

INPUT OUTPUT INC  
Form DEF 14A  
April 12, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

**INPUT/OUTPUT, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
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**INPUT/OUTPUT, INC.  
12300 Parc Crest Drive  
Stafford, Texas 77477  
(281) 933-3339**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held May 17, 2006**

To our Stockholders:

The 2006 Annual Meeting of Stockholders of Input/Output, Inc. will be held at the offices of I/O's subsidiary company, GX Technology Corporation, located at 2101 City West Boulevard, Building III, Suite 900, Houston, Texas, on Wednesday, May 17, 2006, at 10:30 a.m., local time, for the following purposes:

- (1) Election of two directors for a three-year term expiring in 2009;
- (2) Approval of certain amendments to the Input/Output, Inc. 2004 Long-Term Incentive Plan, with the principal amendments being (i) the proposed increase of the total number of shares of I/O's common stock available for issuance under the plan from 2,600,000 to 4,300,000 shares and (ii) the addition of equity compensation awards to non-employee directors;
- (3) Ratification of the appointment of Ernst & Young LLP as I/O's independent auditors for 2006; and
- (4) Transaction of any other business that may properly come before the Annual Meeting or any adjournment or postponement of the meeting.

I/O's Board of Directors has set March 23, 2006 as the record date for the meeting. This means that owners of common stock at the close of business on that date are entitled to receive this notice of meeting and vote at the meeting and any adjournments or postponements of the meeting.

We will make available a list of stockholders as of the close of business on May 5, 2006, for inspection during normal business hours from 9:00 a.m. to 5:00 p.m., local time, through May 16, 2006, at I/O's principal place of business, located at 12300 Parc Crest Drive, Stafford, Texas 77477. This list will also be available at the meeting.

By order of the Board of Directors,

David L. Roland  
*Vice President, General Counsel and  
Corporate Secretary*

April 13, 2006  
Stafford, Texas

**YOUR VOTE IS VERY IMPORTANT**

**We encourage you to read the proxy statement. To be sure that your vote counts and a quorum is assured, please sign, date and return the enclosed proxy card whether or not you plan to attend the meeting.**

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**INPUT/OUTPUT, INC.  
12300 Parc Crest Drive  
Stafford, Texas 77477  
(281) 933-3339**

April 13, 2006

**PROXY STATEMENT  
FOR ANNUAL MEETING OF STOCKHOLDERS  
To Be Held May 17, 2006**

Our Board of Directors is furnishing you this proxy statement to solicit proxies on its behalf to be voted at the 2006 Annual Meeting of Stockholders of Input/Output, Inc. (I/O). The meeting will be held at the offices of our subsidiary company, GX Technology Corporation, located at 2101 City West Boulevard, Building III, Suite 900, Houston, Texas, on May 17, 2006, at 10:30 a.m., local time. The proxies also may be voted at any adjournments or postponements of the meeting.

The mailing address of our principal executive offices is 12300 Parc Crest Drive, Stafford, Texas 77477. We are mailing the proxy materials to our stockholders beginning on or about April 13, 2006.

All properly executed written proxies that our stockholders deliver pursuant to this solicitation will be voted at the meeting in accordance with the directions given in the proxy, unless the proxy is revoked before the meeting.

Only owners of record of our shares of common stock at the close of business on March 23, 2006, are entitled to vote at the meeting, or at adjournments or postponements of the meeting. Each owner of common stock on the record date is entitled to one vote for each share of common stock held. On March 23, 2006, there were 79,925,015 shares of common stock issued and outstanding.

**ABOUT THE MEETING**

**What is a proxy?**

It is your legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document is also called a proxy, or a proxy card. Our Board of Directors has designated Robert P. Peebler and James M. Lapeyre, Jr. as proxies for the 2006 Annual Meeting of Stockholders.

**Who is soliciting my proxy?**

Our Board of Directors is soliciting proxies on its behalf to be voted at the 2006 Annual Meeting. All costs of soliciting the proxies will be paid by I/O. Copies of solicitation materials will be furnished to banks, brokers, nominees and other fiduciaries and custodians to forward to beneficial owners of I/O's common stock held by such persons. I/O will reimburse such persons for their reasonable out-of-pocket expenses in forwarding solicitation materials. In addition to solicitations by mail, some of I/O's directors, officers and other employees, without extra

compensation, might supplement this solicitation by letter, telephone or personal interview. I/O has also retained Georgeson Shareholder Communications Inc. to assist with the solicitation of proxies from banks, brokers, nominees and other holders, for a fixed fee of \$7,500 plus

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reasonable out-of-pocket expenses, which fees and expenses will be paid by I/O. We may also ask our proxy solicitor to solicit proxies on our behalf by telephone for a fixed fee of \$5.00 per phone call, plus reasonable expenses.

### **What is a proxy statement?**

It is a document that the regulations of the Securities and Exchange Commission require us to give you when we ask you to sign a proxy card designating individuals as proxies to vote on your behalf.

### **What is the difference between a stockholder of record and a stockholder who holds stock in street name?**

If your shares are registered in your name, you are a stockholder of record.

If your shares are in the name of your broker or bank, your shares are held in street name.

### **What different methods can I use to vote?**

(a) *In Writing:* All stockholders can vote by written proxy card.

(b) *By Telephone and Internet:* Street name holders may vote by telephone or the Internet if their bank or broker makes those methods available, in which case the bank or broker will enclose the instructions with the proxy statement. The telephone and Internet voting procedures, including the use of control numbers, are designed to authenticate stockholders' identities, to allow stockholders to vote their shares, and to confirm that their instructions have been properly recorded.

(c) *In Person:* All stockholders may vote in person at the meeting. If you are a street name holder who wishes to vote in person, you will need to ask your broker or bank for a legal proxy. You will need to bring the legal proxy with you to the meeting.

### **Where will the Annual Meeting be held?**

I/O's 2006 Annual Meeting of Stockholders will be held at the offices of I/O's subsidiary company, GX Technology Corporation, located at 2101 City West Boulevard, Building III, Suite 900, Houston, TX 77042. The main phone number for the GXT offices is (713) 789-7250.

*Parking Information:* The GXT offices are located on City West Boulevard off of Beltway 8, near the intersection of Beltway 8 and Briar Forest Drive. Traveling south on the Beltway 8 feeder road after Briar Forest Drive, turn right on Del Monte Drive. Enter Garage Entrance 3 on your immediate left. Advise the guard that you are attending the Input/Output Annual Meeting. You will be required to show your driver's license or other photo identification. The guard will then direct you where to park in the visitors section of the parking garage. The guard can also direct you to Building III, which is directly south of the garage. In Building III, check in at the security desk, where you will be directed to the elevators. Take the elevators to the GXT offices on the ninth floor.

### **Does my vote matter?**

Yes! Corporations are required to obtain stockholder approval for the election of directors and other important matters. Stockholder participation is not a mere formality. Stockholder voting is essential for I/O to continue to function. It is also important that you vote to assure that a quorum is obtained so that corporate business can be transacted at the meeting.

**What is the effect of not voting?**

It depends on how ownership of your shares is registered. If you are a stockholder of record, your unvoted shares will not be represented at the meeting and will not count toward the quorum requirement. Assuming a quorum is obtained, your unvoted shares will not be treated as a vote for or against a proposal.

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If you own your shares in street name, your broker or bank may represent your shares at the meeting for purposes of obtaining a quorum. As described in the answer to the following question, in the absence of your voting instruction, your broker may or may not vote your shares.

### **If I don't vote, will my broker vote for me?**

If you own your shares in street name and you don't vote, your broker may vote your shares in its discretion on routine matters. With respect to non-routine matters, however, your broker may not vote your shares for you. Where a broker votes your shares on routine matters but cannot vote your shares on non-routine matters because he has not received any instructions from you regarding how to vote, the number of unvoted shares on those matters is reported as broker non-votes. These broker non-vote shares are counted toward the quorum requirement, but, generally speaking, they do not affect the determination of whether a matter is approved. See *How are abstentions and broker non-votes counted?* below. Except for the proposal to amend the Input/Output, Inc. 2004 Long-Term Incentive Plan, we believe that the proposals set forth in this proxy statement are routine matters on which brokers will be permitted to vote your shares without instructions from you.

### **What is the record date and what does it mean?**

The record date for the 2005 Annual Meeting of Stockholders is March 23, 2006. The record date is established by the Board of Directors as required by Delaware law. Owners of common stock at the close of business on the record date are entitled to:

- (a) receive notice of the meeting, and
- (b) vote at the meeting and any adjournments or postponements of the meeting.

### **How can I revoke a proxy?**

A stockholder can revoke a proxy by taking any one of the following three actions:

- (a) giving written notice to the Corporate Secretary of I/O,
- (b) delivering a later-dated proxy, or
- (c) voting in person at the meeting.

### **What constitutes a quorum?**

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of outstanding common stock constitutes a quorum. We need a quorum of stockholders to hold a valid Annual Meeting. If you have signed and returned your proxy card, your votes will be counted toward the quorum. If a quorum is not present, the chairman may adjourn the meeting, without notice other than by announcement at the meeting, until the required quorum is present.

As of the record date, 79,925,015 shares of common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of common stock representing at least 39,962,508 votes will be required to establish a quorum.

### **What are my voting choices when voting for director nominees, and what vote is needed to elect directors?**

In voting on the election of two director nominees to serve until the 2009 Annual Meeting of Stockholders, stockholders may vote in one of the following ways:

- (a) in favor of both nominees,
- (b) withhold votes as to both nominees, or
- (c) withhold votes as to a specific nominee.

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Directors will be elected by a plurality vote of the shares of common stock present or represented by proxy at the meeting. This means that both director nominees must receive the highest number of votes cast in order to be re-elected as directors. Stockholders are not permitted to cumulate their votes in the election of directors.

The Board recommends a vote **FOR** both of the nominees.

**What are my voting choices when voting on the proposal to amend the Input/Output, Inc. 2004 Long-Term Incentive Plan and what vote is needed to approve the proposal?**

In voting on the proposal to amend the plan, stockholders may vote in one of the following ways:

- (a) in favor of the amendment of the plan,
- (b) against the amendment of the plan, or
- (c) abstain from voting on the amendment of the plan.

The proposal to amend the Input/Output, Inc. 2004 Long-Term Incentive Plan requires the approval of a majority of the votes cast by holders of common stock in person or represented by proxy at the meeting, so long as the total votes cast on the proposal exceeds 50% of the shares of common stock outstanding.

The Board recommends a vote **FOR** this proposal.

**What are my voting choices when voting on the ratification of the appointment of Ernst & Young LLP as our independent auditors and what vote is needed to ratify their appointment?**

In voting to ratify the appointment of Ernst & Young LLP as independent auditors for 2006, stockholders may vote in one of the following ways:

- (a) in favor of ratification,
- (b) against ratification, or
- (c) abstain from voting on ratification.

The proposal to ratify the appointment of Ernst & Young LLP will require approval by a majority of the votes cast by holders of common stock in person or represented by proxy at the meeting.

The Board recommends a vote **FOR** this proposal.

**Will any other business be transacted at the meeting? If so, how will my proxy be voted?**

We do not know of any business to be transacted at the Annual Meeting other than those matters described in this proxy statement. We believe that the periods specified in I/O's Bylaws for submitting proposals to be considered at the meeting have passed and no proposals were submitted. However, should any other matters properly come before the meeting, and any adjournments or postponements of the meeting, shares with respect to which voting authority has been granted to the proxies will be voted by the proxies in accordance with their judgment.

**What if a stockholder does not specify a choice for a matter when returning a proxy?**

Stockholders should specify their choice for each matter on the enclosed form of proxy. If no instructions are given, proxies that are signed and returned will be voted **FOR** the election of both director nominees, **FOR** the approval of the amendment of the Input/Output, Inc. 2004 Long-Term Incentive Plan and **FOR** the proposal to ratify the appointment of Ernst & Young LLP as independent auditors for 2006.

**How are abstentions and broker non-votes counted?**

A properly executed proxy card marked **withhold** with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of

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determining whether there is a quorum. Any shares not voted (whether by broker non-vote or otherwise) will have no effect on the election of directors.

An abstention will have the same legal effect as a vote against the proposal to amend the Input/Output, Inc. 2004 Long-Term Incentive Plan because it represents a share present in person or represented by proxy at the meeting and entitled to vote, thereby increasing the number of affirmative votes required to approve the amendment of this plan. Broker non-votes will have no effect on the outcome of this proposal so long as the total votes cast on the proposal exceed 50% of our outstanding shares.

An abstention has the same legal effect as a vote against the proposal to ratify the appointment of the independent auditors, because it will represent a vote cast, thereby increasing the number of affirmative votes required to approve the proposal. Broker non-votes have no effect on the proposal to ratify the appointment of the independent auditors.

**What is the deadline for submitting proposals to be considered for inclusion in the 2007 proxy statement?**

Stockholder proposals requested to be included in I/O's 2007 proxy statement must be received by I/O not later than December 7, 2006. Proposals should be directed to David L. Roland, Vice President, General Counsel and Corporate Secretary, Input/Output, Inc., 12300 Parc Crest Drive, Stafford, Texas 77477.

**What is the deadline for submitting a nomination for director of I/O for consideration at the Annual Meeting of Stockholders in 2007?**

A proper director nomination may be considered at I/O's 2007 Annual Meeting of Stockholders only if the proposal or nomination is received by I/O not later than December 7, 2006. All nominations should be directed to David L. Roland, Vice President, General Counsel and Corporate Secretary, Input/Output, Inc., 12300 Parc Crest Drive, Stafford, Texas 77477.

**How can I obtain a copy of I/O's Annual Report on Form 10-K?**

A copy of our 2005 Annual Report on Form 10-K is enclosed with our annual report to stockholders. You may obtain an additional copy of our 2005 Form 10-K by sending a written request to David L. Roland, Vice President, General Counsel and Corporate Secretary, Input/Output, Inc., 12300 Parc Crest Drive, Stafford, Texas 77477. We will furnish the Form 10-K at no charge. Our Form 10-K is also available through the Investor Relations portion of our website at [www.i-o.com](http://www.i-o.com). Our Form 10-K is also available with exhibits on the SEC's website at <http://www.sec.gov>. Please note that the contents of these and any other websites referenced in this proxy statement are not incorporated into this filing. Further, our references to the URLs for these and other websites listed in this proxy statement are intended to be inactive textual references only.

**ITEM 1 ELECTION OF DIRECTORS**

Our Board of Directors consists of eight members. Pursuant to I/O's Restated Certificate of Incorporation, the Board is divided into three classes. Members of each class are elected for three-year terms and until their respective successors are duly elected and qualified, unless the director dies, resigns, retires, is disqualified or is removed. Our stockholders elect the directors in a designated class annually. Directors in Class I, which is the class of directors to be elected at this meeting, will serve on the Board until our Annual Meeting in 2009.

The current Class I directors are Theodore H. Elliott, Jr. and James M. Lapeyre, Jr., and their terms will expire at the 2006 Annual Meeting. Messrs. Elliott and Lapeyre have each been nominated to stand for reelection at the meeting to hold office until our 2009 Annual Meeting and until his successor is elected and qualified.

We have no reason to believe that either of the nominees will be unable or unwilling to serve if elected. However, if either nominee should become unable or unwilling to serve for any reason, proxies may be voted



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for another person nominated as a substitute by the Board of Directors, or the Board of Directors may reduce the number of Directors.

**The Board of Directors recommends a vote FOR the election of Theodore H. Elliott, Jr. and James M. Lapeyre, Jr.**

**Class I Director Nominees For Re-Election For Term Expiring In 2009**

THEODORE H. ELLIOTT, JR.	Age 70	Director since 1987
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Theodore H. Elliott, Jr. joined our Board of Directors in 1987. Since 1981, he has been in the venture capital business as the Chairman of Prime Capital Management Co., Inc., a Connecticut-based venture capital company, and as a private investor. Prior to Prime Capital Management, Mr. Elliott was Vice President of General Electric's venture capital subsidiary. Prior to General Electric, Mr. Elliott was head of investment banking at Clark, Dodge & Co. Inc. He also serves on the Board of Directors and the Compensation and Audit Committees of National Interstate, a specialty property and casualty insurance company based in Ohio. Mr. Elliott is also a director of MUPAC, a subsidiary of Carlo Gavazzi Holding AG, a Swiss-based producer of automation components and computer sub-systems that is listed on the Zurich Stock Exchange. Mr. Elliott is a member of the Audit Committee of our Board of Directors.

JAMES M. LAPEYRE, JR.	Age 53	Director since 1998
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James M. Lapeyre, Jr. has been Chairman of our Board of Directors since 1999 and a Director since 1998. Mr. Lapeyre has been President of Laitram L.L.C., a privately held New Orleans-based manufacturer of food processing equipment and modular conveyor belts, and its predecessors since 1989. Mr. Lapeyre joined our Board of Directors when we bought the DigiCourse marine positioning products business from Laitram. Mr. Lapeyre is Chairman of the Governance Committee and a member of the Compensation Committee of our Board of Directors.

**Class II Incumbent Directors Term Expiring In 2007**

FRANKLIN MYERS	Age 53	Director since 2001
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Franklin Myers joined our Board of Directors in 2001. He is currently the Senior Vice President and Chief Financial Officer of Cooper Cameron Corporation, an international manufacturer of oil and gas flow control equipment. Mr. Myers has been Senior Vice President at Cooper Cameron since 1995 and served as General Counsel and Corporate Secretary from 1995 to 1999, as well as President of the Cooper Energy Services Division from 1998 until 2002. Prior to joining Cooper Cameron, Mr. Myers was Senior Vice President and General Counsel of Baker Hughes Incorporated, a leading oilfield services and equipment provider, and an attorney and partner with the law firm of Fulbright & Jaworski L.L.P. in Houston, Texas. Mr. Myers also currently serves on the Board of Directors of Comfort Systems, Inc., a NYSE-listed provider of heating, ventilation and air conditioning services. Mr. Myers is Chairman of the Compensation Committee and a member of the Governance Committee of our Board of Directors.

BRUCE S. APPELBAUM, PhD	Age 58	Director since 2003
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Bruce S. Appelbaum joined our Board of Directors in 2003. He is currently the Chairman of Mosaic Natural Resources Ltd., an oil and gas exploration and production company focusing on opportunities in the North Sea. Prior to co-founding Mosaic, Dr. Appelbaum was President of Worldwide Exploration and New Ventures for Texaco, Inc. and a Vice President of Texaco. Dr. Appelbaum joined Texaco in 1990 as Division Manager of Texaco U.S.A.'s offshore exploration division and was elected an officer of Texaco in 2000. Dr. Appelbaum is a Trustee of the American Geological Institute Foundation and serves on the Advisory Board to the Department of Oceanography at Texas A&M University. He previously served on the Advisory

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Board of the School of Earth Sciences at Stanford University. Dr. Appelbaum is a member of the Audit Committee of our Board of Directors.

