000	2.41	260,000
1.80	-	-	-
Totals	4,425,900	1.47	4,174,499

NOTE 10 – DERIVATIVE LIABILITY

In June 2008, the FASB issued new accounting guidance which requires entities to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock by assessing the instrument's contingent exercise provisions and settlement provisions. Instruments not indexed to their own stock fail to meet the scope exception of ASC 815 and should be classified as a liability and marked-to-market. The statement is effective for fiscal years beginning after December 15, 2008 and is to be applied to outstanding instruments upon adoption with the cumulative effect of the change in accounting principle recognized as an adjustment to the opening balance of retained earnings. The Company has assessed its outstanding equity-linked financial instruments and has concluded that, effective November 1, 2009, the value our warrants will need to be recorded as a derivative liability due to the fact that the conversion price is subject to adjustment based on subsequent sales of securities. The cumulative effect of the change in accounting principle on November 1, 2009 includes an increase in our derivative liability related to the fair value of the conversion feature of $2,353,893. Fair value at November 1, 2009 was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 1.06%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 302.22%; (4) an average expected life of the warrants of 2.22 years and (5) estimated fair value of common stock of $0.08 per share.

At January 31, 2010 we recalculated the fair value of the conversion feature subject to derivative accounting and have determined that the fair value at January 31, 2010 is $798,897. The fair value of the conversion features was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.74%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 304%; (4) an average expected life of the conversion feature of 1.97 years and (5) estimated fair value of common stock of $0.03 per share.

We have recorded a credit of $1,554,908 during the three months ended January 31, 2010 related to the change in fair value during the quarter.

NOTE 11 - INCOME TAXES

The Company has adopted FASB ASC Topic 740 Income Taxes which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

For income tax reporting purposes, the Company's aggregate U.S. unused net operating losses approximate $45,400,000 which expire through 2029, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carry forward is approximately $15,436,000. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, because in the opinion of management based upon the earning history of the Company, it is more likely than not that the benefits will not be realized.

For income tax reporting purposes, the Company's aggregate UK unused net operating losses approximate $4,368,141, with no expiration. The deferred tax asset related to the carry-forward is approximately $2,670,000. The Company has provided a valuation reserve against the full amount of the benefits, because in the opinion of management based upon the earning history of the Company, it is more likely than not that the benefits will not be realized.

Income tax expense for 2009 and 2010 represents income taxes on our Norwegian subsidiary.

Components of deferred tax assets as of January 31,2010 and October 31, 2009 are as follows:

Non-Current	2010	2009
Net Operating Loss Carry Forward	$ 18,106,000	$ 17,736,000
Valuation Allowance	(18,106,000)	(17,736,000)
Net Deferred Tax Asset	$ -	$ -

NOTE 12 - CONTINGENCIES AND COMMITMENTS

Litigation

We are currently engaged in two lawsuits.

The first one involves the former Chief Executive Officer of our subsidiary, Coda Octopus Colmek, Inc. (Scott DeBo v Miller & Hilton, Inc. d/b/a Colmek Systems Engineering and Coda Octopus Group, Inc. File No. 080923661). Mr DeBo claims breach of his employment contract, tortuous interference with his contract, termination in violation of public policy and failure to pay wages when due. He filed a complaint and an amended complaint on November 10, 2008 and December 10, 2008, respectively. We answered the amended complaint denying Mr. DeBo's allegations, raising affirmative defenses on December 22, 2008 and intend to defend ourselves vigorously. The Parties have now completed the discovery process and we expect the hearing to be scheduled for the second quarter of this financial year.

The second one involves Federal Engineering & Marketing Associates Inc (FEMA) a Colorado corporation. FEMA is a former sales representative of Coda Octopus Colmek, FEMA claims breach of contract and seeks various relief in the District Court, Routt County, Colorado (Case Number 2009CV278). We have answered the complaint which included a counter-claim. We intend to defend ourselves vigorously in these proceedings.

Operating Leases

We occupy our various office and warehouse facilities pursuant to both term and month-to-month leases. Our term leases expire at various times through September 2015. Future minimum lease obligations are approximately $1,219,963, with the minimum future rentals due under these leases as of Jannuary 31,2010 as follows:

	$
2010	277,705
2011	370,234
2012	231,339
2013 and thereafter	340,685
Total	$ 1,219,963

Concentrations

We had no concentrations of purchases of over 5% during the period ended January 31, 2010. We had sales concentrations of over 5% during the period ended January 31, 2010 due to sales to total four separate customers for $1,178,835.

NOTE 13 - NOTES AND LOANS PAYABLE

A summary of notes payable at January 31,2010 and October 31, 2009 is as follows:

	January 31, 2010	October 31, 2009
The Company has a secured convertible debenture for $12M with a life of 7 years from February 26, 2008, maturing at 130% of face value, and with interest payable every six months, starting in February 2009, at a rate of 8.5%; During the term, the debentures are convertible into our common stock at the option of the Noteholders at a conversion price of $1.05. We may also force the conversion of these Notes into our common stock after two years in the event that we obtain a listing on a national exchange and our stock price closes on 40 consecutive trading days at or above $2.50 between the second and third anniversaries of this agreement; $2.90 between the third and fourth anniversaries of this agreement; and $3.50 after the fourth anniversary of this agreement or where the daily volume weighted average price of our stock as quoted on OTCBB or any other US National Exchange on which our securities are then listed has, for at least 40 consecutive trading days closed at the agreed price. The Company has failed to comply with certain covenants contained in the debenture agreement.	$ 13,451,500	$ 13,067,929
The Company, through its UK subsidiary Coda Octopus Products Ltd has a 7 year unsecured loan note for £100,000; interest rate of 12% annually; repayable at borrower's instigation or convertible into common stock when the share price reaches $3.	161,168	165,594
The Company through its US subsidiary Coda Octopus Colmek, Inc., has an unsecured loan note payable to a director and former officer of the Company, which is being repaid in the short term.	-	-
Total	$ 13,612,668	$ 13,233,523
Less: current portion		-
Total long-term portion	$ 13,612,668	$ 13,233,523

In connection with the secured convertible debenture noted above and the Cash Control Framework Agreement (see below), we carry $1,210,638 deferred financing costs as an asset on the consolidated balance sheet at January 31, 2010, which represents $1,694,893 in financing closing costs we incurred, net of $ 484,255 in amortization expense at January 31, 2010 and $423,723 in amortization expense at October 31, 2009. We amortize deferred financing costs over the life of the financing facility using the straight line method.

