

INPUT OUTPUT INC
Form S-3
May 10, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Input/Output, Inc.

(Exact name of Registrant as specified in its charter)

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

22-2286646
*(I.R.S. Employer
Identification No.)*

12300 Parc Crest Drive

Stafford, Texas 77477
(281) 933-3339

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, par value \$.01 per share (including the associated preferred stock purchase rights)	17,600,000	\$7.58 ⁽¹⁾	\$133,408,000	\$16,903

- (1) Estimated pursuant to Rule 457(c) under the Securities Act of 1933, as amended (the Securities Act) solely for the purpose of calculating the registration fee, based upon the average of the high and low sales prices of the Registrant's common stock on May 7, 2004, as reported by the New York Stock Exchange.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)
Issued May 10, 2004

Shares

COMMON STOCK

We are offering _____ shares. The selling stockholders, none of whom are our directors, officers, employees or their affiliates, are offering _____ shares.

Our common stock is listed on the New York Stock Exchange under the symbol IO. On May 7, 2004, the reported last sale price of our common stock on the New York Stock Exchange was \$7.58 per share.

On May 10, 2004, we agreed to acquire all of the outstanding capital stock of GX Technology Corporation. Completion of this offering is conditioned upon our closing of the acquisition of GX Technology Corporation. See Risk Factors Risks Related to Our Planned Acquisition of GXT.

Investing in our common stock involves risks. See Risk Factors beginning on page 16.

PRICE \$ A SHARE

	<i>Price to Public</i>	<i>Underwriting Discounts and Commissions</i>	<i>Proceeds to Input/Output, Inc.</i>	<i>Proceeds to Selling Stockholders</i>
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$

We have granted the underwriters the right to purchase up to an additional _____ shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares to purchasers on _____, 2004.

MORGAN STANLEY

JOHNSON RICE & COMPANY L.L.C.
, 2004

SANDERS MORRIS HARRIS

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, offering to sell shares of common stock or seeking offers to buy shares of common stock in any jurisdiction where offers and sales are not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock offered hereby. As used in this prospectus, Input/Output, I/O, company, we, our, ours and us refer to Input/Output, Inc. and its consolidated subsidiaries, except where the context otherwise requires or as otherwise indicated.

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PROSPECTUS SUMMARY

This summary highlights selected information about us, this offering and our acquisition of GX Technology Corporation (GXT) contained elsewhere in this prospectus and the documents incorporated by reference. This summary is not complete and may not contain all of the information that is important to you. We encourage you to read this prospectus, including the information under the caption Risk Factors, the information we incorporate by reference, and the documents to which we refer you in their entirety.

Company Overview

We are a leading provider of seismic imaging technology used by oil and gas companies and seismic contractors for exploration, appraisal, development and reservoir monitoring in both land and marine environments. We add value for our customers by providing technologies and services to collect seismic data and develop geophysical images to find, develop and extract hydrocarbons more quickly and economically. We offer a full suite of related products and services for seismic data acquisition and processing without owning vessels or maintaining crews typically used in the field to acquire seismic data.

Our strategy is to be the leading company in delivering cost-effective seismic imaging technologies, from designing and planning seismic surveys to acquiring and processing seismic data which we refer to as the seismic value chain. Through recent acquisitions, we have implemented our strategy to reposition our business from being primarily an equipment and technology provider to offering our customers full-seismic imaging solutions. We believe our technologies and solutions will improve exploration and production economics for the energy industry. Our seismic data acquisition products are well suited for both traditional three-dimensional (3-D) and time-lapse, or four-dimensional (4-D), data collection as well as more advanced multi-component or full-wave seismic data collection techniques. Based on historical revenues, we believe that we are a market leader in numerous product lines, such as geophones, navigation and data management software and marine positioning systems. Through our AXIS business unit, we also offer advanced seismic data processing and imaging services, with a particular focus on land environments.

On February 23, 2004, we acquired Concept Holdings Systems Limited. Concept Systems, based in Scotland, is a leading provider of integrated planning, navigation and data management software and solutions for towed streamer, seabed and land seismic operations. Its software is installed on the majority of towed streamer marine vessels worldwide and has rapidly become an integral component of redeployable and permanent seabed monitoring systems. Concept Systems also offers services to assist oil and gas companies in implementing 4-D seismic programs to permanently monitor hydrocarbon reservoirs. Its software and services will complement our marine control and positioning equipment and VectorSeis digital sensor technologies. This acquisition will also extend our services offering to the design and optimization of 4-D reservoir monitoring (or life-of-field) seismic projects. See Recent Developments below for a further description of the Concept Systems acquisition.

Table of Contents**Planned Acquisition of GXT**

On May 10, 2004, we entered into a stock purchase agreement with GXT and its stockholders to acquire all of the outstanding capital stock of GXT, a leading provider of seismic data processing and subsurface imaging services to oil and gas companies. GXT is focused on marine environments and specializes in providing customized imaging solutions utilizing GXT's expertise in computer processing technology. The scope of GXT's products and services has expanded over time in response to increased demand from its customers for enhanced technologies. Revenues have grown from \$18.0 million for the year ended June 30, 2001 to \$41.0 million for the year ended June 30, 2003. Income from operations for the same periods increased from \$1.0 million to \$6.2 million. During 2003, GXT expanded its business to include full-scope seismic services through its Integrated Seismic Solutions (ISS) offering and related services. This expanded offering of products and services resulted in continued revenue and earnings growth. For the nine months ended March 31, 2004 GXT's revenues grew to \$47.2 million, a 58% increase compared to the same period during its prior fiscal year. Income from operations grew 55% to \$7.2 million over the same period. GXT's EBITDA for the nine months ended March 31, 2004 was \$17.6 million, reflecting continued growth across all product and service lines. See "Reconciliation of Non-GAAP Financial Data" on page 14. We expect to complete the GXT acquisition concurrently with the completion of this offering.

Anticipated Benefits of GXT Acquisition

We believe that the acquisition of GXT will provide us with several strategic benefits:

More Balanced Position in the Seismic Value Chain. The GXT acquisition will solidify our transition from primarily manufacturing seismic data collection equipment to providing full-scope seismic technology solutions. In addition, the GXT acquisition will strengthen our expertise and capabilities at each technology link in the seismic value chain, from survey planning and design to data collection management and pre-processing to image development. This broader, more technology-focused and seismic-oriented presence will enable us to deliver additional integrated, full-service imaging solutions to our customers. Additionally, we expect that the more consistent service-based revenue streams from GXT's business will lessen the historical volatility in our revenues from original equipment manufacturing.

More Service and Technology Intensive Business Model. We believe that the GXT acquisition will increase our emphasis on human capital, service and technology. We will own advanced technologies across the entire seismic spectrum from survey planning through final image development, including the critical technologies associated with full-wave imaging. These technologies will include our digital, full-wave sensor (VectorSeis) and GXT's multi-component processing capability. While we focus on delivering integrated seismic solutions, we do not intend to participate in the traditional, capital-intensive logistical aspects of field data collection. Our approach differs from the conventional seismic contracting model in which significant investment is required for logistics assets, such as boats and crews to collect data in the field.

Accelerated Development of Imaging Solutions. GXT's advanced imaging technology, particularly pre-stack depth and time migration solutions, as well as its experience in deep marine environments, complements the advanced velocity imaging technology and experience in land environments that we have developed in our AXIS group. GTX's pre-stack depth migration

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solutions involve advanced processing techniques to convert seismic wave time-based information to depth-based information. This conversion to depth-based data is relied upon by geologists to more accurately map subsurface structures. GXT's pre-stack depth migration techniques are well suited for complex hydrocarbon reservoirs and deeper drilling targets. The accurate time-to-depth conversion that GXT's techniques feature is important in processing digital, full-wave data from next-generation sensors, including our VectorSeis sensors. We believe that the combination of our technologies, bases of experience and technology development teams will enable us to accelerate our seismic technology development and advance our capabilities to provide improved digital full-wave imaging solutions.

Enhanced Ability to Service the Full Reservoir Life Cycle. The GXT acquisition will improve our ability to provide seismic imaging solutions throughout the life cycle of an oil or natural gas reservoir. The combination of our digital seismic data collection and monitoring technology and AXIS processing and imaging capabilities, when combined with GXT's advanced processing and imaging expertise, will improve our ability to extend the use of our seismic services across the productive life of the reservoir.

Expanded Collaboration with Oil and Gas Customers. GXT has standing relationships with major, independent and national oil and gas companies. We intend to leverage these relationships to provide full-scope seismic solutions through GXT's ISS services. We believe this approach will enable us to increase the use of our seismic data acquisition and monitoring technologies and services by these oil and gas companies and the seismic contractors who work with them. We also intend to use the relationships to better understand our target customers' geophysical needs and to develop technologies and services that better address those needs.

Transaction Structure

We have agreed to pay a total of approximately \$134.5 million in cash to purchase all outstanding shares of capital stock of GXT. The purchase price includes cash payments for the cancellation of certain outstanding GXT stock options. Under the stock purchase agreement, GXT stock options not extinguished for cash will become options to purchase I/O common stock. These stock options will be in-the-money by an estimated aggregate amount of \$15.5 million when assumed upon completion of the GXT acquisition and will be fully vested, but they will not be exercisable until 90 days following the closing of the GXT acquisition.

In addition, approximately \$5.0 million of the purchase price will be held in escrow for one year to facilitate recourse for us in the event of certain breaches or violations of representations and covenants made by GXT or its stockholders under the stock purchase agreement.

Approximately \$100.0 million of the purchase price for GXT will be funded from the net proceeds of this offering, and the remaining \$34.5 million of the purchase price will be funded through borrowings under a proposed new revolving line of credit (New Credit Facility) that we expect to have in place by the time we complete this offering. For a description of the New Credit Facility, see GXT Acquisition Anticipated New Credit Facility. Completion of this offering is conditioned upon the completion of the GXT acquisition.

The completion of the GXT acquisition is subject to a number of conditions, including the absence of a material breach by either party of its respective representations or covenants contained in the purchase agreement, the absence of a material adverse effect on either party and the delivery

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of legal opinions and other documentation on behalf of each party. In addition, the transaction will not close until the waiting period required under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended, has expired or been terminated. The parties have the right to terminate the GXT acquisition if it is not completed by August 15, 2004. We may also terminate the transaction if we are unable to satisfy our financing requirements to fund the purchase price for the acquisition.

Our Strengths and Challenges

We believe our strengths include the following:

A Leader in Subsurface Imaging Technology. We believe that our technology is central to the development of digital full-wave imaging. We expect full-wave imaging to be the next generation of seismic data acquisition and processing. Combined with those of GXT, our proprietary technologies will include our:

VectorSeis digital sensors, which allow full-wave data acquisition on land, on the seabed and in-well, and which have been proven effective in nearly 100 field surveys worldwide;

processing services incorporating our AXIS subsidiary's AZIM processing technology, along with GXT's processing technologies, which, when combined with VectorSeis data, result in higher quality seismic images;

positioning and streamer control systems, which support accurate and repeatable surveys in marine applications; and

data management software, which facilitates the collection and integration of acquired data streams.

We believe we have a leading market share in a number of important seismic technologies, including digital sensors, geophones, navigation and data management software, positioning and streamer control systems and anisotropic processing.

Experienced Management. Our executive management team has extensive experience in the seismic technology and services industry. In April 2003, Robert P. Peebler became our Chief Executive Officer after serving as a member of our Board of Directors since 1999. Mr. Peebler has over 30 years experience in the oil and gas industry, during which he has focused most of his time on recognizing and commercializing new technology to enhance hydrocarbon exploration and production. To help lead the development and implementation of our seismic image-focused strategy, Mr. Peebler recruited several new senior executives to augment our management team, including Jorge Machnizh, Executive Vice President and Chief Operating Officer, J. Michael Kirksey, Executive Vice President and Chief Financial Officer, Chris Friedemann, Vice President - Commercial Development, and Jim Hollis, Vice President - Land Imaging Systems. In addition, Bjarte Fageraas, who served as our Vice President and Chief Technology Officer since 2001, has become Vice President - Marine Imaging Systems. The Concept Systems acquisition further augmented our management team, adding Alastair Hay, Managing Director of Concept Systems, and Alan Faichney, Director of Technology of Concept Systems, among others. With the GXT acquisition, we intend for Mick Lambert, currently President and Chief Executive Officer of GXT,

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to continue to lead the GXT operations and join our senior management group. In addition, we will inherit an accomplished GXT management team with proven success in the development and commercial application of seismic processing technology.

Strategic Alliances with Oil Companies. In October 2003, we entered into a non-binding memorandum of understanding to form a strategic seismic technology alliance with Apache Corporation, a leading independent oil and gas exploration and production company. This alliance is designed to accelerate the adoption of our VectorSeis sensor and AZIM processing and imaging technologies while solving some of the more complex reservoir problems in Apache's global portfolio. We are pursuing similar strategic alliances with other oil and gas exploration and production companies. The collaborative relationships that GXT has established with oil and gas companies will contribute to these efforts.

Global Presence. We have resources and operations located in the historical North American oil and gas centers of Houston, New Orleans and Denver as well as key oil and gas centers around the world, including the Middle East, North Sea, Beijing and Moscow. This global presence gives us the local contacts necessary to be responsive with our growing international customer base. GXT adds to this capability with offices in Calgary, London and Aberdeen.

Despite these strengths, we continue to face a number of serious challenges in our business. We experienced operating losses for the years ended December 31, 2003 and 2002, the seven months ended December 31, 2000, and the years ended May 31, 2000 and 1999. As of December 31, 2003, we had an accumulated deficit of approximately \$158.5 million. A number of factors have contributed to our operating losses, including a general downturn in the seismic equipment market, significant charges related to our restructuring activities and research and development expenditures.

Furthermore, our business is subject to numerous risks. Since our current strategy depends, to a large extent, on market acceptance of our VectorSeis products and other seismic technology, any actual or perceived failures in the performance or reliability of those products would negatively impact our sales and results of operations. In addition, our reliance on a relatively small number of significant customers has traditionally exposed us to risks related to customer concentration. For a discussion of the risks related to our business, please read **Risk Factors** beginning on page 16.

Our Strategy

Our goal is to integrate the next generation of sensors and processing technology into seismic imaging solutions that will enable oil and gas companies to more cost-effectively find and manage reservoirs throughout the production life cycle. We intend to do this by building on our current technology platforms through both internal development and selective acquisitions. In addition, we intend to use our technology to lower the cost and shorten the cycle times of seismic surveys by replacing labor-intensive processes with more efficient, technology-based systems. Specifically, we intend to:

Lead the Next Generation of Seismic Imaging Technology. The reservoir discovery and management process has grown increasingly challenging due to greater reservoir depths, more complex and subtle reservoir structures and the need to track fluid movements within hydrocarbon reservoirs. Conventional analog sensor and seismic processing technology has matured and proven unable to adequately meet these more difficult reservoir challenges. Our digital VectorSeis sensor captures significantly greater data than conventional analog sensors. We believe that using

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VectorSeis sensors in conjunction with the advanced processing techniques of AXIS and GXT generally produces more detailed, better quality seismic images than conventional seismic technology. We believe that these improved images will enable oil and gas companies to more economically find and develop the deeper and more geologically complex and subtle hydrocarbon fields that they are increasingly exploring and developing. We believe our integrated service and technology offerings across the seismic value chain and our digital sensor and full-wave processing technologies will position us as one of the leaders in subsurface imaging technologies.

Extend Our Seismic Imaging Solutions Across the Full Reservoir Life Cycle. In the past, seismic imaging has been used primarily to assist in hydrocarbon exploration, rather than in developing, or enhancing production from, a proven field. By comparing detailed images of the same reservoir at different points in time, oil and gas companies can track fluid movements and enhance production from a reservoir. We intend to leverage the strength of Concept Systems in designing and managing 4-D life-of-field projects to work with oil and gas companies to apply our seismic imaging technology to reservoir development and production, as well as exploration. These technologies will include processing services, such as those provided by GXT.

Reduce the Costs and Cycle Time of the Seismic Process. We intend to collaborate with oil and gas companies through survey planning, data acquisition, processing and image development in order to deliver seismic image solutions. We believe that there are efficiencies to be gained from integrating the process components and improving sequencing and outsourcing logistics, which should shorten the overall cycle time as well as reduce the overall cost of the seismic process to oil and gas companies.

Make Selective Acquisitions. We intend to pursue selective acquisitions of products and services that accelerate the adoption of our advanced seismic imaging products and services. We seek to acquire and integrate technologies and services that will expand our ability to provide next generation imaging services and products to oil and gas companies and seismic contractors throughout the life of a reservoir. We will continue to identify, evaluate and pursue acquisitions of products, services and organizations that are strategically important to us and our growth strategy. In February 2004, we acquired Concept Systems. We plan to complete the acquisition of GXT concurrently with the consummation of this offering. See [Planned Acquisition of GXT](#) above and [Recent Developments](#) below.

Expand Our Strategic Alliances. We intend to pursue strategic alliances with oil and gas exploration and production companies, which we believe will enable us to more effectively influence technology and equipment deployment in the seismic value chain. These alliances will also provide us with the opportunity to directly market our technology and services for use throughout the reservoir life cycle. Working directly with oil and gas companies will also provide us with valuable information to guide our product development efforts. Our strategic alliance with Apache Corporation is the first of these alliances that we are pursuing. We believe that GXT's collaborative relationships with oil and gas customers should help us develop other relationships. In addition, we intend to enhance our current relationships with seismic contractors.