S. JAMES NELSON, JR.

Director since 2004

Age 63

S. James Nelson, Jr. joined our Board of Directors in August 2004. Prior to joining the I/O Board, Mr. Nelson was a founding shareholder, Chief Financial Officer, Vice Chairman and a Director of Cal Dive International, Inc., a marine contractor and operator of offshore oil and gas properties and production facilities. From 1985 to 1988, Mr. Nelson was the Senior Vice President and Chief Financial Officer of Diversified Energies, Inc., a NYSE-traded company with \$1 billion in annual revenues and the former parent company of Cal Dive. From 1980 to 1985, Mr. Nelson served as Chief Financial Officer of Apache Corporation, an oil and gas exploration and production company. From 1966 to 1980, Mr. Nelson was employed with Arthur Andersen & Co. where, from 1976 to 1980, he was a partner serving on the firm's worldwide oil and gas industry team. Mr. Nelson also currently serves on the Board of Directors and Audit Committee of Oil States International, Inc. (a NYSE-listed diversified oilfield services company), Quintana Maritime Limited (a NASDAQ-listed company owning and operating international dry-bulk vessels) and W&T Offshore, Inc. (a NYSE-listed oil and natural gas exploration and production company). Mr. Nelson, who is also a Certified Public Accountant, is the Chairman of the Audit Committee of our Board of Directors.

**Class III Incumbent Directors Term Expiring In 2008**

ROBERT P. PEEBLER

Director since 1999

Age 58

Robert P. Peebler has been our President and Chief Executive Officer since April 2003 and a member of our Board of Directors since 1999. Prior to joining I/O on a full-time basis, Mr. Peebler was the founder, President and Chief Executive Officer of Energy Virtual Partners, an asset development and management company for oil and gas properties. Prior to founding Energy Virtual Partners in April 2001, Mr. Peebler was Vice President of e-Business Strategy and Ventures of the Halliburton Company, a provider of products and services to the petroleum and energy industries. Mr. Peebler joined Halliburton in 1996 when Halliburton acquired Landmark Graphics Corporation, a provider of workstation-based software for oil and gas exploration and production, where he had served as CEO since 1992. Mr. Peebler began his career with Schlumberger, a global oilfield and information services company, in wireline operations and spent 17 years with Schlumberger in various positions, including head of U.S. wireline operations and executive in charge of strategic marketing for the corporate energy services group.

JOHN N. SEITZ

Director since 2003

Age 54

John N. Seitz joined our Board of Directors in 2003. Mr. Seitz is the co-CEO of Endeavour International Corporation, an exploration and development company with a North Sea focus. From 1977 to 2003, Mr. Seitz held positions of increasing responsibility at Anadarko Petroleum Company, serving most recently as a Director and as President and Chief Executive Officer. Mr. Seitz is a Trustee of the American Geological Institute Foundation and also serves as a director of Elk Resources, Inc., a private exploration and production company with operations in the Rockies. Mr. Seitz is a member of the Compensation and Governance Committees of our Board of Directors.

SAM K. SMITH

Director since 1999

Age 73

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Sam K. Smith joined our Board of Directors in 1999. He also served as our Chief Executive Officer from 1999 until 2000. From 1989 to 1996, Mr. Smith was Chairman of the Board of Landmark Graphics Corporation. Prior to that time, Mr. Smith was a special limited partner at Sevin-Rosen Management, a Texas-based venture capital firm that has backed high technology firms, including Compaq, Lotus Development, and Silicon Graphics. Mr. Smith began his career at Texas Instruments where he held positions of increasing

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responsibility, such as Group Vice President for the Equipment Group, Texas Instruments defense business. Mr. Smith is a member of the Compensation Committee of our Board of Directors.

**Ownership of Equity Securities in I/O**

Except as otherwise set forth below, the following table sets forth information as of February 20, 2006, with respect to the number of shares of common stock owned by (i) each person known by us to be a beneficial owner of more than 5% of our common stock, (ii) each of our directors, (iii) each of our executive officers named in the Summary Compensation Table included later in this proxy statement and (iv) all of our directors and executive officers as a group. Except where information was otherwise known by us, we have relied solely upon filings of Schedules 13D and 13G to determine the number of shares of our common stock owned by each person known to us to be the beneficial owner of more than 5% of our common stock.

<b>Name of Owner</b>	<b>Common Stock(1)</b>	<b>Rights to Acquire(2)</b>	<b>Restricted Stock(3)</b>	<b>Percent of Common Stock(4)</b>
Royce & Associates, LLC(5)	10,042,600			12.6%
Laitram, L.L.C.(6)	7,905,344			10.0%
Wells Fargo & Company(7)	5,593,879			7.0%
Wells Fargo & Company(7)	5,300,855			6.7%
Fletcher Asset Management, Inc.(8)	187,000	7,669,434		9.0%
CNH Partners LLC(9)		5,280,093		6.2%
James M. Lapeyre, Jr.(10)	9,046,420	95,000		11.5%
Robert P. Peebler	104,340	1,006,944		1.4%
Bruce S. Appelbaum(11)	6,815	48,333		*
Theodore H. Elliott, Jr.(12)	11,000	147,000		*
Franklin Myers	16,100	85,000		*
John N. Seitz	10,050	48,333		*
Sam K. Smith	31,638	125,000		*
S. James Nelson, Jr.	4,000	12,917		*
Michael K. Lambert	115,000	66,360	5,000	*
J. Michael Kirksey	14,000	83,750		*
Christopher M. Friedemann	19,072	57,500	21,666	*
David L. Roland	5,001	16,250	14,999	*
All directors and executive officers as a group (13 Persons)	9,384,662	1,800,637	54,998	13.8%

\* Less than 1%

- (1) Represents shares for which the named person (a) has sole voting and investment power or (b) has shared voting and investment power. Excluded are shares that (i) are restricted stock holdings or (ii) may be acquired through stock option or warrant exercises.
- (2) Represents shares of common stock that may be acquired through conversion of our outstanding Series D-1 Cumulative Convertible Preferred Stock and exercise of other rights in the case of Fletcher Asset Management, Inc., conversion of our outstanding 5.50% Convertible Senior Notes in the case of CNH Partners LLC, and

exercise of stock options in the case of our officers and directors, that are convertible or exercisable through April 30, 2006.

- (3) Represents shares subject to a vesting schedule, forfeiture risk and other restrictions. Although these shares are subject to forfeiture provisions, the holder has the right to vote the shares and receive dividends until they are forfeited.
- (4) Assumes shares that such person has rights to acquire are outstanding.

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- (5) The address for Royce & Associates, LLC is 1414 Avenue of the Americas, New York, New York 10019.
- (6) The address for Laitram, L.L.C. is 220 Laitram Lane, Harahan, Louisiana 70123. Mr. Lapeyre is the President and chief executive officer of Laitram. Please read note 10 below. Mr. Lapeyre disclaims beneficial ownership of any shares held by Laitram.
- (7) Wells Fargo & Company filed its Schedule 13G on behalf of the following subsidiaries: Wells Capital Management Incorporated, Wells Fargo Funds Management, LLC and Wells Fargo Bank, National Association. The address for Wells Fargo & Company is 420 Montgomery Street, San Francisco, California 94104, and the address for Wells Capital Management Incorporated is 525 Market Street, San Francisco, California 94105. Wells Fargo & Company has sole voting power over only 5,224,076 of the shares of common stock. Wells Capital Management Incorporated has sole voting power over only 2,715,213 of the shares of common stock.
- (8) The address for Fletcher Asset Management, Inc. is HSBC Tower, 29<sup>th</sup> Floor, 452 Fifth Avenue, New York, New York 10018.
- (9) CNH Partners, LLC shares the power to vote and dispose of the securities with CNH CA Master Account, L.P. The address for CNH Partners, LLC and CNH CA Master Account, L.P. is Two Greenwich Plaza, 3<sup>rd</sup> Floor, Greenwich, Connecticut 06830.
- (10) The shares of common stock include 10,500 shares over which Mr. Lapeyre holds joint voting and investment control with his wife. The shares of common stock also include 247,500 shares that Mr. Lapeyre holds as a custodian or trustee for the benefit of his children, 7,905,344 shares owned by Laitram, and 10,500 shares that Mr. Lapeyre holds as a co-trustee with his wife for the benefit of his children, all of which Mr. Lapeyre disclaims any beneficial interest. Please read note 6 above. Mr. Lapeyre has sole voting power over only 872,576 of the shares of common stock. These shares of common stock exclude 30,000 shares owned by Mr. Lapeyre's wife, of which Mr. Lapeyre disclaims beneficial interest.
- (11) The shares of common stock include 4,290 shares over which Mr. Appelbaum holds joint voting and investment control with his wife.
- (12) These shares of common stock exclude 4,000 shares owned by Mr. Elliott's wife, of which Mr. Elliott disclaims beneficial interest.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires directors and certain officers of I/O, and persons who own more than ten percent of I/O's common stock, to file with the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE) initial statements of beneficial ownership on Form 3 and changes in such ownership on Forms 4 and 5. Based on our review of the copies of such reports, and written representations from certain reporting persons that no Forms 5 were required for those persons, we believe that, with four exceptions, during 2005 our directors, executive officers and stockholders holding greater than ten percent of our outstanding shares complied with all applicable filing requirements. A Form 4 for each of Messrs. Appelbaum, Lapeyre, Seitz and Smith reflecting the issuance of shares of common stock of the Company in May 2005 in lieu of the annual outside director retainer fee was filed three days after the required filing date.

**Board of Directors and Corporate Governance**

We maintain a corporate governance program for the purpose of defining responsibilities, setting standards of professional and personal conduct and promoting compliance with these responsibilities and standards. We review our governance practices and update them, as appropriate, based upon Delaware law (the state in which we are incorporated), rules and listing standards of the NYSE and SEC regulations, and practices recommended by our outside advisors.



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Some of our corporate governance initiatives include the following:

Our Board has affirmatively determined that seven of our eight directors meet the NYSE standard for independence. Robert P. Peebler is not independent under applicable standards because he is our current President and Chief Executive Officer, and an employee of I/O.

Our Audit Committee has at least one member who qualifies as a financial expert in accordance with Section 407 of the Sarbanes-Oxley Act of 2002.

All members of our Audit Committee, Governance Committee and Compensation Committee are independent.

Within the last three years, the Board has added two highly qualified and independent directors at the recommendation of the Governance Committee.

Our independent directors meet in executive session at each regularly scheduled Board meeting without the presence of management.

Our outside independent auditors meet separately in private sessions with our Audit Committee at least once every quarter. The employee responsible for our internal audit function reports directly to the Audit Committee throughout the year.

Every year, our management employees and senior finance and accounting employees affirm their compliance with our Code of Ethics and other principal compliance policies. New employees sign a written certification of compliance with these policies upon commencing employment.

The Board has adopted written Corporate Governance Guidelines to assist its members in fulfilling their responsibilities.

We comply with and operate in a manner consistent with regulations prohibiting loans to our directors and executive officers.

Members of our Disclosure Committee, consisting of management employees and senior finance and accounting employees, review all quarterly and annual reports before filing with the SEC.

We have a hotline and website available to all employees to report ethics and compliance concerns, anonymously if preferred, including concerns related to accounting, accounting controls, financial reporting and auditing matters. The hotline and website are administered and monitored by an independent hotline monitoring company. The Board has adopted a policy and procedures for the receipt, retention and treatment of complaints and employee concerns received through the hotline or website. The policy is available on our website at [http://www.i-o.com/Investor\\_Relations/Corporate\\_Governance/Employee\\_Hotline/](http://www.i-o.com/Investor_Relations/Corporate_Governance/Employee_Hotline/).

We require all employees to adhere to our Code of Ethics in addressing legal and ethical issues encountered in conducting their work. The Code of Ethics requires that our employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner, promote full and accurate financial reporting, and otherwise act with integrity and in I/O's best interest. Our Code of Ethics applies to our directors and all employees, including our Chief Executive Officer and senior financial officers (our Chief Financial Officer, Controller, Treasurer and all other financial officers and executives).

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We have made our Code of Ethics, corporate governance guidelines, charters for the committees of our Board and other information that may be of interest to investors available on the Investor Relations section of our website at [http://www.i-o.com/Investor\\_Relations/Corporate\\_Governance/](http://www.i-o.com/Investor_Relations/Corporate_Governance/). Copies of this information may also be obtained by writing to us at Input/Output, Inc., Attention: Corporate Secretary, 12300 Parc Crest Drive, Stafford, Texas 77477.

Under NYSE corporate governance listing standards, James M. Lapeyre, Jr. has been designated as the presiding non-management director to lead non-management directors meetings of the Board. Our non-management directors meet at regularly scheduled executive sessions without management, over which

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Mr. Lapeyre presides. Stockholders and other interested parties may communicate with the Board and our presiding non-management director or non-management independent directors as a group by writing to Chairman of the Board (if the intended recipient is the Board) or Presiding Non-management Director (if the intended recipient is the presiding non-management director, or the non-management directors as a whole), c/o Corporate Secretary, Input/Output, Inc., 12300 Parc Crest Drive, Stafford, Texas 77477. Inquiries sent by mail will be reviewed by our Corporate Secretary and, if they pertain to the functions of the Board or Board committees or if the Corporate Secretary otherwise determines that they should be brought to the intended recipient's attention, they will be forwarded to the intended recipient. Concerns relating to accounting, internal controls, auditing or compliance matters will be brought to the attention of our Audit Committee and handled in accordance with procedures established by the Audit Committee.

Our Corporate Secretary's review of these communications will be performed with a view that the integrity of this process be preserved. For example, items that are unrelated to the duties and responsibilities of the Board, such as personal employee complaints, product inquiries, new product suggestions, resumes and other forms of job inquiries, surveys, business solicitations or advertisements, will not be forwarded to those individuals. In addition, material that is considered to be hostile, threatening, illegal or similarly unsuitable will not be forwarded to them. Except for these types of items, the Corporate Secretary will promptly forward written communications to the intended recipient. Within the above guidelines, the independent directors have granted the Corporate Secretary discretion to decide what correspondence should be shared with I/O management and independent directors.

In 2005, the Board of Directors held 10 meetings and the three standing committees of the Board of Directors held a total of 19 meetings. Overall, the attendance at such meetings was 91%. Each director attended at least 80% of the total meetings of the Board of Directors and the committees on which he served during 2005. The Board and committees held executive or private sessions without company management present on a regular basis.

We do not require our Board members to attend our Annual Meeting of Stockholders. Four of our directors attended our 2005 Annual Meeting.

In determining independence, each year the Board determines whether directors have any material relationship with I/O. When assessing the materiality of a director's relationship with I/O, the Board considers all relevant facts and circumstances, not merely from the director's standpoint, but from that of the persons or organizations with which the director has an affiliation, and the frequency or regularity of the services, whether the services are being carried out at arm's length in the ordinary course of business and whether the services are being provided substantially on the same terms to I/O as those prevailing at the time from unrelated parties for comparable transactions. Material relationships can include commercial, banking, industrial, consulting, legal, accounting, charitable and familial relationships. Factors that the Board may consider when determining independence for purposes of this determination include (1) not being a current employee of I/O or having been employed by I/O within the last three years; (2) not having an immediate family member who is, or who has been within the last three years, an executive officer of I/O; (3) not personally receiving or having an immediate family member who has received, during any 12-month period within the last three years, more than \$100,000 per year in direct compensation from I/O other than director and committee fees; (4) not being employed or having an immediate family member employed within the last three years as an executive officer of another company where any current executive officer of I/O serves or has served, at the same time, on that company's compensation committee; (5) not being an employee of or a current partner of, or having an immediate family member who is a current partner of, a firm that is I/O's internal or external auditor; (6) not having an immediate family member who is a current employee of such an audit firm who participates in the firm's audit, assurance or tax compliance practice; (7) not being or having an immediate family member who was within the last three years a partner or employee of such a firm and who personally worked on I/O's audit within that time; (8) not being a current employee, or having an immediate family member who is a current executive officer, of a company that has made payments to, or received payments from, I/O for property or services in an amount that, in any of the last three fiscal

years, exceeds the greater of \$1 million or 2% of the other company's consolidated gross revenues; or (9) not being an executive officer of a charitable organization to which, within the preceding three years, I/O has made

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charitable contributions in any single fiscal year that has exceeded the greater of \$1 million or 2% of such organization's consolidated gross revenues.

Our Board has determined that each of our current directors, except for Mr. Peebler, who is our President and Chief Executive Officer, has no material relationship with I/O and is independent within the meaning of the NYSE's director independence standards. Our Chairman, Mr. Lapeyre, is an executive officer and significant shareholder of Laitram, L.L.C., a company with which I/O has ongoing contractual relationships, and Mr. Lapeyre and Laitram together owned approximately 11.4% of our outstanding common stock as of February 20, 2006. Our Board has determined that these contractual relationships have not interfered with Mr. Lapeyre's demonstrated independence from our management, and that the services performed by Laitram for I/O are being provided at arm's length in the ordinary course of business and substantially on the same terms to I/O as those prevailing at the time from unrelated parties for comparable transactions. In addition, the services provided by Laitram to I/O resulted in payments by I/O to Laitram in an amount significantly less than 2% of Laitram's 2005 consolidated gross revenues. As a result of these factors, Mr. Lapeyre, along with each of our other non-management directors, is independent within the meaning of the NYSE's standards. For an explanation of the contractual relationship between Laitram and I/O, see *Certain Transactions and Relationships* below.

**Committees of the Board**

The Board of Directors has established an Audit Committee, a Compensation Committee and a Governance Committee. In addition, the Board establishes temporary special committees on an as-needed basis. All committees are composed entirely of non-employee directors. During 2005, the Audit Committee met 14 times, the Compensation Committee met two times and the Governance Committee met three times.

The current members of the standing committees of the Board of Directors are identified below. Mr. Peebler is not a member of any of these committees.

<b>Director</b>	<b>Compensation Committee</b>	<b>Audit Committee</b>	<b>Governance Committee</b>
James M. Lapeyre, Jr.	*		**
Bruce S. Appelbaum		*	
Theodore H. Elliott, Jr.		*	
Franklin Myers	**		*
S. James Nelson, Jr.		**	
John N. Seitz	*		*
Sam K. Smith	*		

\* Member

\*\* Chair

***Audit Committee***

The Audit Committee oversees matters relating to financial reporting, internal controls, risk management and compliance. These responsibilities include appointing, overseeing, evaluating and approving the fees of our independent auditors, reviewing financial information that is provided to our stockholders and others, reviewing with

management our system of internal controls and financial reporting process, and monitoring our compliance program and system.

The Audit Committee operates under a written charter, which sets forth the functions and responsibilities of the committee. A copy of the charter can be viewed on our website at <http://www.i-o.com/content/released/AuditComChar05.pdf>.

The Board of Directors has determined that each member of the Audit Committee is financially literate and satisfies the definition of independent as established in the NYSE corporate governance listing standards. In addition, the Board of Directors has determined that Mr. Elliott, a member of the Committee, is

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qualified as an audit committee financial expert within the meaning of SEC regulations, and that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE and Rule 10A-3 under the Exchange Act. In addition, Mr. Nelson, the Chairman of the Committee, qualifies as an audit committee financial expert within the meaning of SEC regulations and has accounting and related financial management expertise within the meaning of the listing standards of the NYSE and Rule 10A-3 under the Exchange Act.

