INPUT OUTPUT INC
Form 424B4
June 09, 2004

Table of Contents

Filed Pursuant to Rule 424(b)(4)
Registration No. 333-115345

PROSPECTUS

20,209,631 Shares

COMMON STOCK

We are offering 20,000,000 shares. The selling stockholders, none of whom are our directors, officers, employees or their affiliates, are offering 209,631 shares.

Our common stock is listed on the New York Stock Exchange under the symbol IO. On June 8, 2004, the reported last sale price of our common stock on the New York Stock Exchange was $7.00 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 $7 A SHARE

	Price to **Public**	**Underwriting Discounts and Commissions**	**Proceeds to Input/Output, Inc.**	**Proceeds to Selling Stockholders**
Per Share	*$7.00*	*$0.4375*	*$6.5625*	*$6.5625*
Total	*$141,467,417*	*$8,841,714*	*$131,250,000*	*$1,375,703*

We have granted the underwriters the right to purchase up to an additional 3,031,445 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 June 14, 2004.

MORGAN STANLEY

JOHNSON RICE & COMPANY L.L.C. *SANDERS MORRIS HARRIS*
June 8, 2004

TABLE OF CONTENTS

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 t Output, Inc. and its consolidated subsidiaries, except where the context otherwise requires or as otherwise indicated.

Table of Contents

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 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 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.

The net proceeds we receive from this offering will be used to pay a portion of the cash component of the purchase price for the GXT acquisition, and the remainder of that cash component will be paid by us from cash on hand. 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. The parties have the right to terminate the GXT acquisition if it is not completed by August 15, 2004. We may also terminate the

Table of Contents

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, 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

Table of Contents

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 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 that 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 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

Table of Contents

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.

Table of Contents

Recent Developments

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 when and if they are sold 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 re 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.

Table of Contents

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.

Table of Contents

THE OFFERING

Common stock offered by Input/ Output, Inc.	20,000,000 shares
Common stock offered by selling stockholders	209,631 shares
Total	20,209,631 shares
Common stock to be outstanding after this offering	73,126,054 shares
Over-allotment option	3,031,445 shares
Use of proceeds	The net proceeds we receive from this offering are expected to be used to pay a portion of the cash component 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;
- approximately 13,888,888 shares of common stock issuable upon conversion of our 5.5% senior convertible notes due 2008;
- an estimated 2,900,000 shares of common stock issuable upon exercise of stock options assumed by I/O in connection with the GXT acquisition; and
- 3,031,445 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 respect 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 give effect to this offering and the GXT acquisition as if those transactions had been consummated on January 1, 2003. The unaudited pro forma balance sheet data give effect to this offering and the GXT acquisition 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	156,888	32,720	24,026	37,511
Gross profit	72,572	17,565	27,841	42,201	8,457	12,261	18,598
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

11

Table of Contents

	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)	(18,529)	(5,057)	1,044	3,596
Interest expense	(695)	(3,124)	(4,087)	(4,498)	(1,345)	(1,496)	(1,622)
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)	(20,450)	(4,691)	33	2,459
Income tax expense	3,128	56,770	348	574	588	591	655
Net income (loss)	9,341	(118,725)	(23,152)	(21,024)	(5,279)	(558)	1,804
Preferred dividend	5,632	947					
Net income (loss) applicable to common shares	$ 3,709	$ (119,672)	$ (23,152)	$ (21,024)	$ (5,279)	$ (558)	$ 1,804
Basic income (loss) per common share	$ 0.07	$ (2.35)	$ (0.45)	$ (0.30)	$ (0.10)	$ (0.01)	$ 0.03
Weighted average number of common shares outstanding	51,166	51,015	51,237	71,237	51,195	52,113	72,113
Diluted income (loss) per common share	$ 0.07	$ (2.35)	$ (0.45)	$ (0.30)	$ (0.10)	$ (0.01)	$ 0.02
Weighted average number of diluted common shares outstanding	52,309	51,015	51,237	71,237	51,195	52,113	74,674
Other Data:							
Capital expenditures	$ 9,202	$ 8,230	$ 4,587	$ 9,545	$ 1,395	$ 675	$ 1,270
Depreciation and amortization	17,535	13,237	11,444	23,284	3,574	2,422	7,862
EBITDA(2)	26,014	(47,874)	(9,176)	5,429	(363)	3,482	11,474

	As of December 31,		As of March 31, 2004	
	2002	2003	Actual	Pro Forma
			(unaudited)	
	(in thousands)			
Balance Sheet Data:				
Working capital	$ 114,940	$ 133,467	$ 97,994	$ 86,050
Total assets	249,594	249,204	260,391	435,068
	2,142	2,687	2,168	7,108