Industry Overview

Oil and gas companies have traditionally used seismic data to reduce exploration risk by creating an image of the subsurface. Typically, an oil and gas company contracts with a geophysical

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logistics contracting company to acquire seismic data in a selected area. The contractor will often rely on third parties, such as I/ O, to provide the contractor with the technology and equipment necessary for data acquisition. After collection, either the geophysical contractor or another data processor processes the data through algorithms designed to create a seismic image. Geoscientists then interpret the data by reviewing the image and integrating known facts about the surrounding geology.

In recent years, two principal factors have negatively affected demand for seismic data by oil and gas companies: the maturation of 3-D data collection technology and the business model adopted by geophysical contractors to leverage large fixed investments in equipment. The advent of commercial 3-D seismic data collection in the 1980s caused a sharp increase in demand for seismic data as oil and gas companies sought to capitalize on the improved images from 3-D technology compared to those from 2-D technology. Recently, however, without advances beyond 3-D in imaging technology, oil and gas companies have not had a compelling reason to maintain a high rate of purchasing seismic surveys. Much of the current demand for conventional analog 3-D seismic surveys comes from areas where use of the technology was not quickly adopted, such as China and the Commonwealth of Independent States (CIS).

The traditional business model employed by geophysical contractors has also impacted demand. In an effort to achieve higher utilization of the large investments needed to conduct 3-D surveys, geophysical contractors increasingly began to collect speculative surveys for their own account as customer-requested demand for surveys declined. Contractors typically selected an area, acquired data using generic acquisition parameters and generic processing algorithms, capitalized the acquisition costs and sold the survey results to multiple parties. These general speculative surveys were not tailored to meet a particular request and caused an oversupply of seismic data. Additionally, since contractors incurred most of the costs of speculative seismic data at the time of acquisition, contractors lowered prices to recover as much of the fixed investment as possible which, in the process, drove margins down.

We believe that the demand for seismic services will increase. Accelerating global reservoir decline rates coupled with recent reserve writedowns have increased the pressure on oil and gas companies to discover additional reserves. We expect these increased exploration demands to drive increased demand for seismic technology and services. Additionally, oil and gas companies are focusing on deeper hydrocarbon reservoirs with more complex and more subtle structures, making development more challenging. As a result, oil and gas companies are increasingly using seismic data to enhance the development of and production from known fields. By repeating a seismic survey over a defined area, oil and gas companies can detect untapped areas of a reservoir and adjust their drilling program to optimize production. Such time-lapse seismic images are referred to as 4-D surveys and make seismic data relevant to the entire life cycle of the reservoir.

We also believe that oil and gas companies will increasingly value seismic technology providers who will collaborate with them to tailor surveys that address specific geophysical problems and to apply advanced digital sensor and imaging technologies that account for the geologic peculiarities of a specific area. We believe oil and gas companies will rely less on undifferentiated, mass seismic studies created using analog sensors and traditional processing technologies that do not adequately identify geologic complexities such as lithology and fluid properties.

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In December 2003, we issued \$60.0 million of convertible unsecured notes, which mature in December 2008 and bear interest at an annual rate of 5.5%, payable semi-annually. The notes, which are not redeemable by us prior to their maturity, are convertible into our common stock at an initial conversion rate of 231.4815 shares per \$1,000 principal amount of notes (a conversion price of \$4.32 per share), which represents approximately 13.9 million total common shares. A portion of the proceeds from the convertible notes offering was applied to repay the remaining \$16.0 million outstanding indebtedness under an unsecured promissory note scheduled to mature on May 7, 2004, which bore interest at 13% per annum.

In accordance with the terms of a registration rights agreement we entered into with the initial purchaser of the convertible notes, we filed a registration statement with the SEC covering resales of the convertible notes and underlying shares of common stock that could be acquired on conversion. On April 30, 2004, this registration statement was declared effective. As a result, and subject to certain exceptions, the convertible notes and approximately 13.9 million shares of common stock that may be acquired on conversion of the convertible notes will become free of previously existing restrictions upon their resale under that registration statement.

On February 23, 2004, we purchased all of the share capital of Concept Systems in a privately negotiated transaction. The total purchase price was approximately \$38.4 million in cash, including acquisition costs, and 1,680,000 shares of our common stock. On February 23, 2004, the last reported sale price of our common stock on the New York Stock Exchange was \$6.41 per share. The cash used to acquire Concept Systems was primarily from the proceeds of our convertible notes offering completed in December 2003 and from general corporate funds. A portion of the cash component of the purchase price was used to pay down certain outstanding debt of Concept Systems totaling approximately \$26.0 million. In connection with the acquisition, we granted to former Concept Systems securityholders certain demand and piggyback registration rights for the shares of our common stock issued in the transaction.

On April 28, 2004, we announced that Terra Seismic Services A/S, a seismic contractor headquartered in Oslo, Norway, had become the first customer to purchase our VectorSeis Ocean redeployable seabed system. Capable of operating in depths down to approximately 6,500 feet of water, this VectorSeis Ocean system will initially be deployed in the Gulf of Mexico to acquire data for use by a major integrated oil and gas company. We recognized revenue of approximately \$3.1 million from this sale in the first quarter of 2004, and expect to receive additional revenues from Terra Seismic of approximately \$12.0 million over the next 18 months.

Trademarks, Service Marks and Registered Marks

The information contained or incorporated by reference in this prospectus contains references to trademarks, service marks and registered marks of Input/ Output and our subsidiaries, as indicated. Except where stated otherwise or unless the context otherwise requires, the terms VectorSeis, Tescorp, DigiCourse and VectorSeis System Four refer to our VectorSeis®, Tescorp®, DigiCourse® and VectorSeis System Four® registered marks, and the terms AZIM, True Digital, DigiShot, Applied MEMS, MRX, RSR, Vib Pro and Image refer to our AZIM, True Digital, DigiShot™, Applied MEMS™, MRX™, RSR™, Vib Pro™ and Image™ trademarks and service marks.

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Principal Executive Offices

Our principal executive offices are located at 12300 Parc Crest Drive, Stafford, Texas 77477. Our telephone number at that location is (281) 933-3339.

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THE OFFERING

Common stock offered by Input/ Output, Inc.	shares
Common stock offered by selling stockholders	shares
Total	shares
Common stock to be outstanding after this offering	shares
Over-allotment option	shares

Use of proceeds The net proceeds we receive from this offering are expected to be used to pay a portion of the purchase price for the GXT acquisition. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders. See Use of Proceeds on page 30.

Dividend Policy We do not expect to pay dividends on our shares of common stock for the foreseeable future.

New York Stock Exchange symbol IO

The number of shares of common stock to be outstanding after this offering is based on 53,126,054 shares outstanding as of April 30, 2004 and, unless we indicate otherwise, excludes:

6,231,287 shares of common stock reserved for issuance under our stock option and stock incentive plans and agreements, of which options to purchase 5,719,131 shares at an average exercise price of \$8.00 were outstanding as of April 30, 2004;

13,888,888 shares of common stock issuable upon conversion of our 5.5% senior convertible notes due 2008;

shares of common stock issuable upon exercise of I/O stock options (estimated to be million options) granted in connection with the GXT acquisition; and

shares of common stock that the underwriters have an option to purchase solely to cover over-allotments.

RISK FACTORS

In evaluating an investment in our common stock, prospective investors should carefully consider, along with the other information set forth in this prospectus, the specific factors set forth under Risk Factors beginning on page 16.

Table of Contents**SUMMARY FINANCIAL DATA**

The following data (except pro forma data), insofar as they relate to each of the years in the three-year period ended December 31, 2003, have been derived from our audited consolidated financial statements, including the consolidated balance sheets at December 31, 2002 and 2003 and the related consolidated statements of operations and cash flows for the three years ended December 31, 2003 and the notes thereto, incorporated by reference into this prospectus. The following data (except pro forma data) relating to the three months ended March 31, 2003 and 2004 have been derived from our unaudited consolidated financial statements, including the consolidated balance sheet at March 31, 2004, and the consolidated statements of operations and of cash flows for the three months ended March 31, 2003 and 2004, and the notes thereto, incorporated by reference into this prospectus. With regards to the unaudited consolidated financial data as of and for the three months ended March 31, 2003 and 2004, in the opinion of our management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations for the three months ended March 31, 2004 are not necessarily indicative of our operating results for a full year or of our future operations.

The unaudited pro forma statement of operations data gives effect to this offering, the GXT acquisition and our initial borrowings under the New Credit Facility as if those transactions had been consummated on January 1, 2003. The unaudited pro forma balance sheet data give effect to this offering, the GXT acquisition and our initial borrowings under the New Credit Facility as if they had been consummated on March 31, 2004. The unaudited pro forma financial data are not necessarily indicative of operating results or financial position that would have been achieved had the GXT acquisition been consummated on the dates indicated and should not be construed as representative of future operating results or financial position. The following data should be read in conjunction with our historical audited and unaudited consolidated financial statements and the related notes thereto, which are incorporated by reference into this prospectus, the Unaudited Pro Forma Financial Statements beginning on page 36, and the historical consolidated financial statements and the related notes of GXT beginning on page F-3.

Summary Financial Data of Input/ Output

	Year Ended December 31,				Three Months Ended March 31,		
	2001	2002	2003	Pro Forma 2003	2003	2004	Pro Forma 2004
	(unaudited)				(unaudited)		
	(in thousands, except per share data)						
Statement of Operations Data⁽¹⁾ :							
Net sales	\$ 212,050	\$ 118,583	\$ 150,033	\$ 199,089	\$ 41,177	\$ 36,287	\$ 56,109
Cost of sales	139,478	101,018	122,192	154,388	32,720	24,026	36,886
Gross profit	72,572	17,565	27,841	44,701	8,457	12,261	19,223
Operating expenses (income):							
Research and development	29,442	28,756	18,696	18,696	5,518	4,075	4,075
Marketing and sales	11,657	11,218	12,566	17,031	2,811	3,299	4,636
General and administrative	19,695	19,760	16,753	23,883	4,065	4,693	7,141
Gain on sale of assets						(850)	(850)
Amortization of goodwill	3,873						
Impairment of long-lived assets		6,274	1,120	1,120	1,120		
Goodwill impairment		15,122					
Total operating expenses	64,667	81,130	49,135	60,730	13,514	11,217	15,002

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	Year Ended December 31,				Three Months Ended March 31,		
	2001	2002	2003	Pro Forma 2003	2003	2004	Pro Forma 2004
	(unaudited) (unaudited) (in thousands, except per share data)						
Income (loss) from operations	7,905	(63,565)	(21,294)	(16,029)	(5,057)	1,044	4,221
Interest expense	(695)	(3,124)	(4,087)	(7,413)	(1,345)	(1,496)	(2,351)
Interest income	4,685	2,280	1,903	1,903	591	469	469
Fair value adjustment and exchange of warrant obligation		3,252	1,757	1,757	871		
Impairment of investment			(2,059)	(2,059)			
Other income (expense)	574	(798)	976	976	249	16	16
Income (loss) before income taxes	12,469	(61,955)	(22,804)	(20,865)	(4,691)	33	2,355
Income tax expense	3,128	56,770	348	574	588	591	660
Net income (loss)	9,341	(118,725)	(23,152)	(21,439)	(5,279)	(558)	1,695
Preferred dividend	5,632	947					
Net income (loss) applicable to common shares	\$ 3,709	\$ (119,672)	\$ (23,152)	\$ (21,439)	\$ (5,279)	\$ (558)	\$ 1,695
Basic income (loss) per common share	\$ 0.07	\$ (2.35)	\$ (0.45)	\$ (0.34)	\$ (0.10)	\$ (0.01)	\$ 0.03
Weighted average number of common shares outstanding	51,166	51,015	51,237	63,737	51,195	52,113	64,613
Diluted income (loss) per common share	\$ 0.07	\$ (2.35)	\$ (0.45)	\$ (0.34)	\$ (0.10)	\$ (0.01)	\$ 0.03
Weighted average number of diluted common shares outstanding	52,309	51,015	51,237	63,737	51,195	52,113	67,027
Other Data:							
Capital expenditures	\$ 9,202	\$ 8,230	\$ 4,587	\$	\$ 1,395	\$ 675	\$
Depreciation and amortization	17,535	13,237	11,444	20,663	3,574	2,422	7,242
EBITDA ⁽²⁾	26,014	(47,874)	(9,176)	5,308	(363)	3,482	11,479

	As of December 31,		As of March 31, 2004	
	2002	2003	Actual	Pro Forma
	(in thous ands) (unaudited)			
Balance Sheet Data:				
Working capital	\$ 114,940	\$ 133,467	\$ 97,994	\$ 83,100
Total assets	249,594	249,204	260,391	433,118
	2,142	2,687	2,168	7,108

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Notes payable and current maturities of long-term debt

Long-term debt, net of current maturities	51,430	78,516	78,033	114,512
Stockholders equity	152,486	133,764	143,733	253,234

- (1) Our results of operations for the years ended December 31, 2001, 2002 and 2003, respectively, include specific charges (where applicable) as discussed in our Notes to Consolidated Financial Statements incorporated by reference into this prospectus.
- (2) EBITDA represents our earnings (loss) before net interest expense, income taxes, and depreciation and amortization. See Reconciliation of Non-GAAP Financial Data on page 14.

Table of Contents**Summary Financial Data of GXT**

The following data for each of the fiscal years of GXT ended June 30, 2002 and 2003, and the nine months ended March 31, 2003 and 2004, and as of June 30, 2002 and 2003 and March 31, 2004, have been derived from the historical financial statements of GXT and the related notes of GXT beginning on page F-3. With regard to the unaudited consolidated financial data as of and for the nine months ended March 31, 2003 and 2004, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations for the three months ended March 31, 2004 are not necessarily indicative of operating results for a full year or of future operations.

	Year Ended June 30,			Nine Months Ended March 31,	
	2001	2002	2003	2003	2004
	(in thousands)			(unaudited)	
Statement of Operations Data:					
Revenues	\$ 18,017	\$ 21,141	\$ 41,019	\$ 29,811	\$ 47,157
Cost of revenues	10,689	13,048	24,571	17,533	29,929
Gross profit	7,328	8,093	16,448	12,278	17,228
Operating expenses:					
General and administrative	2,774	3,299	5,934	4,335	6,612
Sales and marketing	3,532	3,065	4,334	3,306	3,425
Total operating expenses	6,306	6,364	10,268	7,641	10,037
Income from operations	1,022	1,729	6,180	4,637	7,191
Interest expense	(662)	(530)	(723)	(517)	(665)
Income before income taxes	360	1,199	5,457	4,120	6,526
Income tax expense	21	233	826	623	2,359
Net income	\$ 339	\$ 966	\$ 4,631	\$ 3,497	\$ 4,167
Other Data:					
EBITDA ⁽¹⁾	\$ 2,557	\$ 3,807	\$ 12,878	\$ 9,523	\$ 17,605

	As of June 30,		As of March 31,
	2002	2003	2004
	(in thousands)		(unaudited)
Balance Sheet Data:			
Working capital	\$ (666)	\$ (7,708)	\$ (12,935)
Total assets	16,597	31,031	46,164
Line of credit and current maturities of long-term obligations	5,602	7,043	8,715
Long-term obligations	1,661	2,436	2,730
Redeemable preferred stock	10,446	10,446	10,446
Stockholders' equity (deficit)	(6,953)	(3,158)	451

(1)

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EBITDA represents GXT's earnings (loss) before interest expense, income taxes and depreciation and amortization. See Reconciliation of Non-GAAP Financial Data below.

Table of Contents**Reconciliation of Non-GAAP Financial Data**

EBITDA is used as a supplemental financial measure by our management and by external users of financial statements to assess:

the financial performance of assets without regard to financing methods, capital structures or historical cost basis;

the ability of assets to generate cash sufficient to pay interest on our indebtedness; and

operating performance and return on invested capital as compared to those of other companies in the seismic industry, without regard to financing methods and capital structure.

EBITDA has limitations as an analytical tool and should not be considered an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with generally accepted accounting principles (GAAP). EBITDA excludes some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Limitations to using EBITDA as an analytical tool include the following:

EBITDA does not reflect cash expenditures or future requirements for capital expenditures or capital commitments;

EBITDA does not reflect changes in, or cash requirements necessary to service interest or principal payments on, debt;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

other companies in the seismic industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of the non-GAAP financial measures of our and GXT's EBITDA to the most directly comparable GAAP financial measures on a historical basis and on a pro forma basis for each of the periods indicated.

I/O's EBITDA represents earnings (loss) before net interest expense, income taxes and depreciation and amortization. I/O's reconciliation of EBITDA to net income (loss) is as follows:

	Year Ended December 31,				Three Months Ended March 31,		
	2001	2002	2003	Pro Forma 2003	2003	2004	Pro Forma 2004
	(in thousands)				(unaudited)		
I/O Reconciliation of EBITDA to Net Income:							
Net income (loss)	\$ 9,341	\$(118,725)	\$(23,152)	\$(21,439)	\$(5,279)	\$(558)	\$ 1,695
Interest expense	695	3,124	4,087	7,413	1,345	1,496	2,351
Interest income	(4,685)	(2,280)	(1,903)	(1,903)	(591)	(469)	(469)
Income tax expense	3,128	56,770	348	574	588	591	660
Depreciation and amortization expense	17,535	13,237	11,444	20,784	3,574	2,422	7,242
EBITDA	\$26,014	\$(47,874)	\$(9,176)	\$ 5,429	\$(363)	\$3,482	\$11,479

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EBITDA of GXT represents GXT's earnings (loss) before interest expense, income taxes and depreciation and amortization. GXT's reconciliation of EBITDA to net income is as follows:

	Year Ended June 30,			Nine Months Ended March 31,		Three Months Ended March 31,
	2001	2002	2003	2003	2004	2004
(unaudited)						
(in thousands)						
GXT Reconciliation of EBITDA to Net Income:						
Net income (loss)	\$ 339	\$ 966	\$ 4,631	\$3,497	\$ 4,167	\$2,067
Interest expense	662	530	723	517	666	252
Income tax expense	21	233	826	623	2,359	1,171
Depreciation and amortization	1,535	2,078	6,698	4,886	10,413	4,820
EBITDA	<u>\$2,557</u>	<u>\$3,807</u>	<u>\$12,878</u>	<u>\$9,523</u>	<u>\$17,605</u>	<u>\$8,310</u>

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RISK FACTORS

An investment in our common stock involves risks. The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. Our business, financial condition, results of operations or prospects could be materially adversely affected by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. This prospectus, including the documents it incorporates by reference, also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus. The following risk factors relate to our current and anticipated business, and would also apply to our company after giving effect to the GXT acquisition.