I/O's Corporate Governance Guidelines provide that no member of the Audit Committee may simultaneously serve on the audit committees of more than two other public companies unless the I/O Board determines that such simultaneous service would not impair the ability of such director to effectively serve on I/O's Audit Committee. In addition, the listing standards of the NYSE provide that if an audit committee member simultaneously serves on the audit committees of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve, then in each case, the board must determine that such simultaneous service would not impair the ability of such member to effectively serve on the listed company's audit committee. As described above under *Class II Incumbent Directors Term Expiring In 2007*, Mr. Nelson serves as Chairman of the I/O Audit Committee and serves on the audit committees of three other public companies. The I/O Board considered all relevant factors, including the incremental time and responsibilities that such additional service would require of Mr. Nelson and the fact that Mr. Nelson devotes full time to making his capacity as a financial expert available to public companies, and the Board determined that Mr. Nelson's simultaneous service would not impair his ability to effectively serve on I/O's Audit Committee.

### ***Compensation Committee***

The Compensation Committee reviews and approves, or recommends to the Board for approval, all salary and other remuneration for our officers and oversees matters relating to our employee compensation and benefit programs. The Compensation Committee operates pursuant to a written charter that sets forth the functions and responsibilities of the committee. A copy of the charter can be viewed on our website at <http://www.i-o.com/content/released/CompComChart.pdf>. The Board of Directors has determined that each member of the Compensation Committee satisfies the definition of "independent" as established in the NYSE corporate governance listing standards.

### ***Governance Committee***

The Governance Committee functions as the Board's nominating and corporate governance committee and advises the Board of Directors with regard to matters relating to governance practices and policies, management succession, and composition and operation of the Board and its committees, including reviewing potential candidates for membership on the Board and recommending to the Board nominees for election as directors of I/O.

In identifying and selecting new director candidates, the Governance Committee considers the Board's current and anticipated strengths and needs and a candidate's experience, knowledge, skills, expertise, integrity, diversity, ability to make independent analytical inquiries, understanding of the company's business environment, willingness to devote adequate time and effort to Board responsibilities, and other relevant factors. The Committee also seeks an appropriate balance of experience and expertise in accounting and finance, technology, management, international business, compensation, corporate governance, strategy, industry knowledge and general business matters. The Governance Committee may rely on various sources to identify potential director nominees, including input from directors, management and others the committee feels are reliable, and professional search firms. During 2005, the Governance Committee did not engage any outside search firm to assist it in identifying or facilitating the screening and interview process of any candidates for director.

The Governance Committee will consider recommendations for director nominations made by a stockholder or other sources (including self-nominees) on the same basis as other candidates. For consideration by the Governance Committee, a recommendation of a candidate must be submitted in writing to the Governance Committee in care of our Corporate Secretary at our principal executive offices. The submission



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must include sufficient details regarding the qualifications of the potential candidate. In general, nominees for election should possess (1) the highest level of integrity and ethical character, (2) strong personal and professional reputation, (3) sound judgment, (4) financial literacy, (5) independence, (6) significant experience and proven superior performance in professional endeavors, (7) an appreciation for board and team performance, (8) the commitment to devote the time necessary, (9) skills in areas that will benefit the Board, and (10) the ability to make a long-term commitment to serve on the Board.

Also, our bylaws permit stockholders to nominate individuals for director for consideration at an annual stockholders meeting. A proper director nomination may be considered at I/O's 2007 Annual Meeting only if the proposal or nomination is received by I/O not later than December 7, 2006. All nominations should be directed to David L. Roland, Vice President, General Counsel and Corporate Secretary, Input/Output, Inc., 12300 Parc Crest Drive, Stafford, Texas 77477.

The Governance Committee operates pursuant to a written charter, which sets forth the functions and responsibilities of the committee. A copy of the charter can be viewed on our website at [http://www.i-o.com/content/released/Governance\\_Committee\\_Charter.pdf](http://www.i-o.com/content/released/Governance_Committee_Charter.pdf). The Board of Directors has determined that each member of the Governance Committee satisfies the definition of independent as established in the NYSE corporate governance listing standards.

## **Director Compensation**

### ***General***

I/O employees who are also directors do not receive any fee or remuneration for services as members of the Board of Directors. In addition to being reimbursed for all reasonable out-of-pocket expenses that the director incurs attending Board meetings and functions, outside directors are entitled to receive an annual retainer fee of \$30,000, which each outside director may elect in advance to receive either in cash or in shares of our common stock valued at their fair market value as of the date of their issuance. In addition, the Chairman of the Audit Committee is entitled to receive an annual retainer fee of \$12,500, the Chairman of the Compensation Committee is entitled to receive an annual retainer fee of \$10,000, and the Chairman of the Governance Committee is entitled to receive an annual retainer fee of \$5,000. Each Committee Chairman may elect to receive the retainer for serving as Chairman in cash or in shares of common stock valued at their fair market value as of the date of their issuance. Shares issued in lieu of cash for retainer fees are valued at the closing price per share on the last trading date before our annual stockholders meeting each year. Outside directors also receive, in cash, \$2,000 for each Board meeting and \$2,000 for each committee meeting attended (unless the committee meeting is held in conjunction with a Board meeting, in which case the fee for committee meeting attendance is \$1,000) and \$1,000 for each Board or committee meeting held via teleconference.

### ***Directors Retirement Plan***

In 1992, we adopted a Directors Retirement Plan. We discontinued this plan in 1996. Mr. Elliott is the only director entitled to receive any benefits under the Directors Retirement Plan. This plan requires us to make a lump sum payment to Mr. Elliott following his retirement from the Board, in an amount equal to the present value of \$15,000 to be received annually for a period of ten years.

### ***Equity Compensation***

As a means to attract and recruit qualified new directors and to retain capable directors in a manner that promotes ownership of a proprietary interest in I/O, we adopted the Input/Output, Inc. Amended and Restated 1996 Non-Employee Director Stock Option Plan ( 1996 Directors Plan ) in 1996. In 1998, our stockholders approved an

increase in the total number of shares available under the 1996 Directors Plan. As of December 31, 2005, there were 36,333 shares available for issuance under the 1996 Directors Plan. The 1996 Directors Plan expires by its terms in June 2006. As a result, our Board of Directors has approved certain amendments to the Input/Output, Inc. 2004 Long-Term Incentive Plan to provide for issuances of equity

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compensation awards to new and continuing non-employee directors, subject to approval by our stockholders at the I/O 2006 Annual Meeting.

For a description of the terms of the Input/Output, Inc. 2004 Long-Term Incentive Plan, see

*ITEM 2 PROPOSAL TO AMEND THE INPUT/OUTPUT, INC. 2004 LONG-TERM INCENTIVE PLAN.*

## ***Stock Ownership Guidelines***

The Board adopted stock ownership guidelines for I/O's directors effective January 1, 2006. The Board adopted these guidelines in order to align the economic interests of the directors with those of our stockholders and further focus our emphasis on enhancing stockholder value. Under these guidelines, each non-employee director is expected to own shares of I/O stock equal to a minimum aggregate market value of \$30,000. New directors and current directors whose holdings fall below such minimum level will have one year to increase the director's ownership of I/O stock to satisfy the guidelines. The stock ownership guidelines are subject to modification by the Board in its discretion.

The Governance Committee and the Board regularly review and evaluate the I/O directors' compensation program on the basis of current and emerging compensation practices for directors, emerging legal, regulatory and corporate compliance developments and comparisons with director compensation programs of other similarly-situated public companies.

## **Certain Transactions and Relationships**

Mr. Lapeyre is the President and Chief Executive Officer and a significant equity owner of Laitram, L.L.C. and has served as President of Laitram and its predecessors since 1989. Laitram is a privately-owned, New Orleans-based manufacturer of food processing equipment and modular conveyor belts. Mr. Lapeyre and Laitram together owned approximately 11.4% of our outstanding common stock as of February 20, 2006.

We acquired DigiCourse, Inc., our marine positioning products business, from Laitram in 1998 and have renamed it I/O Marine Systems, Inc. In connection with that acquisition, we entered into a Continued Services Agreement with Laitram under which Laitram agreed to provide us with certain accounting, software, manufacturing and maintenance services. Manufacturing services consist primarily of machining of parts for our marine positioning systems. The term of this written agreement expired in September 2001 but we continue to operate under its terms. In addition, when we have requested, the legal staff of Laitram has advised us on certain intellectual property matters with regard to our marine positioning systems. During 2005, we paid Laitram a total of approximately \$2,720,825, which consisted of approximately \$1,987,127 for manufacturing services, \$654,551 for rent and other pass-through third party facilities charges, and \$79,146 for other services. For the 2004 and 2003 fiscal years, we paid Laitram a total of approximately \$1.82 million and \$1.17 million, respectively, for these services. In the opinion of our management, the terms of these services are fair and reasonable and as favorable to us as those that could have been obtained from unrelated third parties at the time of their performance.

## **EXECUTIVE OFFICERS**

Our current executive officers are as follows:

<b>Name</b>	<b>Age</b>	<b>Position with I/O</b>
Robert P. Peebler	58	President, Chief Executive Officer and Director
Michael K. Lambert	52	President, GX Technology Corporation ( GXT )

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Christopher M. Friedemann	41	Vice President, Commercial Development
David L. Roland	44	Vice President, General Counsel and Corporate Secretary
Michael L. Morrison	35	Controller and Director of Accounting

For a description of the business background of Mr. Peebler, see *Class III Incumbent Directors* *Term Expiring In 2008* above.

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*Michael (Mick) K. Lambert* has been President of our GXT subsidiary since 1997 and continued in that position after the acquisition of GXT by I/O in June 2004. He joined GXT in 1989 and served in various positions of increasing responsibility, ultimately becoming the President in 1997 and Chief Executive Officer in 2002. Before joining GXT, Mr. Lambert spent two years as President of Gateway Enterprises, a company providing marketing consulting services to the seismic industry. Prior to Gateway, he spent four years at Cogniseis Development, where he held positions as Director of Business Development and USA Sales Manager and nine years with Seiscom Delta, Inc. in a variety of technical and management positions in the United Kingdom, Ireland and Texas.

*Christopher M. Friedemann* has been our Vice President, Commercial Development since August 2003. Mr. Friedemann's accountabilities encompass corporate marketing, strategic planning and corporate development. Before joining I/O, Mr. Friedemann served as the Managing Director of RiverBend Associates, a privately held management consulting firm based in Texas. Prior to founding RiverBend in January 2002, he served as President of Tradeum, a venture-backed software company that was sold to VerticalNet in April 2000 at which time Mr. Friedemann assumed the role of Managing Director-Europe. Before joining Tradeum in January 2000, Mr. Friedemann was Principal and Partner at the management consulting firm McKinsey & Company. Mr. Friedemann also has experience as a Senior Reservoir Engineer with Exxon, in field operations with Unocal and in energy merchant banking with Bankers Trust.

*David L. Roland* has been Vice President, General Counsel and Corporate Secretary since April 2004. Prior to joining I/O, Mr. Roland held several positions of increasing responsibility within the legal department of Enron Corp., an energy trading and pipeline company, most recently as Vice President and Assistant General Counsel. Prior to joining Enron in 1998, Mr. Roland was an attorney with Caltex Corporation, an international oil and gas marketing and refining company. Mr. Roland was an attorney with the law firm of Gardere & Wynne (now known as Gardere Wynne Sewell LLP) from 1988 until 1994, when he joined Caltex.

*Michael L. Morrison* has been our Controller and Director of Accounting since November 2002 and served as our Assistant Controller from June 2002 to November 2002. Prior to joining I/O, Mr. Morrison held several positions at Enron Corp., an energy trading and pipeline company, most recently as Director of Transaction Support. Mr. Morrison had held a variety of positions at Deloitte & Touche, LLP, a public accounting firm, from January 1994 until he joined Enron in June 2000.

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The following tables and narrative text discuss the compensation paid in fiscal years ended December 31, 2005, 2004 and 2003, to our Chief Executive Officer and our four other most highly compensated executive officers at December 31, 2005. The individuals named below do not receive and are not entitled to receive any perquisites, or any other similar personal benefits that are different from what our salaried employees are entitled to receive.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation		Annual Compensation	Stock Award(s)	Long-Term Compensation Awards		All Other Compensation
		Salary	Bonus			Options/SARs	Payouts	
		(\$)	(\$)(1)	(\$)	(\$)(2)	(#)(3)	(\$)(4)	(\$)(4)
Robert P. Peebler	2005	\$ 458,692	\$ 200,000	\$ 0	\$ 0	0	\$ 0	\$ 3,063
President, Chief Executive Officer and Director(5)	2004	455,000	0	0	0	0	0	2,625
	2003	292,308	0	0	0	1,325,000	0	8,008
Michael K. Lambert	2005	220,000	60,725	0	0	40,000	0	6,600
President, GX Technology(6)	2004	113,385	220,000	0	0	85,000	0	250
	2003	0	0	0	0	0	0	0
J. Michael Kirksey	2005	246,538	0	0	260,011	75,000	0	2,500
Executive Vice President and Chief Financial Officer(7)	2004	221,862	0	0	238,680	205,000	0	4,114
	2003	0	0	0	0	0	0	0
Christopher M. Friedemann	2005	208,308	84,720	0	246,050	40,000	0	6,249
Vice President, Commercial Development(8)	2004	201,385	0	0	88,400	60,000	0	6,042
	2003	71,538	0	0	132,600	85,000	0	2,146
David L. Roland	2005	184,615	66,100	0	140,600	25,000	0	5,308
Vice President, General Counsel and Corporate Secretary(9)	2004	118,942	0	0	132,600	40,000	0	3,568
	2003	0	0	0	0	0	0	0

(1) Mr. Peebler's cash bonus for 2005 consisted of a discretionary bonus awarded by the Compensation Committee and paid in March 2006 with regard to the fiscal 2005 year. Mr. Lambert's cash bonus for 2005 was paid in March 2006 with regard to the fiscal 2005 year, and his cash bonus received in 2004 was a non-discretionary bonus made in accordance with the terms of his employment agreement. Mr. Friedemann's cash bonus for 2005 was paid in March 2006 with regard to the fiscal 2005 year. Mr. Roland's cash bonus for 2005 consisted of a discretionary bonus of \$10,000 awarded by the Compensation Committee in February 2005 and a bonus of \$56,100 paid in March 2006 with regard to the 2005 fiscal year.

(2) All of the amounts shown represent shares of restricted stock granted under our 2000 Restricted Stock Plan or 2004 Long-Term Incentive Plan. While unvested, the holder is entitled to the same voting and dividend rights as all other holders of common stock. In each case, the grants of shares of restricted stock vest in one-third

increments each year, over a three-year period. References below to values as of the grant date of the shares of restricted stock awarded shall mean the reported closing sales price per share of I/O's common stock on the NYSE on the last trading day immediately preceding the date of grant. Below are certain details of each grant:

Mr. Kirksey received an award of 15,000 shares of restricted stock in January 2004 valued at \$4.51 per share, an award of 12,000 shares of restricted stock in September 2004 valued at \$9.84 per share, and an award of 10,000 shares of restricted stock in August 2005 valued at \$7.31 per share. At December 31, 2005, his total of 37,000 shares of restricted stock that he had received had a value of \$260,110 based on the closing sales price of I/O's common stock on the NYSE on that date. Upon his departure from I/O on January 2, 2006, Mr. Kirksey forfeited 23,000 shares of unvested restricted stock.

Mr. Friedemann received an award of 15,000 shares of restricted stock in August 2003 valued at \$4.90 per share, an award of 10,000 shares of restricted stock in September 2004 valued at \$9.84 per

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share, and an award of 10,000 shares of restricted stock in August 2005 valued at \$7.31 per share. At December 31, 2005, his total of 35,000 shares of restricted stock that he had received had a value of \$246,050 based on the closing sales price of I/O's common stock on the NYSE on that date.

Mr. Roland received an award of 10,000 shares of restricted stock in April 2004 valued at \$9.22 per share, an award of 5,000 shares of restricted stock in September 2004 valued at \$9.84 per share, and an award of 5,000 shares of restricted stock in August 2005 valued at \$7.31 per share. At December 31, 2005, his total of 20,000 shares of restricted stock that he had received had a value of \$140,600 based on the closing sales price of I/O's common stock on the NYSE on that date.

- (3) In 2003, under the terms of his employment agreement, Mr. Peebler received a one-time grant of options to purchase 1,325,000 shares of I/O common stock at \$6.00 per share. At March 31, 2003, the date of grant, the closing sales price per share of our common stock on the NYSE was \$3.60. Under his employment agreement, Mr. Peebler is not guaranteed a bonus payment. See *Employment Agreements Robert P. Peebler* and *Report of the Compensation Committee of the Board of Directors of Input/Output, Inc.*

In June 2004, I/O acquired all of the outstanding stock of GXT from GXT's shareholders. Under the terms of the stock purchase agreement between I/O and the GXT shareholders, we terminated certain outstanding GXT stock options and assumed certain other outstanding GXT stock options, substituting shares of our common stock for the GXT shares covered by the options assumed. Mr. Lambert owned GXT stock options at the time of the acquisition. Mr. Lambert's GXT stock options assumed by I/O, after giving effect to the acquisition and the effective exchange ratio, evidenced options to purchase up to 409,004 shares of I/O common stock for an average exercise price of \$1.77 per share. Pursuant to the terms of the GXT stock option plans and the stock purchase agreement, these options became fully vested on the date of the acquisition. Because these outstanding GXT options were assumed by I/O in connection with the acquisition on the same basis as all other outstanding GXT options and were not considered to be compensatory grants by I/O, they are not reflected in the table above. However, the options indicated in the table above were granted by I/O in June 2004 as material inducements to Mr. Lambert's joining I/O in connection with the acquisition.

- (4) I/O provides the named executive officers with certain group life, health, medical and other non-cash benefits generally available to all salaried employees, which are not included in this column pursuant to SEC rules. Except as noted below, the amounts shown in this column consist of employer matching contributions to I/O's 401(k) plan. In 2005, the 401(k) accounts for each of the named executive officers received the following matching contributions: \$3,063 for Mr. Peebler; \$6,600 for Mr. Lambert; \$2,500 for Mr. Kirksey; \$6,249 for Mr. Friedemann; and \$5,308 for Mr. Roland. The *All Other Compensation* amounts for Mr. Peebler include (a) \$4,000 in outside directors fees paid to Mr. Peebler in 2003 (before he became I/O's chief executive officer) and (b) \$1,020 paid to Mr. Peebler in 2003 under our program that rewards individuals who are named as inventors on patents owned by us.
- (5) Mr. Peebler became our Chief Executive Officer in April 2003. He has served as a director on our Board of Directors since 1999.
- (6) Mr. Lambert was the President and Chief Executive Officer of GXT when I/O acquired all of the stock of GXT in June 2004. Mr. Lambert has remained as the President of GXT, and became an executive officer of I/O in June 2004. The compensation amounts shown in the table above include only compensation that Mr. Lambert received from GXT after the June 2004 acquisition of GXT.
- (7) Mr. Kirksey joined I/O in January 2004. He resigned from I/O effective January 2, 2006.



(8) Mr. Friedemann joined I/O in August 2003.

(9) Mr. Roland joined I/O in April 2004.

