

INPUT OUTPUT INC
Form 8-K
May 11, 2004

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

FORM 8-K

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

DATE OF REPORT (Date of earliest event reported): MAY 10, 2004

INPUT/OUTPUT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation)

1-12691
(Commission File Number)

22-2286646
(IRS Employer Identification No.)

12300 PARC CREST DRIVE,
STAFFORD, TEXAS
(Address of principal executive
offices)

77477
(Zip Code)

Registrant's telephone number, including area code: (281) 933-3339

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ITEM 5. OTHER EVENTS AND REGULATION FD DISCLOSURE.

On May 10, 2004, Input/Output, Inc. (IO) announced that it had entered into a stock purchase agreement with GX Technology Corporation (GXT) and its stockholders for IO to acquire all of the equity interest of GXT for approximately \$150 million.

I/O agreed to pay a total of approximately \$150 million through a combination of cash and stock option value to acquire GXT. The \$150 million purchase price includes the assumption of \$4.5 million in debt and the delivery of I/O stock options with a value of approximately \$15.5 million. The transaction contemplates the completion of a registered offering of I/O common stock with net proceeds of approximately \$100 million and a new senior bank facility, all expected to be completed within the next 45 to 60 days. The parties have the right to terminate the stock purchase agreement if certain conditions are not satisfied or if the proposed acquisition is not completed by August 15, 2004.

A. Introduction

As used herein, references to Input/Output, I/O, company, we, our, ours and us refer to Input/Output, Inc. and its consolidated subsidiaries, except where the context otherwise requires or as otherwise indicated.

Statements in this report concerning our future results and performance and other matters are forward-looking statements within the meaning of 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 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 Risks Related to Our Planned Acquisition of GXT below. In some cases, you can identify forward-looking statements by terminology such as may, will, should, intend, expect, plan, anticipate, be estimated, estimate, predict, potential, or continue, or the negative of such terms or other comparable terminology.

Examples of other forward-looking statements contained herein include statements regarding:

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anticipated benefits of our acquisitions, including our recent acquisition of Concept Systems Holdings Limited 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.

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B. GXT Technology Corporation

Planned Acquisition of GXT

On May 10, 2004, we entered into a stock purchase agreement with GXT and its stockholders to acquire all of its outstanding capital stock. 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 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. We expect to complete the GXT acquisition concurrently with the completion of a proposed offering of our common stock pursuant to a Registration Statement on Form S-3 we filed with the Securities and Exchange Commission (SEC) on May 10, 2004.

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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 two-dimensional (2-D) and three-dimensional (3-D) seismic data collection techniques. GXT, however, has several development projects underway to apply its advanced processing technologies to data gathered through time-lapse, or four-dimensional (4-D), data collection methods as well as more advanced multi-component, or full-wave, seismic data collection techniques.

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

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

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

4-D monitoring of reservoir fluid movement; and

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

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

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

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

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

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

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

Accelerated Development of Imaging Solutions. GXT's advanced imaging technology, particularly pre-stack depth and time migration solutions, as well as its experience in deep marine environments, complements the advanced velocity imaging technology and experience in land environments that we have developed in our AXIS group. 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 imaging capabilities, when combined with GXT's advanced processing and imaging expertise, will improve our ability to extend the use of our seismic services across the productive life of the reservoir.

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

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Summary of Transaction

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

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

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

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

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

Anticipated New Credit Facility

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

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Risks Related to Our Planned Acquisition of GXT

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

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

If we fail to consummate the GXT acquisition because we cannot satisfy our financing requirements to fund the purchase price, or our Registration Statement on Form S-3 is not declared effective by August 15, 2004, and GXT has satisfied our conditions to closing, we will be required to pay to GXT \$4.5 million cash or issue to GXT shares of our common stock valued at \$4.5 million. See " Summary of Transaction".

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

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

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

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

GXT's business in processing seismic data competes with a number of our traditional customers that are seismic contractors. Many of these companies not only offer their customers—generally major, independent and national oil companies—the traditional services of conducting seismic surveys, but also the processing and interpretation of the data acquired from those seismic surveys. In that regard, GXT's processing services may

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

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

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

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial statements of businesses acquired

Consolidated financial statements of GX Technology Corporation and its subsidiaries as of March 31, 2004 (unaudited), June 30, 2003 and 2002 (audited), and for the years ended June 30, 2003, 2002 and 2001 (audited) and the nine-month periods ended March 31, 2004 and March 31, 2003 (unaudited), the notes thereto and independent auditors' report.