Risks Related to Our Planned Acquisition of GXT

We may not realize the anticipated benefits of the GXT acquisition or be successful in integrating the operations, personnel or technology of GXT.

There can be no assurance that the anticipated benefits of the GXT acquisition will be realized or that our integration of the operations, personnel and technology of GXT will be successful. The integration of GXT will require the experience and expertise of certain managers and key employees of GXT who are expected to be retained by us. There can be no assurance that the GXT managers and key employees retained by us will remain with us for the time period necessary to successfully integrate GXT into our operations.

The GXT acquisition will increase our exposure to the risks experienced by more technology-intensive companies.

GXT's business, being more concentrated in processing services and proprietary technologies than our traditional business, will expose us to the risks typically encountered by smaller technology companies that are more dependent on proprietary technology protection and research and development. These risks include:

- future competition from more established companies entering the market;
- product obsolescence;
- dependence upon continued growth of the market for seismic data processing;
- the rate of change in the markets for GXT's technology and services;
- research and development efforts not proving sufficient to keep up with changing market demands;
- dependence on third-party software for inclusion in GXT's products and services;
- misappropriation of GXT's technology by other companies;
- alleged or actual infringement of intellectual property rights that could result in substantial additional costs;
- recruiting, training and retaining technically skilled personnel that could increase GXT's costs or limit its growth; and
- recent weakening in prices for GXT's pre-stack depth migration processing services.

The GXT acquisition may alienate a number of our traditional seismic contractor customers with whom GXT competes and adversely affect sales to and revenues from those customers.

GXT's business in processing seismic data competes with a number of our traditional customers that are seismic contractors. Many of these companies not only offer their customers—generally major, independent and national oil companies—the traditional services of conducting seismic

surveys, but also the processing and interpretation of the data acquired from those seismic surveys. In that regard, GXT's processing services may

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directly compete with these contractors' service offerings and may adversely affect our relationships with them, which could result in reduced sales and revenues from these seismic contractor customers.

GXT is named as a defendant in a suit by WesternGeco in connection with GXT's hiring of certain former WesternGeco employees.

In December 2002, GXT was named as a defendant in a lawsuit filed by WesternGeco. WesternGeco, a provider of seismic processing technologies, is a competitor of GXT and a significant customer of I/O. In the petition, WesternGeco alleges that GXT engaged in unfair competition, tortious interference and misappropriation of trade secrets and confidential information in connection with its hiring of a small number of former WesternGeco employees. An adverse judgment in the WesternGeco litigation following the GXT acquisition could negatively impact our business, and contentious litigation could injure our existing relationship with WesternGeco.

Risks Related to Our Business and Our Common Stock

We may not gain rapid market acceptance for our VectorSeis products, which could materially adversely affect our results of operations and financial condition.

We have spent considerable time and capital developing our VectorSeis products line. Because VectorSeis products rely on a new digital sensor, our ability to sell our VectorSeis products will depend on acceptance of our digital sensor and technology solutions by geophysical contractors and exploration and production companies. If our customers do not believe that our digital sensor delivers higher quality data with greater operational efficiency, our results of operations and financial condition will be materially adversely affected.

System reliability is an important competitive consideration for seismic data acquisition systems. Even though we attempt to assure that our systems are always reliable in the field, the many technical variables related to operations can cause a combination of factors that can and have from time to time caused service issues with our analog products. If our customers believe that our analog products have reliability issues, then those customers may delay acceptance of our new products and reduce demand for our analog products. Our business, our results of operations and our financial condition, therefore, may be materially adversely affected.

While we believe that our new VectorSeis System Four land data acquisition system has made significant improvements in both field troubleshooting and reliability compared to our legacy systems, products as complex as this system sometimes contain undetected errors or bugs when first introduced. Despite our testing program, these undetected errors may not be discovered until the product is purchased and used by a customer. If our customers deploy our new products and they do not work correctly, our relationship with our customers may be materially adversely affected. Errors may be found in future releases of our products, and these errors could impair the market acceptance of our products. If our customers do not accept our new products as rapidly as we anticipate, our business, our results of operations and our financial condition may be materially adversely affected.

We may not be able to generate sufficient cash flows to meet our operational, growth and debt service needs.

Our cash and cash equivalents declined from \$76.2 million at December 31, 2002 to \$59.5 million at December 31, 2003, a decrease of \$16.7 million, or 22%. At March 31, 2004, our cash and cash equivalents had decreased to \$25 million primarily due to our payment of approximately \$38.4 million cash, including acquisition costs, to acquire Concept Systems in February 2004. Our ability to fund our operations, grow our business and to make scheduled payments on our indebtedness and our other obligations, including our convertible notes, will depend on our financial and operating performance, which in turn will be affected by general economic conditions in the energy industry and by many financial, competitive, regulatory and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future sources of capital will be available to us in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs.

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If we are unable to generate sufficient cash flows to fund our operations, grow our business and satisfy our debt obligations, we may have to undertake additional or alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any refinancing would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds that may be realized from those sales, or that additional financing could be obtained on acceptable terms, if at all. Our inability to generate sufficient cash flows to satisfy debt obligations, or to refinance our indebtedness on commercially reasonable terms, would materially adversely affect our financial condition and results of operations and our ability to satisfy our obligations under the convertible notes.

The loss of any significant customer could materially adversely affect our results of operations and financial condition.

We rely on a relatively small number of significant customers. Consequently, our business is exposed to the risks related to customer concentration. During 2003 and for the three months ended March 31, 2004, BGP, an international seismic contractor and subsidiary of the China National Petroleum Corporation, accounted for approximately 28% and 13%, respectively, of our consolidated net sales. In 2002, two of our largest customers, WesternGeco and Laboratory of Regional Geodynamics Limited, were responsible for approximately 11% and 10%, respectively, of our consolidated net sales. The loss of any of our significant customers or a deterioration in our relations with any of them could materially adversely affect our results of operations and financial condition.

Our past business reorganization and facilities closure actions may not yield the benefits we expect and could harm our financial condition, reputation and prospects.

We have significantly reduced our corporate and operational headcount, closed certain manufacturing facilities and combined certain of our business units. These activities may not yield the benefits we expect, and may raise product costs, delay product production, result in labor disruptions or labor-related legal actions against us or create inefficiencies in our business. In addition, if the markets for our products do not improve, we will take additional restructuring actions to address these market conditions. Any such additional actions could result in additional restructuring charges.

If we fail to implement our business strategy, our financial condition and results of operations could be materially adversely affected.

Our future financial performance and success are dependent in large part upon our ability to successfully implement our business strategy to introduce new seismic technologies and to reduce costs through outsourcing manufacturing and certain research and development activities. We cannot assure you that we will be able to successfully implement our business strategy or improve our operating results. In particular, we cannot assure you that we will be able to stimulate sufficient demand for our VectorSeis products, our AZIM processing services or our traditional analog product line, to execute our growth strategy (including acquisitions) or to sufficiently reduce our costs to achieve required efficiencies. Our strategic direction also may give rise to unforeseen costs, which could wholly or partially offset any expense reductions or other financial benefits we attain as a result of the changes to our business.

We are in the process of evaluating and may, from time to time in the future, evaluate the acquisition of assets or operations that complement our existing businesses. We cannot estimate what impact, if any, our acquisition of these assets or operations may have on our business.

Furthermore, we cannot assure you that we will be successful in our acquisition efforts or that we will be able to effectively manage expanded or acquired operations. Our ability to achieve our acquisition or expansion objectives and to effectively manage our growth depends on a number of factors, including:

our ability to identify appropriate acquisition targets and to negotiate acceptable terms for their acquisition;

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our ability to integrate new businesses into our operations; and

the availability of capital on acceptable terms.

Our business strategy may require additional funding, which may be provided in the form of additional debt, equity financing or a combination thereof. We cannot assure you that we will be able to obtain this financing, and if so, on advantageous terms and conditions.

Implementation of our business strategy could be affected by a number of factors beyond our control, such as increased competition, general economic conditions or increased operating costs. Any failure to successfully implement our business strategy could materially adversely affect our financial condition and results of operations. We may, in addition, decide to alter or discontinue certain aspects of our business strategy at any time.

Technologies and businesses that we acquire may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.

An important aspect of our current business strategy has been to seek new technologies, products and businesses to broaden the scope of our existing and planned product lines and technologies. Acquisitions may result in unexpected costs, expenses and liabilities. For example, during 2002, we acquired certain assets of S/N Technologies and, in April 2003, we invested \$3.0 million in Energy Virtual Partners (EVP). These transactions were not successful, and we have since completely written down the costs of the assets we purchased from S/N Technologies and have written down our investment in EVP to its liquidation value of \$1.0 million.

Our ability to achieve our expansion and acquisition objectives will also depend on the availability of capital on acceptable terms. Our combined businesses resulting from any acquisitions may not be able to generate sufficient operating cash flows in order for us to obtain additional financing or fund our acquisition strategy.

Acquisitions expose us to:

increased costs associated with the acquisition and operation of the new businesses or technologies and the management of geographically dispersed operations;

risks associated with the assimilation of new technologies, operations, sites and personnel;

the possible loss of key employees;

risks that any technology we acquire may not perform as well as we had anticipated;

the diversion of management's attention and other resources from existing business concerns;

the potential inability to replicate operating efficiencies in the acquired company's operations;

the inability to generate revenues to offset associated acquisition costs;

the continuing need to maintain uniform standards, controls, and procedures;

the impairment of relationships with employees and customers as a result of any integration of new and inexperienced management personnel; and

the risk that acquired technologies do not provide us with the benefits we anticipated.

Our integration of acquired businesses requires significant efforts from the management of each entity, including coordinating existing business plans and research and development efforts. Integrating operations may distract management's attention from the day-to-day operation of the combined companies. Ultimately, our attempts to integrate the operations, technology and personnel of acquired businesses may not be successful. If we are unable to successfully integrate acquired businesses, including Concept Systems, which we acquired in February 2004, our future results will be negatively impacted.

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Acquisitions may also result in the issuance of dilutive equity securities, the incurrence or assumption of debt and additional expenses associated with the amortization of acquired intangible assets or potential businesses. There is no assurance that past or future acquisitions will generate additional income, cash flows or provide any benefit to our business.

We have developed outsourcing arrangements with third parties to manufacture some of our products. If these third parties fail to deliver quality products or components at reasonable prices on a timely basis, we may alienate some of our customers and our revenues, profitability and cash flow may decline.

As part of our strategic direction, we are increasing our use of contract manufacturers as an alternative to our own manufacture of products. If, in implementing this outsourcing initiative, we are unable to identify contract manufacturers willing to contract with us on competitive terms and to devote adequate resources to fulfill their obligations to us, or if we do not properly manage these relationships, our existing customer relationships may suffer. In addition, by undertaking this initiative, we are exposed to the risk that the reputation and competitiveness of our products and services may deteriorate as a result of the reduction of our control over quality and delivery schedules. We also may experience supply interruptions, cost escalations and competitive disadvantages if our contract manufacturers fail to develop, implement or maintain manufacturing methods appropriate for our products and customers.

If any of these risks are realized, our revenues, profitability and cash flow may decline. In addition, as we rely more heavily on contract manufacturers, we may have fewer personnel resources with expertise to manage problems that may arise from these third-party arrangements.

The current oversupply of seismic data and downward pricing pressures has, and may continue to, adversely affect our operations and significantly reduce our operating margins and income.

The current industry-wide oversupply of speculative surveys conducted and collected by geophysical contractors, and their practice of lowering prices to their customers for these surveys in order to recover investments in assets used to conduct 3-D surveys, has in recent years adversely affected our results of operations and financial condition. Particularly during periods of reduced levels of exploration for oil and gas, the oversupply of seismic data and downward pricing pressures limit our ability to meet sales objectives and maintain profit margins for our products and sustain growth of our business. These industry conditions have reduced, and if continued into the future, will reduce, our revenues and operating margins.

Oil and gas companies and geophysical contractors will reduce demand for our products and services if the level of exploration expenditures continues to remain relatively low.

Historically, demand for our products has been sensitive to the level of exploration spending by oil and gas companies and geophysical contractors. Exploration expenditures have tended in the past to follow trends in the price of oil and gas, which have fluctuated widely in recent years in response to relatively minor changes in supply and demand for oil and gas, market uncertainty and a variety of other factors beyond our control. Prolonged reductions in oil and gas prices will generally depress the level of exploration activity and correspondingly depress demand for our products and services. A prolonged downturn in market demand for our products or services will have a material adverse effect on our results of operations and financial condition. Additionally, we cannot assure you that increases in oil and gas prices will increase demand for our products and services or otherwise have a positive effect on our results of operations or financial condition.

Factors affecting the prices of oil and gas include:

level of demand for oil and gas;

worldwide political, military and economic conditions, including the ability of the Organization of Petroleum Exporting Countries (OPEC) to set and maintain production levels and prices for oil;

level of oil and gas production;

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government policies regarding the exploration for, and production and development of, oil and gas reserves in their jurisdictions; and

global weather conditions.

The markets for oil and gas historically have been volatile and are likely to continue to be so in the future. In addition, we cannot predict the effect that the development of alternative energy sources might have on our operations.

We have a history of operating losses and we may have losses in the future.

As of and for the year ended December 31, 2003, we had:

an accumulated deficit of approximately \$158.5 million; and

incurred loss from operations of \$21.3 million and net loss of \$23.2 million.

We also had operating losses and net losses for the year ended December 31, 2002, the seven months ended December 31, 2000 and the year ended May 31, 2000. While we intend to increase our revenues, operating income and net income through acquisitions and internal growth, there can be no assurance we will be successful and our business and financial condition could be materially adversely affected.

Additional funds may not be available on acceptable terms, if at all. If adequate funds are unavailable from operations or additional sources of financing, we might be forced to reduce or delay acquisitions or capital expenditures, sell assets, reduce operating expenses, refinance all or a portion of our debt, or delay or reduce important initiatives, such as marketing programs and research or development programs.

In addition, we may seek to raise any necessary additional funds through equity or debt financings, convertible debt financing, alliance arrangements with corporate partners or other sources, which may be dilutive to existing stockholders and may cause the price of our common stock to decline.

Our debt service obligations and cash requirements to fund our operations could harm our ability to operate our business.

As of March 31, 2004, after giving effect to the GXT acquisition and the New Credit Facility, on a pro forma basis, we would have had approximately \$121.6 million of total indebtedness outstanding (including lease obligations under our facilities lease-back arrangements), and for the three months ended March 31, 2004 and for the year ended December 31, 2003 our interest expense would have been approximately \$2.4 million and \$7.4 million, respectively. Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness. Our ability to make scheduled payments of principal or interest on, or to refinance, our indebtedness depends on our future business performance, which is subject to many economic, financial, competitive and other factors beyond our control. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions in the documents governing our indebtedness. If we incur additional debt, the risks associated with our substantial leverage would increase.

Our degree of leverage may have important consequences to you, including the following:

we may have difficulty satisfying our obligations under our indebtedness and, if we fail to comply with these requirements, an event of default could result;

we may be required to dedicate a substantial portion of our cash flow from operations to required payments on indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures and other general corporate activities;

covenants relating to future debt may limit our ability to obtain additional financing for working capital, capital expenditures and other general corporate activities;

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covenants relating to future debt may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

we may be more vulnerable to the impact of economic downturns and adverse developments in our business; and

we may be placed at a competitive disadvantage against any less leveraged competitors.

The occurrence of any one of these events could have a material adverse effect on our business, financial condition, results of operations and prospects.

We have typically financed operations from internally generated cash and funds from equity and debt financings. Our cash and cash equivalents decreased \$16.7 million, or 22%, from December 31, 2002 to December 31, 2003. This decrease was primarily due to net cash used in operating activities of \$33.1 million and the payment of \$31.0 million of indebtedness under the unsecured promissory note we had issued to SCF Partners in August 2002 (SCF Note). These factors were partially offset by the \$56.5 million of net proceeds from our issuance of convertible securities in December 2003. At March 31, 2004, our cash and cash equivalents had decreased to \$25.0 million primarily due to our payment of approximately \$38.4 million cash, including acquisition costs, to acquire Concept Systems in February 2004.

There is increasing risk that our collections cycle will further lengthen as we anticipate a larger percentage of our sales will be to foreign customers, particularly in China and the CIS.

We cannot assure you that our sources of cash will be sufficient to meet our anticipated future capital requirements. We used a substantial portion of the proceeds from the sale of the convertible notes to repay in full the approximately \$16.0 million of outstanding indebtedness under the SCF Note and we used a total of \$38.4 million cash, including acquisition costs, from such proceeds and from our general corporate funds for the Concept Systems acquisition in February 2004. As a result, the proceeds from the offering of the convertible notes are not available to fund our future capital requirements and contractual obligations.