Table of Contents**Option/SAR Grants in Last Fiscal Year**

Name	Individual Grants					Potential Realizable	
	Number of Securities	Percentage of Total Options/SARs				Value at Assumed Annual Rates of Stock	
			Underlying Option/SARs Granted (#)(1)	Granted to Employees in Fiscal Year(2)	Exercise or Base Price (\$/Sh)	Expiration Date	Price Appreciation for Option Term* 5% (\$) 10% (\$)
Robert P. Peebler	0	0.0%					
Michael K. Lambert	40,000	3.3%			7.31	8/2/2015	183,889 466,010
J. Michael Kirksey(3)	75,000	6.2%			7.31	8/2/2015	344,791 873,769
Christopher M. Friedemann	40,000	3.3%			7.31	8/2/2015	183,889 466,010
David L. Roland	25,000	2.1%			7.31	8/2/2015	114,930 291,256
All Executive Officers	210,000	17.3%					
All Non-Executive Employees	1,000,500	82.7%					

\* The dollar amounts of appreciation under these columns result from using calculations assuming 5% and 10% growth rates as provided under SEC rules and are not intended to forecast future price appreciation of our common stock. They only reflect a hypothetical future value based upon growth at these prescribed rates. We did not use an alternative formula for a grant date valuation, an approach which would state gains at present, and therefore lower, value. Options have value to recipients, including the listed executives, only if the stock price advances beyond the grant price shown in the table during the effective option period.

- (1) The options shown in the table above were granted under our 2004 Long-Term Incentive Plan. Each of these awards was granted at an exercise price equal to the fair market value per share of our common stock on the date of grant. The fair market value of a share of our common stock is defined in this Plan as the closing sales price on the immediately preceding business day of a share of common stock as reported on the NYSE. The options vest in 25% increments on the first, second, third and fourth anniversaries of the grant date. Each of the awards described above contains provisions regarding the impact of a change of control, death, disability, retirement and termination of employment on the exercisability of options, with change of control and retirement (subject to certain exceptions) causing acceleration of vesting.
- (2) Based on an aggregate of 1,210,500 shares subject to options granted to our employees during the year ended December 31, 2005, including the listed executives.
- (3) Mr. Kirksey ceased employment with I/O on January 2, 2006, and all unvested stock options held by Mr. Kirksey terminated effective as of such date. On January 2, 2006, Mr. Kirksey held unvested options to purchase a total 196,250 shares that were terminated.

**Aggregated Option/SAR Exercises in Last Fiscal Year  
and FY-End Option/SAR Values**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at Fiscal		Value of Unexercised In-the-Money Options/SARs	
			Year-End (#)		at Fiscal Year-End \$(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert P. Peebler	0	0	859,723	515,277	896,915	530,735
Michael K. Lambert(2)	48,346	246,250	21,250	103,750	0	0
J. Michael Kirksey	0	0	51,250	228,750	81,900	245,700
Christopher M. Friedemann	0	0	57,500	127,500	90,525	90,525
David L. Roland	0	0	10,000	55,000	0	0

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- (1) In accordance with SEC rules, values under this table are calculated by subtracting the exercise price from the fair market value of the underlying I/O common stock. For purposes of these columns, fair market value is deemed to be \$7.03 per share, the closing price per share on the NYSE on December 31, 2005.
- (2) These options exercised were Mr. Lambert's GXT options assumed by I/O in June 2004 in connection with the GXT acquisition. See note 3 to the *Summary Compensation Table* above.

## **Employment Agreements**

### ***Robert P. Peebler***

Our employment agreement with Mr. Peebler, dated March 31, 2003, provides that Mr. Peebler will serve as President and Chief Executive Officer for a five-year term, unless sooner terminated. Under the agreement, Mr. Peebler is entitled to an annual base salary of at least \$400,000, and to participate in all of our employee benefit plans available to senior executives at a level commensurate with his position. In the event that Mr. Peebler's employment is terminated by us without cause, or if he resigns for good reason (defined as a reduction in his status, pay or benefits; a demotion to a lesser position with I/O or reduction of his duties and responsibilities; or a change of his principal place of employment by more than 30 miles), then we are obligated to pay Mr. Peebler over a three year period a termination payment equal to three times his annual base salary. In addition, we granted Mr. Peebler an option to purchase 1,325,000 shares of I/O common stock at \$6.00 per share. At March 31, 2003, the date of grant, the closing sales price per share of our common stock on the NYSE was \$3.60. Mr. Peebler is not guaranteed an annual bonus under his employment agreement.

The employment agreement contains provisions relating to protection of our confidential information and intellectual property and restricts Mr. Peebler from soliciting our employees and customers or competing with us during the term of his employment and for a period of two years following termination. If he violates these covenants, we can suspend making his termination payment. In the event of a change of control, if Mr. Peebler remains with us or with our successor for a period of 18 months following the change of control, he can then voluntarily resign for any reason or no reason at all, and be entitled to receive the termination payment referred to above. In addition, upon a change of control of I/O, any restrictions on equity securities issued to Mr. Peebler lapse and all options immediately become fully vested and exercisable. If any payment or benefit under his employment agreement is determined to be subject to the excise tax for excess parachute payments under U.S. federal income tax rules, we have agreed to pay to Mr. Peebler an additional amount to adjust for the incremental tax costs of those payments to Mr. Peebler. We also agreed to indemnify Mr. Peebler to the fullest extent permitted by our certificate of incorporation and bylaws, and to provide him coverage under our directors' and officers' liability insurance policies to the same extent as our other executives.

### ***Michael (Mick) K. Lambert***

Michael K. Lambert entered into an employment agreement with GXT dated March 26, 2004. The agreement provides for Mr. Lambert to serve as the President and Chief Executive Officer of GXT until June 14, 2006. Under the agreement, Mr. Lambert is entitled to an annual base salary of at least \$220,000 and is eligible to receive an annual bonus of 100% of his base salary if GXT meets its overall projected annual financial and business goals. The agreement provides that if GXT does not meet these goals, then any payment of an annual bonus would be within the discretion of the Board of Directors of GXT. Mr. Lambert's employment agreement was amended in June 2004 to provide that his annual bonus for 2004 would be \$220,000. Under his employment agreement, Mr. Lambert is entitled to participate in all of GXT's employee benefit plans available to senior executives of GXT. In the event Mr. Lambert's employment is terminated (a) by GXT other than for cause after a change of control of GXT or (b) by Mr. Lambert

upon the occurrence of any of the following events after a change of control of GXT:

GXT causes a material adverse change in the overall level of responsibilities and/or duties of Mr. Lambert;

GXT causes an adverse change in Mr. Lambert's base compensation;

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GXT causes a material adverse change in the terms of Mr. Lambert's annual bonus, unless offset by an increase in other compensation;

GXT requires that Mr. Lambert change his primary work location by more than 50 miles; or

GXT materially breaches his employment agreement, which breach continues for more than 30 days after Mr. Lambert gives written notice to GXT regarding such breach,

then Mr. Lambert will be entitled to receive payments equal to his base salary plus bonus and continued participation in GXT's health and welfare plans for a period of three years (or a shorter period if he competes with GXT or solicits for hire any employee of GXT). In addition, upon such a change of control and such subsequent event, all I/O options held by Mr. Lambert will immediately become fully vested and exercisable.

***David L. Roland***

Our employment agreement with David L. Roland was entered into on June 15, 2004. The agreement provides for Mr. Roland to serve as our Vice President, General Counsel and Corporate Secretary until June 15, 2006 and, thereafter, for additional successive terms of one year each, unless terminated by us or Mr. Roland at the end of the initial term or any additional term. Under the agreement, Mr. Roland is entitled to an annual base salary of at least \$175,000 and is eligible to receive a bonus under the terms of our Incentive Compensation Plan. In connection with this agreement, Mr. Roland was granted an award of 10,000 shares of restricted stock and stock options to purchase 25,000 shares under our 2000 Long-Term Incentive Plan. Under his agreement, Mr. Roland is entitled to participate in all of our employee benefit plans available to senior executives at a level commensurate with his position. In the event Mr. Roland's employment is terminated by us other than for cause or by Mr. Roland for good reason, then, so long as he executes a general release in favor of I/O, we are obligated to pay Mr. Roland in monthly installments over a 12-month period a sum equal to his base salary at the time of termination, as well as a pro rata portion of any annual incentive compensation for the year in which termination occurs, and to provide him continued participation in our health and welfare plans for a period of one year. I/O has also agreed pursuant to this agreement to indemnify Mr. Roland to the fullest extent permitted by I/O's Certificate of Incorporation and Bylaws, and to provide him coverage under our directors' and officers' liability insurance policies to the same extent as our other executives.

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**Equity Compensation Plan Information**  
**(as of December 31, 2005)**

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)</b>
<b>Equity Compensation Plans Approved by Security Holders</b>			
Amended and Restated 1990 Stock Option Plan	943,690	\$ 10.58	0
Amended and Restated 1991 Directors Stock Option Plan	30,000	\$ 29.63	0
Amended and Restated 1996 Non-Employee Director Stock Option Plan	627,000	\$ 8.80	36,333
1998 Restricted Stock Plan			11,807
2000 Long-Term Incentive Plan	1,353,300	\$ 7.24	0
Employee Stock Purchase Plan			446,325
2003 Stock Option Plan	1,325,000	\$ 6.00	175,000
2004 Long-Term Incentive Plan	1,545,750	\$ 8.10	263,249
GX Technology Corporation Employee Stock Option Plan	627,137	\$ 2.35	0
Subtotal	6,451,877		932,714
<b>Equity Compensation Plans Not Approved by Security Holders</b>			
Non-Employee Directors Retainer Plan			44,047
2000 Restricted Stock Plan			75,406
Input/Output, Inc. April 2005 Inducement Equity Program	55,000	\$ 6.49	0
Input/Output, Inc. Concept Systems Employment Inducement Stock Option Program	186,250	\$ 6.42	0
Input/Output, Inc. GX Technology Corporation Employment Inducement Stock Option Program	354,000	\$ 7.09	0

Subtotal	595,250	119,453
Total	7,047,127	1,052,167

*Non-Employee Directors Retainer Plan.* In 2001, our Board adopted arrangements whereby our non-employee directors can elect to receive their annual retainer for service as a director, and any retainer for serving as a committee chairman, in cash or in common stock. Any common stock issued pursuant to these arrangements is valued at the closing price of our common stock on the date before issuance. The Board reserved 100,000 of our treasury shares for issuance under these arrangements.

*2000 Restricted Stock Plan.* During 2000, our Board approved the Input/Output, Inc. 2000 Restricted Stock Plan. This plan grants our Compensation Committee the authority to make awards of restricted stock of up to 200,000 shares of our common stock in order to attract and retain key employees of I/O and our subsidiaries. Awards may be made from authorized and unissued shares or treasury shares, but the plan provides that shares delivered under the initial grants under the plan must be made only from treasury shares



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or common stock repurchased by I/O. As of December 31, 2005, there were 29,000 shares of restricted stock issued and outstanding under this plan.

Under the terms of this plan, I/O enters into individual award agreements with participants designated by the Compensation Committee specifying the number of shares of common stock granted under the award, the price (if any) to be paid by the grantee for the restricted stock, the restriction period during which the award is subject to forfeiture, and any performance objectives specified by the Committee. Participants are not permitted to sell, transfer or pledge their restricted stock during their restriction period.

Upon termination of a participant's employment with us for any reason other than death, disability or retirement, all nonvested shares of restricted stock will be forfeited. In addition, in the event of a change in control of I/O, all shares of restricted stock will become fully vested. Unless sooner terminated, the 2000 Restricted Stock Plan will expire on March 13, 2010.

*Input/Output, Inc. April 2005 Inducement Equity Program.* As a material inducement to Teng Beng Koid to join our company as Vice President, Business Development of our Imaging Systems Group, in April 2005 we entered into an Employment Inducement Restricted Stock Agreement and an Employment Inducement Stock Option Agreement with him. These agreements provided for the grant to Mr. Koid of 20,000 shares of restricted common stock and stock options to purchase 55,000 shares of common stock. The term of his stock options expires on April 4, 2015, and the options become exercisable in four equal installments with respect to 25% of the underlying shares on the first, second, third and fourth consecutive anniversary dates of the date of grant. The options may be sooner exercised upon the occurrence of a change of control of I/O. The shares of restricted stock vest in three equal installments with respect to 33.33% of the underlying shares on the first, second and third consecutive anniversary dates of the date of grant. The restricted stock may vest sooner upon the occurrence of a change of control of I/O.

*Input/Output, Inc. Concept Systems Employment Inducement Stock Option Program.* In connection with our acquisition of the share capital of Concept Systems Holding Limited in February 2004, we entered into employment inducement stock option agreements with 12 key employees of Concept as material inducements to their joining I/O. The terms of these stock options are for 10 years, and the options become exercisable in four equal installments each year with respect to 25% of the shares on the first, second, third and fourth consecutive anniversary dates of the date of grant. The options may be sooner exercised upon the occurrence of a change of control of I/O. The number of shares of common stock covered by each option is subject to adjustment to prevent dilution resulting from stock dividends, stock splits, recapitalizations or similar transactions.

*Input/Output, Inc. GX Technology Corporation Employment Inducement Stock Option Program.* In connection with our acquisition of all of the capital stock of GX Technology Corporation in June 2004, we entered into employment inducement stock option agreements with 29 key employees of GXT as material inducements to their joining I/O. The terms of these stock options are for 10 years, and the options become exercisable in four equal installments each year with respect to 25% of the shares each on the first, second, third and fourth consecutive anniversary dates of the date of grant. The options may be sooner exercised upon the occurrence of a change of control of I/O. The number of shares of common stock covered by each option is subject to adjustment to prevent dilution resulting from stock dividends, stock splits, recapitalizations or similar transactions.

**Table of Contents****Performance Graph**

*We have made previous filings under the Securities Act of 1933, as amended, or the Exchange Act that incorporate future filings, including this proxy statement, in whole or in part. However, the following Performance Graph and the Report of the Compensation Committee of the Board of Directors of Input/Output, Inc. shall not be incorporated by reference into any such filings.*

The Performance Graph is presented for the period beginning January 1, 2000 and ending on December 31, 2005. The Peer Group Index consists of OYO Geospace Corporation, Bolt Technology Corp. and Compagne Generale de Geophysics. Historical stock performance during this period may not be indicative of future stock performance.

**COMPARE 5-YEAR CUMULATIVE TOTAL RETURN  
AMONG INPUT/OUTPUT, INC.,  
S&P 500 INDEX AND PEER GROUP INDEX**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
INPUT/OUTPUT, INC.	100.00	80.59	41.72	44.27	86.77	69.00
PEER GROUP INDEX	100.00	48.32	28.15	58.71	99.85	143.99
S&P 500 INDEX	100.00	88.12	68.64	88.33	97.94	102.75

**REPORT OF THE COMPENSATION COMMITTEE  
OF THE BOARD OF DIRECTORS OF INPUT/OUTPUT, INC.**

The Compensation Committee has furnished the following report on executive compensation for fiscal year 2005. The purpose of this report is to summarize the compensation philosophy and policies that the Compensation Committee has applied in making executive compensation decisions.

**The Committee's Responsibilities**

The Compensation Committee is composed entirely of non-employee directors, all of whom are independent under the standards of the New York Stock Exchange. We are responsible for setting and administering policies that govern I/O's executive compensation programs.

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### **Compensation Philosophy and Methodology**

Through I/O's compensation programs, we seek to achieve the following goals:

attract and retain qualified and productive executive officers and key employees by providing total compensation competitive with that of other executives and key employees employed by companies of similar size, complexity and industry of business;

encourage executives and key employees to achieve strong financial and operational performance;

emphasize performance-based compensation, to create meaningful links between corporate performance, individual performance and financial rewards;

link the interests of executives with stockholders by providing a significant portion of total pay in the form of stock-based incentives;

encourage long-term commitment to I/O; and

limit corporate perquisites to avoid soft compensation.

In the fall of 2003, we, with the assistance of a third-party consultant, undertook a comprehensive review of I/O's total compensation philosophy to maximize achievement of our goals. Since 2003, our governing principles in establishing executive compensation have been:

*Long-Term and At-Risk Focus.* Premium compensation opportunities should be composed of long-term, at-risk pay to focus management on the long-term interests of I/O. Base salary, annual incentives and employee benefits should be at competitive levels when compared to similarly-situated companies.

*Equity Orientation.* Equity-based plans should comprise a major part of the at-risk portion of total compensation to instill ownership thinking and to link compensation to corporate performance and stockholder interests.

*Competitive.* We emphasize total compensation opportunities consistent with the 50th percentile of a peer group of companies. Competitiveness of base pay and annual incentives is independent of stock performance. However, overall competitiveness of total compensation is contingent on long-term, stock-based compensation programs.

These principles apply to compensation policies for all executive officers and key employees. We do not follow the principles in a mechanistic fashion; rather, we use experience and judgment in determining the appropriate mix of compensation for each individual. This judgment is not done without constant review of discernible measures to determine progress each individual is making toward agreed-upon goals and objectives. Personal biases and feelings are left, to the extent possible, out of these judgments.

### **Compensation Methodology**

Each year I/O, under our oversight, reviews data from market surveys, independent consultants and other sources to assess I/O's competitive position with respect to the following three components of executive compensation:

base salary;

annual incentives; and

long-term incentive compensation.

We also consider an individual's current performance, the level of corporate responsibility, and the employee's skills and experience, collectively, in making compensation decisions.

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### **Components of Compensation**

The primary components of compensation are:

base salary;

performance-based annual incentive compensation; and

long-term stock-based incentive compensation, such as stock options, restricted stock and restricted stock units, all of which may be subject to performance-based and/or time-based vesting requirements.

### **Base Salaries**

The purpose of base salary is to create a base of cash compensation for executive officers that is in the 50th percentile of our comparator group of companies. We exercise discretion in making salary decisions and rely to a large extent on the Chief Executive Officer's evaluations of individual executive officer performance after reviewing their performance with him. Salary increases for executive officers do not follow a preset schedule or formula but do take into account changes in the market and with individual circumstances. Base salary is designed to provide an income level that is sufficient to minimize day-to-day distractions of executives from their focus on long-term business growth. However, base pay levels are not intended to be the vehicle for long-term capital and value accumulation for executives.

Minimum base salaries for certain of our executive officers are determined by employment agreements for these officers. The amount of any increase over these minimums and salaries for executive officers whose salaries are not specified in an agreement are determined by the Compensation Committee based on a variety of factors, including:

the nature and responsibility of the position and, to the extent available, salary norms for persons in comparable positions at comparable companies;

the expertise of the individual executive;

the competitiveness of the market for the executive's services; and

except in the case of his own compensation, the recommendations of the President and Chief Executive Officer.

Salaries are generally reviewed annually.

### **Annual Incentive Compensation**

We implement an annual incentive plan each year to promote the achievement of performance objectives of I/O and the executive's particular business unit. The annual incentive plan provides cash compensation that is at-risk on an annual basis and is contingent on achievement of annual business and operating objectives. Annual incentives measure overall corporate performance and achievement of individual performance objectives. The annual incentive plan is the primary program for measuring individual performance. Target annual incentive opportunities for executives and key employees under the plan are established as a percentage of the recipients' base salary, using survey data for individuals in comparable positions and markets and internal comparisons. Incentive amounts are intended to provide competitive incentive amounts for individuals in comparable positions and markets when target performance is achieved. Incentive amounts reflect higher upside opportunity for high performance and lesser payment opportunities for lesser performance. The annual cash incentive provides income levels that are sufficient to

allow for modest value accumulation for executive officers in the presence of high levels of business performance.

At the beginning of the year, the Compensation Committee, working with senior management, approves an annual incentive compensation plan that reflects a target bonus for each employee level based on achievement of overall financial goals for the Company and each operating division and individual employee performance objectives. The plan contains a formula that establishes a payout range around the target annual incentive allocation. The formula determines the percentage of the target incentive to be paid, based on a

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percentage of goal achievement, with a minimum below which no payment will be made and an established upper cap. The desire is to set goals that encourage performance that increases the value of the Company and, in turn, its stock.