Notes payable and current maturities of long-term debt				
Long-term debt, net of current maturities	51,430	78,516	78,033	80,013
Stockholders equity	152,486	133,764	143,733	289,683

(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 contained in our Annual Report on Form 10-K (as amended by Form 10-K/A-1 and Form 10-K/A-2) for the year ended December 31, 2003, which is 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 respect 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
				(unaudited)	
			(in thousands)		
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) 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)	$ (21,024)	$ (5,279)	$ (558)	$ 1,804
Interest expense	695	3,124	4,087	4,498	1,345	1,496	1,622
Interest income	(4,685)	(2,280)	(1,903)	(1,903)	(591)	(469)	(469)
Income tax expense	3,128	56,770	348	574	588	591	655
Depreciation and amortization expense	17,535	13,237	11,444	23,284	3,574	2,422	7,862
EBITDA	$ 26,014	$ (47,874)	$ (9,176)	$ 5,429	$ (363)	$ 3,482	$ 11,474

Table of Contents

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	$2,557	$3,807	$12,878	$9,523	$17,605	$8,310

15

Table of Contents

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. Likewise, no assurances can be given that our business plan with respect to GXT s services and products will prove 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
- the ability to maintain traditional margins for certain of our seismic data processing services.

GXT has recently experienced a weakening in prices for its pre-stack depth migration processing services. No assurance can be given as to whether this trend will continue, worsen or improve.

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 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

Table of Contents

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.

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.

Table of Contents

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;
- 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.

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.

Table of Contents

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;
- 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, on a pro forma basis, we would have had approximately $87.1 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 $1.6 million and $4.5 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;

Table of Contents

- 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;

- 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 currently do not have in place a line of credit or similar source of liquidity to support our working capital needs.

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;

22

Table of Contents

- 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.

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;
- 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

Table of Contents

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.

We may be unable to obtain broad intellectual property protection for our current and future products and we may become involved in intellectual property disputes.

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 April 30, 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. The customer recently encountered financial difficulties as a result of an industrial accident and, as a result, became delinquent on approximately $2.3 million of its scheduled payments to us. Based on our internal credit review and discussions with the customer and its parent company, we currently expect the customer will pay all of its obligations in full and, therefore, no allowance has been established for these receivables. However, there can be no assurance that the customer will not continue to experience financial difficulties or that we will receive timely payment in full.

Table of Contents

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.

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 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 has piggyback registration rights with respect to approximately 10.9% of our outstanding common stock before this offering. 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 issuance, 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.

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.

Table of Contents

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 negati 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

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.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 20,000,000 shares of common stock by us will be approximately $130.5 million, or approximately $150.3 million if the underwriters exercise their over-allotment option in full, based on a public offering price of $7.00 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 cash component of the purchase price for the GXT acquisition, and the remainder of that cash component will be paid by us from cash on hand. 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. 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 June 8, 2004		
First Quarter	7.82	4.55
Second Quarter (through June 8)	9.60	6.38

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.

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; and

the sale by us of 20,000,000 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	$ 22,712
Long-term debt, net of current maturities		
5.50% Convertible Senior Notes Due 2008	$ 60,000	$ 60,000
Other long-term debt	18,033	20,013
Total long-term debt	78,033	80,013
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 73,106,829 shares pro forma and as adjusted[(1)]	540	740
Additional paid-in capital	307,604	453,354
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	289,683
Total capitalization	$ 221,766	$ 369,696

(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) approximately 13,888,888 shares of common stock issuable upon conversion of our 5.5% senior convertible notes due 2008; (c) an estimated 2,900,000 shares of our common stock issuable upon exercise of stock options to be assumed in connection with the GXT acquisition; and (d) 3,031,445 shares of common stock that the underwriters have an option to purchase solely to cover over-allotments.

Table of Contents

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, ChevronTexaco, ExxonMobil and Pemex. During the nine months ended March 31, 2004, two customers accounted for 16% and 12%, respectively, of GXT s revenues. No other customer accounted for more than 10% of GXT s revenues.

Table of Contents

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 imagining 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 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 imagining 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.

Table of Contents

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.

The net proceeds we receive from this offering will be used to pay a portion of the cash component of the purchase price for the GXT acquisition, and the remainder of that cash component will be paid by us from cash on hand. 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. 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, 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.

Table of Contents

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 and (2) 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 and this offering.

The unaudited pro forma balance sheet as of March 31, 2004 gives pro forma effect to (1) the GXT acquisition and (2) 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.

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 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	3,750(4)	156,888
Gross profit	27,841	18,110	(3,750)	42,201
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	(3,750)	(18,529)
Interest expense	(4,087)	(821)	410 (5)	(4,498)
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	(3,340)	(20,450)