We derive a substantial amount of our revenues from foreign sales, which pose additional risks.

Sales to destinations outside of North America accounted for approximately 77% of our consolidated net sales for the year ended December 31, 2003, and approximately 80% of our consolidated net sales for the three month period ended March 31, 2004. We believe that export sales will remain a significant percentage of our revenue. United States export restrictions affect the types and specifications of products we can export. Additionally, to complete certain sales, United States laws may require us to obtain export licenses, and we cannot assure you that we will not experience difficulty in obtaining these licenses. Operations and sales in countries other than the United States are subject to various risks peculiar to each country. With respect to any particular country, these risks may include:

expropriation and nationalization;

political and economic instability;

armed conflict and civil disturbance;

currency fluctuations, devaluations and conversion restrictions;

confiscatory taxation or other adverse tax policies;

tariff regulations and import/export restrictions;

governmental activities that limit or disrupt markets, or restrict payments or the movement of funds; and

governmental activities that may result in the deprivation of contractual rights.

There is increasing risk that our collections cycle will further lengthen as we anticipate a larger percentage of our sales will be to foreign customers, particularly those in China and the CIS.

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The majority of our foreign sales are denominated in United States dollars. An increase in the value of the dollar relative to other currencies will make our products more expensive, and therefore less competitive, in foreign markets.

In addition, we are subject to taxation in many jurisdictions and the final determination of our tax liabilities involves the interpretation of the statutes and requirements of taxing authorities worldwide. Our tax returns are subject to routine examination by taxing authorities, and these examinations may result in assessments of additional taxes, penalties and/or interest.

The rapid pace of technological change in the seismic industry requires us to make substantial research and development expenditures and could make our products obsolete.

The markets for our products are characterized by rapidly changing technology and frequent product introductions. We must invest substantial capital to maintain a leading edge in technology, with no assurance that we will receive an adequate rate of return on such investments. If we are unable to develop and produce successfully and timely new and enhanced products, we will be unable to compete in the future and our business, our results of operations and financial condition will be materially adversely affected.

Competition from sellers of seismic data acquisition systems and equipment is intensifying and could adversely affect our results of operations and financial condition.

Our industry is highly competitive. Our competitors have been consolidating into better-financed companies with broader product lines. Certain of our competitors are affiliated with seismic contractors, which forecloses a portion of the market to us. Some of our competitors have greater name recognition, more extensive engineering, manufacturing and marketing capabilities, and greater financial, technical and personnel resources than those available to us. Our ability to compete effectively in the manufacture and sale of seismic instruments and data acquisition systems depends principally upon continued technological innovation, as well as our reputation for quality, our ability to deliver on schedule and price.

Our competitors have expanded or improved their product lines, which has adversely affected our results of operations. One competitor has introduced a lightweight land seismic system that we believe has made our current land system more difficult to sell at acceptable margins. In addition, another competitor introduced a marine solid streamer product that competes with our oil-filled towed streamer product. Streamers are towed behind marine vessels to acquire seismic data in marine environments and can either be solid or oil-filled. Our net sales of marine streamers have been, and will continue to be, adversely affected by customer preferences for solid products. In May 2003, we decided to cancel our internal project to develop a solid streamer product.

Further consolidation among our significant customers could materially adversely affect us.

Historically, a relatively small number of customers has accounted for the majority of our net sales in any period. In recent years, our customers have been rapidly consolidating, thereby shrinking the demand for our products. The loss of any of our significant customers to further consolidation could materially adversely affect our results of operations and financial condition.

Large fluctuations in our sales and gross margins can result in operating losses.

As our products are technologically complex, we experience a very long sales cycle. In addition, the revenues from any particular sale can vary greatly from our expectations due to changes in customer requirements. These factors create substantial fluctuations in our net sales from period to period. Variability in our gross margins compound the uncertainty associated with our sales cycle. Our gross margins are affected by the following factors:

pricing pressures from our customers and competitors;

product mix sold in a period;

inventory obsolescence;

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unpredictability of warranty costs;

changes in sales and distribution channels;

availability and pricing of raw materials and purchased components; and

absorption of manufacturing costs through volume production.

We must establish our expenditure levels for product development, sales and marketing and other operating expenses based, in large part, on our forecasted net sales and gross margins. As a result, if net sales or gross margins fall below our forecasted expectations, our operating results and financial condition are likely to be adversely affected because not all of our expenses vary with our revenues.

Write-offs related to the impairment of long-lived assets and other non-cash charges may adversely impact our profitability.

We may incur significant non-cash charges related to impairment write-downs of our long-lived assets, including goodwill and other intangible assets. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, we recorded an impairment charge of \$15.1 million in 2002 relating to our analog land products reporting unit. Also, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we recorded an impairment charge relating to other long-lived assets of \$6.3 million in 2002 (relating to the impairment of our Alvin, Texas manufacturing facility, the leasehold improvements in our Norwich, U.K. geophone stringing facility and certain related manufacturing equipment at both facilities) and \$1.1 million in 2003 (relating to the cancellation of our solid streamer project within our Marine Imaging segment in the first quarter of 2003).

We will continue to incur non-cash charges related to amortization of other intangible assets. We are required to perform periodic impairment reviews of our goodwill at least annually. To the extent these reviews conclude that the carrying value of our goodwill exceeds its implied fair value, we will be required to record an impairment charge to write down our goodwill to its implied fair value. Also, we periodically evaluate the net realizable values of our other long-lived assets. To the extent these reviews conclude that the expected future cash flows generated from our business activities are not sufficient to recover the cost of our other long-lived assets, we will be required to measure and record an impairment charge to write down these assets to their net realizable values. We conduct our annual goodwill assessment in the fourth quarter of each year. We cannot assure you that upon completion of this and subsequent reviews, a material impairment charge will not be recorded. If this and future periodic reviews determine that our assets are impaired and a write down is required, it will adversely impact or delay our profitability.

Our outsourcing relationships may require us to purchase inventory when demand for products produced by third-party manufacturers is low.

Under a few of our outsourcing arrangements, our contract manufacturers purchase agreed-upon inventory levels to meet our forecasted demand. Since we typically operate without a significant backlog of orders for our products, our manufacturing plans and inventory levels are principally based on sales forecasts. If demand proves to be less than we originally forecasted, these contract manufacturers have the right to require us to purchase any excess or obsolete inventory. Should we be required to purchase inventory under these provisions, we may have to hold inventory that we may never utilize.

To date, we have not been required to purchase any fixed amount of excess inventory under our outsourcing arrangements, and we have no existing obligation to purchase any such fixed amount of excess inventory. We are in the process of revising our sales forecasting techniques with our Contract Manufacturers, providing short-term forecasts (usually less than three months) rather than long-term forecasts, which should assist with mitigating the risk that we will significantly overestimate our inventory needs from these outsourcers.

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We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary technologies. We believe that the technological and creative skill of our employees, new product developments, frequent product enhancements, name recognition and reliable product maintenance are the foundations of our competitive advantage. Although we have a considerable portfolio of patents, copyrights, trademarks and trade secrets, these property rights offer us only limited protection. Our competitors may attempt to copy aspects of our products despite our efforts to protect our proprietary rights, or may design around the proprietary features of our products. Policing unauthorized use of our proprietary rights is difficult, and we are sometimes unable to determine the extent to which such use occurs. Our difficulties are compounded in certain foreign countries where the laws do not offer as much protection for proprietary rights as the laws of the United States.

Third parties inquire and claim from time to time that we have infringed upon their intellectual property rights. Any such claims, with or without merit, could be time consuming, result in costly litigation, result in injunctions, require product modifications, cause product shipment delays or require us to enter into royalty or licensing arrangements. Such claims could have a material adverse affect on our results of operations and financial condition.

As of the date of this prospectus, we are not aware of any parties that intend to pursue intellectual property claims against us.

Significant payment defaults under extended financing arrangements could adversely affect us.

We often sell to customers on payment terms other than cash on delivery. We allow many of our customers to finance substantial purchases of our products through the issuance to us of promissory notes. The terms of these promissory notes initially range from eight months to five years. As of March 31, 2004, we had outstanding accounts receivable of approximately \$33.9 million and notes receivable of approximately \$17.9 million. Significant payment defaults by customers could have a material adverse effect on our results of operations and financial condition.

Approximately \$10.6 million of our total notes receivable outstanding at March 31, 2004 related to one customer, a subsidiary of a major Russian energy company. During 2003, this customer became delinquent on approximately \$0.8 million of its scheduled principal and interest payments, in addition to becoming delinquent on \$1.8 million of its trade payable to us. In January 2004, we refinanced the delinquent portion of its notes and accounts payable to us into a new note totaling \$2.6 million, with payments due in equal installments over a twelve month period. Based on our internal credit review and meetings with the customer and its parent company, we expect the customer will pay all of its obligations in full and, therefore, no allowance has been established for these receivables.

With respect to customer defaults, our levels of expense for loan loss in recent periods have been as follows:

Period Ended	Expense for Loan Loss
	(in thousands)
Year ended May 31, 2000	\$ 7,057
Seven months ended December 31, 2000	1,305
Year ended December 31, 2001	1,577
Year ended December 31, 2002	158
Year ended December 31, 2003	

The above table of expense for loan loss may not be indicative of future trends.

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Our operations, and the operations of our customers, are subject to numerous government regulations, which could adversely limit our operating flexibility.

Our operations are subject to laws, regulations, government policies and product certification requirements worldwide. Changes in such laws, regulations, policies or requirements could affect the demand for our products or result in the need to modify products, which may involve substantial costs or delays in sales and could have an adverse effect on our future operating results. Our export activities are also subject to extensive and evolving trade regulations. Certain countries are subject to restrictions, sanctions and embargoes imposed by the United States government. These restrictions, sanctions and embargoes also prohibit or limit us from participating in certain business activities in those countries. Our operations are subject to numerous local, state and federal laws and regulations in the United States and in foreign jurisdictions concerning the containment and disposal of hazardous materials, the remediation of contaminated properties and the protection of the environment. These laws have been changed frequently in the past, and there can be no assurance that future changes will not have a material adverse effect on us. In addition, our customers' operations are also significantly impacted by laws and regulations concerning the protection of the environment and endangered species. Consequently, changes in governmental regulations applicable to our customers may reduce demand for our products. For instance, regulations regarding the protection of marine mammals in the Gulf of Mexico may reduce demand for our airguns and other marine products. To the extent that our customers' operations are disrupted by future laws and regulations, our business and results of operations may be materially adversely affected.

Disruption in vendor supplies will adversely affect our results of operations.

Our manufacturing processes require a high volume of quality components. Certain components used by us are currently provided by only one supplier. We may, from time to time, experience supply or quality control problems with suppliers, and these problems could significantly affect our ability to meet production and sales commitments. Reliance on certain suppliers, as well as industry supply conditions, generally involves several risks, including the possibility of a shortage or a lack of availability of key components and increases in component costs and reduced control over delivery schedules; any of these could adversely affect our future results of operations.

Our stock price may fluctuate, and your investment in our stock could decline in value.

The average daily trading volume of our common stock for the three months ended March 31, 2004, was approximately 665,289 shares. The trading volume of our stock may contribute to its volatility, and an active trading market in our stock might not continue.

If substantial amounts of our common stock were to be sold in the public market, the market price of our common stock could decline. Some of the other factors that can affect our stock price are:

future demand for seismic equipment and services;

the announcement of new products, services or technological innovations by us or our competitors;

the adequacy of our liquidity and capital resources;

consolidation among our significant customers;

continued variability in our revenues or earnings;

changes in quarterly revenue or earnings estimates for us made by the investment community;

speculation in the press or investment community about our strategic position, financial condition, results of operations, business or significant transactions; and

general perception of the energy or technology sectors of the economy.

The market price of our common stock may also fluctuate significantly in response to factors that are beyond our control. The stock market in general has recently experienced extreme price and volume

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fluctuations. In addition, the market prices of securities of technology companies have also been extremely volatile, and have experienced fluctuations that often have been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations could result in extreme fluctuations in the price of our common stock, which could cause a decline in the value of our investors' stock.

If we, or our existing stockholders holding registration rights, sell additional shares of our common stock after this offering, the market price of our common stock could decline.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market after this offering, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, could make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Approximately 7,474,000 of our shares of common stock are subject to registration rights, which include the right to require us to register the sale of their shares or the right to include their shares in secondary public offerings we undertake in the future. These holders include Laitram, L.L.C., which beneficially owns approximately 10.9% of our common stock subject to piggyback registration rights. We also may enter into additional registration rights agreements in the future in connection with any subsequent acquisitions we may undertake. Any sales of our common stock under these registration rights arrangements with these stockholders could be negatively perceived in the trading markets and negatively affect the price of our common stock. Sales of a substantial number of our shares of common stock in the public market under these arrangements, or the expectation of such sales, could cause the market price of our common stock to decline.

Conversion of our outstanding convertible notes will dilute the ownership interests of existing stockholders.

The conversion of some or all of the convertible notes we issued in December 2003 will dilute the ownership interests of existing stockholders. Sales in the public market of shares of common stock issued upon conversion would apply downward pressure on their prevailing market prices. In addition, the very existence of the convertible notes represent a future acquisition, and perhaps a future sale, of our common stock to be acquired on conversion, which could also depress trading prices for our common stock.

Our certificate of incorporation and bylaws, Delaware law and our stockholder rights plan contain provisions that could discourage another company from acquiring us.

Provisions of Delaware law, our certificate of incorporation, bylaws and stockholder rights plan may discourage, delay or prevent a merger or acquisition that our stockholders may consider favorable, including transactions in which you might otherwise receive a premium for shares of our common stock. These provisions include:

authorizing the issuance of blank check preferred stock without any need for action by stockholders;

providing for a dividend on our common stock, commonly referred to as a poison pill, which can be triggered after a person or group acquires, obtains the right to acquire, or commences a tender or exchange offer to acquire, 20% or more of our outstanding common stock;

providing for a classified board of directors with staggered terms;

requiring supermajority stockholder voting to effect certain amendments to our certificate of incorporation and by-laws;

eliminating the ability of stockholders to call special meetings of stockholders;

prohibiting stockholder action by written consent; and

establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

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The loss of certain members of our senior management team (many of whom have only recently joined our company) could have a material adverse effect on our financial condition and results of operations.

Our success depends, in part, on the efforts of our senior management and other key employees. These individuals possess sales, marketing, technical, engineering, manufacturing and processing skills that are critical to executing our business strategy. If we lose or suffer an extended interruption in the services of one or more of our senior officers, our financial condition and results of operations may be adversely affected. Moreover, the market for qualified individuals may be highly competitive, and we may not be able to attract and retain qualified personnel to replace or succeed members of our senior management or other key employees, should the need arise.

While many members of our current senior management team have significant experience working at various large corporations, with some of them working together at those corporations, our senior management has had limited experience working together at our company and implementing our current business strategy. See [Business](#) [Our Strengths and Challenges](#).

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FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein contain statements concerning our future results and performance and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed under Risk Factors and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as may, will, should, intend, expect, plan, anticipate, believe, estimate, predict, potential, or continue or the negative or comparable terminology.

Examples of other forward-looking statements contained or incorporated by reference in this prospectus include statements regarding:

anticipated benefits of our acquisitions, including our acquisition of Concept Systems and our proposed acquisition of GXT;

our ability to integrate the operations, personnel and technologies of businesses we acquire;

our expected revenues, gross margins, operating income, net income and cash flows;

future growth rates and margins for certain of our products and services;

the adequacy of our future liquidity and capital resources;

anticipated timing and success of commercialization and capabilities of products and services under development;

our plans for facility closures and other future business reorganizations;

charges we expect to take for future reorganization activities;

savings we expect to achieve from our restructuring activities;

future demand for seismic equipment and services;

future seismic industry fundamentals;

future oil and gas commodity prices;

future worldwide economic conditions;

our expectations regarding future mix of business and future asset recoveries;

our expectations regarding realization of deferred tax assets;

our beliefs regarding accounting estimates we make;

the result of pending or threatened disputes and other contingencies;

our future acquisitions and levels of capital expenditures; and

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our proposed strategic alliances.

These forward-looking statements reflect our best judgment about future events and trends based on the information currently available to us. Our results of operations can be affected by inaccurate assumptions we make, or by risks and uncertainties known or unknown to us. Therefore, we cannot guarantee the accuracy of the forward-looking statements. Actual events and results of operations may vary materially from our current expectations and assumptions.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance, or achievements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements. We do not intend to update any of the forward-looking statements after the date of this prospectus to conform them to actual results.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of the _____ shares of common stock by us will be approximately \$100.0 million, or approximately \$ _____ million if the underwriters exercise their over-allotment option in full, based on an assumed offering price of \$ _____ per share and after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

The net proceeds we receive from this offering will be used to pay a portion of the purchase price for the GXT acquisition. We expect to complete the GXT acquisition concurrently with the completion of this offering. Completion of this offering is conditioned upon the completion of the GXT acquisition. The remaining portion of the purchase price will be paid with borrowings under our New Credit Facility, which we expect to enter by the time we complete this offering. See GXT Acquisition Summary of Transaction for a description of that transaction.

Table of Contents**COMMON STOCK PRICE RANGE**

Our common stock trades on the New York Stock Exchange (NYSE) under the symbol IO. The following table sets forth the high and low sales prices of the common stock for the periods indicated, as reported on the NYSE composite tape.