After the end of the year, the Committee reviews the Company's actual performance against each of the plan performance goals established at the beginning of the year. The Company also evaluates each individual's performance during the preceding year. The results of the Company and individual performance evaluations determines the appropriate payout under the incentive plan. The Compensation Committee has discretion in circumstances it determines are appropriate to authorize incentive compensation awards that might exceed amounts that would otherwise be payable under the terms of the plan; such awards could be payable in cash, stock options, restricted stock, restricted stock units or a combination thereof. Any stock options, restricted stock or restricted stock units awarded would be granted under a long-term incentive plan approved by the shareholders of the Company. The Committee also has the discretion, in appropriate circumstances, to grant a lower incentive award or no incentive award at all under the Plan.

During 2003 and 2004, the Company's financial performance did not qualify for incentive compensation under our annual incentive plan and no incentive compensation was paid to our executives or other employees under the plan (however, in 2003 and 2004, certain employees of the Company received incentive payments as the result of contractual requirements or discretionary awards by the Committee). During 2005, I/O achieved only a portion of its target financial objectives, so eligible executives and employees received only limited bonus payments under the incentive plan or as required by employment agreements or as granted by the Committee as a discretionary award.

### **Long-Term Stock-Based Incentive Compensation**

We have structured long-term incentive compensation to provide for an appropriate balance between rewarding performance and encouraging employee retention and stock ownership. Long-term incentives comprise a large portion of the total compensation package for executive officers and key employees. For 2005, there were three forms of long-term incentives utilized for executive officers and key employees: stock options, restricted stock and restricted stock units. For 2006, we have recommended that stock options, restricted stock and restricted stock units continue to be the only forms of long-term incentives to be utilized for executive officers and key employees.

In any given year, an executive officer may be granted a combination of long-term incentives. In the presence of high levels of business performance, long-term incentives will provide income levels that are sufficient to allow for value accumulation for executive officers.

*Stock Options.* I/O's long-term incentive program provides for stock options to be granted with exercise prices equal to the market price of the Company's stock on the date of grant and to vest ratably over four years, based on continued employment. New option grants normally have a term of ten years. The Committee will not grant stock options with exercise prices below the market price of the Company's stock on the date of grant, and will not reduce the exercise price of stock options (except in connection with adjustments to reflect recapitalizations, stock or extraordinary dividends, stock splits, mergers, spin-offs and similar events permitted by the relevant plan) without shareholder approval.

The purpose of stock options is to provide equity compensation whose value has been traditionally treated as entirely at-risk, based on the increase in our stock price and the creation of stockholder value. Stock options also allow executive officers to have equity ownership and to share in the appreciation of the value of the stock in I/O, thereby aligning compensation directly with increases in stockholder value. Stock options only have value if the stock price appreciates in value from the date options are granted.

Stock option awards are generally based on past business and individual performance. In determining the number of options to be awarded, we, or, in some cases, our designee, also considers the grant recipient's qualitative and quantitative performance, the size of stock option and other stock based awards in the past, and expectations of the grant recipient's future performance. Approximately 53 employees received option awards



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in 2005, covering 1,123,000 shares of common stock. The officers named in the compensation tables received option awards for 210,000 shares in 2005.

*Restricted Stock and Restricted Stock Units.* We use restricted stock and restricted stock units to focus executives on the long-term performance of I/O and further align levels of compensation directly with increases in stockholder value. Vesting of restricted stock and restricted stock units is typically not dependent on performance measurement targets; vesting is typically solely based on continued employment. During 2005, however, for the first time the Company utilized performance requirements for the vesting of some long-term incentive grants granted to senior executives. In some such cases, the performance requirements were not satisfied, causing a cancellation of the grant. Approximately 130 employees received restricted stock or restricted stock unit awards in 2005, covering an aggregate of 642,000 shares of restricted stock or restricted stock units (excluding performance grants that were later cancelled). The officers named in the compensation tables received awards of 35,000 shares of restricted stock in 2005 (excluding performance grants that were later cancelled).

The Committee intends to review both the annual incentive compensation program and the long-term incentive program annually to ensure that their key elements continue to meet the objectives described above.

## **Additional Information**

*Benefits and Perquisites.* Benefits, perquisites and any other similar personal benefits offered to executive officers are substantially the same as those offered to the general I/O salaried employee population.

*Total Compensation.* In making decisions with respect to any element of an executive officer's compensation, the Committee considers the total compensation that may be awarded to the executive officer, including salary, annual bonus and long-term incentive compensation. In addition, in reviewing and approving employment agreements for executive officers, the Committee considers the other benefits to which the executive is entitled by the agreement, including compensation payable upon termination of the agreement under a variety of circumstances. The Committee's goal is to award compensation that is reasonable when all elements of potential compensation are considered.

*Compliance with Section 162(m) of the Internal Revenue Code.* Under Section 162(m) of the Internal Revenue Code, I/O may not deduct annual compensation in excess of \$1 million paid to certain employees—generally its Chief Executive Officer and its four other most highly compensated executive officers—unless that compensation qualifies as performance-based compensation. While we intend to structure performance-related awards in a way that will preserve the maximum deductibility of compensation awards, we reserve the right to pay compensation that is not deductible if it is in the best interests of I/O. To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, we have not adopted a policy that all compensation must be deductible.

## **Compensation of the Chief Executive Officer**

Robert P. Peebler became the president and chief executive officer of I/O in 2003. The compensation arrangements for Mr. Peebler were negotiated by I/O's Compensation Committee members (except for Mr. Peebler, who was on the Compensation Committee at the time but removed himself from all discussions and deliberations). Mr. Myers and Mr. Lapeyre drew on input from I/O's directors to address the terms of Mr. Peebler's compensation. In determining his overall compensation, the Committee took into account Mr. Peebler's unique experience, expertise, and capabilities in the energy technology sectors that I/O presently serves, as well as future market opportunities for I/O. Mr. Peebler's technical and industry know-how in applying advanced technologies to oil and gas prospect analysis and reservoir management techniques were viewed as positive factors in the Board's choice of him to lead I/O in bettering its competitive position.

In structuring Mr. Peebler's compensation package, no cash bonus or incentive payment was planned. Although Mr. Peebler is eligible for discretionary bonuses in the future, the Committee and Mr. Peebler decided that the majority of his compensation should be weighted toward equity compensation, and that grants

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of stock options should reflect an exercise price in excess of prevailing market prices for our common stock at the time our agreement was reached on his compensation terms.

As a result of these negotiations and deliberations, the Compensation Committee members (other than Mr. Peebler) agreed with the following three basic components of Mr. Peebler's compensation arrangements:

an annual base salary of \$455,000, assuming 100% of his time was devoted to I/O,

no guaranteed bonus, and

stock options for 1,325,000 shares of common stock exercisable at \$6.00 per share (at March 31, 2003, the date of grant for Mr. Peebler's stock options, the closing sales price per share of I/O common stock on the NYSE was \$3.60).

The Committee believed that these components were consistent with the Board's objectives of retaining a chief executive officer who could capitalize on opportunities in future technology trends affecting the oil and gas exploration and production industry. In addition, the heavy weighting of stock-based compensation was designed to ensure that Mr. Peebler's compensation will remain directly aligned with stockholders.

Mr. Peebler received no cash bonus or equity compensation grants in 2004 or 2005. In 2006, the Compensation Committee awarded Mr. Peebler a discretionary bonus of \$200,000, based on the Company's achievement of critical business objectives during 2005.

We review annually the compensation of the Chief Executive Officer and inform the Board of Directors of any recommended adjustments. The Chief Executive Officer participates in the same programs and receives compensation based upon the same criteria as I/O's other executive officers. However, the Chief Executive Officer's compensation reflects the greater policy- and decision-making authority that the Chief Executive Officer holds and the higher level of responsibility he has with respect to the strategic direction of I/O and its financial and operating results.

**Summary**

The Committee believes the executive compensation policies and programs described in this report serve the interests of the stockholders and I/O. Pay delivered to executives is intended to be linked to, and commensurate with, I/O's performance and with stockholder expectations. However, the practice and performance results of the compensation philosophy described in this report should be measured over a period sufficiently long to determine whether strategy development and implementation are in line with, and responsive to, stockholder expectations.

Franklin Myers, Chairman  
James M. Lapeyre, Jr.  
John N. Seitz  
Sam K. Smith

**ITEM 2 PROPOSAL TO AMEND THE  
INPUT/OUTPUT, INC. 2004 LONG-TERM INCENTIVE PLAN**

**Proposed Amendments**

On May 3, 2004, our Board of Directors adopted the Input/Output, Inc. 2004 Long-Term Incentive Plan (the 2004 Plan), and the 2004 Plan was approved by the stockholders of I/O at the 2004 Annual Meeting. At the 2005 Annual

## Edgar Filing: INPUT OUTPUT INC - Form DEF 14A

Meeting held on May 4, 2005, our stockholders approved certain amendments to the 2004 Plan. The principal amendment was to increase the total number of shares of I/O's common stock available for issuance under the 2004 Plan from 1,000,000 to 2,600,000.

On March 14, 2006, our Board of Directors approved, subject to stockholder approval, further amendments to the 2004 Plan. The principal amendments to the 2004 Plan are to (a) increase by 1,700,000 the

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total number of shares of I/O's common stock available for issuance under the 2004 Plan and (b) add provisions allowing equity compensation awards to non-employee directors to replace the Input/Output, Inc. Amended and Restated 1996 Non-Employee Director Stock Option Plan, which by its terms expires in June 2006.

Our Board of Directors believes it is desirable to increase the number of shares available for issuance under the 2004 Plan in order to continue to promote stockholder value by providing appropriate incentives to key employees and certain other individuals who perform services for I/O and its affiliates. As of February 15, 2006, without giving effect to the 2006 amendments, there were 2,159,502 shares issued or committed for issuance under outstanding options or other awards under the 2004 Plan and only 440,498 shares available for future grant and issuance. See

*Item 1 Election of Directors Director Compensation Stock Options .*

Our Board of Directors also believes that it is important to continue awarding non-employee directors with stock options, restricted stock and other forms of equity compensation as a means to retain capable directors and attract and recruit qualified new directors in a manner that promotes ownership of a proprietary interest in the Company. The amendments adding provisions to the 2004 Plan regarding equity compensation awards to non-employee directors will enable the Company to continue making such equity awards to non-employee directors after the impending expiration of the 1996 Non-Employee Director Stock Option Plan. As of February 15, 2006, without giving effect to the 2006 amendments to the 2004 Plan, there were 627,000 shares issued or committed for issuance under outstanding options or other awards under the 1996 Non-Employee Director Stock Option Plan and only 36,333 shares available for future grant and issuance.

## **Description of the 2004 Plan**

The material features of the 2004 Plan are described below. The complete text of the 2004 Plan, including the proposed amendments, is included as **Appendix A** to this proxy statement. The following summary is qualified by reference to such copy of the amended 2004 Plan that is attached as **Appendix A**.

### **General**

The 2004 Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and is not a qualified plan within the meaning of section 401 of the Internal Revenue Code. The primary objective of the 2004 Plan is to promote the long-term financial success of I/O and its subsidiaries and to increase stockholder value by: (a) encouraging the commitment of directors and selected key employees and consultants, (b) motivating superior performance of key employees and consultants by means of long-term performance related incentives, (c) encouraging and providing directors and selected key employees and consultants with a program for obtaining ownership interests in I/O that link and align their personal interests to those of our stockholders, (d) attracting and retaining directors and selected key employees and consultants by providing competitive incentive compensation opportunities, and (e) enabling directors and selected key employees and consultants to share in the long-term growth and success of the Company.

The 2004 Plan is administered by our Compensation Committee. The 2004 Plan provides for the granting of stock options, stock appreciation rights, performance share awards, restricted stock, restricted stock units and other equity-based awards that provide similar benefits. Certain awards under the 2004 Plan may be paid in cash or common stock, as determined by the Compensation Committee. The Compensation Committee has exclusive discretion to select the participants who will receive awards and to determine the type, size and terms of each award. Eligible participants under the plan include non-employee directors, key employees and independent consultants to I/O or its subsidiaries. The Compensation Committee will also make all other determinations that it decides are necessary or desirable in the interpretation and administration of the Plan. At the present time, all members of the Company's Board of Directors other than Robert P. Peebler are considered non-employee directors for purposes of the 2004 Plan.

For information concerning stock options granted during 2005 under the 2004 Plan to the named executive officers, I/O's executive officers as a group and all non-executive employees as a group, see *Executive Compensation Options/SAR Grants in Last Fiscal Year*.

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### **Shares Subject to the 2004 Plan**

If the stockholders approve the amendments to the 2004 Plan, the Compensation Committee will be able to grant awards covering at any one time up to 4,300,000 shares of common stock. The number of shares of common stock available under the 2004 Plan and outstanding awards are subject to adjustment to prevent the dilution of rights of plan participants resulting from stock dividends, stock splits, recapitalizations or similar transactions. In addition to the shares reserved under the 2004 Plan, the plan also provides that there will be available for issuance under the 2004 Plan an additional 36,333 shares, which represents the number of shares that were reserved under the expiring Input/Output, Inc. Amended and Restated 1996 Non-Employee Director Stock Option Plan (but not covered by exercised or outstanding options thereunder) and have been assumed under the terms of the 2004 Plan.

### **Awards under the 2004 Plan**

Under the 2004 Plan, the Compensation Committee may grant awards in the form of Incentive Stock Options (ISOs), as defined in section 422 of the Internal Revenue Code, nonstatutory stock options (NSOs), stock appreciation rights (SARs), performance shares, and other stock-based awards. ISOs and NSOs together are referred to as Options for purposes of this description of the 2004 Plan. The terms of each award are reflected in an incentive agreement between I/O and the participant.

*Options.* Generally, Options must be exercised within 10 years of the grant date, except with respect to ISO grants to a 10% or greater stockholder which are required to be exercised within five years. The exercise price of each Option may not be less than 100% of the fair market value of a share of common stock on the date of grant, or 110% in the case of an ISO grant to a 10% or greater stockholder. To the extent the aggregate fair market value of shares of common stock for which ISOs are exercisable for the first time by any employee during any calendar year exceeds \$100,000, those Options must be treated as NSOs. The exercise price of each Option is payable in cash or, in the Compensation Committee's discretion, by the delivery of shares of common stock owned by the optionee, or by any combination of these methods. No stock option issued under the 2004 Plan may be repriced, replaced or regranted through cancellation or by lowering the option price of a previously granted stock option.

*SARs.* Upon the exercise of a SAR, the holder will receive cash, common stock, or a combination thereof, the aggregate value of which equals the amount by which the fair market value per share of the common stock on the exercise date exceeds the exercise price of the SAR, multiplied by the number of shares underlying the exercised portion of the SAR. A SAR may be granted in tandem with or independently of an NSO. SARs are subject to such conditions and are exercisable at such times as determined by the Compensation Committee, but the exercise price per share must be at least the fair market value of a share of common stock on the date of grant.

*Performance Shares.* Performance Shares are awards of common stock contingent upon the degree to which performance objectives selected by the Compensation Committee are achieved during a specified period, subject to adjustment by the Compensation Committee. The Compensation Committee establishes performance objectives that may be based upon company, business segment, participant or other performance objectives as well as the period during which such performance objectives are to be achieved. Examples of performance criteria include, but are not limited to, pre-tax or after-tax profit levels, including: earnings per share, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization, net operating profits after tax, and net income; total shareholder return; return on assets, equity, capital or investment; cash flow and cash flow return on investment; economic value added and economic profit; growth in earnings per share; levels of operating expense and maintenance expense or measures of customer satisfaction and customer service as determined from time to time, including the relative improvement therein. The Compensation Committee may make such adjustments in the computation of any performance measure, provided that any such modification does not prevent an award from qualifying for the Performance-Based Exception under section 162(m) of the Internal Revenue Code, which is described below.

Performance shares may be awarded alone or in conjunction with other awards. Payment of performance shares may be made only in shares of common stock.



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*Restricted Stock/Restricted Stock Units.* Included in this category of awards are non-performance-based grants of shares of restricted stock and restricted stock units that vest over a period of time based on the participant's continuing employment with I/O or its subsidiaries. Unless the Compensation Committee determines otherwise at the date of grant, shares of restricted stock will carry full voting rights and other rights as a stockholder, including rights to receive dividends and other distributions on common stock. Unrestricted shares of common stock will be delivered when the restrictions lapse. The Compensation Committee may also grant restricted stock units under the 2004 Plan, which entitle the participant to the issuance of shares of I/O common stock when the restrictions on the units awarded lapse.

*Other Stock-Based Awards.* Other stock-based awards are denominated or payable in, valued in whole or in part by reference to, or otherwise related to, shares of common stock. Other types of Stock-Based Awards include, without limitation, Deferred Stock, purchase rights, Shares of Common Stock awarded which are not subject to any restrictions or conditions, convertible or exchangeable debentures, other rights convertible into Shares, Incentive Awards valued by reference to the value of securities of or the performance of a specified Subsidiary, division or department, and settlement in cancellation of rights of any person with a vested interest in any other plan, fund, program or arrangement that is or was sponsored, maintained or participated in by the Company or any Parent or Subsidiary. Subject to the terms of the 2004 Plan, the Compensation Committee may determine the terms and conditions of any stock-based awards, and those terms are to be set forth in the incentive agreement with the participant.

*Supplemental Payments.* The Compensation Committee, either at the time of grant or at the time of exercise of an NSO or SAR or the time of vesting of performance shares, may provide for a supplemental payment by I/O to the participant in an amount specified by the Compensation Committee. The supplemental payment amount shall not exceed the amount necessary to pay the federal and state income tax payable with respect to the exercise of the NSO or SAR, the vesting of the performance shares and the receipt of a supplemental payment in connection therewith, assuming the participant is taxed at either the maximum effective income tax rate applicable to such awards or at a lower tax rate, as deemed appropriate by the Compensation Committee. The Compensation Committee shall have the discretion to grant supplemental payments that are payable in common stock or cash, determined by the Compensation Committee at the time of the payment.

## **Termination of Employment and Change in Control**

Except as otherwise provided in the applicable incentive agreement, if a participant's employment or other service is terminated other than due to his death, disability, retirement or for cause, any non-vested portion of Options or other applicable awards will terminate and no further vesting will occur. In such event, then exercisable Options and awards will remain exercisable until the earlier of the expiration date set forth in the incentive agreement or 180 days after the date of termination of employment, except with respect to ISOs, in which case the period is three months. If termination of employment is due to disability or death, a participant's then exercisable Options remain exercisable until the earlier of the expiration date of such Options and one year following termination. Upon retirement, a participant's then exercisable Options remain exercisable for the earlier of the expiration date of such awards and one year following termination (except for ISOs, which will remain exercisable for only three months following termination). Upon termination for cause, all Options expire at the date of termination. Upon a change in control, any restrictions on other stock-based awards are deemed satisfied, all outstanding Options and SARs accelerate and become immediately exercisable and all the performance shares and any other stock-based awards become fully vested and deemed earned in full, if the incentive agreement so provides.