On March 16, 2009, the Company and the holder of the secured convertible debenture ("the Noteholder") entered into a Cash Control Framework Agreement, pursuant to which it is assumed that, subject to the Company being fully compliant with the terms of this agreement and those set out in the Transaction Documents entered into between the Company and the Noteholder on February 21, 2008, no adverse actions will be taken by the Noteholder. The agreement provides, among other things, for the placement of approximately $2.15 million into a segregated cash account. Under the terms of the agreement, we may request the release of funds from the account from time to time for working capital purposes, subject to the Noteholder's consent and agreed upon terms and conditions. Under the terms of the agreement, we must also adhere to a strict cost cutting program which involves reducing our SG&A, R&D and capital expenditure by an annualized $3.35 million. We believe that the terms of this agreement may provide us with sufficient liquidity to operate for fiscal 2010.

On January 18, 2010, the noteholder notified us in writing that it had waived its right to demand repayment of the loan as a result of our failure to observe certain specified loan covenants.

Subsequent to the year end the agreement was extended for a further period of 12 months and now expires on March 16, 2011.

NOTE 14 - SEGMENT INFORMATION

The Company's two reportable segments are managed separately based on fundamental differences in their operations. Coda Octopus Colmek and Coda Octopus Martech make up the contracting part of the business, and Coda Octopus Products Limited and Coda Octopus Products Inc. make up the product sales.

As a result of the Company's internal reorganization the Company has restated previously reported segment information.

The contracting segment deals mainly with Government agencies and defense prime contractors and have expertise in designing and producing specific devices and components for such customers, with an emphasis on sub-sea technology. This segment also manufactures the Group's products (for Coda Octopus Products).

The products segment designs and produces, through its arrangements with the contracting segment, sub-sea software and hardware products aimed at the Oil and Gas, Underwater Construction, and Port and Harbor Security markets.

Segment operating income is total segment revenue reduced by operating expenses identifiable with the business segment. Corporate includes general corporate administrative costs.

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies. There are no inter-segment sales.

There are inter-segment sales between our engineering contracting businesses and our products businesses, which have been removed from the information shown below.

The following table summarizes segment asset and operating balances by reportable segment.

	Three months ended January 31, 2010	Three months ended January 31, 2009
Net Sales to External Customers:		
Contracting	$ 1,449,165	$ 2,306,889
Products	1,619,045	892,217
Total Sales to External Customers	$ 3,068,210	$ 3,199,106
Depreciation and Amortization:		
Contracting	$ 40,383	$ 74,868
Products	9,580	15,337
Corporate	73,413	71,380
Total Depreciation and Amortization	$ 123,376	$ 161,585
General and Administrative Expense:		
Contracting	$ 745,369	$ 894,454
Products	409,622	504,399
Corporate	349,636	1,503,866
Total General and Administrative Expense	$ 1,504,627	$ 2,902,719
Capital Expenditures:		
Contracting	$ -	$ 18,952
Products	7,690	14,275
Corporate		3,360
Total Capital Expenditures	$ 7,690	$ 36,587
Operating Income (Losses):		
Contracting	$ (773,464)	$ 376,786
Products	846,306	(160,739)
Corporate	(423,049)	(1,965,488
Total Segment Operating Losses	$ (350,207)	$ (1,749,441

	For the period ended January 31, 2010	October 31, 2009
Segment Assets:		
Contracting	$ 7,464,714	$ 7,235,301
Products	2,032,276	2,867,693
Corporate	2,836,912	3,034,386
Total Segment Assets	$ 12,333,902	$ 13,137,380

The Company's reportable business segments operate in two geographic locations.

Those geographic locations are:

* United States

* Europe

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies. There are inter-segment sales which have been removed upon consolidation and for the purposes of the information shown below.

Information concerning principal geographic areas is presented below according to the area where the activity is taking place for the period ended January 31, 2010 and the year ended October 31, 2009:

	Three months ended January 31, 2010	January 31, 2009
NET SALES TO EXTERNAL CUSTOMERS:		
United States	$ 980,934	$ 1,550,570
Europe	2,087,276	1,648,536
TOTAL SALES TO EXTERNAL CUSTOMERS	$ 3,068,210	$ 3,199,106

	For the period ended January 31, 2010	October 31, 2009
ASSETS:		
United States	$ 7,367,788	$ 7,919,830
Europe	4,966,114	5,217,550
TOTAL ASSETS	$ 12,333,902	$ 13,137,380

NOTE 15 – SUBSEQUENT EVENTS

The Company evaluated subsequent events through March 17, 2010 which is the date the financials were filed.

The Cash Control Framework Agreement with the Noteholder was extended for a further period of 12 months and now expires on March 16, 2011. On January 18, 2010, the Noteholder notified us in writing that it had waived its right to demand repayment of the loan as a result of our failure to observe certain specified loan covenants. The waiver will expire on the first anniversary of the waiver letter, January 18, 2011.