	Common Stock Price	
	High	Low
Year ended December 31, 2002		
First Quarter	\$ 10.00	\$ 7.48
Second Quarter	9.93	7.95
Third Quarter	9.50	4.50
Fourth Quarter	5.90	3.54
Year ended December 31, 2003		
First Quarter	4.79	3.40
Second Quarter	5.76	2.91
Third Quarter	6.00	3.61
Fourth Quarter	4.90	3.30
Period ended May 7, 2004		
First Quarter	7.82	4.55
Second Quarter (through May 7)	9.60	7.33

A recent reported last sale price per share for our common stock on the NYSE is set forth on the cover page of this prospectus. At April 30, 2004, there were 681 stockholders of record of our common stock.

DIVIDEND POLICY

We have not historically paid, and do not intend to pay in the foreseeable future, cash dividends on our common stock. We presently intend to retain cash from operations for use in our business, with any future decision to pay cash dividends on our common stock dependent upon our growth, profitability, financial condition, and other factors our board of directors considers relevant. Furthermore, the New Credit Facility may contain customary restrictions on our ability to pay dividends on our common stock.

Table of Contents**CAPITALIZATION**

The following table shows our capitalization as of March 31, 2004:

on an actual basis; and

on a pro forma basis, to reflect:

the consummation of the GXT acquisition;

anticipated borrowings under our New Credit Facility; and

the sale by us of _____ shares of our common stock pursuant to this offering (assuming no exercise of the underwriters over-allotment option).

You should read this table in conjunction with our financial statements and the notes to those financial statements incorporated by reference into this prospectus, the Unaudited Pro Forma Financial Statements beginning on page 36, and the historical consolidated financial statements and the related notes of GXT beginning on page F-3.

	March 31, 2004	
	Actual	Pro Forma
	(unaudited) (in thousands)	
Cash and cash equivalents	\$ 25,000	\$ 19,262
Long-term debt, net of current maturities		
5.50% Convertible Senior Notes Due 2008	\$ 60,000	\$ 60,000
New Credit Facility		34,500
Other long-term debt	18,033	20,013
Total long-term debt	78,033	114,513
Stockholders' equity:		
Common stock, \$0.01 par value; authorized 100,000,000 shares; issued and outstanding: 53,106,829 shares actual, net of treasury stock; and 65,606,829 shares pro forma and as adjusted ⁽¹⁾	540	665
Additional paid-in capital	307,604	416,979
Accumulated deficit	(159,095)	(159,095)
Accumulated other comprehensive income	909	909
Treasury stock, at cost, 791,869 shares	(5,905)	(5,905)
Unamortized restricted stock compensation	(320)	(320)
Total stockholders' equity	143,733	253,233
Total capitalization	\$ 221,766	\$ 367,746

(1) Excludes (a) 6,231,287 shares of common stock reserved for issuance under our stock option and incentive plans and agreements, of which options to purchase 5,719,131 shares at an average exercise price of \$8.00 were outstanding as of April 30, 2004; (b) 13,888,888 shares of

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common stock issuable upon conversion of our 5.5% senior convertible notes due 2008; (c) approximately million of shares of
common stock exercisable under our stock options issuable in connection with the GXT acquisition; and (d) shares of common
stock that the underwriters have an option to purchase solely to cover over-allotments.

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GXT ACQUISITION

Overview of GXT

GXT is a leading provider of seismic data processing and subsurface imaging services to oil and gas companies. GXT is focused on marine environments and specializes in providing customized imaging solutions utilizing GXT's expertise in computer processing technology. The improved images derived from GXT's processing and imaging technology enable oil and gas companies to more easily and economically identify and access hydrocarbon reservoirs. GXT's geoscientists and computer scientists have developed advanced processing algorithms that incorporate technologies such as illumination analysis, velocity models and pre-stack depth and time migration. GXT leverages the power of parallel computer clusters to process seismic data through these algorithms in order to develop higher-quality, more accurate, clearer images in shorter cycle times than conventional seismic processing.

Currently, the majority of GXT's processing and imaging involves data collected with traditional 2-D and 3-D techniques. GXT, however, has several development projects underway to apply its advanced processing technologies to data gathered through multi-component and 4-D time-lapse data collection methods.

GXT complements its core processing and imaging services with a suite of support services, including:

survey design, project management and quality control for seismic data acquisition;

data preconditioning for advanced pre-stack depth and time imaging;

4-D monitoring of reservoir fluid movement; and

outsourced, integrated management of seismic data acquisition and image processing services.

GXT offers its services to customers on both a project and outsourced basis. Through its Processing and Imaging (P&I) segment, GXT develops images by applying its processing technology to data owned or licensed by its customers. Under these arrangements, its customers separately arrange and pay for survey design, data collection, processing and imaging, and retain exclusive ownership of the data after image development.

Through its Integrated Seismic Solutions, or ISS, services, GXT manages the entire seismic process, from survey planning and design to data acquisition and management through pre-processing and final subsurface imaging. GXT does not own vessels, field crews or other seismic logistics assets. Rather, it focuses on the more technologically intensive components of the image development process, such as survey planning and design and data processing and interpretation, and outsources the logistics component to geophysical logistics contractors. This flexible approach frees GXT to structure the survey design, data acquisition means and imaging approach to meet its customers' geophysical objectives as well as its budget and timing constraints. This approach also enables GXT to employ parallel work flows to reduce cycle times and increase image quality. This more limited fixed capital investment provides GXT increased operational flexibility.

GXT offers its ISS to customers on both a proprietary and multi-client basis. On both bases, the customers fully pre-fund the data acquisition. With the proprietary service, the customer also pays for the imaging and processing and has exclusive ownership of the data post imaging. With the multi-client service, GXT assumes minimal processing risk but retains ownership of the data and images and receives on-going revenue from subsequent image sales. For the nine months ended March 31, 2004, P&I and ISS accounted for 41% and 57% of GXT's revenues, respectively.

The majority of GXT's P&I and ISS services have been applied in the Gulf of Mexico. GXT's growth plans entail growing its ISS business, enhancing its field development and optimization capabilities and expanding its service offering internationally and to land environments.

GXT has numerous large oil companies as customers, including British Petroleum, Marathon Oil, TotalFinaElf, Apache, ChevronTexaco and ExxonMobil. During the nine months ended March 31, 2004, one customer accounted for 16% of GXT's revenues. No other customer accounted for more than 10% of GXT's revenues.

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GXT is headquartered in Houston with service centers in other major energy markets, including Calgary, Canada, London, England and Aberdeen, Scotland. GXT also has an experienced employee base. Of its more than 180 employees, over half have advanced degrees in geology, geophysics or other related sciences.

Anticipated Benefits of GXT Acquisition

We believe that the acquisition of GXT will provide us with several strategic benefits:

More Balanced Position in the Seismic Value Chain. The GXT acquisition will solidify our transition from primarily manufacturing seismic data collection equipment to providing full-scope seismic technology solutions. In addition, the GXT acquisition will strengthen our expertise and capabilities at each technology link in the seismic value chain, from survey planning and design to data collection management and pre-processing to image development. This broader, more technology-focused and seismic-oriented presence will enable us to deliver additional integrated, full-service imaging solutions to our customers. Additionally, we expect that the more consistent service-based revenue streams from GXT's business will lessen the historical volatility in our revenues from original equipment manufacturing.

More Service and Technology Intensive Business Model. We believe that the GXT acquisition will increase our emphasis on human capital, service and technology. We will own advanced technologies across the entire seismic spectrum from survey planning through final image development, including the critical technologies associated with full-wave or multi-component imaging. These technologies will include our digital, full-wave sensor (VectorSeis) and a multi-component processing capability that GXT will bring to us. While we focus on delivering integrated seismic solutions, we do not intend to participate in the traditional, capital-intensive logistical aspects of field data collection. This approach differs from the conventional seismic contracting model in which significant investment is required for logistics assets, such as boats and crews to collect data in the field.

Accelerated Development of Imaging Solutions. GXT's advanced imaging technology, particularly pre-stack depth and time migration solutions, as well as its experience in deep marine environments, complements the advanced velocity imaging technology and experience in land environments that we have developed in our AXIS group. GXT's pre-stack depth migration solutions involve advanced processing techniques to convert seismic wave time-based information to depth-based information. This conversion to depth-based data is relied upon by geologists to more accurately map subsurface structures. GXT's pre-stack depth migration techniques are well suited for complex hydrocarbon reservoirs and deeper drilling targets. The accurate time-to-depth conversion that GXT's techniques feature is important in processing digital, full-wave data from next-generation sensors, including our VectorSeis sensors. We believe that the conjunction of these technologies and experience bases along with the combination of the companies' technology development teams will enable us to accelerate our seismic technology development and advance our capabilities to provide improved digital full-wave imaging solutions.

Enhanced Ability to Service the Full Reservoir Life Cycle. The GXT acquisition will improve our ability to provide seismic imaging solutions throughout the life cycle of an oil or natural gas reservoir. The combination of our digital seismic data collection and monitoring technology and AXIS' processing and imaging capabilities, when combined with GXT's advanced processing and imaging expertise, will improve our ability to extend the use of our seismic services across the productive life of the reservoir.

Expanded Collaboration with Oil and Gas Customers. GXT has standing relationships with major, independent and national oil and gas companies. We intend to leverage these relationships and provide full-scope seismic solutions through GXT's ISS offering. We believe this approach will enable us to increase the use of our seismic data acquisition and monitoring technologies and services by these oil and gas companies and the seismic contractors who work with them. We also intend to use the relationships to better understand our target customers' geophysical needs and to develop technologies and services that better address those needs.

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Summary of Transaction

We have agreed to pay a total of approximately \$134.5 million in cash to purchase all outstanding shares of capital stock of GXT. The purchase price includes cash payments for the cancellation of certain outstanding GXT stock options. Under the stock purchase agreement, GXT stock options not extinguished for cash will become options to purchase I/O common stock. These stock options will be in-the-money by an estimated aggregate amount of \$15.5 million when assumed upon completion of the GXT acquisition and will be fully vested, but they will not be exercisable until 90 days following the closing of the GXT acquisition.

In addition, approximately \$5.0 million of the purchase price will be held in escrow for one year to facilitate recourse for us in the event of certain breaches or violations of representations and covenants made by GXT or its stockholders under the stock purchase agreement.

Approximately \$100.0 million of the purchase price for GXT will be funded from the net proceeds of this offering, and the remaining \$34.5 million of the purchase price will be funded through borrowings under a proposed new revolving line of credit (New Credit Facility) which we expect to have in place by the time we complete this offering. Completion of this offering is conditioned upon the completion of the GXT acquisition.

The completion of the GXT acquisition is subject to a number of conditions, including the absence of a material breach by either party of its respective representations or covenants contained in the purchase agreement, the absence of a material adverse effect on either party and the delivery of legal opinions and other documentation on behalf of each party. In addition, the transaction will not close until the waiting period required under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended, has expired or been terminated. The parties have the right to terminate the GXT acquisition if it is not completed by August 15, 2004. We may also terminate the transaction if we are unable to satisfy our financing requirements to fund the purchase price for the acquisition.

In the event the GXT acquisition is terminated because we cannot satisfy our financing requirements to fund the purchase price, or the registration statement covering this offering is not declared effective by August 15, 2004, and GXT has satisfied all of our conditions to closing, we will be required under the terms of the purchase agreement to issue to GXT, as liquidated damages, shares of our common stock valued at \$4.5 million based on the average closing price of our common stock for the ten trading days immediately preceding the date of termination, in a transaction exempt from registration under the Securities Act of 1933, as amended. Alternatively, we may satisfy the liquidated damages provision of the purchase agreement by making a cash payment of \$4.5 million to GXT. We will not have an obligation to pay these liquidated damages if a material adverse change in the U.S. financial markets occurs which make it, in our judgment, impracticable or inadvisable to complete this offering in order to fund the purchase price.

Anticipated New Credit Facility

We currently plan to enter into our New Credit Facility by the time we complete this offering. We expect that the New Credit Facility will permit borrowings of up to \$75.0 million and include typical financial covenants, including a maximum leverage ratio, a minimum fixed charge ratio, and certain other restrictions based on the consolidated assets of I/O. We also expect that this New Credit Facility will be secured by a lien on all of our domestic assets and the capital stock of our subsidiaries, with liens on voting capital stock of our foreign subsidiaries limited to 65% of such stock. We intend to finance a portion of the purchase price for the GXT acquisition with borrowings under this New Credit Facility.

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UNAUDITED PRO FORMA FINANCIAL STATEMENTS

The unaudited pro forma statements of income for the year ended December 31, 2003 and the three months ended March 31, 2004 give pro forma effect to: (1) the GXT acquisition, (2) our initial borrowings under our New Credit Facility, and (3) this offering as described in Use of Proceeds, as if the transactions had been consummated on January 1, 2003. See the information included under the captions Prospectus Summary Planned Acquisition of GXT Transaction Structure, Prospectus Summary The Offering, Use of Proceeds and GXT Acquisition for a more detailed description of the GXT acquisition, our New Credit Facility and this offering.

The unaudited pro forma balance sheet as of March 31, 2004 gives pro forma effect to (1) the GXT acquisition, (2) our initial borrowings under our New Credit Facility, and (3) this offering as described under Use of Proceeds, as if those transactions had been consummated on March 31, 2004.

We expect to complete the GXT acquisition concurrently with the completion of this offering. This offering is conditioned upon the completion of the GXT acquisition. We also expect to enter into our New Credit Facility by the time we complete this offering.

The unaudited pro forma financial information is based on the assumptions and adjustments described in the accompanying notes. The unaudited pro forma statement of operations does not purport to represent what our results of operations actually would have been if the events described above had occurred as of the date indicated or what our results will be for any future periods. The unaudited pro forma financial statements are based upon assumptions and adjustments that we believe are reasonable. The unaudited pro forma financial statements and the accompanying notes should be read in conjunction with the historical financial statements of I/O and of GXT, including the notes thereto, incorporated by reference or included elsewhere in this prospectus.

For financial accounting purposes, the assets acquired and the liabilities assumed under the GXT acquisition referred to in these unaudited pro forma financial statements have been or will be recorded at their fair values as of the date of the acquisition. The allocation in these unaudited pro forma financial statements is a preliminary allocation based on an internally prepared valuation of the fair value of the acquired assets and liabilities of GXT. When finalized, the allocation may vary materially from the allocation presented in these unaudited pro forma financial statements.

Table of Contents**INPUT/OUTPUT, INC.****UNAUDITED PRO FORMA STATEMENT OF INCOME**

Year Ended December 31, 2003

	Input/ Output	GXT As Adjusted ⁽¹⁾⁽²⁾	Pro Forma Adjustments ⁽¹⁾⁽³⁾	Pro Forma Input/Output ⁽¹⁾
(in thousands, except per share data)				
Net sales	\$ 150,033	\$ 49,056	\$	\$ 199,089
Cost of sales	122,192	30,946	1,250(4)	154,388
Gross profit	27,841	18,110	(1,250)	44,701
Operating expenses:				
Research and development	18,696			18,696
Marketing and sales	12,566	4,465		17,031
General and administrative	16,753	7,130		23,883
Impairment of long lived assets	1,120			1,120
Total operating expenses	49,135	11,595		60,730
Income (loss) from operations	(21,294)	6,515	(1,250)	(16,029)
Interest expense	(4,087)	(821)	(2,505) ⁽⁵⁾	(7,413)
Interest income	1,903			1,903
Fair value adjustment and exchange of warrant obligation	1,757			1,757
Impairment of investment	(2,059)			(2,059)
Other income	976			976
Income (loss) before income taxes	(22,804)	5,694	(3,755)	(20,865)
Income tax expense (benefit)	348	1,968	(1,742) ⁽⁷⁾	574
Net income (loss)	\$ (23,152)	\$ 3,726	\$ (2,013)	\$ (21,439)
Basic loss per share	\$ (0.45)			\$ (0.34)
Diluted loss per share	\$ (0.45)			\$ (0.34)
Weighted average number of shares outstanding	51,237		12,500(6)	63,737
Weighted average number of diluted shares outstanding	51,237		12,500(6)	63,737

Table of Contents**INPUT/OUTPUT, INC.****UNAUDITED PRO FORMA STATEMENT OF INCOME****Three Months Ended March 31, 2004**

	Input/ Output	GXT As Adjusted⁽¹⁾⁽²⁾	Pro Forma Adjustments⁽¹⁾⁽³⁾	Pro Forma Input/Output⁽¹⁾
(in thousands, except per share data)				
Net sales	\$ 36,287	\$ 19,822	\$	\$ 56,109
Cost of sales	24,026	12,547	313(4)	36,886
Gross profit	12,261	7,275	(313)	19,223
Operating expenses (income):				
Research and development	4,075			4,075
Marketing and sales	3,299	1,337		4,636
General and administrative	4,693	2,448		7,141
Gain on sale of assets	(850)			(850)
Total operating expenses	11,217	3,785		15,002
Income (loss) from operations	1,044	3,490	(313)	4,221
Interest expense	(1,496)	(252)	(603) ⁽⁵⁾	(2,351)
Interest income	469			469
Other income	16			16
Income (loss) before income taxes	33	3,238	(916)	2,355
Income tax expense (benefit)	591	1,171	(1,102) ⁽⁷⁾	660
Net income (loss)	\$ (558)	\$ 2,067	\$ 186	\$ 1,695
Basic income (loss) per share	\$ (0.01)			\$ 0.03
Diluted income (loss) per share	\$ (0.01)			\$ 0.03
Weighted average number of shares outstanding	52,113		12,500(6)	64,613
Weighted average number of diluted shares outstanding	52,113		14,914(16)	67,027