## **Performance-Based Exception**

Under section 162(m) of the Code, I/O may deduct, for federal income-tax purposes, compensation paid to its chief executive officer and four other most highly compensated executive officers only to the extent that such compensation does not exceed \$1,000,000 for any such individual during any year, excluding compensation that qualifies as performance-based compensation. The 2004 Plan includes features necessary for certain awards under the plan to qualify as performance-based compensation. To qualify, Options granted under the

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2004 Plan to covered individuals must have an exercise price per share that is not less than the fair market value of a share of the common stock on the date of grant. Performance shares may qualify for the exemption only if the Compensation Committee establishes in writing objective performance goals for such awards no later than 90 days after the commencement of the performance period and no payments are made to participants pursuant to the awards until the Compensation Committee certifies in writing that the applicable performance goals have been met.

## **Federal Tax Consequences**

The federal income tax discussion set forth below is intended for general information only. State and local income tax consequences are not discussed, and may vary from locality to locality.

*NSOs.* Under present regulations, an optionee who is granted an NSO will not realize taxable income at the time the Option is granted. In general, an optionee will be subject to tax for the year of exercise on an amount of ordinary income equal to the excess of the fair market value of the shares on the date of exercise over the option price, and, subject to section 162(m) of the Internal Revenue Code and the requirement of reasonableness I/O will receive a corresponding deduction. Income tax withholding requirements apply upon exercise. The optionee's basis in the shares so acquired equal the option price plus the amount of ordinary income upon which he is taxed. Upon subsequent disposition of the shares, the optionee will realize long- or short-term capital gain or loss, depending upon the length of time the shares are held after the option is exercised.

*ISOs.* An optionee is not taxed at the time an ISO is granted. The tax consequences upon exercise and later disposition depend upon whether the optionee was an employee of I/O or a subsidiary at all times from the date of grant until three months preceding exercise, or one year in the case of death or disability, and on whether the optionee holds the shares for more than one year after exercise and two years after the date of grant of the option. If the optionee satisfies both the employment rule and the holding rule, for regular tax purposes the optionee will not realize income upon exercise of the Option and I/O will not be allowed an income tax deduction at any time. The difference between the option price and the amount realized upon disposition of the shares by the optionee will constitute a long-term capital gain or a long-term capital loss, as the case may be. Neither the employment rule nor the holding rule will apply to the exercise of an Option by the estate of an optionee, provided that the optionee satisfied the employment rule as of the date of such optionee's death. If the optionee meets the employment rule but fails to observe the holding rule, a disqualifying disposition, the optionee generally recognizes as ordinary income, in the year of the disqualifying disposition, the excess of the fair market value of the shares at the date of exercise over the option price. Any excess of the sales price over the fair market value at the date of exercise will be recognized by the optionee as long-term or short-term capital gain, depending on the length of time the stock was held after the option was exercised. If, however, the sales price is less than the fair market value at the date of exercise, then the ordinary income recognized by the optionee is generally limited to the excess of the sales price over the option price. In both situations, I/O's tax deduction is limited to the amount of ordinary income recognized by the optionee. Different consequences apply for an optionee subject to the alternative minimum tax.

*SARs.* Generally, the recipient of a stand-alone SAR will not recognize taxable income at the time the stand-alone SAR is granted. If an employee receives the appreciation inherent in the SARs in cash, the cash will be taxed as ordinary income to the employee at the time it is received. If an employee receives the appreciation inherent in the SARs in stock, the spread between the then-current market value and the base price will be taxed as ordinary income to the employee at the time it is received. In general, there will be no federal income tax deduction allowed to I/O upon the grant or termination of SARs. However, upon the settlement of a SAR, I/O will be entitled to a deduction equal to the amount of ordinary income the recipient is required to recognize as a result of the settlement. The federal income tax treatment for SARs may be effected beginning in 2005 by recently enacted changes to the Internal Revenue Code.

*Performance Shares.* A participant is not taxed upon the grant of performance shares. Upon receipt of the underlying shares or cash, he will be taxed at ordinary income tax rates on the amount of cash received or the current fair market value of stock received, and I/O will be entitled to a corresponding tax deduction. The

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participant's basis in any shares acquired pursuant to the settlement of performance shares will be equal to the amount of ordinary income on which he was taxed and, upon subsequent disposition, any gain or loss will be capital gain or loss.

*Restricted Stock and Restricted Stock Units.* The current United States federal income tax consequences of the other stock-based awards authorized under the 2004 Plan are generally as follows: (i) restricted stock is generally subject to ordinary income tax at the time the restrictions lapse unless the recipient elects to accelerate recognition as of the date of grant; (ii) restricted stock unit awards are generally subject to ordinary income tax at the time of payment or issuance of unrestricted shares; and (iii) unrestricted stock awards are generally subject to ordinary income tax at the time of grant. In each of the foregoing instances, I/O will generally be entitled to a corresponding federal income tax deduction at the same time the participant recognizes ordinary income.

*Withholding.* I/O has the right to reduce the number of shares of common stock deliverable pursuant to the 2004 Plan by an amount which would have a fair market value equal to the amount of all federal, state or local taxes to be withheld, based on the tax rates then in effect or the tax rates that we reasonably believe will be in effect for the applicable tax year, or to deduct the amount of such taxes from any cash payment to be made to the participant, pursuant to the 2004 Plan or otherwise.

## **New Plan Benefits**

It is not possible to predict the individuals who will receive future awards under the 2004 Plan or the number of shares of common stock covered by any future award because such awards are wholly within the discretion of the Compensation Committee. On February 25, 2006, the closing price of a share of common stock of I/O on the NYSE composite tape transactions was \$8.00.

## **Termination or Amendment of the 2004 Plan**

The Board may amend, alter or discontinue the 2004 Plan at any time. The Board or the Governance Committee may amend the terms of any award previously granted; however, no amendment or discontinuance may impair the existing rights of any participant without the participant's consent. The Board may not amend the Plan without stockholder approval if the amendment would materially increase the benefits received by participants, materially increase the maximum number of shares that may be issued under the plan or materially modify the plan's eligibility requirements, or require shareholder approval under tax or regulatory requirements. The 2004 Plan also provides that Options granted under the plan will not be (i) repriced by lowering the exercise price after grant or (ii) replaced or regranted through cancellation. In addition, I/O will seek the approval of its stockholders for any amendment if approval is necessary to comply with the Internal Revenue Code, federal or state securities laws or any other applicable rules or regulations. Unless sooner terminated, the Plan will expire on May 3, 2014, and no awards may be granted after that date.

The proposal to amend the 2004 Plan requires the approval of a majority of the votes cast at I/O's 2006 Annual Meeting, so long as the total votes cast on the proposal exceeds 50% of the total number of shares of common stock outstanding.

## **Other Relevant Considerations**

I/O has successfully used stock options, restricted stock and other forms of equity awards to attract and retain employees. In order to facilitate the objective of attracting and retaining valuable employee talent, I/O has regularly granted equity awards to a very broad base of employees. For example, 53 employees received stock option awards in 2005, covering 1,123,000 shares of common stock. The named executive officers received option awards for

210,000 shares in 2005, less than 19% of the total stock option awards during 2005. Likewise, 130 I/O employees received restricted stock or restricted stock unit awards in 2005, for an aggregate of 642,000 shares of restricted stock or restricted stock units (excluding performance grants that were later cancelled). Named executive officers received only awards of 35,000 shares of restricted stock in 2005, or approximately 5% of the total. I/O believes that its employee equity program has been very successful in both motivating employees and enhancing stockholder value.

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**The Board of Directors recommends that stockholders vote FOR the proposal to amend the Input/Output, Inc. 2004 Long-Term Incentive Plan.**

**ITEM 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

We have appointed Ernst & Young LLP as our independent accountants for the fiscal year ending December 31, 2006. Services provided by Ernst & Young LLP to I/O in 2005 included the examination of our consolidated financial statements, review of our quarterly financial statements, statutory audits of our foreign subsidiaries, internal control audit services, and accounting consultation matters.

**The Board of Directors recommends that stockholders vote FOR ratification of the appointment of Ernst & Young LLP as our independent accountants for 2006.**

In the event stockholders do not ratify the appointment, the appointment will be reconsidered by the Audit Committee.

**REPORT OF THE AUDIT COMMITTEE**

*The following Report of the Audit Committee does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any other filings under the Securities Act of 1933 or the Exchange Act, except to the extent I/O specifically incorporates this Report by reference therein.*

I/O's management is responsible for I/O's internal controls, financial reporting process, compliance with laws, regulations and ethical business standards and the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. I/O's independent registered public accounting firm is responsible for performing an independent audit of I/O's financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Board of Directors of I/O appointed the undersigned directors as members of the Audit Committee and adopted a written charter setting forth the procedures and responsibilities of the Audit Committee. Each year the Audit Committee reviews its Charter and reports to the Board on its adequacy in light of applicable rules of the New York Stock Exchange (NYSE). In addition, each year I/O furnishes a written affirmation to the NYSE relating to Audit Committee membership, the independence and financial management expertise of the Audit Committee and the adequacy of the Charter of the Audit Committee. A copy of the Charter can be viewed on I/O's website at <http://www.i-o.com/content/released/AuditComChar05.pdf>.

The Charter of the Audit Committee specifies that the primary purpose of the Audit Committee is to assist the Board in its oversight of: (1) the integrity of the financial statements of I/O; (2) compliance by I/O with legal and regulatory requirements; (3) the independence, qualifications and performance of I/O's independent registered public accountants; and (4) the performance of I/O's internal auditors and internal audit function. In carrying out these responsibilities, during 2005, and earlier in 2006 in preparation for the filing with the Securities and Exchange Commission (SEC) of I/O's Annual Report on Form 10-K for the year ended December 31, 2005 (the 2005 10-K), the Audit Committee, among other things:

reviewed and discussed the audited financial statements with management and I/O's independent registered public accounting firm;

reviewed the overall scope and plans for the audit and the results of the examinations of I/O's independent registered public accounting firm;

met with I/O management periodically to consider the adequacy of I/O's internal controls over financial reporting and the quality of its financial reporting and discussed these matters with the independent registered

public accounting firm and with appropriate I/O financial personnel and internal auditors;

discussed with I/O's senior management, independent registered public accounting firm and internal auditors the process used for I/O's chief executive officer and chief financial officer to make the



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certifications required by the SEC and the Sarbanes-Oxley Act of 2002 in connection with the 2005 10-K and other periodic filings with the SEC;

reviewed and discussed with I/O's independent registered public accounting firm (1) their judgments as to the quality (and not just the acceptability) of I/O's accounting policies, (2) the written communication required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees and the independence of the independent registered public accounting firm, and (3) the matters required to be discussed with the Audit Committee under auditing standards generally accepted in the United States, including Statement on Auditing Standards No. 61, Communication with Audit Committees ;

based on these reviews and discussions, as well as private discussions with I/O's independent registered public accounting firm and internal auditors, recommended to the Board of Directors the inclusion of the audited financial statements of I/O and its subsidiaries in the 2005 10-K;

also recommended, subject to ratification by the stockholders, the selection of Ernst & Young LLP as I/O's independent registered public accountants for the fiscal year ending December 31, 2006; and

determined that any non-audit services provided to I/O by its independent registered public accounting firm (discussed below under Principal Auditor Fees and Services ) are compatible with maintaining the independence of the independent auditors.

The Audit Committee is the principal liaison between the Board of Directors and I/O's independent registered public accounting firm. The functions of the Audit Committee are not intended to duplicate or to certify the activities of management and the independent registered public accounting firm and are in no way designed to supersede or alter the traditional responsibilities of I/O's management and independent registered public accountants. It is not the duty of the Audit Committee to plan or conduct audits or to determine that I/O's financial statements are complete and accurate and in accordance with generally accepted accounting principles. Management is responsible for I/O's financial reporting process, including its system of internal controls over financial reporting, and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. I/O's independent registered public accounting firm is responsible for expressing an opinion on those financial statements, on management's assessment of internal control over financial reporting and on the effectiveness of internal control over financial reporting. Members of the Audit Committee are not employees of I/O or accountants or auditors by profession or experts in the fields of accounting or auditing. The Audit Committee has relied, without independent verification, on management's representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States, and on the effectiveness of I/O's internal controls over financial reporting as of December 31, 2005 and on the representations of the independent registered public accounting firm in their report on I/O's financial statements.

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The Audit Committee met 14 times during 2005. The Committee schedules its meetings with a view to ensuring that it devotes appropriate attention to all of its tasks. The Committee's meetings include, whenever appropriate, executive sessions with the Company's independent registered public accountants and with the Company's internal auditors, in each case without the presence of the Company's management. The Audit Committee has also established procedures for (a) the receipt, retention and treatment of complaints received by I/O regarding accounting, internal accounting controls or auditing matters, and (b) the confidential, anonymous submission by I/O's employees of concerns regarding questionable accounting or auditing matters. However, this oversight does not provide the Audit Committee with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Committee's consideration and discussions with management and the independent registered public accounting firm do not assure that I/O's financial statements are presented in accordance with generally accepted accounting principles or that the audit of I/O's financial statements has been carried out in accordance with generally accepted auditing standards.

S. James Nelson, Jr., Chairman  
 Bruce S. Appelbaum  
 Theodore H. Elliott, Jr.

## **CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

On August 23, 2005, we dismissed PricewaterhouseCoopers LLP as our independent registered public accounting firm. The decision was recommended and approved by our Audit Committee.

The reports of PricewaterhouseCoopers on the Company's consolidated financial statements for the years ended December 31, 2003 and 2004 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

During the years ended December 31, 2003 and 2004 and through August 23, 2005, there were no disagreements with PricewaterhouseCoopers on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PricewaterhouseCoopers would have caused that firm to make reference thereto in connection with its reports on our consolidated financial statements as and for the years then ended.

During the years ended December 31, 2003 and 2004 and through August 23, 2005, there were no reportable events as that term is defined in Item 304(a)(1)(v) of Regulation S-K, except as follows:

We reported a material weakness in our internal control over financial reporting as of March 31, 2005 in Item 4 of our Form 10-Q/A Amendment No. 1 to our Quarterly Report on Form 10-Q for the three months ended March 31, 2005. This Form 10-Q/A was filed with the SEC on August 15, 2005. The material weakness was detected by our management and related to ineffective controls in place as of March 31, 2005 over the calculation and recording of royalty expense relating to the multi-client data library at our GXT subsidiary. As reported in the Form 10-Q/A, our management believes that this material weakness has been remedied.

We disclosed in Item 4 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 that during that quarter, our management and PricewaterhouseCoopers, our independent registered public accounting firm, had detected a weakness in our internal control over financial reporting, which our management believed to constitute a significant deficiency in our internal control over financial reporting. This weakness involved the lack of adequate review procedures in place for GXT's accounting personnel regarding a sales contract.

As disclosed in our management's assessment of our internal control over financial reporting contained in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2004, in reliance on guidance contained in an interpretive release issued by the staff of the SEC's Office of Chief Accountant and its

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Division of Corporation Finance in June 2004, our management excluded GXT from management's assessment of our internal control over financial reporting as of December 31, 2004. This election was made because we had acquired GXT in a purchase combination transaction in June 2004. As reported in our Form 10-Q/A amendment to our Quarterly Report on Form 10-Q for the three months ended March 31, 2005, we have made numerous modifications to GXT's internal control over financial reporting, including changes in key finance and accounting personnel at the GXT level and changes to certain controls procedures and policies applicable to GXT.

PricewaterhouseCoopers furnished a letter addressed to the SEC stating that it agreed with the above statements concerning PricewaterhouseCoopers, and a copy of that letter dated August 23, 2005 was filed as an exhibit to our Current Report on Form 8-K that we filed with the SEC on August 23, 2005. However, PricewaterhouseCoopers also stated in that letter that it made no comment whatsoever regarding the then-current status of the material weakness in internal controls regarding royalty expenses or any remedial actions taken with respect to such material weakness.

On August 23, 2005, we engaged Ernst & Young as our independent registered public accounting firm to audit our consolidated financial statements for the year ending December 31, 2005. The decision to retain Ernst & Young as our independent registered public accounting firm was made by our Audit Committee of the Board of Directors on August 23, 2005. During the years ended December 31, 2003 and 2004 and through August 23, 2005, we have not consulted with Ernst & Young regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report nor oral advice was provided to the Company that Ernst & Young concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to that Item) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

In deciding to engage Ernst & Young, our Audit Committee reviewed auditor independence issues and existing commercial relationships with Ernst & Young and concluded that Ernst & Young has no commercial relationship with our company that would impair its independence.

### **PRINCIPAL AUDITOR FEES AND SERVICES**

In connection with the audit of the 2005 financial statements, I/O entered into an engagement agreement with Ernst & Young LLP which sets forth the terms by which Ernst & Young LLP will perform audit services for I/O. The engagement agreement is subject to alternative dispute resolution procedures and a mutual exclusion of punitive damages. The following two tables show the fees for the audit and other services provided by Ernst & Young LLP, our current independent registered public accounting firm, and PricewaterhouseCoopers LLP, our independent registered public accounting firm during 2004 and through August 23, 2005, for 2005 and 2004:

<b>Ernst &amp; Young LLP</b>	<b>2005</b>	<b>2004</b>
Audit Fees(a)	\$ 2,809,389	\$ 0
Audit-Related Fees(b)	0	0
Tax Fees(c)	0	0
All Other Fees		
<b>Total</b>	<b>\$ 2,809,389</b>	<b>\$ 0</b>

<b>PricewaterhouseCoopers LLP</b>	<b>2005</b>	<b>2004</b>
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Audit Fees(a)	\$ 158,363	\$ 1,946,421
Audit-Related Fees(b)	0	382,915
Tax Fees(c)	3,035	361,419
All Other Fees		
Total	\$ 161,398	\$ 2,690,755

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- (a) Audit fees consist primarily of the audit and quarterly reviews of the consolidated financial statements, the audit of internal controls over financial reporting, audits of subsidiaries as required by law, statutory audits of subsidiaries required by governmental or regulatory bodies, attestation services required by statute or regulation, comfort letters, consents, assistance with and review of documents filed with the SEC, work performed by tax professionals in connection with the audit and quarterly reviews, and accounting and financial reporting consultations and research work necessary to comply with generally accepted auditing standards.
- (b) Audit-related fees consist primarily of attestation services not required by statute or regulation.
- (c) Tax fees include professional services provided for tax compliance, tax advice, and tax planning, except those rendered in connection with the audit.

Our Board of Directors has adopted an Audit Committee Charter, which provides that all audit services and non-audit services must be approved by the Committee or a member of the Committee. The Audit Committee has delegated to the Chairman of the Audit Committee the authority to pre-approve audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees, so long as the Chairman reports any decisions to pre-approve those audit-related or non-audit services and fees to the full Audit Committee at its next regular meeting.

All non-audit services were reviewed with the Audit Committee, which concluded that the provision of such services was compatible with the maintenance of our independent registered public accounting firm's independence in the conduct of its auditing functions.

**Other Matters**

This proxy statement has been approved by the Board of Directors and is being mailed and delivered to stockholders by its authority.