In March 2010 we issued 75,000 shares of common stock to three (3) of our employees as part of their bonus package.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OPERATIONS

Forward-Looking Statements

The information herein contains forward-looking statements. All statements other than statements of historical fact made herein are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified by the use of words such as "believes," "estimates," "could," "possibly," "probably," anticipates," "projects," "expects," "may," "will," or "should" or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with our financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

General Overview

Coda Octopus develops, manufactures, sells and services real-time 3D sonar and other products, as well as engineering design and manufacturing services on a worldwide basis. Headquartered in New York City, with research and development, sales and manufacturing facilities located in the United Kingdom, United States and Norway, the Company is engaged in software development, defense contracting and engineering services through subsidiaries located in the United States and the United Kingdom.

Founded in 1994, Coda operated for ten years as a private company based in the UK. By the late 1990s, the Company had developed a strong reputation as a developer and marketer of high quality software-based products used for underwater mapping, geophysical survey and other related marine applications.

Shortly after September 11, 2001, management was introduced to, and in December 2002 completed the acquisition of OmniTech AS, a Norwegian Company that had developed and patented a prototype system called the **Echoscope®**. The Echoscope® permits accurate three-dimensional visualization, measurement, data recording and mapping of underwater objects – in effect, the ability to "see" an object underwater in real time.

Management believed that real-time 3D sonar could represent a truly disruptive technology with the potential to change industry standard practices and procedures. It envisioned significant applications for this technology in defense, oil and gas exploration and security, underwater port security, bridge repair, and large-scale underwater construction projects. Given these beliefs, the Company decided that the best way to gain access to the capital and the visibility needed to commercialize real time 3D sonar, and to successfully enter multiple worldwide markets in the post 9/11 environment would be to move its headquarters to the USA, and to become a publicly traded company in the United States.

On July 13, 2004 Coda Octopus became a public company through a reverse merger with The Panda Project, Inc., a publicly traded Florida corporation. As a result of the transaction, Coda and its shareholders, including its then controlling shareholder, Fairwater Technology Group Ltd, were issued 20,050,000 common shares comprising approximately 90.9% of the then issued and outstanding shares of Panda. Subsequently, Panda was reincorporated in Delaware, and changed its name to Coda Octopus Group, Inc. By mid 2005, the Company had completed the move of its headquarters from the UK to the United States.

Since moving to New York, the Company has accomplished a series of objectives:

1. It raised approximately $33 million in funds, through three private placements primarily with institutional investors. The Company raised approximately $8 million in 2006, approximately $13 million in April/May 2007, and approximately $12 million in a convertible debt transaction that was completed in February 2008.

2. It completed the commercialization of the Echoscope® and successfully deployed its real-time 3D technology and products on three continents with major corporations, governments, ports, law enforcement agencies and security organizations.

3. It significantly broadened both its revenue base and its base of expertise in engineering, defense electronics, military and security training, and software development primarily through the acquisition of four privately held companies. Management believes that broadening the base of the Company in these specific areas was necessary to position Coda Octopus as a reliable and experienced contractor, subcontractor and supplier of 3D sonar products and systems on a worldwide basis.

4. Beginning in July 2007,the US Department of Defense (DoD) Technical Support Working Group (TSWG) funded Coda Octopus to build and deliver next-generation Underwater Inspection Systems™ (UIS) for the US Coast Guard and other potential users. The program has included money to build and deliver current systems, as well as a roadmap for their future development. During the year ended October 31, 2007, the Company delivered three UIS systems to the US Coast Guard against a purchase order totaling $2.59 million. In FY 2008 the Company was funded for an additional $1.53 million to develop certain mutually agreed technical enhancements to the system. The Company's latest contract with TSWG covers the funding of an additional $1.4 million for additional enhancements and the delivery of additional systems. The Company believes it has successfully completed the key second-stage enhancements sought by the DoD and the Coast Guard. As a result, management believes that the Company is positioned to build and deploy fully integrated systems that meet the highest standards in the world.

   These will enable users to "see" objects that are smaller than a baseball from a distance of more than 100 meters, and to do so in all kinds of ocean or water conditions at virtually any depth. In addition, the Company through its Colmek subsidiary, has more than 20 years of successful experience as contractor with the Department of Defense, and as a subcontractor with various large prime contractors.

5. The Company has also taken advantage of its first mover status in real-time 3D sonar to start to open up several potentially significant vertical markets in the private sector. Thus far, the three areas of focus have been Dredging, Underwater Construction, and Security. In each of these areas, the Company has selected a lead customer and has worked with that customer to develop and deploy a system that management believes will have wide application throughout the segment. In the case of Rotterdam-based Van Oord, Coda Octopus was funded to develop a particular application, and in other cases the Company has financed the development internally.

The Company believes that the largest potential markets for real-time 3D sonar is with government authorities both in the US and throughout the world. Here in the US, the Company has deployed systems with Jacksonville Sheriff, FL, and in Contra Costa County, CA, with further immediate interest in at least six additional locations. Overseas the Company has deployed systems in Korea, Japan, the United Kingdom and the Middle East, and has significant opportunities in Germany, Singapore, Malaysia and the Netherlands. Our main challenges are the long lead times in purchasing cycles, the current economic environment, and the initial adoption of new technology, which can take several years to effect.

The consolidated financial statements include the accounts of Coda Octopus and our domestic and foreign subsidiaries that are more than 50% owned and controlled, which includes Dragon Design Limited (now fully integrated into Coda Octopus Martech Limited.), which was fully acquired on December 15 th 2008 and is based in Weymouth, Dorset, United Kingdom.

All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that we may undertake in the future, actual results may differ from those estimates.

Products and Services

We are engaged in 3D subsea technology and are the developer and patent holder of real-time 3D sonar products, which we expect to play a critical role in the next generation of underwater port security and oil, gas and construction. We produce hardware, software and fully integrated systems, which are sold and supported on a worldwide basis, with wide applications in a number of distinct markets:

- Marine geophysical survey (commercial), which focuses on oil and gas, and oceanographic research and exploration, where we market to survey companies, research institutions and salvage companies. This was our original focus, with current products spanning geophysical data collection and analysis, through to printers to output geophysical data collected by sonar.