Table of Contents**INPUT/OUTPUT, INC.****UNAUDITED PRO FORMA BALANCE SHEET**

March 31, 2004

	Input/ Output	GXT	Pro Forma Adjustments ⁽¹⁾⁽³⁾	Pro Forma Input/ Output ⁽¹⁾
(in thousands)				
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 25,000	\$ 2,512	\$ (8,250) ⁽⁸⁾	\$ 19,262
Restricted cash	1,080			1,080
Accounts receivable, net	33,928	9,536		43,464
Unbilled revenue		6,455		6,455
Current portion notes receivable, net	11,987			11,987
Inventories	57,333			57,333
Prepaid expenses and other current assets	3,476	1,100	500 ⁽⁹⁾	5,076
Total current assets	132,804	19,603	(7,750)	144,657
Notes receivable	5,938			5,938
Net assets held for sale	2,430			2,430
Property, plant and equipment, net	28,160	13,319		41,479
Seismic data library		12,354		12,354
Deferred tax asset	1,149	620	(620) ⁽¹⁰⁾	1,149
Goodwill, net	76,367		118,933 ⁽¹¹⁾	195,300
Other assets, net	13,543	268	16,000 ⁽¹²⁾	29,811
Total assets	\$260,391	\$46,164	\$126,563	\$433,118
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Notes payable and current maturities of long-term debt	\$ 2,168	\$ 8,715	\$ (3,775) ⁽¹³⁾	\$ 7,108
Accounts payable	15,908	2,961		18,869
Accrued expenses	14,740	7,957		22,697
Deferred revenue	1,994	8,897		10,891
Dividends payable		1,992		1,992
Deferred tax liability		2,016	(2,016) ⁽¹⁰⁾	
Total current liabilities	34,810	32,538	(5,791)	61,557
Long-term debt, net of current maturities	78,033	2,730	33,750 ⁽¹⁴⁾	114,513
Other long-term liabilities	3,815			3,815
Redeemable preferred stock		10,446	(10,446) ⁽¹⁷⁾	
Stockholders equity:				
Stockholders equity	143,733	450	109,050 ⁽¹⁵⁾	253,233
Total stockholders equity	143,733	450	109,050	253,233
Total liabilities and stockholders equity	\$260,391	\$46,164	\$126,563	\$433,118

Table of Contents**INPUT/OUTPUT, INC.****NOTES TO PRO FORMA FINANCIAL INFORMATION**

- (1) The following is a preliminary estimate of the purchase price (in thousands) for the GXT acquisition:

Cash payment paid for GXT shares	\$ 129,975
Exchange of vested employee stock options	15,500
Payoff of GXT debt	4,525
Acquisition costs	750
	<hr/>
Total purchase price	\$ 150,750
	<hr/>

This preliminary estimate of the purchase price has been allocated as presented below based on an internally prepared preliminary assessment of the fair value of the assets and liabilities of GXT at March 31, 2004.

	Book Value of Assets Acquired (Liabilities Assumed)	Preliminary Purchase Price Allocation	Preliminary Fair Value
	(in thousands)		
Cash and cash equivalents	\$ 2,512	\$	\$ 2,512
Accounts receivables	9,536		9,536
Unbilled revenues	6,455		6,455
Prepaid and other current assets	1,100		1,100
Property, plant and equipment	13,319		13,319
Seismic data library	12,354		12,354
Deferred tax asset	620	(620)	
Other assets	268	15,000	15,268
Goodwill		118,933	118,933
Notes payable current	(8,715)	3,775	(4,940)
Accounts payable	(2,961)		(2,961)
Accrued expenses	(7,957)		(7,957)
Deferred revenue	(8,897)		(8,897)
Deferred tax liability	(2,016)	2,016	
Long-term debt, net of current maturities	(2,730)	750	(1,980)
Dividends payable	(1,992)		(1,992)
	<hr/>	<hr/>	<hr/>
	\$ 10,896	\$ 139,854	\$ 150,750
	<hr/>	<hr/>	<hr/>

All liabilities assumed were at their estimated fair values, as were the seismic data library and the property, plant and equipment. The fair value of intangibles are estimated to be \$15 million (see note 12 below). There were no identified intangible assets which were determined to have indefinite lives. This preliminary assessment of fair value resulted in \$118.9 million of goodwill which will be subject to periodic impairment testing.

- (2) GXT has a fiscal year end of June 30. Therefore, in order to comply with Article 11 of Regulation S-X of the Securities and Exchange Commission, the GXT Statement of Income for the year ended December 31, 2003 has been adjusted to present results for the twelve months ended December 31, 2003. This adjustment was made by subtracting the results of operations for the six months ended December 31, 2002 from the results of operations for the year ended June 30, 2003 and adding the results of operations for the six months ended December 31, 2003. Additionally, to arrive at the results of operations for the

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three months ended March 31, 2004, the results of operations for the six months ended December 31, 2003 were subtracted from the results of operations for the nine months ended March 31, 2004. These adjustments were as follows:

	Year Ended June 30, 2003	Six Months Ended December 31, 2002	Six Months Ended December 31, 2003	Year Ended December 31, 2003 As Adjusted
(in thousands)				
Total revenues	\$41,019	\$ 19,298	\$ 27,335	\$49,056
Cost of revenues	24,571	11,007	17,382	30,946
Gross profit	16,448	8,291	9,953	18,110
Operating expenses:				
General and administrative	5,934	2,968	4,164	7,130
Sales and marketing	4,334	1,957	2,088	4,465
Total operating expenses	10,268	4,925	6,252	11,595
Income from operations	6,180	3,366	3,701	6,515
Interest expense	723	315	413	821
Income before income taxes	5,457	3,051	3,288	5,694
Income tax expense	826	46	1,188	1,968
Net income	\$ 4,631	\$ 3,005	\$ 2,100	\$ 3,726

	Nine Months Ended March 31, 2004	Six Months Ended December 31, 2003	Three Months Ended March 31, 2004
(in thousands)			
Total revenues	\$47,157	\$ 27,335	\$ 19,822
Cost of revenues	29,929	17,382	12,547
Gross profit	17,228	9,953	7,275
Operating expenses			
General and administrative	6,612	4,164	2,448
Sales and marketing	3,425	2,088	1,337
Total operating expenses	10,037	6,252	3,785
Income from operations	7,191	3,701	3,490
Interest expense	665	413	252
Income before income taxes	6,526	3,288	3,238
Income tax expense	2,359	1,188	1,171
Net income	\$ 4,167	\$ 2,100	\$ 2,067

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- (3) These columns reflect (a) the issuance of I/O common stock pursuant to this offering, (b) our initial borrowings under the New Credit Facility, (c) the payment of the cash purchase price for the GXT acquisition, (d) the exchange of vested GXT stock options for vested I/O stock options in connection with the GXT acquisition, (e) the preliminary allocation of the purchase price to acquired assets and liabilities assumed, (f) the pro forma income statement effects resulting from the preliminary purchase price accounting adjustments and (g) the payoff of certain outstanding debt of GXT, as set forth in note 8 below.
- (4) Reflects the preliminary pro forma adjustment to record the amortization of the acquired intangible assets (customer relationships, proprietary technology, non-compete agreements and employment contracts) over their estimated useful lives ranging from 5 years to 15 years.

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- (5) Reflects the pro forma adjustment to record additional interest under the New Credit Facility at an estimated weighted average annual interest rate. The amount also assumes that \$34.5 million is drawn down under the New Credit Facility in connection with the closing of the GXT acquisition. The pro forma adjustment also reflects the interest savings from the payoff of GXT line of credit and shareholder loan (see note 8 below) and the amortization of debt issuance costs.

	Year Ended December 31, 2003	Three Months Ended March 31, 2004
	(in thousands)	
Interest on the New Credit Facility	\$2,415	\$ 604
Interest savings on payoff of GXT line of credit and shareholder loans	(410)	(126)
Amortization of debt issuance costs	500	125
	<u>\$2,505</u>	<u>\$ 603</u>

An one-eighth increase in the interest rate would increase interest expense by \$43 thousand per year.

- (6) Reflects pro forma issuance of I/O common stock in connection with the GXT acquisition.
- (7) Reflects the pro forma adjustment to utilize I/O net operating losses to offset GXT U.S. tax expense.
- (8) Reflects the pro forma adjustments to cash and cash equivalents (in thousands) as follows:

Net cash proceeds from the issuance of I/O common stock in this offering	\$ 100,000
Initial borrowings under the New Credit Facility	34,500
Cash payment for GXT shares	(129,975)
Payoff of GXT line of credit and shareholder loans	(4,525)
Acquisition costs	(750)
Debt issuance costs on the New Credit Facility	(1,500)
Underwriting fees incurred on the issuance of I/O common stock	(6,000)
	<u>\$ (8,250)</u>

- (9) Reflects short-term portion of debt issuance costs of \$0.5 million.
- (10) Reflects the pro forma adjustment to deferred taxes as I/O maintains a valuation allowance against substantially all its net deferred taxes.
- (11) Reflects the preliminary pro forma adjustment to record goodwill representing the excess of the purchase price over the fair value of the net assets acquired.
- (12) Reflects the pro forma adjustment to record the estimated fair value the intangible assets acquired (customer relationships, proprietary technology, non-compete agreements and employment contracts), as well as the long-term portion of debt issuance costs of \$1.0 million.
- (13) Reflects the pro forma adjustment for the payoff of GXT line of credit.
- (14) Reflects the pro forma borrowings under the New Credit Facility and payoff of GXT shareholder loans (in thousands).

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Initial borrowings under the New Credit Facility	\$ 34,500
Payoff of GXT shareholder loans	(750)
	<u> </u>
	\$33,750
	<u> </u>

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(15) Reflects the pro forma adjustments to stockholders' equity (in thousands) as follows:

Issuance of I/O common stock to fund a portion of the purchase price	\$ 100,000
Exchange of GXT vested options for I/O vested options	15,500
Underwriting fees incurred on the issuance of I/O common stock	(6,000)
Elimination of GXT's historical stockholders' equity	(450)
	<u>109,050</u>

(16) Reflects the following pro forma dilutive share adjustments (in thousands) as follows:

Issuance of I/O common stock in connection with the GXT acquisition	12,500
Dilutive stock options issued to GXT	1,875
I/O dilutive stock options	539
	<u>14,914</u>

(17) Reflects the pro forma adjustment to record the purchase of GXT's preferred stock by I/O.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA****Selected Consolidated Financial Data of Input/ Output**

The following data, insofar as they relate to each of the years in the three-year period ended December 31, 2003 have been derived from our audited consolidated financial statements, including the consolidated balance sheets at December 31, 2002 and 2003 and the related consolidated statements of operations and cash flow for the three years ended December 31, 2003 and the notes thereto, incorporated by reference into this prospectus. The following data relating to the three months ended March 31, 2003 and 2004 have been derived from our unaudited consolidated financial statements as of and for the three months ended March 31, 2003 and 2004, and the notes thereto, incorporated by reference into the prospectus. The following data should be read in conjunction with our historical audited financial statements and the related notes thereto, which are incorporated by reference in this prospectus. With regard to the unaudited consolidated financial data as of and for the nine months ended March 31, 2003 and 2004, in the opinion of our management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the nine months ended March 31, 2004 are not necessarily indicative of our operating results for a full year or of our future operations.

	Year Ended May 31,		Seven Months Ended December 31,	Year Ended December 31,			Three Months Ended March 31,	
	1999	2000	2000	2001	2002	2003	2003	2004
(in thousands, except per share data)								
(unaudited)								
Statement of Operations Data: ⁽¹⁾								
Net sales	\$ 197,415	\$ 121,454	\$ 78,317	\$ 212,050	\$ 118,583	\$ 150,033	\$ 41,177	\$ 36,287
Cost of sales	206,416	109,329	59,582	139,478	101,018	122,192	32,720	24,026
Gross profit (loss)	(9,001)	12,125	18,735	72,572	17,565	27,841	8,457	12,261
Operating expenses (income):								
Research and development	42,782	28,625	16,051	29,442	28,756	18,696	5,518	4,075
Marketing and sales	13,010	8,757	5,506	11,657	11,218	12,566	2,811	3,299
General and administrative	74,132	21,885	8,127	19,695	19,760	16,753	4,065	4,693
Gain on sale of assets								(850)
Amortization of goodwill	8,529	6,732	2,157	3,873				
Impairment of long-lived assets	14,500				6,274	1,120	1,120	
Goodwill impairment		31,596			15,122			
Total operating expenses	152,953	97,595	31,841	64,667	81,130	49,135	13,514	11,217
Income (loss) from operations	(161,954)	(85,470)	(13,106)	7,905	(63,565)	(21,294)	(5,057)	1,044
Interest expense	(897)	(826)	(627)	(695)	(3,124)	(4,087)	(1,345)	(1,496)
Interest income	7,981	4,930	4,583	4,685	2,280	1,903	591	469
Fair value adjustment and exchange of warrant obligation					3,252	1,757	871	
Impairment of investment						(2,059)		

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Other income (expense)	(370)	1,306	176	574	(798)	976	249	16
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	Year Ended May 31,		Seven Months Ended December 31,	Year Ended December 31,			Three Months Ended March 31,	
	1999	2000	2000	2001	2002	2003	2003	2004
	(in thousands, except per share data)						(unaudited)	
Income (loss) before income taxes	(155,240)	(80,060)	(8,974)	12,469	(61,955)	(22,804)	(4,691)	33
Income tax (benefit) expense	(49,677)	(6,097)	1,332	3,128	56,770	348	588	591
Net income (loss)	(105,563)	(73,963)	(10,306)	9,341	(118,725)	(23,152)		(558)
Preferred dividend		4,557	3,051	5,632	947			
Net income (loss) applicable to common shares	\$(105,563)	\$(78,520)	\$(13,357)	\$ 3,709	\$(119,672)	\$(23,152)	\$(5,279)	\$ (558)
Basic income (loss) per common share	\$ (2.17)	\$ (1.55)	\$ (0.26)	\$ 0.07	\$ (2.35)	\$ (0.45)	\$ (0.10)	\$ (0.01)
Weighted average number of common shares outstanding	48,540	50,716	50,840	51,166	51,015	51,237	51,195	52,113
Diluted income (loss) per common share	\$ (2.17)	\$ (1.55)	\$ (0.26)	\$ 0.07	\$ (2.35)	\$ (0.45)	\$ (0.10)	\$ (0.01)
Weighted average number of diluted common shares outstanding	48,540	50,716	50,840	52,309	51,015	51,237	51,195	52,113
Other Data:								
Capital expenditures	\$ 9,326	\$ 3,077	\$ 2,837	\$ 9,202	\$ 8,230	\$ 4,587	\$ 1,395	\$ 675
Depreciation and amortization	20,776	22,835	11,448	17,535	13,237	11,444	3,574	2,422
	As of May 31,		As of December 31,	As of December 31,			As of March 31,	
	1999	2000	2000	2001	2002	2003	2004	
	(in thousands)						(unaudited)	
Balance Sheet Data:								
Working capital	\$213,612	\$183,412	\$181,366	\$204,600	\$114,940	\$133,467	\$ 97,994	
Total assets	451,748	381,769	365,633	387,335	249,594	249,204	260,391	
Notes payable and current maturities of long-term debt	1,067	1,154	1,207	2,312	2,142	2,687	2,168	
Long-term debt, net of current maturities	8,947	7,886	7,077	20,088	51,430	78,516	78,033	
Stockholders' equity	396,974	335,015	325,403	331,037	152,486	133,764	143,733	

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Our results for the years ended December 31, 2003, 2002 and 2001, include specific charges (where applicable) as discussed in our Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K (as amended by Form 10K/A-1 and 10K/A-2) for the year ended December 31, 2003, which is incorporated by reference in this prospectus.

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Table of Contents**Selected Consolidated Financial Data of GXT**

The following data, insofar as they relate to each of GXT's fiscal years ended June 30, 2002 and 2003 have been derived from GXT's audited consolidated financial statements, including the consolidated balance sheets at June 30, 2002 and 2003, and the related audited consolidated statements of operations and cash flows for the fiscal years ended June 30, 2002 and 2003, and the notes thereto, found elsewhere in this prospectus. The following data relating to March 31, 2004, and the nine months ended March 31, 2003 and 2004, have been derived from GXT's unaudited consolidated financial statements found elsewhere in this prospectus. The following data should be read in conjunction with the historical financial statements and the related notes of GXT beginning on page F-3. With regard to the unaudited consolidated financial data as of and for the nine months ended March 31, 2003 and 2004, in the opinion of our management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations for the nine months ended March 31, 2004 are not necessarily indicative of our operating results for a full year or of our future operations.