(b) Pro forma financial information

Unaudited Pro Forma Statement of Income for the year ended December 31, 2003.

Unaudited Pro Forma Statement of Income for the three months ended March 31, 2004.

Unaudited Pro Forma Balance Sheet as of March 31, 2004.

Notes to Pro Forma Financial Information.

(c) Exhibits

10.1 Stock Purchase Agreement dated as of May 10, 2004, by and among GX Technology Corporation, Input/Output, Inc. and the Sellers that are parties thereto, filed as Exhibit 2.1 to the Company's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on May 10, 2004, and incorporated herein by reference.

23.1 Consent of Deloitte & Touche LLP.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On April 28, 2004, we issued a press release announcing our results of operations for the first quarter of 2004. On May 10, 2004, we announced that we were revising our results of operations for 2004's first quarter in order to record a tax refund in fiscal 2002 instead of in the first quarter of 2004 as previously reported.

We have filed with the SEC an amendment to our Annual Report on Form 10-K for the year ended December 31, 2003 to reflect certain of these changes and a restatement of our consolidated financial statements for the years ended December 31, 2002 and 2003. Please refer to Explanatory Note and Note 1 of the Notes to Consolidated Financial Statements contained in our Form 10-K/A filed with the SEC on May 10, 2004 for a description of these changes. We have also filed our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, which contains unaudited

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financial information on our results of operations for 2004's first quarter and our financial condition as of March 31, 2004, reflecting these changes.

The information contained in this Item 12 (i) is not to be considered filed under the Securities Exchange Act of 1934, as amended (the Exchange Act) and (ii) shall not be incorporated by reference into any previous or future filings made by or to be made by the company with the SEC under the Securities Act of 1933, as amended, or the Exchange Act.

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GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements As of March 31, 2004 (unaudited), June 30, 2003 and 2002 and for the Years Ended June 30, 2003, 2002, and 2001 and the (unaudited) Nine-Month Periods Ended March 31, 2004 and March 31, 2003 and Independent Auditors Report

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INDEPENDENT AUDITORS REPORT

Board of Directors

GX Technology Corporation

We have audited the accompanying consolidated balance sheets of GX Technology Corporation and Subsidiaries (the Company) as of, June 30, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended June 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2003 in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
November 17, 2003

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	March 31, 2004	June 30, 2003	June 30, 2002
	(Unaudited)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 2,512,432	\$ 712,394	\$ 2,949,821
Accounts receivable, trade (net of allowance for doubtful accounts of \$188,341 and \$84,925 and \$120,516 for 2004, 2003 and 2002, respectively)	9,535,675	9,097,690	3,889,726
Unbilled revenue	6,454,623	3,301,395	3,632,709
Prepayments and other	1,099,931	487,295	304,652
	<u>19,602,661</u>	<u>13,598,774</u>	<u>10,776,908</u>
PROPERTY AND EQUIPMENT At cost	20,593,993	17,208,891	10,249,988
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	(8,360,011)	(7,057,097)	(4,995,819)
	<u>12,233,982</u>	<u>10,151,794</u>	<u>5,254,169</u>
PURCHASED SOFTWARE COSTS, Net of accumulated amortization of \$878,837, \$707,077 and \$1,207,653 for 2004, 2003 and 2002, respectively	1,085,565	997,320	565,715
	<u>12,354,255</u>	<u>5,925,498</u>	
SEISMIC DATA LIBRARY, Net of accumulated amortization of \$8,535,097 and \$2,685,182 for 2004 and 2003, respectively	12,354,255	5,925,498	
DEFERRED TAX ASSET	619,390	212,381	
OTHER ASSETS	268,222	145,569	
	<u>268,222</u>	<u>145,569</u>	
TOTAL	<u>\$46,164,075</u>	<u>\$31,031,336</u>	<u>\$16,596,792</u>
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES:			
Line of credit	\$ 3,775,000	\$ 2,025,000	\$ 2,975,000
Accounts payable	2,960,968	896,358	930,711
Accrued liabilities and other	7,956,947	7,580,761	1,412,192
Deferred revenue	8,896,629	3,566,908	2,797,547
Dividends payable	1,992,263	1,365,488	529,788
Deferred tax liability	2,016,275	853,369	170,415
Current portion of long-term obligations	4,939,525	5,018,435	2,627,432
	<u>32,537,607</u>	<u>21,306,319</u>	<u>11,443,085</u>
LONG-TERM OBLIGATIONS	2,729,564	2,436,359	1,660,782
	<u>2,729,564</u>	<u>2,436,359</u>	<u>1,660,782</u>
Total liabilities	<u>35,267,171</u>	<u>23,742,678</u>	<u>13,103,867</u>
COMMITMENTS AND CONTINGENCIES	5,000,000	5,000,000	5,000,000