- Underwater defense/security, where we market to ports and harbors, state, local and federal government agencies, law enforcement agencies and defense contractors. We have recently completed developing and commenced marketing our Underwater Inspection System (UIS™), the first real-time, high resolution, three-dimensional underwater sonar imaging system, which we believe has particularly important applications in the fields of port security, defense and undersea oil and gas development.

- Underwater construction, where our products are used for real-time monitoring of sub-sea construction, a particularly challenging environment. We have also developed for one of our customers a tailored software application to allow the laying of concrete Accropodes™ (large concrete blocks) used for constructing breakwaters. The advantage of our real-time system is in giving visibility where previously divers were used to help with the construction, a dangerous and inefficient process.

- Dredging, where our products are used for pre-dredge survey and in a real-time mode where they monitor the quality and precision of the dredge. The advantage we give is in improving the dredge quality and drastically reducing the time involved – for example, if a re-dredge is required, this can be done immediately from the information we provide, instead of days or weeks later, when a new vessel may even have to be used, incurring much greater cost.

- Other applications, such as shallow water hydrography underwater logging, debris survey and treasure hunting.

In addition, through our two engineering services subsidiaries, Coda Octopus Martech Ltd, based in Weymouth, England, UK, and Coda Octopus Colmek, based in Salt Lake City, Utah, USA, we provide engineering services to a wide variety of clients in the subsea, defense, nuclear, government and pharmaceutical industries. These engineering capabilities are increasingly being combined with our product offerings, bringing opportunities to provide complete systems, installation and support.

For the foreseeable future, we intend to continue our focus on port security. We believe that in the post 9/11 era there are significant growth opportunities available in that particular market segment because of increased government expenditures aimed at enhancing security. Specifically, we believe that we have the ability to capitalize on this opportunity as a result of:

- First mover advantage in 3D sonar markets based on our patented technology, our research and development efforts and extensive and successful testing in this area that date back almost two decades as well as broad customer acceptance.

- Early recognition of the need for 3D real-time sonar in defense/security applications.

- Expansion into new geographies like North America and Western Europe.

- Expansion into new commercial markets like commercial marine survey with innovative products.

- Recent sole source classification for one of our products and its derivatives by certain government procurement agencies.

Further, we believe the Echoscope® will transform certain segments of the sonar products market. In addition, 3D sonar, currently in the early stages of adoption, has disruptive technology qualities as it has the ability to change industry standard practice in respect of the method for visualization and imaging of underwater objects and environment. Therefore, it will likely change who supplies into this market as well as our market position and that of our competitors. We believe the market opportunity in underwater security and defense could grow at a rapid pace over the next several years.

Critical Accounting Policies

This discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements that have been prepared under accounting principles generally accepted in the United States of America (“GAAP”). The preparation of financial statements in conformity with US GAAP requires our management to make estimates and assumptions that affect the reported values of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported levels of revenue and expenses during the reporting period. Actual results could materially differ from those estimates.

Below is a discussion of accounting policies that we consider critical to an understanding of our financial condition and operating results and that may require complex judgment in their application or require estimates about matters which are inherently uncertain. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 1, "Summary of Significant Accounting Policies" of our Consolidated Financial Statements.

Revenue Recognition

We record revenue in accordance FASB ASC Topic 605 - Revenue Recognition.

Revenue is derived from our products sold by our subsidiaries, Coda Octopus Products Inc. and Ltd., from sales of underwater technologies and equipment for imaging, mapping, defense and survey applications. Revenue is also derived through service contracts gained by our Martech, Colmek Tactical and Innalogic businesses.

Revenue is recognized when conclusive evidence of firm arrangement exists, delivery has occurred or services have been rendered, the contract price is fixed or determinable, and collectability is reasonably assured. No right of return privileges are granted to customers after shipment.

For arrangements with multiple deliverables, we recognize product revenue by allocating the revenue to each deliverable based on the fair value of each deliverable in accordance with ASC 605, and recognize revenue for equipment upon delivery and for installation and other services as performed. ASC 605 was effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003.

Our contracts typically require customer payments in advance of revenue recognition. These deposit amounts are reflected as liabilities and recognized as revenue when the Company has fulfilled its obligations under the respective contracts.

Revenues derived from our software license sales are recognized in accordance with FASB ASC Topic 985 - Software. For software license sales for which any services rendered are not considered essential to the functionality of the software, we recognize revenue upon delivery of the software, provided (1) there is evidence of an arrangement, (2) collection of our fee is considered probable and (3) the fee is fixed and determinable.

Recoverability of Deferred Costs

We defer costs on projects for service revenue. Deferred costs consist primarily of direct and incremental costs to customize and install systems, as defined in individual customer contracts, including costs to acquire hardware and software from third parties and payroll costs for our employees and other third parties.

We recognize such costs in accordance with our revenue recognition policy by contract. For revenue recognized under the completed contract method, costs are deferred until the products are delivered, or upon completion of services or, where applicable, customer acceptance. For revenue recognized under the percentage of completion method, costs are recognized as products are delivered or services are provided in accordance with the percentage of completion calculation. For revenue recognized ratably over the term of the contract, costs are recognized ratably over the term of the contract, commencing on the date of revenue recognition. At each balance sheet date, we review deferred costs, to ensure they are ultimately recoverable. Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue.

Stock Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718 “Compensation - Stock Compensation” (“ASC 718”). Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award. This value is expensed ratably over the vesting period for time-based awards and when the achievement of performance goals is probable in our opinion for performance-based awards. Determining the fair value of share-based awards at the grant date requires judgment; including volatility, terms, and estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock based compensation expense and the Company’s results of operations could be materially impacted.