David L. Roland  
*Vice President, General Counsel and Corporate Secretary*

Stafford, Texas  
April 13, 2006

**The 2005 Annual Report to Stockholders includes our financial statements for the fiscal year ended December 31, 2005. We have mailed the 2005 Annual Report with this Proxy Statement to all of our stockholders of record. The 2005 Annual Report does not form any part of the material for the solicitation of proxies.**

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APPENDIX A

SECOND AMENDED AND RESTATED  
INPUT/OUTPUT, INC. 2004 LONG-TERM INCENTIVE PLAN

SECTION 1

GENERAL PROVISIONS RELATING  
TO PLAN GOVERNANCE, COVERAGE AND BENEFITS

**1.1 Purpose**

The purpose of the Plan is to foster and promote the long-term financial success of Input/Output, Inc. (the **Company**) and its Subsidiaries and to increase stockholder value by: (a) encouraging the commitment of Directors and selected key Employees and Consultants, (b) motivating superior performance of key Employees and Consultants by means of long-term performance related incentives, (c) encouraging and providing Directors and selected key Employees and Consultants with a program for obtaining ownership interests in the Company that link and align their personal interests to those of the Company's stockholders, (d) attracting and retaining Directors and selected key Employees and Consultants by providing competitive incentive compensation opportunities, and (e) enabling Directors and selected key Employees and Consultants to share in the long-term growth and success of the Company. For administrative purposes, and subject to Section 8.13, this Plan incorporates the Input/Output, Inc. Amended and Restated 1996 Non-Employee Director Stock Option Plan (the **Director Plan**).

The Plan provides for payment of various forms of incentive compensation. Except as provided in Section 8.14, it is not intended to be a plan that is subject to the Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and, as such, the Plan will be interpreted, construed and administered consistent with its status as a plan that is not subject to ERISA.

Subject to approval by the Company's stockholders pursuant to Section 8.1, the amendment and restatement of the Plan will become effective as of March 14, 2006 (with the Plan having an original effective date of May 3, 2004 (the **Effective Date**)). The Plan will commence on the Effective Date, and will remain in effect, subject to the right of the Board to amend or terminate the Plan at any time pursuant to Section 8.6, until all Shares subject to the Plan have been purchased or acquired according to its provisions. However, in no event may an Incentive Award that is an Incentive Stock Option be granted under the Plan after the expiration of ten (10) years from the Effective Date.

**1.2 Definitions**

The following terms shall have the meanings set forth below:

(a) Appreciation. The difference between the Fair Market Value of a share of Common Stock on the date of exercise of a Tandem SAR and the option exercise price per share of the Nonstatutory Stock Option to which the Tandem SAR relates.

(b) Authorized Officer. The Chairman of the Board, the CEO or any other senior officer of the Company to whom either of them delegate the authority to execute any Incentive Agreement for and on behalf of the Company. No officer or director shall be an Authorized Officer with respect to any Incentive Agreement for himself.

(c) Board. The Board of Directors of the Company.

(d) Cause. When used in connection with the termination of a Grantee's Employment or service, shall mean the termination of the Grantee's Employment or Grantee's services as a Director or Consultant by the Company or any Subsidiary by reason of (i) the conviction of the Grantee by a court of competent jurisdiction as to which no further appeal can be taken of a crime involving moral turpitude or a felony; (ii) the proven commission by the Grantee of a material act of fraud upon the Company or any Subsidiary, or any customer or supplier thereof; (iii) the willful and proven misappropriation of any funds

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or property of the Company or any Subsidiary, or any customer or supplier thereof; (iv) the willful, continued and unreasonable failure by the Grantee to perform the material duties assigned to him which is not cured to the reasonable satisfaction of the Company within 30 days after written notice of such failure is provided to Grantee by the Board or by a designated officer of the Company or a Subsidiary; (v) the knowing engagement by the Grantee in any direct and material conflict of interest with the Company or any Subsidiary without compliance with the Company's or Subsidiary's conflict of interest policy, if any, then in effect; or (vi) the knowing engagement by the Grantee, without the written approval of the Board, in any material activity which competes with the business of the Company or any Subsidiary or which would result in a material injury to the business, reputation or goodwill of the Company or any Subsidiary; or (vii) the material breach by a Consultant of such Grantee's contract with the Company.

(e) CEO. The Chief Executive Officer of the Company.

(f) Change in Control. Any of the events described in and subject to Section 7.7.

(g) Code. The Internal Revenue Code of 1986, as amended, and the regulations and other authority promulgated thereunder by the appropriate governmental authority. References herein to any provision of the Code shall refer to any successor provision thereto.

(h) Committee. A committee appointed by the Board consisting of at least two directors, who fulfill the outside directors' requirements of Section 162(m) of the Code, to administer the Plan. The Committee may be the Compensation Committee of the Board, or any subcommittee of the Compensation Committee. The Board shall have the power to fill vacancies on the Committee arising by resignation, death, removal or otherwise. The Board, in its sole discretion, may bifurcate the powers and duties of the Committee among one or more separate committees, or retain all powers and duties of the Committee in a single Committee. The members of the Committee shall serve at the discretion of the Board.

(i) Common Stock. The common stock of the Company, \$.01 per value per share, and any class of common stock into which such common shares may hereafter be converted, reclassified, re-capitalized, or exchanged.

(j) Company. Input/Output, Inc., a corporation organized under the laws of the State of Delaware, and any successor in interest thereto.

(k) Consultant. An independent agent, consultant, attorney, an individual who has agreed to become an Employee within the next six months, or any other individual who is not a Director or employee of the Company (or any Parent or Subsidiary) and who, in the opinion of the Committee, is in a position to contribute to the growth or financial success of the Company (or any Parent or Subsidiary), (ii), is a natural person and (iii) provides bona fide services to the Company (or any Parent or Subsidiary), which services are not in connection with the offer or sale of securities in a capital raising transaction, and do not directly or indirectly promote or maintain a market for the Company's securities.

(l) Covered Employee. A named executive officer who is one of the group of covered employees, as defined in Section 162(m) of the Code and Treasury Regulation § 1.162-27(c) (or its successor), during any such period that the Company is a Publicly Held Corporation.

(m) Deferred Stock. Shares of Common Stock to be issued or transferred to a Grantee under an Other Stock-Based Award granted pursuant to Section 5 at the end of a specified deferral period, as set forth in the Incentive Agreement pertaining thereto.

(n) Director. Any individual who is a member of the Board.

(o) Director Plan. The Input/Output, Inc. Amended and Restated 1996 Non-Employee Director Stock Option Plan.

(p) Disability. As determined by the Committee in its discretion exercised in good faith, a physical or mental condition of the Employee that would entitle him to disability income payments under the Company's long term disability insurance policy or plan for employees, as then effective, if any; or in the

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event that the Grantee is not covered, for whatever reason, under the Company's long-term disability insurance policy or plan, Disability means a permanent and total disability as defined in Section 22(e)(3) of the Code. A determination of Disability may be made by a physician selected or approved by the Committee and, in this respect, the Grantee shall submit to any reasonable examination by such physician upon request.

(q) Employee. Any employee of the Company (or any Parent or Subsidiary) within the meaning of Section 3401(c) of the Code who, in the opinion of the Committee, is in a position to contribute to the growth, development or financial success of the Company (or any Parent or Subsidiary), including, without limitation, officers who are members of the Board.

(r) Employment. Employment by the Company (or any Parent or Subsidiary), or by any corporation issuing or assuming an Incentive Award in any transaction described in Section 424(a) of the Code, or by a parent corporation or a subsidiary corporation of such corporation issuing or assuming such Incentive Award, as the parent-subsidiary relationship shall be determined at the time of the corporate action described in Section 424(a) of the Code. In this regard, neither the transfer of a Grantee from Employment by the Company to Employment by any Parent or Subsidiary, nor the transfer of a Grantee from Employment by any Parent or Subsidiary to Employment by the Company, shall be deemed to be a termination of Employment of the Grantee. Moreover, the Employment of a Grantee shall not be deemed to have been terminated because of an approved leave of absence from active Employment on account of temporary illness, authorized vacation or granted for reasons of professional advancement, education, health, government service or military leave, or during any period required to be treated as a leave of absence by virtue of any applicable statute, Company personnel policy or agreement. Whether an authorized leave of absence shall constitute termination of Employment hereunder shall be determined by the Committee in its discretion. Unless otherwise provided in the Incentive Agreement, the term Employment for purposes of the Plan is also defined to include compensatory or advisory services performed by a Consultant for the Company (or any Parent or Subsidiary).

(s) Exchange Act. The Securities Exchange Act of 1934, as amended.

(t) Fair Market Value. While the Company is a Publicly Held Corporation, the Fair Market Value of one share of Common Stock on the date in question is deemed to be the closing sales price on the immediately preceding business day of a share of Common Stock as reported on the New York Stock Exchange or other principal securities exchange on which Shares are then listed or admitted to trading, or as quoted on any national interdealer quotation system, if such shares are not so listed.

(u) Grantee. Any Employee or Consultant who is granted an Incentive Award under the Plan.

(v) Immediate Family. With respect to a Grantee, the Grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships.

(w) Incentive Award. A grant of an award under the Plan to a Grantee, including any Nonstatutory Stock Option, Incentive Stock Option, Stock Appreciation Right, Performance Share, Restricted Stock, Restricted Stock Unit or Other Stock-Based Award, as well as any Supplemental Payment.

(x) Incentive Agreement. The written agreement entered into between the Company and the Grantee setting forth the terms and conditions pursuant to which an Incentive Award is granted under the Plan, as such agreement is further defined in Section 7.1 (a).

(y) Incentive Stock Option or ISO. A Stock Option granted by the Committee to an Employee under Section 2 that is designated by the Committee as an Incentive Stock Option and intended to qualify as an Incentive Stock Option under Section 422 of the Code.

(z) Independent SAR. A Stock Appreciation Right described in Section 2.5.

(aa) Insider. While the Company is a Publicly Held Corporation, an individual who is, on the relevant date, an officer, director or ten percent (10%) beneficial owner of any class of the Company's

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equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.

(bb) Non-Employee Director. A Director who is not an Employee.

(cc) Non-Employee Director Award. Any Nonstatutory Stock Option, SAR, Performance Shares, Restricted Stock, Restricted Stock Unit or Other Stock-Based Award granted, whether singly, in combination, or in tandem, to a Participant who is a Non-Employee Director pursuant to such applicable terms, conditions, and limitations as the Board or Committee may establish in accordance with this Plan.

(dd) Nonstatutory Stock Option. A Stock Option granted by the Committee to a Grantee under Section 2 that is not designated by the Committee as an Incentive Stock Option or to which Section 421 of the Code does not apply.

(ee) Option Price. The exercise price at which a Share may be purchased by the Grantee of a Stock Option.

(ff) Other Stock-Based Award. An award granted by the Committee to a Grantee under Section 2 that is not a Nonstatutory Stock Option, SAR, Performance Share, Restricted Stock or Restricted Stock Unit and is valued in whole or in part by reference to, or is otherwise based upon, Common Stock.

(gg) Parent. Any corporation (whether now or hereafter existing) that constitutes a Parent of the Company, as defined in Section 424(e) of the Code.

(hh) Performance-Based Exception. The performance-based exception from the tax deductibility limitations of Section 162(m) of the Code, as prescribed in Section 162(m) of the Code and Treasury Regulation § 1.162-27(e) (or its successor), which is applicable during such period that the Company is a Publicly Held Corporation.

(ii) Performance Period. A period of time determined by the Committee over which performance is measured for the purpose of determining a Grantee's right to and the payment value of any Performance Share or Other Stock-Based Award.

(jj) Performance Share. An Incentive Award representing a contingent right to receive Shares of Common Stock at the end of a Performance Period.

(kk) Period of Restriction. A period when Restricted Stock or Restricted Stock Units are subject to a substantial risk of forfeiture (based on the passage of time, the achievement of performance goals, or upon the occurrence of other events as determined by the Committee, in its discretion), as provided in Section 4.

(ll) Plan. Input/Output, Inc. 2004 Long-Term Incentive Plan, as set forth herein and as it may be amended from time to time.

(mm) Publicly Held Corporation. A corporation issuing any class of common equity securities required to be registered under Section 12 of the Exchange Act.

(nn) Restricted Stock. An Award granted to a Participant pursuant to Section 4.

(oo) Restricted Stock Unit. An Award granted to a Participant pursuant to Section 4, except no Shares are actually awarded to the Participant on the date of grant.

(pp) Retirement. The voluntary termination of Employment from the Company or any Parent or Subsidiary constituting retirement for age on any date after the Employee attains the normal retirement age of 65 years, or such other age as may be designated by the Committee in the Employee's Incentive Agreement.

(qq) Share. A share of Common Stock of the Company.

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(rr) Share Pool. The number of Shares authorized for issuance under Section 1.4 as adjusted for awards and payouts under Section 1.5 and as adjusted for changes in corporate capitalization under Section 7.5.

(ss) Spread. The difference between the exercise price per Share specified in any SAR grant and the Fair Market Value of a Share on the date of exercise of the SAR.

(tt) Stock Appreciation Right or SAR. A Tandem SAR described in Section 2.4 or an Independent SAR described in Section 2.5.

(uu) Stock Option or Option. Pursuant to Section 2, (i) an Incentive Stock Option granted to an Employee, or (ii) a Nonstatutory Stock Option granted to an Employee or Consultant, whereunder such option the Grantee has the right to purchase Shares of Common Stock. In accordance with Section 422 of the Code, only an Employee of the Company, Parent or Subsidiary may be granted an Incentive Stock Option.

(vv) Subsidiary. Any corporation (whether now or hereafter existing) which constitutes a subsidiary of the Company, as defined in Section 424(f) of the Code.

(ww) Supplemental Payment. Any amount, as described in Sections 2.7, and/or 3.2, that is dedicated to payment of income taxes which are payable by the Grantee resulting from an Incentive Award.

(xx) Tandem SAR. A Stock Appreciation Right that is granted in connection with a related Stock Option pursuant to Section 2.4, the exercise of which shall require forfeiture of the right to purchase a Share under the related Stock Option (and when a Share is purchased under the Stock Option, the Tandem SAR with respect thereto, shall similarly be canceled).

**1.3 Plan Administration**

(a) Authority of the Committee. Except as may be limited by law and subject to the provisions herein, the Committee shall have full power to (i) select Grantees who shall participate in the Plan; (ii) determine the sizes, duration and types of Incentive Awards; (iii) determine the terms and conditions of Incentive Awards and Incentive Agreements; (iv) determine whether any Shares subject to Incentive Awards will be subject to any restrictions on transfer; (v) construe and interpret the Plan and any Incentive Agreement or other agreement entered into under the Plan; and (vi) establish, amend, or waive rules for the Plan's administration. Further, the Committee shall make all other determinations which may be necessary or advisable for the administration of the Plan. Notwithstanding the preceding, without the prior approval of the Company's shareholders, any Stock Option previously granted under the Plan shall not be repriced, replaced, or regranted through cancellation, or by lowering the exercise price of a previously granted option, except as provided in Section 7.5.

(b) Meetings. The Committee shall designate a chairman from among its members who shall preside at all of its meetings, and shall designate a secretary, without regard to whether that person is a member of the Committee, who shall keep the minutes of the proceedings and all records, documents, and data pertaining to its administration of the Plan. Meetings shall be held at such times and places as shall be determined by the Committee and the Committee may hold telephonic meetings.

(c) Decisions Binding. All determinations and decisions made by the Committee shall be made in its discretion pursuant to the provisions of the Plan, and shall be final, conclusive and binding on all persons including the Company, Employees, Directors, Grantees, and their estates and beneficiaries. The Committee's decisions and determinations with respect to any Incentive Award need not be uniform and may be made selectively among Incentive Awards and Grantees, whether or not such Incentive Awards are similar or such Grantees are similarly

situated.

(d) Modification of Outstanding Incentive Awards. Subject to the stockholder approval requirements of Section 8.6 if applicable, the Committee may, in its discretion, provide for the extension of the exercisability of an Incentive Award, accelerate the vesting or exercisability of an Incentive Award, eliminate or make less

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restrictive any restrictions contained in an Incentive Award, waive any restriction or other provisions of an Incentive Award, or otherwise amend or modify an Incentive Award in any manner that is either (i) not adverse to the Grantee to whom such Incentive Award was granted or (ii) consented to by such Grantee; *provided, however*, no Stock Option issued under the Plan will be repriced, replaced or regranted through cancellation, or by lowering the Option Price of a previously granted Stock Option. and the period during which a Stock Option may be exercised shall not be extended such that the compensation payable under the Stock Option would be subject to the excise tax applicable under Section 409A of the Code. With respect to an Incentive Award that is an incentive stock option (as described in Section 422 of the Code), no adjustment to such option shall be made to the extent constituting a modification within the meaning of Section 424(h)(3) of the Code unless otherwise agreed to by the optionee in writing.

(e) *Delegation of Authority*. The Committee may delegate to designated officers or other employees of the Company any of its duties and authority under the Plan pursuant to such conditions or limitations as the Committee may establish from time to time; provided, however, the Committee may not delegate to any person the authority to (i) grant Incentive Awards, or (ii) take any action which would contravene the requirements of Rule 16b-3 under the Exchange Act or the Performance-Based Exception under Section 162(m) of the Code.

(f) *Expenses of Committee*. The Committee may employ legal counsel, including, without limitation, independent legal counsel and counsel regularly employed by the Company, and other agents, as the Committee may deem appropriate for the administration of the Plan. The Committee may rely upon any opinion or computation received from any such counsel or agent. All expenses incurred by the Committee in interpreting and administering the Plan, including, without limitation, meeting expenses and professional fees, shall be paid by the Company.

(g) *Indemnification*. Each person who is or was a member of the Committee, or of the Board, shall be indemnified by the Company against and from any damage, loss, liability, cost and expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he may be involved by reason of any action taken or failure to act under the Plan, except for any such act or omission constituting willful misconduct or gross negligence. Such person shall be indemnified by the Company for all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit, or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles or Certificate of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

(h) *Awards in Foreign Countries*. The Board shall have the authority to adopt modifications, procedures, sub-plans, and other similar plan documents as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or its subsidiaries may operate to assure the viability of the benefits of Incentive Awards made to individuals employed or providing services in such countries and to meet the objectives of the Plan.

### **1.4 Shares of Common Stock Available for Incentive Awards**

Subject to adjustment under Section 7.5, there shall be available for Incentive Awards that are granted wholly or partly in Common Stock (including rights or Options that may be exercised or settled in Common Stock) 4,300,000 Shares of Common Stock.

The number of Shares of Common Stock that are the subject of Incentive Awards under this Plan, that are forfeited or terminated, expire unexercised, are settled in cash in lieu of Common Stock or in a manner such that all or some of the Shares covered by an Incentive Award are not issued to a Grantee or are exchanged for Incentive Awards that do not involve Common Stock, shall again immediately become available for Incentive Awards hereunder; *provided*,

*however*, the aggregate number of Shares which may be issued upon exercise of ISOs shall in no event exceed 4,300,000 Shares (subject to adjustment pursuant to

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Section 7.5). The Committee may from time to time adopt and observe such procedures concerning the counting of Shares against the Plan maximum as it may deem appropriate.

Any Shares of Common Stock reserved for issuance under the Director Plan in excess of the number of Shares as to which Awards have been awarded thereunder shall no longer be available for grant under the Director Plan after the Effective Date but shall instead be available for grant under the terms and conditions of this Plan. Any Shares as to which Awards granted or issued under the Director Plan that may lapse, expire, terminate, or be cancelled, are settled in cash in lieu of common stock, are tendered (either by actual delivery or attestation) to pay the Option Price, or satisfy any tax withholding requirements shall be deemed available for issuance or reissuance under the preceding paragraph of this Section of the Plan.