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Redeemable Series A preferred stock, 8%, \$1 par value; 500,000 shares authorized, 481,696 shares issued and outstanding			
Redeemable Series B preferred stock, 8%, \$1 par value; 480,000 shares authorized, 480,000 shares issued and outstanding	5,446,239	5,446,239	5,446,239
STOCKHOLDERS EQUITY (DEFICIT):			
Common stock, \$.01 par value 10,000,000 shares authorized, 1,543,479 shares issued and outstanding at June 30, 2003 and June 30, 2002 respectively, and 1,592,379 shares issued and outstanding at March 31, 2004	15,475	15,435	15,435
Additional paid-in capital	2,812,743	2,745,283	2,745,283
Accumulated earnings/ (deficit)	(2,377,553)	(5,918,299)	(9,714,032)
Total stockholders equity/ (deficit)	450,665	(3,157,581)	(6,953,314)
TOTAL	\$46,164,075	\$31,031,336	\$16,596,792

See notes to consolidated financial statements.

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	Nine-Month Period Ended March 31,		Year Ended June 30,		
	2004	2003	2003	2002	2001
(Unaudited)					
REVENUES:					
Geophysical services	\$ 19,416,468	\$ 19,561,470	\$ 24,684,814	\$ 19,834,479	\$ 16,241,272
Full-scope seismic services	26,823,119	9,369,617	15,290,283		
Maintenance and other	863,417	815,425	973,399	1,164,204	1,343,020
Software	53,975	64,040	70,040	142,605	432,558
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	47,156,979	29,810,552	41,018,536	21,141,288	18,016,850
COST OF REVENUES	<u>29,928,488</u>	<u>17,532,845</u>	<u>24,570,560</u>	<u>13,048,511</u>	<u>10,688,732</u>
GROSS PROFIT	<u>17,228,491</u>	<u>12,277,707</u>	<u>16,447,976</u>	<u>8,092,777</u>	<u>7,328,118</u>
OPERATING EXPENSES:					
General and administrative	6,611,887	4,335,029	5,934,182	3,298,824	2,773,720
Sales and marketing	3,425,009	3,306,296	4,333,881	3,065,131	3,532,720
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	10,036,896	7,641,325	10,268,063	6,363,955	6,306,440
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
INCOME FROM OPERATIONS	<u>7,191,595</u>	<u>4,636,382</u>	<u>6,179,913</u>	<u>1,728,822</u>	<u>1,021,678</u>
INTEREST EXPENSE	<u>(665,605)</u>	<u>(517,105)</u>	<u>(722,745)</u>	<u>(529,934)</u>	<u>(661,845)</u>
INCOME BEFORE INCOME TAXES	<u>6,525,990</u>	<u>4,119,277</u>	<u>5,457,168</u>	<u>1,198,888</u>	<u>359,833</u>
INCOME TAX EXPENSE	<u>2,359,181</u>	<u>623,296</u>	<u>825,735</u>	<u>233,069</u>	<u>21,250</u>
NET INCOME	<u>\$ 4,166,809</u>	<u>\$ 3,495,981</u>	<u>\$ 4,631,433</u>	<u>\$ 965,819</u>	<u>\$ 338,583</u>

See notes to consolidated financial statements.

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GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

Common Stock	Additional Paid-In Capital	Accumulated Earnings/(Deficit)	Total Stockholders Equity
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