Income Taxes

Deferred income taxes are provided using the asset and liability method for financial reporting purposes in accordance with the provisions of FASB ASC 740 - Income Taxes. Under this method, deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes and for operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be removed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

Purchase price allocation and impairment of intangible and long-lived assets

Intangible and long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset, and its eventual disposition. Measurement of an impairment loss for intangible and long-lived assets that management expects to hold and use is based on the fair value of the asset as estimated using a discounted cash flow model.

We measure the carrying value of goodwill recorded in connection with the acquisitions for potential impairment in accordance with ASC 350 - Intangibles - Goodwill and Other. To apply ASC 350, a company is divided into separate “reporting units”, each representing groups of products that are separately managed. For this purpose, we have two reporting units. To determine whether or not goodwill may be impaired, a test is required at least annually, and more often when there is a change in circumstances that could result in an impairment of goodwill. If the market capitalization of our common stock is below book carrying value for a sustained period, or if other negative trends occur in our results of operations, a goodwill impairment test will be performed by comparing book value to estimated market value. To the extent goodwill is determined to be impaired an impairment charge is recorded in accordance with ASC 350.

Results of Operations

Recent Developments

Cash Framework Agreement

On March 16, 2009 the Company entered a “Cash Control Framework Agreement” with the Royal Bank of Scotland (the debt holder pursuant to which it is assumed that, subject to the Company being compliant with the terms of the transaction documents entered into on February 21, 2008, no adverse actions will be taken by the debt holder). This agreement has been extended until March 16, 2011 and it creates debtor book financing package to allow the Company to obtain up to $2.15M in working capital in exchange for receivables or project financing. As part of the terms of that agreement, the Company committed to a cost reduction program (including management pay cuts) to reduce significantly our SG&A, R&D and Capital Expenditure costs by an annualized $3.35 million.

In addition, on January 18, 2010, the debt holder waived for one year right to demand repayment of the loan as a result of our failure to observe certain specified loan covenants. The waiver will expire on the first anniversary of the waiver letter.

Cost Cutting Program

In February 2009, we embarked on a cost reduction program. This resulted in annualized savings of at least $3.35 million for the the year ended October 31, 2009. Actual savings for the year amounted to $2.1 million against budget. These cost savings against budget were achieved in the following areas:

Description	Amount	
Reduction in Research and Development:	$	321,837
Reductions in other SG&A costs	$	3,061,991
Total SG& A Cost Savings	$	3,383,828
Reductions in Capital Expenditure	$	179,725

The following table shows actual quarterly savings against budget for the year ended October 31, 2009:

Period	Amount	
Quarter Ended January 31, 2009	$	237,000
Quarter Ended April 30, 2009	$	419,000
Quarter Ended July 31, 2009	$	750,000
Quarter Ended October 31, 2009	$	707,000
Total cost saving against budget for the 2009 Period	$	2,113,000

Between September 2009 and December 2009, we accelerated our program of reducing the levels of management in the Group. We have eliminated the “Senior Vice President” level of management and now have a total of three full time staff members (reduced from twelve) who are not employed in any of our subsidiaries. We have also eliminated a large number of arrangements with consultants and Government lobbyists.

The Group’s management now consists of a Group CEO (with overall responsibility for Group performance), Group Financial Officer, CTO (who also manages the Group’s R&D), and the CEOs of the various Group Companies

We believe that the cost cutting program has achieved its objectives and we expect to maintain our SG&A at around $8.5 million during the current fiscal year (down from approximately $11.238 million for the 2009 Period). We intend to reinvest some of the savings in additional sales and marketing staff to ensure that we are gaining the maximum advantage from our leading technology and skills. We also anticipate hiring one more senior executive to operate at Group level during the current fiscal year.

Reorganization

The Company commenced a reorganization program in which the R&D unit has become a more horizontal unit working to make advances in our core technology (3D sonar) while helping to spread these advances across the Group, as well as promoting technology advances from other parts of the Group.

Within our products company in Edinburgh, we formed a dedicated unit which is focused entirely on the Echoscope® rollout plan for the various markets the Company has identified. The function of this unit is to oversee production, development, documenting and delivering the core product to the defined markets. Manufacturing of the Echoscope® will move to Salt Lake City (Colmek), to comply with the Defense Department's preference to have technology products manufactured domestically, and to Weymouth, UK, (Martech).

Although the economic environment has been challenging, the markets that the Company addresses – engineering, defense, oil and gas, and security – are less affected than many others. We intend to continue to exploit our lead in 3D real-time sonar, while tactically streamlining the business to be profitable at a much lower revenue rate.

On or around September 2009, we also reorganized our executive and management structure by eliminating the Senior Vice President (SVP) tier which comprised eight SVPs and replacing the Group CEO who had been the founder and Group CEO since inception. Our management structure now consists of a Group CEO (with overall responsibility for Group performance), Group Financial Officer, CTO (who also manages the Group's R&D), and the CEOs of the various Group Companies.

Comparison of quarter ended January 31, 2010, compared to quarter ended January 31, 2009.

Revenue: Total revenues for the quarter ended January 31, 2010 (the "2010 Period") and the quarter ended January 31, 2009 (the "2009 Period") were $3,068,210 and $3,199,106 respectively, representing a decrease of 4.1%. Contributing factors to this lack of growth were adverse exchange rate movements combined with the global economic downturn which still affected the business in this quarter.

Gross Margins: Margins were stronger in the 2010 Period at 57.4% (gross profit of $1,762,231) compared to 54.9% ($1,756,959) in the 2009 Period, reflecting a slightly different mix of sales in our businesses (products versus project work).