	Year Ended June 30,			Nine Months Ended March 31,	
	2001	2002	2003	2003	2004
	(in thousands)			(unaudited)	
Statement of Operations Data:					
Revenues	\$ 18,017	\$ 21,141	\$ 41,019	\$ 29,811	\$ 47,157
Cost of revenues	10,689	13,048	24,571	17,533	29,929
Gross profit	7,328	8,093	16,448	12,278	17,228
Operating expenses:					
General and administrative	2,774	3,299	5,934	4,335	6,612
Sales and marketing	3,532	3,065	4,334	3,306	3,425
Total operating expenses	6,306	6,364	10,268	7,641	10,037
Income from operations	1,022	1,729	6,180	4,637	7,191
Interest expense	(662)	(530)	(723)	(517)	(665)
Income before income taxes	360	1,199	5,457	4,120	6,526
Income tax expense	21	233	826	623	2,359
Net income	\$ 339	\$ 966	\$ 4,631	\$ 3,497	\$ 4,167

	As of June 30,		As of March 31,
	2002	2003	2004
	(in thousands)		
Balance Sheet Data:			
Working capital	\$ (666)	\$ (7,708)	\$ (12,935)
Total assets	16,597	31,031	46,164
Line of credit and current maturities of long-term obligations	5,602	7,043	8,715
Long-term obligations	1,661	2,436	2,730
Redeemable preferred stock	10,446	10,446	10,446
Stockholders' equity (deficit)	(6,953)	(3,158)	451

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Executive Summary

Our traditional business segments have involved the manufacture and sale of land, marine and transition zone seismic instrumentation for oil and gas exploration and production. In recent years, we have changed our overall focus toward being a provider of seismic acquisition imaging technology for exploration, production and reservoir monitoring in land and marine, including shallow water and marsh, environments. The relatively low level of traditional seismic activity has presented for the past number of years, and continues to present, a challenging environment for companies involved in the seismic industry. This environment, along with product life cycle developments affecting our traditional product lines, have been the principal factors affecting our results of operations in recent years.

However, we believe that positive trends for our business include:

the increasing worldwide demand for hydrocarbons;

the increasing use of seismic products by oil companies to enhance production from their existing reserves;

the increasing needs of exploration and production companies for seismic surveys that are custom-designed to meet particular geological formation characteristics; and

the increasing need for more sophisticated information tools to monitor and assess new and producing oil and gas reservoirs.

Our strategy involves repositioning our company as a seismic imaging company, providing both equipment and services across a broader spectrum of the seismic technology industry than merely an equipment manufacture and sales company. The advantages of our products and services that incorporate full-wave digital imaging capabilities will, we believe, ultimately drive the demand for new survey designs and the associated processing and interpretive skills that we possess. We believe that our products that digitally monitor seismic characteristics of reservoirs will reduce the costs of performing multiple seismic surveys over the same areas, thereby reducing overall seismic costs for operators and owners of the reserves.

However, executing our strategic plan is not without risk. Seismic industry fundamentals, while improving, remain weak by historical standards. In December 2003, we successfully refinanced substantially all of our existing short-term indebtedness with the proceeds from our convertible debt offering. As of March 31, 2004, our total outstanding indebtedness was \$80.2 million, compared to \$52.8 million outstanding at March 31, 2003. See Risk Factors and Prospectus Summary Recent Developments.

Our cash needs have increased in 2004. We have typically financed our operations from internally generated cash and funds from equity and debt financings. With our higher debt burden, our interest expense has increased in 2004 compared to 2003. We will continue to need funds to complete the research, development and testing of our products and services. During 2003, net cash flow used in operations was \$33.1 million. During the first quarter of 2004 our net cash used in operations was \$1.7 million.

Our ability to produce positive operating cash flows, return to consistent profitability, grow our business and service and retire our debt (in addition to our other obligations) will depend on the success of our efforts in increasing our revenues from sales of our seismic imaging systems and equipment and our processing services, successfully introducing and continuing to technologically enhance our product line and service offerings, penetrating new markets for our seismic products and services, achieving more consistency in our period-to-period results of operations, improving margins on our sales and reducing our overall costs.

We have traditionally relied on a relatively small number of significant customers; consequently, our business is exposed to risks related to customer concentration. In recent years, our traditional customers have been rapidly consolidating, reducing the demand for our products. The loss of any of our significant customers or deterioration in our relations with any of them could materially adversely affect our results of operations and

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financial condition. The fact that such a high percentage of our sales currently are made to foreign destinations and customers presents additional issues for our revenues and cash flows. For the year ended December 31, 2003, sales to destinations outside of North America accounted for approximately 77% of our consolidated net sales. We continue to see expansion from Chinese and Eastern European seismic contractors, and we plan to expand our presence internationally. As a result of these factors, the collections cycle for our sales in 2004 may be longer than it has traditionally been, which would thereby increase our working capital funding needs.

While we anticipate an increase in worldwide seismic activity in 2004, this anticipated increase may not materialize. As a result, our internal revenue forecast may not be realized, resulting in lower cash flows available for our future capital and operational needs. In order to meet our future capital requirements, we may need to issue additional debt or equity securities. We cannot assure you that we would be able to issue additional equity or debt securities in the future on terms that would be acceptable to us, or at all.

Through our manufacturing outsourcing activities, we have sought to reduce both the unit cost of our products and our fixed cost structure, as well as to accelerate our research and development cycle for non-core technologies. For example, in July 2003, we closed our Alvin, Texas manufacturing facility. Additionally, we closed our Norwich, U.K. geophone stringing operation in the first quarter of 2003, and moved its operations to our leased facility in Dubai as well as outsourced other manufacturing activities to various partners. In January 2004, we consolidated three operating units of our Land Imaging segment into one division and in April 2004, we consolidated two operating units of our Marine Imaging segment into one division. We will continue to work to reduce the unit costs of our products.

Acquisition of Concept Systems

In February 2004, we purchased all of the share capital of Concept Systems Holdings Limited, a provider of software, systems and services for towed streamer, seabed and land seismic operations based in Edinburgh, Scotland, in a privately negotiated transaction. The purchase price was approximately \$38.4 million cash, including acquisition costs, and 1,680,000 shares of our common stock, valued at \$10.8 million. The source of the cash component of the consideration paid was from the December 2003 sale of our convertible senior notes, and general corporate funds. Under a registration rights agreement, we granted certain demand and piggyback registration rights for the shares of stock issued in the acquisition transaction.

Significant 2002 and 2003 Charges

In 2002, we recorded significant charges in connection with our restructuring program. The related reserves reflected many estimates, including those pertaining to severance costs of \$3.4 million, facility related charges (primarily future, non-cancelable, lease obligations) of \$1.9 million and inventory-related charges of \$4.3 million. In addition, during 2002, we recorded charges of \$15.1 million relating to the impairment of goodwill and \$6.3 million for the impairment of long-lived assets. In 2003, we recorded severance costs of \$1.3 million, inventory-related charges of \$1.0 million, \$1.1 million for the impairment of long-lived assets and \$2.5 million related to the write-down of rental equipment associated with our first generation radio-based VectorSeis land acquisition system. We will continually reassess the requirements necessary to complete our restructuring program, which may result in additional charges being recorded in future periods. However, we currently do not anticipate any significant future charges or adjustments to our restructuring accruals, except for \$0.4 million of additional severance expenses to be incurred in 2004 associated with the consolidation of three operating units within our Land Imaging segment into one division.

In 2002, we recorded a net charge of \$58.8 million to income tax expense to establish an additional valuation allowance for substantially all of our net deferred tax assets. At December 31, 2003 and 2002, the unreserved deferred income tax asset of \$1.1 million represents our Alternative Minimum Tax payments that are recoverable through the carryback of net operating losses. In accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*, we established an additional valuation allowance for substantially all of our net deferred tax assets based on our cumulative operating results in the three-year period ended December 31, 2002. Our results in this period were heavily affected by industry conditions and deliberate and planned business restructuring activities in response to the prolonged

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downturn in the seismic equipment market, as well as heavy expenditures for research and development. Nevertheless, recent losses represented sufficient negative evidence to establish an additional valuation allowance. We have continued to reserve for substantially all of our net deferred tax assets and will continue to do so until we have sufficient evidence to warrant reversal. This valuation allowance does not affect our ability to reduce future tax expense through utilization of net operating losses.

Results of Operations***Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003***

Net Sales. Net sales of \$36.3 million for the three months ended March 31, 2004 decreased \$4.9 million, or 12%, compared to the corresponding period last year. Land Imaging's net sales decreased \$10.1 million, or 32%, to \$21.0 million compared to \$31.1 million in the corresponding period of last year. The decrease was mainly due to vibrator vehicle sales being shifted out of the first quarter of 2004 into the second and third quarter of 2004 because of supply chain management issues and product transition from our mature Image land data acquisition to our new System Four Analog Cable system, which is scheduled for introduction in the second quarter of 2004. Marine Imaging's net sales increased \$2.9 million, or 34%, to \$11.5 million compared to \$8.6 million in the corresponding period last year. The increase was due to the first sale of our VectorSeis Ocean-bottom acquisition system, which represents new technology for seismic imaging directly from the seabed floor. Processing and Software (formerly referred to as Processing) net sales increased \$2.3 million to \$3.8 million compared to \$1.5 million in the corresponding period of last year. The increase is due to the acquisition of Concept Systems, which was acquired in February 2004.

Cost of Sales. Cost of sales of \$24.0 million for the three months ended March 31, 2004 decreased \$8.7 million, or 27%, compared to the corresponding period last year. Cost of sales for Land Imaging, Marine Imaging and Processing and Software was \$16.0 million, \$6.7 million and \$1.3 million, respectively. Costs of sales decreased primarily as a result of a decrease in sales activity in Land Imaging. Included in costs of sales for the three months ended March 31, 2003 was \$0.3 million of severance costs; there was no corresponding charge for the three months ended March 31, 2004.

Gross Profit and Gross Profit Percentage. Gross profit of \$12.3 million for the three months ended March 31, 2004 increased \$3.8 million, or 45%, compared to the corresponding period last year. Gross profit percentage for the three months ended March 31, 2004 was 34% compared to 21% in the prior year. The improvement in gross profit was driven mainly by the contribution from Concept Systems, the sale of new products within our Marine Imaging segment, such as our VectorSeis Ocean-Bottom system in addition to follow on sales of VectorSeis System Four land acquisition systems by our Land Imaging segment. Also, the decrease in sale volumes of our lower margin vibrator vehicles had a positive impact to our total gross margin percentage. In the first quarter of 2003, we delivered our first VectorSeis System Four acquisition radio-based system, which resulted in lower margins primarily because of a low introductory price.

Research and Development. Research and development expense of \$4.1 million for the three months ended March 31, 2004 decreased \$1.4 million, or 26%, compared to the corresponding period last year. This decrease primarily reflects lower prototype expenses and the cancellation of our solid streamer project. In the second quarter of 2003, we entered into the commercial phase of our VectorSeis System Four land acquisition cable-based system. This reduced our prototype expenses for the quarter ended March 31, 2004 compared to the quarter ended March 31, 2003. Also, we incurred a charge of \$0.2 million during the three months ended March 31, 2003 related to the write-down of inventory associated with our cancelled solid streamer project. There was no corresponding charge for the three months ended March 31, 2004.

Marketing and Sales. Marketing and sales expense of \$3.3 million for the three months ended March 31, 2004 increased \$0.5 million, or 17%, compared to the corresponding period last year. The increase is primarily related to expanding our sales force within China and Russia. In 2002, we opened our sales representative office in Beijing, China, and we further expanded our personnel and travel to the region throughout 2003 and the first quarter of 2004. In addition, in the first quarter of 2004, we opened a new sales representative office in Moscow, Russia.

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General and Administrative. General and administrative expense of \$4.7 million for the three months ended March 31, 2004 increased \$0.6 million, or 15%, compared to the corresponding period last year. The increase in general and administrative expense is primarily attributable to an increase in professional fees associated with our continued implementation efforts to comply with the new rules and regulations of Sarbanes-Oxley, in addition to an increase in legal fees associated with various on-going legal matters in our ordinary course of business. Also, a portion of this increase is due to the acquisition of Concept Systems in February 2004.

Gain on Sale of Assets. Gain on sale of assets of \$0.9 million for the three months ended March 31, 2004, primarily related to the sale of land across from our headquarters in Stafford, Texas.

Impairment of Long-Lived Assets. Impairment of long-lived assets of \$1.1 million for the three months ended March 31, 2003 related to the cancellation of our solid streamer project within Marine Imaging. There was no corresponding charge during the three months ended March 31, 2004.

Net Interest and Other Expense. Total net interest and other expense of \$1.0 million for the three months ended March 31, 2004 increased \$0.5 million compared to the corresponding period last year. The increase is primarily due to an increase in interest expense of \$0.2 million due to the issuance of \$60.0 million of our convertible senior notes. These convertible notes were issued in December 2003 and bear interest at an annual rate of 5.5%, payable semi-annually.

Fair Value Adjustment of Warrant Obligation. The fair value adjustment of warrant obligation totaling \$0.9 million was due to a change in the fair value between January 1, 2003 and March 31, 2003 of our previously outstanding common stock warrant. No comparable adjustment was recorded in the first quarter of 2004 because this warrant was exchanged for 125,000 shares of our common stock in December 2003.

Income Tax Expense. Income tax expense for the three months ended March 31, 2004 was \$0.6 million compared to income tax expense of \$0.6 million for the three months ended March 31, 2003. Income tax expense for the three months ended March 31, 2004 and 2003 reflected state and foreign taxes, as we continue to maintain a valuation allowance for our net deferred tax assets (other than prior alternative minimum tax payments that are recoverable through the carryback of our net operating losses).

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Net Sales. Net sales of \$150.0 million for the year ended December 31, 2003 increased \$31.5 million, or 27%, compared to the corresponding period last year. Land Imaging's net sales increased \$45.5 million, or 72%, to \$108.5 million compared to \$63.0 million in the corresponding period of last year. The increase was due to an increase in land seismic activity with our non-Western contractors, primarily in China and the CIS. Marine Imaging's net sales decreased \$17.7 million, or 33%, to \$35.7 million compared to \$53.4 million in the corresponding period last year. The decrease was due to continued overcapacity and reduction in capital spending in the marine contractor market. In 2003, we formed a new reporting segment, Processing, from our acquisition of AXIS in July 2002. Processing's net sales for the twelve months ended December 31, 2003 were \$5.8 million compared to \$2.2 million recorded from the date of acquisition in July 2002 to the end of 2002.

Cost of Sales. Cost of sales of \$121.1 million for the year ended December 31, 2003 increased \$21.5 million, or 22%, compared to the corresponding period last year. Cost of sales for Land Imaging, Marine Imaging and Processing were \$93.4 million, \$25.0 million and \$2.7 million, respectively. Cost of sales increased primarily as a result of the increase in sales activity in Land Imaging. In addition, a charge of \$2.5 million was included in cost of sales related to the write-down of rental equipment associated with our first-generation radio-based VectorSeis land acquisition systems to its net realizable value. Included in cost of sales for the year ended December 31, 2003 is \$0.7 million of severance costs compared to \$1.9 million for the year ended December 31, 2002. Cost of sales was also negatively affected by \$1.0 million and \$4.3 million of inventory-related charges for the years ended December 31, 2003 and 2002, respectively.

Gross Profit and Gross Profit Percentage. Gross profit of \$27.8 million for the year ended December 31, 2003 increased \$10.3 million, or 59%, compared to the corresponding period last year. Gross profit percentage for the year ended December 31, 2003 was 19% compared to 15% for the year ended December 31, 2002. The

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improvement in gross profit was driven mainly by volume improvements as well sales of our higher-margin VectorSeis System Four land acquisition system which was commercialized in early 2003. Our gross profit percentage for the year ended December 31, 2003 was negatively impacted in part due to a charge of \$2.5 million related to the write-down of rental equipment associated with our first generation radio-based VectorSeis land acquisition systems to its net realizable value, and inventory-related charges of \$1.0 million. Inventory related charges for the year ended December 31, 2002 were \$4.3 million.

Research and Development. Research and development expense of \$18.7 million for the year ended December 31, 2003 decreased \$10.1 million, or 35%, compared to the corresponding period last year. This decrease primarily reflects reduced staffing levels, the cancellation of our marine solid streamer project, the entrance into the commercial phase of our VectorSeis System Four land acquisition system and a reduction of rent expense (primarily associated with our vacated Austin, Texas software development facility). For the year ended December 31, 2002, we incurred charges of \$1.3 million relating to the closure of this facility. Included in research and development expenses for the year ended December 31, 2003 is \$0.4 million of severance costs compared to \$0.8 million for the year ended December 31, 2002. For the year ended December 31, 2003, we incurred \$0.2 million of expenses related to the cancellation of our solid streamer project within the Marine Imaging segment.

Marketing and Sales. Marketing and sales expense of \$12.6 million for the year ended December 31, 2003 increased \$1.3 million, or 12%, compared to the corresponding period last year. The increase was primarily related to higher sales and commissions on sales and due to the opening of our sales representative office in Beijing, China. We expect marketing and sales expenses to increase further in 2004, in part due to expenses related to our new Moscow, Russia sales representative office.

General and Administrative. General and administrative expense of \$16.8 million for the year ended December 31, 2003 decreased \$3.0 million, or 15%, compared to the corresponding period last year. The decrease in general and administrative expense was primarily attributable to reductions in personnel resulting from our 2002 and 2003 staff reduction activities and a reduction in bad debt expense due to collections of previously reserved notes receivable of \$0.5 million. This decrease was partially offset by \$0.4 million of moving costs associated with vacating our Alvin, Texas facility as well as the inclusion of AXIS, which we acquired in July 2002. Included in general and administrative expenses are severance costs of \$0.2 million and \$0.4 million for the years ended December 31, 2003 and 2002, respectively.

Impairment of Long-Lived Assets. Impairment of long-lived assets of \$1.1 million for the year ended December 31, 2003 relates to the cancellation of our solid streamer project within Marine Imaging in the first quarter of 2003. Impairment of long-lived assets of \$6.3 million for the year ended December 31, 2002 primarily relates to the impairment of our Alvin, Texas manufacturing facility, the impairment of the leasehold improvements of our Norwich, U.K. geophone stringing facility and certain related manufacturing equipment of both facilities. These impairment charges were triggered by the announced closure of the facilities.

Goodwill Impairment. Goodwill impairment of \$15.1 million for the year ended December 31, 2002 relates to the impairment of goodwill of our analog land products reporting unit. There was no corresponding charge during the year ended December 31, 2003.