Research and Development (R&D). R&D spending decreased from $603,681 in the 2009 Period to $477,013 in the 2010 Period In line with our cost cutting plan . However, this level of spending still allows us to devote considerable R&D resources to introduce product variants of our core technology to the market over the next months.

Selling, General and Administrative Expenses (SG&A). SG&A expenses for the 2010 Period decreased to $1,635,426 from $2,902,719 in 2009, a reduction of 43.6% which reflects activity under the cost reduction plan that was executed during the fiscal year ended October 31, 2009 and hitherto in 2010.

Across the Group, key areas of 2010 Period expenditure include wages and salaries, where we spent $1,234,167 or 75.9% during the 2010 Period against $1,900,261 or 65.5% of our SG&A cost during the 2009 Period; legal and professional fees, including accounting, audit and investment banking services, where we spent $147,036 or 7% in 2010 against $272,186 or 9.4% of our SG&A costs in 2009; travel costs reduced to $99,142 or 4.7% in 2010 from $127,751 or 4.1% of SG&A in the 2009 Period, rent for our various locations decreased in 2010 to $141,664 or 6.7% against $155,139 or 5.3% of SG&A in 2009; marketing reduced in the 2010 Period to $33,084 or 1.6% of SG&A against $274,132 or 9.1% of SG&A in 2009, as we reduced the number of consultants engaged in the Business.

Operating Loss. We incurred a loss from operations of $350,207 in the 2010 Period against $1,749,441in the 2009 Period. This reduced loss is attributable to significant cost reductions in the Business, mainly at the HQ level..

Interest Expense . Interest expense increased in the 2010 Period to $441,582 from the 2009 Period interest costs which were $397,424. In both periods we have included amortization of the 30% redemption premium for our convertible note, at a cost of $128,571. We have accrued interests on the convertible note of $450,150 ahead of payment in February 2010.

Dividends and Other Stock Charges. In the 2010 Period, no dividends were due to be paid on the Series A Preferred stock, versus $31,149 in 2009 due to the fact that we had no surplus or net profits from which to declare and pay such dividends.

Examining HQ SG&A, which is where we have concentrated our cost cutting exercise, we find that overall HQ SG&A (defined as Group Headquarters, and the UK and US Holding Companies) has reduced from $1,241,092 in Q1 2009 to $343,636 in Q1 2010. Components of this reduction are Rent and Utilities where we have reduced from $61,304 to $25,094, Office Expenses reduced from $60,087 in 2009 to $16,641 in Q1 2010, Payroll reduced from $515,997 to $83,573, Insurances increased from $44,470 to $60,857, Professional Services reduced from $305,902 to $134,447, Forex reduced from$36,740 to $6,841, Marketing reduced from $172,615 to ($8,428), and Travel from $43,977 to $30,611. Moving forward we would plan to increase the HQ SG&A , in line with increasing revenues, in a couple of key areas where we need to add one or two more staff.

Segment Analysis.

This section should be read in conjunction with Note 15 to the Condensed Consolidated Financial Statements.

We operate in two business segments, Contracting Sales, and Product Sales Our contracting business consists of Coda Octopus Colmek, Coda Octopus Martech (including the acquired Dragon Design) and Coda Octopus Tactical Intelligence. Our Products business consists of Coda Octopus Products Limited and Coda Octopus Products Inc.

Revenues from Contracting in during the quarter ended January 31, 2010 were $1,449,165 or 47% of the Group revenues versus $2,306,889 in the quarter ended January 31, 2009, whereas revenues from Products were $1,619,035 and were 53% of the Group revenues, versus $892,217 in 2009.

SG&A costs incurred in our contracting businesses were $745,369 in the quarter ended January 31, 2010 versus $894,454 in the quarter ended January 31, 2009. SG&A costs in our Products business in the quarter ended January 31, 2010 were $409,622 versus $504,399 in the quarter ended January 31, 2009.

Operating loss in our contracting business was $773,464 in the quarter ended January 31, 2010 versus an operating profit of $376,786 in the quarter ended January 31, 2009. In the quarter ended January 31, 2010 we made an operating profit of $846,306 in our Products business versus an operating loss of $160,739 in the quarter ended January 31, 2009.

Financial Instruments Measured at Fair Value

FASB ASC Topic 820 - Fair Value Measurements and Disclosures ("ASC 820") defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we considered the principal or most advantageous market in which we would transact and considered assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non- performance. ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Items recorded or measured at fair value on a recurring basis in our accompanying financial statements consisted of the following items as of January 31, 2010:

	Total	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets				
Restricted Cash	$ 966,525	$ 966,525	-	-
Short Term Inv	$ 25,500	$ 25,500	-	-
Total	$ 992,025	$ 992,025		
Liabilities				
Warrant liability	$ 798,897	-	$ 798,897	-
Notes Payable	$ 13612,668	-	$ 13,612,668	-
Total	$ 14,411,655		$ 14,411,655	

With the exception of assets and liabilities included within the scope of FASB ASC Topic 820-10-15, we adopted the provisions of ASC 820 prospectively effective as of the beginning of the 2008 Period. For financial assets and liabilities included within the scope of ASC 820-10-15, we will be required to adopt the provisions of ASC 820 prospectively as of the beginning of Fiscal 2009. The adoption of ASC 820 did not have a material impact on our financial position or results of operations, and we do not believe that the adoption of ASC 820-10-15 will have a material impact on our financial position or results of operations.

The fair value of restricted cash and short term investments, at January 31, 2009 was grouped as Level 1 valuation as the market price was readily available.

Loans and notes payable is recorded at face amount, which approximates fair value.

Liquidity and Capital Resources

For the period ended January 31, 2010, the Company has an accumulated deficit of $55,781,506 negative working capital of $1,581 ,440, a capital deficit of $9,573,202 and generated a positive cash flow from operations of $10,642 in 2010 Period against a deficit of $839,020 in the 2009 Period. The Company is dependent upon its ability to generate revenue from the sale of its products and services and the discretion of the note holder to release cash to cover operations. Management believes that based upon its its commitment to maintain SG&A at around the $8.5 million level until the business is profitable and based upon our reorganization of our business, prospects have been enhanced and this is evidenced by our being in receipt of approximately $8.1 million dollars of additional contracts and purchase orders received in this financial year and up to the date of this filing; based upon the Company's cash flow projections for it business operations through January 2011; collectability of its receivables in the ordinary course of business; based on the Noteholder's 12 month extension of the cash control framework agreement as discussed in Note 12 and the Noteholder's agreement to waive its right to demand repayment of the loan until March 16, 2011, the Company will be able to continue its operations through October 31, 2010. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and generating sufficient cash flows from operations to meet future obligations.

Financing Activities

For the most part, we have financed our operations through the issuance to the investors of shares of our common stock and preferred stock and warrants.

Secured Convertible Debentures

On February 21, 2008 we entered into and completed the transactions contemplated under a series of agreements providing for the issuance to a London based institutional investor, The Royal Bank of Scotland plc of senior secured convertible notes in the principal amount of $12,000,000 (the "Notes"). The Notes are secured by all of the assets of the Company and its subsidiaries and mature 84 months after the date of issuance at which time they are redeemable at 130% of the face amount of the Notes. The Notes accrue interest at the annual rate of 8.5% which is payable in semi-annually in arrears. The Notes also stipulate additional interest payments of 2% per annum above the base rate quoted by The Royal Bank of Scotland plc from time to time, in the event that the semi-annual interest payments are not paid by us on the due dates. All of these amounts are payable by us in cash. Of the proceeds, $6,000,000 constituted a specific purpose loan and in the event that we failed to use the proceeds as agreed within 12 months from the closing, then, unless alternative investments were approved by the holders of the Notes, this $6,000,000 was repayable in February 2009. In such case there will be a partial redemption of 60 of the notes (having an aggregate nominal value of $6 million). During the term, the Notes are convertible into our common stock at the option of the Noteholders at a conversion price of $1.05. We may also force the conversion of these Notes into our common stock after two years in the event that we obtain a listing on a national exchange and our stock price closes on 40 consecutive trading days at or above $2.50 between the second and third anniversaries of this agreement; $2.90 between the third and fourth anniversaries of this agreement; and $3.50 after the fourth anniversary of this agreement or where the daily volume weighted average price of our stock as quoted on OTCBB or any other US National Exchange on which our securities are then listed has, for at least 40 consecutive trading days closed at the agreed price.

In August 2008, we notified the Noteholder that we believed that we would be unable to use the $6,000,000 in the manner agreed to under the terms of the Notes. In response, the Noteholder orally consented to the use of an additional $2 million of the $6,000,000 for general working capital purposes. It should be noted that the transaction documents provides that all amendment shall be in writing signed by the parties and this was not obtained by the Company and therefore not valid.

In January 2009, we notified the Noteholder that the balance of the $6,000,000 had fallen below $4 million.

On March 16, 2009, the Company and the Noteholder entered into a Cash Control Framework Agreement, pursuant to which it is assumed that, subject to the Company being fully compliant with the terms of this agreement and those set out in the Transaction Documents entered into between the Company and the Noteholder on February 21, 2008, no adverse actions will be taken by the Noteholder. The agreement provides, among other things, for the placement of approximately $2.15 million into a segregated cash account. Under the terms of the agreement, we may request the release of funds from the account from time to time for working capital purposes, subject to the Noteholder's consent and agreed upon terms and conditions. Under the terms of the agreement, we have had to adhere to a strict cost cutting program which has involved reducing our SG&A, R&D and capital expenditure by an annualized $3.35 million and in this financial year, whilst we have achieved the required costs cut, we expect to maintain our SG&A at around $8.5 million level. The cash framework agreement was extended for a further period of 12 months and now expires on March 16, 2011.

On January 18, 2010, the Noteholder notified us in writing that it had waived its right to demand repayment of the loan as a result of our failure to observe certain specified loan covenants. The waiver will expire on the first anniversary of the waiver letter.

Our ability to survive current financial difficulties resulting from our cash flow deficit is dependent on our capacity to generate revenues from the sale of our products and services. In addition, we are highly dependent on the discretion of the Noteholder to release cash to us to cover our operating expenses.

Nevertheless, as a result of the cost cutting program discussed above and by further adjusting our operations if and to the extent needed , we believe that we will have sufficient capital resources to meet projected cash flow deficits. However, if during fiscal 2010 we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations liquidity and financial condition In order to fund our operations during the current fiscal year, we estimate that we need to generate additional cash beyond that which is available to us Cash Control Framework Agreement to be able to continue our operations at their current levels. However, there can be no assurance that we will be successful in generating sufficient revenues from operations.

Other than disclosed herein, we presently do not have any available credit, bank financing or other external sources of liquidity. Due to our brief history and historical operating losses, our operations have not generated sufficient liquidity. We will need to continue to raise additional capital in order to expand operations and become profitable. In order to obtain capital, we may need to sell additional shares of our common stock or borrow funds from private lenders. There can be no assurance that we will be successful in obtaining additional funding.

Our current financing options are limited due to onerous anti-dilution provisions contained in the Purchase Agreements entered into in April and May 2007. Under the terms of the Purchase Agreements, the investors who purchased stock in the Company thereunder are entitled to receive shares of common stock without additional consideration any time we sell equity securities at a price per share of less than $1.00. We have entered into negotiations to amend these restrictions contained in the Purchase Agreements. Without such amendments, we may be unable to raise additional equity financing on terms that are commercially acceptable to us. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and the downturn in the U.S. stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. In addition, our stock was recently stricken from the OTC Bulletin Board for failure to make our periodic filings on a timely basis. This may further impact on the liquidity of our stock putting further downward pressure on its price and making it less likely that we will be able to raise equity financing on acceptable terms.