Net Interest and Other Income (Expense). Total net interest and other income (expense) of \$(1.2) million for the year ended December 31, 2003 decreased \$0.4 million compared to the corresponding period last year. Interest expense increased primarily due to the issuance of the \$31.0 million SCF Note in August 2002, which in May 2003 we repaid \$15.0 million in principal. In December 2003, a portion of the proceeds from the issuance of our convertible senior notes was used to repay in full the \$16.0 million remaining SCF debt. Interest income decreased due to a decline in our cash balances and short-term interest rates, partially offset by an increase in our notes receivables. The increase in other income was primarily due to fluctuations in exchange rates and a gain on sale of assets primarily resulting from the auction of equipment related to our vacated Alvin manufacturing facility.

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Fair Value Adjustment and Exchange of Warrant Obligation. The fair value adjustment and exchange of our warrant obligation totaling \$1.8 million was due to a change in the fair value between January 1, 2003 and December 10, 2003 of our common stock warrant. On December 10, 2003, we exchanged the warrant for 125,000 shares of our common stock, which we issued to SCF. A fair value adjustment of \$3.3 million was recorded for the year ended December 31, 2002.

Impairment of Investment. Impairment of investment of \$2.1 million for the year ended December 31, 2003 relates to the write-down of our investment in EVP to its approximate final liquidation value of \$1.0 million.

Income Tax Expense. Income tax expense of \$0.3 million for the year ended December 31, 2003 decreased \$56.4 million compared to the corresponding period last year. Income tax expense for the year ended December 31, 2003 reflects \$1.5 million of state and foreign taxes as we continue to maintain a valuation allowance for our net deferred tax assets (except for prior alternative minimum tax payments that are recoverable through the carryback of net operating losses), partially offset by federal tax refunds of \$1.2 million. In the second quarter of 2002, we began to fully reserve for substantially all of our net deferred tax assets, which resulted in a net charge to income tax expense of \$58.8 million during that period.

Preferred Stock Dividend. Preferred stock dividend of \$0.9 million for the year ended December 31, 2002 is related to our previously outstanding Series B and Series C Preferred Stock. We repurchased the preferred stock on August 6, 2002 and, as a result, there were no preferred stock dividends for the year ended December 31, 2003. The preferred stock dividend for the year ended December 31, 2002 includes a preferred stock dividend credit of \$2.5 million, which represents the difference between the fair value of the consideration granted to the holder and our carrying value of the preferred stock at the time of the repurchase.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net Sales. Net sales of \$118.6 million for the year ended December 31, 2002 decreased \$93.5 million, or 44%, compared to the corresponding period last year. Land Imaging's net sales decreased \$99.2 million, or 61%, to \$63.0 million, primarily as a result of declining industry conditions and a loss of market share to our principal competitor. Marine Imaging's net sales increased \$3.5 million or 7%, to \$53.4 million, compared to the prior year, primarily due to an increase in demand from Russian contractors. Processing's net sales of \$2.2 million resulted from our acquisition of AXIS in July 2002.

Cost of Sales. Cost of sales of \$99.6 million for the year ended December 31, 2002 decreased \$38.8 million, or 28%, compared to the corresponding period last year. Costs of sales of Land Imaging, Marine Imaging and Processing were \$65.0 million, \$33.8 million and \$0.8 million, respectively. The decrease was a result of reduced sales activity in Land Imaging, partially offset by lower gross profit on those revenues. Included in cost of sales for the year ended December 31, 2002 were \$1.9 million of severance costs, for which there were no corresponding costs for the year ended December 31, 2001. Cost of sales was negatively affected by \$4.3 million and \$3.6 million of inventory-related charges for the years ended December 31, 2002 and 2001, respectively.

Gross Profit and Gross Profit Percentage. Gross profit of \$17.6 million for the year ended December 31, 2002 decreased \$55.0 million, or 76%, compared to the corresponding period last year. Gross profit percentage for the year ended December 31, 2002 was 15% compared to 34% in the prior year. The decline in gross profit percentage was primarily due to under-absorbed manufacturing overhead, inventory-related charges of \$4.3 million, and to a lesser degree, severance for work force reductions totaling \$1.9 million.

Research and Development. Research and development expense of \$28.8 million for the year ended December 31, 2002 decreased \$0.7 million, or 2%, compared to the corresponding period last year. Research and development expense remained at relatively high levels as we completed the final stages of VectorSeis commercialization and continued to develop a solid marine streamer, a lightweight ground electronics system and an ocean bottom system that would exploit our VectorSeis technology. Also, research and development expenses included severance expenses of \$0.8 million and charges related to the closure of our Austin, Texas facility of \$1.3 million.

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Marketing and Sales. Marketing and sales expense of \$11.2 million for the year ended December 31, 2002 decreased \$0.4 million, or 4%, compared to the corresponding period last year. The decrease is primarily related to lower payroll costs and commissions on sales, partially offset by severance for work force reductions of \$0.3 million.

General and Administrative. General and administrative expense of \$19.8 million for the year ended December 31, 2002 increased \$0.1 million compared to the corresponding period last year. The increase in general and administrative expense was primarily due to \$0.6 million of abandoned lease costs associated with our Louisville, Colorado facility and an increase in bad debt expense (net of recoveries) of \$0.5 million, partially offset by decreases in payroll, profit-based bonuses and facility related costs.

Amortization of Goodwill. Amortization of goodwill for the year ended December 31, 2001 was \$3.9 million. There was no amortization of goodwill in 2002 due to the implementation of SFAS No. 142 *Goodwill and Other Intangibles Assets*, which, among other things, eliminated the amortization of goodwill.

Impairment of Long-Lived Assets. Impairment of long-lived assets of \$6.3 million for the year ended December 31, 2002 primarily related to the impairment of our Alvin, Texas manufacturing facility, the leasehold improvements of our Norwich, U.K. geophone stringing facility and certain related manufacturing equipment of both facilities. The impairments were triggered by the announced closures of facilities. There was no corresponding charge during the year ended December 31, 2001.

Goodwill Impairment. Goodwill impairment of \$15.1 million for the year ended December 31, 2002 related to the impairment of goodwill of our analog land products reporting unit. There was no corresponding charge during the year ended December 31, 2001.

Net Interest and Other Income (Expense). Total net interest and other income (expense) of \$(1.6) million for the year ended December 31, 2002 decreased \$6.2 million compared to the corresponding period last year. The decrease is primarily due to falling interest rates on cash balances, as well as increased interest expense on new debt, compared to the prior year.

Fair Value Adjustment of Warrant Obligation. The fair value adjustment of our warrant obligation totaling \$3.3 million was due to a change in the fair value of the SCF Warrant between August 6, 2002 (the issuance date) and December 31, 2002.

Income Tax Expense. Income tax expense of \$56.8 million for the year ended December 31, 2002 increased \$53.6 million compared to the year ended December 31, 2001 due to a charge of \$58.8 million in 2002 to establish an additional valuation allowance for substantially all of our net deferred tax assets. In the second quarter of 2002, we began to reserve for substantially all of our net deferred tax assets.

Preferred Stock Dividends. Preferred stock dividends for the years ended December 31, 2002 and 2001 were related to previously outstanding Series B and Series C Preferred Stock. The preferred stock dividend charge for the year ended December 31, 2002 was \$0.9 million, compared to \$5.6 million for the year ended December 31, 2001. We repurchased the preferred stock on August 6, 2002. The decrease in preferred stock dividends was due to a preferred stock dividend credit of approximately \$2.5 million, which represented the difference in the fair value of the consideration granted to the holders of the preferred stock and our carrying value of the preferred stock at the time of the repurchase, and less than a full year of dividends in 2002.

Liquidity and Capital Resources***Cash Flow from Operations***

We have traditionally financed operations from internally generated cash and funds from equity and debt financings. Cash and cash equivalents were \$25.0 million at March 31, 2004, a decrease of \$34.5 million, or 58%, compared to December 31, 2003. Net cash used in operating activities was \$1.7 million for the three months ended March 31, 2004, compared to cash used in operating activities of \$18.7 million for the three months ended March 31, 2003. The amount of net cash used in our operating activities for the three months ended March 31, 2004 was due to an increase in data acquisition systems inventory within our Land Imaging segment that is scheduled to be delivered to customers in the second quarter of 2004.

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Cash and cash equivalents were \$59.5 million at December 31, 2003, a decrease of \$16.7 million, or 22%, compared to December 31, 2002. Net cash used in operating activities was \$33.1 million for the year ended December 31, 2003, compared to cash provided by operating activities of \$13.7 million for the year ended December 31, 2002. The net cash used in operating activities for 2003 was due in part to the loss from operations for the year. Also contributing to the net cash used during the period were an increase in accounts and notes receivable, as well as an increase in inventory related to increased activity in Land Imaging. We also took advantage of our cash position to reduce our accounts payable level. The increase in our accounts receivable was primarily due to a continued shift in our sales to foreign customers, which historically have been slower to pay.

Cash and cash equivalents were \$76.2 million at December 31, 2002, a decrease of \$25.1 million, or 25%, compared to December 31, 2001. Net cash provided by operating activities was \$13.7 million for the year ended December 31, 2002, compared to \$17.6 million for the year ended December 31, 2001. This decrease in cash flow provided from operations was generally a result of lower operating levels in 2002 with smaller gross margins.

Cash Flow from Investing Activities

Net cash flow used in investing activities was \$31.7 million for the three months ended March 31, 2004, compared to \$1.3 million for the three months ended March 31, 2003. The principal investing activity was related to our purchase of Concept Systems in February 2004 for \$38.4 million of cash including acquisition costs and 1,680,000 of our common shares, valued at \$10.8 million. During the three months ended March 31, 2004, we sold excess property and equipment for net proceeds of \$1.5 million, a majority of which related to land located across from our headquarters in Stafford, Texas and received full payment on our \$5.8 million note receivable that related to the sale of a subsidiary in 1999. We purchased \$0.7 million of equipment during the three months ended March 31, 2004 and expect to spend an additional \$5.0 million for equipment and other capital expenditures through the remainder of 2004.

Net cash flow used in investing activities was \$7.5 million for the year ended December 31, 2003, which represented a decrease of \$3.3 million compared to the year ended December 31, 2002. The principal investing activities were \$4.6 million relating to capital expenditure projects, \$3.0 million related to the investment in EVP in April 2003 and \$1.3 million of additional consideration paid to the former shareholders of AXIS to settle all future contingent purchase price obligations. In the fourth quarter of 2003 we received \$0.9 million from the liquidation of EVP. Planned capital expenditures for 2004 are approximately \$5.8 million.

Net cash flow used in investing activities was \$10.9 million for the year ended December 31, 2002; a decrease of \$3.9 million compared to the year ended December 31, 2001. Our principal investing activities in 2002 were \$8.2 million relating to capital expenditure projects and \$2.7 million, net of cash acquired, relating to our acquisitions of AXIS and S/N Technologies.

Cash Flow from Financing Activities

Net cash flow used in financing activities was \$0.9 million for the three months ended March 31, 2004, compared to \$0.6 million of cash used in financing activities for the three months ended March 31, 2003. The cash flow used in financing activities primarily related to scheduled payments of \$1.0 million on our notes payable.

Cash flow provided by financing activities was \$21.2 million for the year ended December 31, 2003; an increase of \$52.5 million compared to the use of cash for the year ended December 31, 2002. In December 2003, we issued \$60.0 million of convertible senior notes which mature in December 2008. As part of this issuance we incurred approximately \$3.5 million of underwriting and professional fees, which were recorded as deferred financing costs and are being amortized over the 5-year term. A portion of the proceeds from this issuance was used to repay in full the \$16.0 million in outstanding debt under the SCF Note. In May 2003, we had repaid \$15.0 million of outstanding debt under the SCF Note. In addition, we paid \$3.2 million related to other debt obligations.

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Cash flow used in financing activities was \$31.3 million for the year ended December 31, 2002, representing a decrease of \$38.9 million compared to the year ended December 31, 2001. The principal use of cash was \$30.0 million relating to the repurchase of preferred stock and \$2.6 million for the repayment of long-term debt, partially offset by proceeds of \$0.8 million from the issuance of common stock under our employee stock purchase plan and \$1.0 million from the exercise of stock options.

Acquisition Indebtedness

In July 2002, in connection with our acquisition of AXIS, we issued a \$2.5 million three-year unsecured promissory note payable to the former shareholders of AXIS, bearing interest at 4.34% per year. Principal is payable in quarterly installments of \$0.2 million, plus interest, with the final payment due in July 2005. The unpaid balance as of March 31, 2004 was \$1.3 million.

In January 2001, in connection with our acquisition of all of the outstanding capital stock of Pelton Company, we issued a \$3.0 million two-year unsecured promissory note payable to the former shareholder of Pelton, bearing interest at 8.5% per year. Principal was payable in quarterly payments of \$0.4 million plus interest. The final payment on this note was made in February 2003.

Sale and Lease of Stafford Facilities

In August 2001, we sold the land and buildings that house our corporate headquarters, our land imaging division and our MEMS facility in Stafford, Texas for \$21.0 million cash, and repaid the outstanding mortgage loan secured by that property. At the same time, we entered into a non-cancelable lease with the purchaser of the property. This lease has a 12-year term with three consecutive options to extend the lease for five years each. We have no purchase option under this lease. As a result of the terms of the lease, the commitment was recorded as a twelve-year \$21.0 million lease obligation with an implicit annual interest rate of 9.1%. We paid \$1.7 million in commissions and professional fees, which were recorded as deferred financing costs and are being amortized over the 12-year term of the obligation. The unpaid balance of the lease payments as of March 31, 2004 was \$18.6 million.

The carrying value of the land and buildings are included as assets, and the value of the related lease obligations are included as liabilities, on our consolidated balance sheet under U.S. generally accepted accounting principles. As of December 31, 2003, the net carrying value of the facilities on our consolidated balance sheet was approximately \$12.6 million.

The lease agreement contains financial covenants requiring us to maintain certain current ratios and tangible net worth during the first five years of the lease term. These financial covenants provide that if we fail to meet certain current ratio or tangible net worth requirements for any four consecutive quarters, we would have to provide a letter of credit to the landlord in the amount of \$1.5 million. At June 30, 2003, we failed to meet the tangible net worth requirement for four consecutive quarters, and as a result, we provided a letter of credit to the landlord in the amount of \$1.5 million during the third quarter of 2003. To secure the issuance of the letter of credit, we were required to deposit \$1.5 million with the issuing bank. This letter of credit will remain outstanding until we are back in compliance with the tangible net worth requirements for eight consecutive quarters, or until the expiration of the eighth year of the lease, which is in 2009. We were not in compliance with the tangible net worth requirement at December 31, 2003 and March 31, 2004.

Liquidity and Capital Resources After this Offering

In December 2003, we issued \$60.0 million of 5.5% senior convertible notes due in 2008. We used a substantial portion of the proceeds from the sale of convertible notes to repay in full the approximately \$16.0 million of outstanding indebtedness under the SCF Note and we used a total of \$38.4 million cash, including acquisition costs, from such proceeds and from our general corporate funds for the Concept acquisition in February 2004. As a result, our interest expense is expected to increase for 2004 and the foreseeable future. Our ability to make scheduled payments of principal or interest on, or to refinance, our indebtedness depends on our future business performance, which is subject to many economic, financial, competitive and other factors beyond our control.

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We currently plan to enter into our New Credit Facility before the completion of this offering. We expect that the New Credit Facility will permit borrowings of up to \$75.0 million and include typical financial covenants, including a maximum leverage ratio, a minimum fixed charge ratio, and certain other restrictions based on the consolidated assets of I/O. We also expect that this New Credit Facility will be secured by a lien on all of our domestic assets and the capital stock of our subsidiaries, with liens on voting capital stock of our foreign subsidiaries limited to 65% of such stock. We intend to finance a portion of the purchase price for the GXT acquisition with borrowings under this New Credit Facility.

Based upon our management's internal revenue forecast, our liquidity requirements in the near term and our projected increase in seismic activity primarily outside of North America, we currently believe that the combination of our projected internally generated cash and our working capital (including cash and cash equivalents on hand), will be adequate to meet our anticipated capital and liquidity requirements for the next twelve months. We also anticipate that a larger percentage of our future sales in 2004 and beyond will be to foreign customers, particularly those in China and the CIS. As a result of this change in customer mix, our collections cycle may be longer than we have traditionally experienced.

We anticipate an increase in worldwide seismic activity in 2004. However, this anticipated increase may not materialize. As a result, our internal revenue forecast may not be realized, resulting in lower cash flows available for our future capital needs. In order to meet these future capital requirements, we may need to issue additional debt or equity securities. We cannot assure you that we would be able to issue additional equity or debt securities in the future on terms that would be acceptable to us, or at all.

Future Contractual Obligations

The following table sets forth estimates of future payments for 2004 through 2009, and thereafter, of our consolidated contractual obligations as of December 31, 2003 (in thousands). This table does not include any future obligations under our proposed New Credit Facility.

Contractual Obligations	Payments Due by Fiscal Year						
	Total	2004	2005	2006	2007	2008	2009 and Thereafter
Long-Term Debt and Lease Obligations	\$ 81,203	\$ 2,687	\$ 1,840	\$ 1,470	\$ 1,610	\$ 61,763	\$ 11,833
Operating Leases	5,120	2,453	806	559	374	928	
Product Warranty	3,433	3,433					
Purchase Obligations	19,812	19,422	390				
Total	\$ 109,568	\$ 27,995	\$ 3,036	\$ 2,029	\$ 1,984	\$ 62,691	\$ 11,833