We have also entered into preliminary discussions with the holder of the convertible note to prevent it from taking actions adverse to us and to have the debt be reclassified on our books from a short term obligation to a long term obligation. These discussions have been successful and on January 18, 2010 the note holder notified us in writing that it had waived its right to demand repayment of the loan as a result of the failure to observe certain specified loan covenants. The waiver will expire on the first anniversary of the waiver letter. We can give no assurance that we will be successful in any of these efforts. If we are unable to raise additional capital in the near future, it may have to curtail its business operations significantly.

Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

Inflation and Foreign Currency

The Company maintains its books in local currency: US Dollars for its US operations, Pounds Sterling and Norwegian Kroner for its United Kingdom and Norwegian operations, respectively.

The Company's operations are conducted in the United States, and through its wholly-owned subsidiaries, in the United Kingdom. As a result, fluctuations in currency exchange rates do significantly affect the Company's sales, profitability and financial position when the foreign currencies of its international operations are translated into U.S. dollars for financial reporting. In addition, we are also subject to currency fluctuation risk with respect to certain foreign currency denominated receivables and payables. The Company cannot predict the extent to which currency fluctuations may or will affect the Company's business and financial position, and there is a risk that such fluctuations will have an adverse impact on the Company's sales, profits and financial position. Also because differing portions of our revenues and costs are denominated in foreign currency, movements can impact our margins by, for example, decreasing our foreign revenues when the dollar strengthens without correspondingly decreasing our expenses. The Company does not currently hedge its currency exposure.

The translation of the Company's UK operations' pound Sterling denominated balance sheets into US dollars has been affected by the weakening of the average value of the US dollar against the British pound sterling in the relevant time periods from $1.49 in 2009, to $1.63 in 2010, an approximate 9.2% depreciation in value. These are the values that have been used in the calculations below.

The translation of the Company's Norwegian operation's Kroner denominated balance sheets into US dollars, as of October 31, 2009, has also been affected by the currency fluctuations of the US dollar against the Kroner from and average rate of $0.154 during 2009, to $0.175 during 2010, an approximate 12% change in value. These are the values that have been used in the calculations below.

The impact of these currency fluctuations on the 2010 Period is shown below:

	Pound Sterling		Norwegian Kroner		
	Actual Results	Constant Rates	Actual Results	Constant Rates	Total Effect
Revenues	$ 2,087,276	$ 1,900,363	$	$	$ (186,913)
Costs	1,892,702	1,723,213	126,460	111,584	(184,336)
Net Income/(Losses)	194,713	177,150	(126,460)	(111,584)	(2,547)
Assets	17,744,431	16,106 ,959	841,002	871,192	(1,607,271)
Liabilities	14,279,196	14,808,239	708,928	735,194	555,308
Net Assets	3,465,235	1,298,731	132,073	135,998	(2,162,580)

This table shows that the effect of constant exchange rates, versus the actual exchange rate fluctuations, reduced profits for the year by $2,547 and reduced net assets by $2,162,580. In addition, the Company booked transactional exchange rate gains of $611 during 2010. All of these amounts are material to our overall financial results.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

Item 4T. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial (and principal accounting) Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of January 31, 2010. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were ineffective as of the end of the period covered by this report.

The Company continues to improve procedures with regard to its disclosure controls and procedures.

(b) Changes in Internal Controls.

There was no change in our internal controls over financial reporting that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting during the quarter covered by this Report.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Except as described below, we are currently not aware of any such legal proceedings that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

We are currently engaged in two lawsuits.

The first one involves the former Chief Executive Officer of our subsidiary, Coda Octopus Colmek, Inc. (Scott DeBo v Miller & Hilton, Inc. d/b/a Colmek Systems Engineering and Coda Octopus Group, Inc. File No. 080923661). Mr DeBo claims breach of his employment contract, tortuous interference with his contract, termination in violation of public policy and failure to pay wages when due. He filed a complaint and an amended complaint on November 10, 2008 and December 10, 2008, respectively. We answered the amended complaint denying Mr. DeBo's allegations, raising affirmative defenses on December 22, 2008 and intend to defend ourselves vigorously. The Parties have now completed the discovery process and we expect the hearing to be scheduled for the second quarter of this financial year.

The second one involves Federal Engineering & Marketing Associates Inc (FEMA) a Colorado corporation. FEMA is a former sales representative of Coda Octopus Colmek, FEMA claims breach of contract and seeks various relief in the District Court, Routt County, Colorado (Case Number 2009CV278). We have answered the complaint which included a counter-claim. We intend to defend ourselves vigorously in these proceedings.

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

Not Applicable.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

31	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a)
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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.

Coda Octopus Group, Inc.
(Registrant)

Date: March 17, 2010	/s/ Geoff Turner Geoff Turner Chief Executive Officer
Date: March 17, 2010	/s/ Geoff Turner Geoff Turner Chief Financial Officer

Exhibit 31

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Geoff Turner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coda Octopus Group, 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 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 operation and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and 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 (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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.

Date: March 17, 2010

/s/ Geoff Turner
Geoff Turner
Chief Executive Officer

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Geoff Turner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coda Octopus Group, 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 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 operation and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and 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 (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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.

Date: March 17, 2010	/s/ Geoff Turner
	Geoff Turner
	Chief Financial Officer

Exhibit 32

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 Coda Octopus Group, Inc. (the "Company") on Form 10-Q for the quarter ended January 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Geoff Turner, President and Chief Executive Officer, and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) This 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/ Geoff Turner
Geoff Turner
President, Chief Executive Officer and Chief Financial Officer

Date: March 17, 2010