While the Company is a Publicly Held Corporation, then unless and until the Committee determines that a particular Incentive Award granted to a Covered Employee is not intended to comply with the Performance-Based Exception which shall be done in accordance with the time periods in Section 162(m) of the Code and the regulations thereunder, the following rules shall apply to grants of Incentive Awards to Covered Employees:

(a) Subject to adjustment as provided in Section 7.5, the maximum aggregate number of Shares of Common Stock (including Stock Options, SARS or Performance Shares, Restricted Stock, Restricted Stock Units or Other Stock-Based Awards paid out in Shares) that may be granted or that may vest, as applicable, in any consecutive four-year period pursuant to any Incentive Awards held by any individual Covered Employee shall be 4,300,000 Shares.

(b) The maximum aggregate cash payout (including SARS, Performance Shares, Restricted Stock Units or Other Stock-Based Awards paid out in cash) with respect to Incentive Awards granted in any calendar year which may be made to any Covered Employee shall be Two Million dollars (\$2,000,000).

(c) With respect to any Stock Option or Stock Appreciation Right granted to a Covered Employee that is canceled, the number of Shares subject to such Stock Option or Stock Appreciation Right shall continue to count against the maximum number of Shares that may be the subject of Stock Options or Stock Appreciation Rights granted to such Covered Employee hereunder and, in this regard, such maximum number shall be determined in accordance with Section 162(m) of the Code.

**1.5 Share Pool Adjustments for Awards and Payouts**

The following Incentive Awards and payouts shall reduce, on a one Share for one Share basis, the number of Shares authorized for issuance under the Share Pool:

- (a) Stock Option;
- (b) SAR (except a Tandem SAR);
- (c) A payout of a Performance Share in Shares;
- (d) Restricted Stock or a payout of Restricted Stock Units in Shares; and
- (e) A payout of an Other Stock-Based Award in Shares.

The following transactions shall restore, on a one Share for one Share basis, the number of Shares authorized for issuance under the Share Pool:

- (a) A payout of an SAR or Other Stock-Based Award in the form of cash;
- (b) A cancellation, termination, expiration, forfeiture, or lapse for any reason (with the exception of the termination of a Tandem SAR upon exercise of the related Stock Option, or the termination of a related Stock Option upon exercise of the corresponding Tandem SAR) of any Shares subject to an Incentive Award; and

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(c) Payment of an Option Price with previously acquired Shares or by withholding Shares which otherwise would be acquired on exercise (i.e., the Share Pool shall be increased by the number of Shares turned in or withheld as payment of the Option Price plus any Shares withheld to pay withholding taxes).

### **1.6 Common Stock Available**

The Common Stock available for issuance or transfer under the Plan shall be made available from Shares now or hereafter (a) held in the treasury of the Company, (b) are authorized but unissued, or (c) to be purchased or acquired by the Company. No fractional Shares shall be issued under the Plan; payment for fractional Shares shall be made in cash.

### **1.7 Participation**

(a) Eligibility. The Committee shall from time to time designate those Employees, Directors or Consultants, if any, to be granted Incentive Awards under the Plan, the type of Incentive Awards granted, the number of Shares, Stock Options, rights, as the case may be, which shall be granted to each such person, and any other terms or conditions relating to the Incentive Awards as it may deem appropriate to the extent consistent with the provisions of the Plan. A Grantee who has been granted an Incentive Award may, if otherwise eligible, be granted additional Incentive Awards at any time.

(b) Incentive Stock Option Eligibility. No Consultant or Non-Employee Director shall be eligible for the grant of any Incentive Stock Option. In addition, no Employee shall be eligible for the grant of any Incentive Stock Option who owns or would own immediately before the grant of such Incentive Stock Option, directly or indirectly, stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, or any Parent or Subsidiary. This restriction does not apply if, at the time such Incentive Stock Option is granted, the Incentive Stock Option exercise price is at least one hundred and ten percent (110%) of the Fair Market Value on the date of grant and the Incentive Stock Option by its terms is not exercisable after the expiration of five (5) years from the date of grant. For the purpose of the immediately preceding sentence, the attribution rules of Section 424(d) of the Code shall apply for the purpose of determining an Employee's percentage ownership in the Company or any Parent or Subsidiary. This paragraph shall be construed consistent with the requirements of Section 422 of the Code.

### **1.8 Types of Incentive Awards**

The types of Incentive Awards under the Plan are Stock Options, Stock Appreciation Rights and Supplemental Payments as described in Section 2, Performance Shares and Supplemental Payments as described in Section 3, Restricted Stock, Restricted Stock Units and Supplemental Payments as described in Section 5, and Other Stock-Based Awards and Supplemental Payments as described in Section 6, and any combination of the foregoing.

## **SECTION 2**

### **STOCK OPTIONS AND STOCK APPRECIATION RIGHTS**

#### **2.1 Grant of Stock Options**

The Committee is authorized to grant (a) Nonstatutory Stock Options to Employees, Directors or Consultants and (b) Incentive Stock Options to Employees only, in accordance with the terms and conditions of the Plan, and with such additional terms and conditions, not inconsistent with the Plan, as the Committee shall determine in its discretion. Successive grants may be made to the same Grantee whether or not any Stock Option previously granted to such person remains unexercised.

## 2.2 Stock Option Terms

(a) Written Agreement. Each grant of a Stock Option shall be evidenced by a written Incentive Agreement. Among its other provisions, each Incentive Agreement shall set forth, subject to Section 422 of

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the Code, the extent to which the Grantee shall have the right to exercise the Stock Option following termination of the Grantee's Employment. Such provisions shall be determined in the discretion of the Committee, shall be included in the Grantee's Incentive Agreement, and need not be uniform among all Stock Options issued pursuant to the Plan. In addition, Incentive Agreement shall state whether the Stock Option is intended to meet the requirements of Section 422 of the Code.

(b) Number of Shares. Each Stock Option shall specify the number of Shares of Common Stock to which it pertains.

(c) Exercise Price. The exercise price per Share of Common Stock under each Stock Option shall be determined by the Committee; provided, however, that in the case of a Stock Option, such exercise price shall not be less than 100% of the Fair Market Value per Share on the date the Stock Option is granted (110% in the case of an Incentive Stock Option for 10% or greater shareholders pursuant to Section 1.7(b)). Each Stock Option shall specify the method of exercise, which shall be consistent with the requirements of Section 2.3(a).

(d) Term. In the Incentive Agreement, the Committee shall fix the term of each Stock Option, which shall be not more than ten (10) years from the date of grant (five years for ISO grants to 10% or greater shareholders pursuant to Section 1.7(b)). In the event no term is fixed, such term shall be ten (10) years from the date of grant.

(e) Exercise. The Committee shall determine the time or times at which a Stock Option may be exercised in whole or in part. Each Stock Option may specify the required period of continuous Employment and/or the performance objectives to be achieved before the Stock Option or portion thereof will become exercisable. Each Stock Option, the exercise of which, or the timing of the exercise of which, is dependent, in whole or in part, on the achievement of designated performance objectives, may specify a minimum level of achievement in respect of the specified performance objectives below which no Stock Options will be exercisable and a method for determining the number of Stock Options that will be exercisable if performance is at or above such minimum but short of full achievement of the performance objectives. All such terms and conditions shall be set forth in the Incentive Agreement.

(f) \$100,000 Annual Limit on Incentive Stock Options. Notwithstanding any contrary provision in the Plan, to the extent that the aggregate Fair Market Value (determined as of the time the Incentive Stock Option is granted) of the Shares of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Grantee during any single calendar year (under the Plan and any other stock option plans of the Company and its Subsidiaries or Parent) exceeds the sum of \$100,000, such Incentive Stock Option shall be treated as a Nonstatutory Stock Option to the extent in excess of the \$100,000 limit, and not an Incentive Stock Option, but all other terms and provisions of such Stock Option shall remain unchanged. This paragraph shall be applied by taking Incentive Stock Options into account in the order in which they were granted and shall be construed in accordance with Section 422(d) of the Code. In the absence of such regulations or other authority, or if such regulations or other authority require or permit a designation of the Options which shall cease to constitute Incentive Stock Options, then such Incentive Stock Options, only to the extent of such excess, shall automatically be deemed to be Nonstatutory Stock Options but all other terms and conditions of such Incentive Stock Options, and the corresponding Incentive Agreement, shall remain unchanged.

## **2.3 Stock Option Exercises**

(a) Method of Exercise and Payment. Stock Options shall be exercised by the delivery of a signed written notice of exercise to the Company as of a date set by the Company in advance of the effective date of the proposed exercise. The notice shall set forth the number of Shares with respect to which the Option is to be exercised.

The Option Price upon exercise of any Stock Option shall be payable to the Company in full either: (i) in cash or its equivalent, or (ii) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of

exercise equal to the Option Price, or (iii) by withholding Shares which otherwise would be acquired on exercise having an aggregate Fair Market Value at the time of exercise equal to the total Option

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Price, or (iv) by any combination of (i), (ii), and (iii) above. Any payment in Shares shall be effected by surrender of such Shares to the Company in good form for transfer and shall be valued at their Fair Market Value on the date when the Stock Option is exercised. The Company shall not withhold shares, and the Grantee shall not surrender, or attest to the ownership of, Shares in payment of the Option Price if such action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to the Stock Option for financial reporting purposes.

While the Company is a Publicly Held Corporation, the Committee may also allow the Option Price to be paid with such other consideration as shall constitute lawful consideration for the issuance of Shares (including, without limitation, effecting a cashless exercise with a broker or dealer), subject to applicable securities law restrictions and tax withholdings, or by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law.

As soon as practicable after receipt of a written notification of exercise and full payment, the Company shall deliver, or cause to be delivered, to or on behalf of the Grantee, in the name of the Grantee or other appropriate recipient, Share certificates for the number of Shares purchased under the Stock Option. Such delivery shall be effected for all purposes when the Company or a stock transfer agent of the Company shall have deposited such certificates in the United States mail, addressed to Grantee or other appropriate recipient.

Subject to Section 5.2 during the lifetime of a Grantee, each Option granted to him shall be exercisable only by the Grantee (or his legal guardian or personal representative in the event of his Disability) or by a broker or dealer acting on his behalf pursuant to a cashless exercise under the foregoing provisions of this Section 2.3(a).

(b) Restrictions on Share Transferability-. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of a Stock Option as it may deem advisable, including, without limitation, restrictions under (i) any stockholders' agreement, buy/sell agreement, right of first refusal, non-competition, and any other agreement between the Company and any of its securities holders or employees, (ii) any applicable federal securities laws, (iii) the requirements of any stock exchange or market upon which such Shares are then listed and/or quoted, or (iv) any blue sky or state securities law applicable to such Shares. Any certificate issued to evidence Shares issued upon the exercise of an Incentive Award may bear such legends and statements as the Committee shall deem advisable to assure compliance with federal and state laws and regulations.

Any Grantee or other person exercising an Incentive Award may be required by the Committee to give a written representation that the Incentive Award and the Shares subject to the Incentive Award will be acquired for investment and not with a view to public distribution; provided, however, that the Committee, in its sole discretion, may release any person receiving an Incentive Award from any such representations either prior to or subsequent to the exercise of the Incentive Award.

(c) Notification of Disqualifying Disposition of Shares from Incentive Stock Options. Notwithstanding any other provision of the Plan, a Grantee who disposes of Shares of Common Stock acquired upon the exercise of an Incentive Stock Option by a sale or exchange either (i) within two (2) years after the date of the grant of the Incentive Stock Option under which the Shares were acquired or (ii) within one (1) year after the transfer of such Shares to him pursuant to exercise, shall promptly notify the Company of such disposition, the amount realized and his adjusted basis in such Shares.

(d) Proceeds of Option Exercise. The proceeds received by the Company from the sale of Shares pursuant to Stock Options exercised under the Plan shall be used for general corporate purposes.

(e) Information Required in Connection with Exercise of Incentive Stock Option. The Company shall provide the Grantee with a written statement required by Section 6039 of the Code no later than January 31 of the year following the calendar year during which the Grantee exercises an Option that is intended to be an Incentive Stock Option.

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**2.4 Stock Appreciation Rights in Tandem with Nonstatutory Stock Options**

(a) Grant. The Committee may, at the time of grant of a Nonstatutory Stock Option, or at any time thereafter during the term of the Nonstatutory Stock Option, grant Stock Appreciation Rights with respect to all or any portion of the Shares of Common Stock covered by such Nonstatutory Stock Option. A Stock Appreciation Right in tandem with a Nonstatutory Stock Option is referred to herein as a Tandem SAR.

(b) General Provisions. The terms and conditions of each Tandem SAR shall be evidenced by an Incentive Agreement. The Option Price per Share of a Tandem SAR shall be fixed in the Incentive Agreement and shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the grant date of the Nonstatutory Stock Option to which it relates.

(c) Exercise. A Tandem SAR may be exercised at any time the Nonstatutory Stock Option to which it relates is then exercisable, but only to the extent such Nonstatutory Stock Option is exercisable, and shall otherwise be subject to the conditions applicable to such Nonstatutory Stock Option. When a Tandem SAR is exercised, the Nonstatutory Stock Option to which it relates shall terminate to the extent of the number of Shares with respect to which the Tandem SAR is exercised. Similarly, when a Nonstatutory Stock Option is exercised, the Tandem SARs relating to the Shares covered by such Nonstatutory Stock Option exercise shall terminate.

(d) Settlement. Upon exercise of a Tandem SAR, the holder shall receive, for each Share specified in the Tandem SAR grant, an amount equal to the Spread. The Spread shall be payable in cash, Common Stock, or a combination of both, as specified in the Incentive Agreement. The Appreciation shall be paid within 30 calendar days of the exercise of the Tandem SAR. If the Appreciation is to be paid in Common Stock or cash only, the resulting shares or cash shall be determined dividing (1) by (2), where (1) is the number of Shares as to which the Tandem SAR is exercised multiplied by the Appreciation in such shares and (2) is the Fair Market Value of a Share on the exercise date. If a portion of the Appreciation is to be paid in Shares, the Share amount shall be determined by calculating the amount of cash payable pursuant to the preceding sentence then by dividing (1) as defined herein, minus the amount of cash payable, by (2) as defined herein.

**2.5 Stock Appreciation Rights Independent of Nonstatutory Stock Options**

(a) Grant. The Committee may grant Stock Appreciation Rights independent of Nonstatutory Stock Options (Independent SARs).

(b) General Provisions. The terms and conditions of each Independent SAR shall be evidenced by an Incentive Agreement. The exercise price per share of Common Stock shall be not less than one hundred percent (100%) of the Fair Market Value of a Share of Common Stock on the date of grant of the Independent SAR. The term of an Independent SAR shall be determined by the Committee.

(c) Exercise. Independent SARs shall be exercisable at such time and subject to such terms and conditions as the Committee shall specify in the Incentive Agreement for the Independent SAR grant.

(d) Settlement. Upon exercise of an Independent SAR, the holder shall receive, for each Share specified in the Independent SAR grant, an amount equal to the Spread. The Spread shall be payable in cash, Common Stock, or a combination of both, as specified in the Incentive Agreement. The Spread shall be paid within 30 calendar days of the exercise of the Independent SAR. If the Appreciation is to be paid in Common Stock or cash only, the resulting shares or cash shall be determined by dividing (1) by (2), where (1) is the number of Shares as to which the Independent SAR is exercised multiplied by the Spread in such Shares and (2) is the Fair Market Value of a Share on the exercise date. If a portion of the Appreciation is to be paid in Shares, the Share amount shall be determined by calculating the

amount of cash payable pursuant to the preceding sentence then by dividing (1) as defined herein, minus the amount of cash payable, by (2) as defined herein.

## **2.6 Supplemental Payment on Exercise of Nonstatutory Stock Options or Stock Appreciation Rights**

The Committee, either at the time of grant or as of the time of exercise of any Nonstatutory Stock Option or Stock Appreciation Right, may provide in the Incentive Agreement for a Supplemental Payment by the

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Company to the Grantee with respect to the exercise of any Nonstatutory Stock Option or Stock Appreciation Right. The Supplemental Payment shall be in the amount specified by the Committee, which amount shall not exceed the amount necessary to pay the federal and state income tax payable with respect to both the exercise of the Nonstatutory Stock Option and/or Stock Appreciation Right and the receipt of the Supplemental Payment, assuming the holder is taxed at either the maximum effective income tax rate applicable thereto or at a lower tax rate as deemed appropriate by the Committee. The Committee shall have the discretion to grant Supplemental Payments that are payable solely in cash or Supplemental Payments that are payable in cash, Common Stock, or a combination of both, as determined by the Committee at the time of payment.

## **SECTION 3**

### **PERFORMANCE SHARES**

#### **3.1 Performance Based Awards**

(a) Grant. The Committee is authorized to grant Performance Shares to selected Grantees who are Employees or Consultants. Each grant of Performance Shares shall be evidenced by an Incentive Agreement in such amounts and upon such terms as shall be determined by the Committee. The Committee may make grants of Performance Shares in such a manner that more than one Performance Period is in progress concurrently. For each Performance Period, the Committee shall establish the number of Performance Shares and their contingent values which may vary depending on the degree to which performance criteria established by the Committee are met.

(b) Performance Criteria. The Committee may establish performance goals applicable to Performance Shares based upon criteria in one or more of the following categories: (i) performance of the Company as a whole, (ii) performance of a segment of the Company's business, and (iii) individual performance. Performance criteria for the Company shall relate to the achievement of predetermined financial objectives for the Company and its Subsidiaries on a consolidated basis. Performance criteria for a segment of the Company's business shall relate to the achievement of financial and operating objectives of the segment for which the participant is accountable. Examples of performance criteria shall include (but are not limited to) pre-tax or after-tax profit levels, including: earnings per share, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization, net operating profits after tax, and net income; total shareholder return; return on assets, equity, capital or investment; cash flow and cash flow return on investment; economic value added and economic profit; growth in earnings per share; levels of operating expense and maintenance expense or measures of customer satisfaction and customer service as determined from time to time including the relative improvement therein. Individual performance criteria shall relate to a participant's overall performance, taking into account, among other measures of performance, the attainment of individual goals and objectives. The performance goals may differ among participants.

(c) Modification. If the Committee determines, in its discretion exercised in good faith, that the established performance measures or objectives are no longer suitable to the Company's objectives because of a change in the Company's business, operations, corporate structure, capital structure, or other conditions the Committee deems to be appropriate, the Committee may modify the performance measures and objectives to the extent it considers to be necessary. The Committee shall not permit any such modification that would cause the Performance Shares to fail to qualify for the Performance-Based Exception, if applicable.

(d) Payment. The basis for payment of Performance Shares for a given Performance Period shall be the achievement of those performance objectives determined by the Committee at the beginning of the Performance Period as specified in the Grantee's Incentive Agreement. If minimum performance is not achieved for a Performance Period, no payment shall be made and all contingent rights shall cease. If minimum performance is achieved or exceeded, the number of Performance Shares may be based on the degree to which actual performance exceeded the pre-established minimum

performance standards. The amount of payment shall be determined by multiplying the number of Performance Shares granted at the beginning of the Performance Period times the final Performance Share value. Payments shall be made, in the discretion of the Committee as specified in the Incentive Agreement, solely in Common Stock.

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(e) Special Rule for Covered Employees. No later than the ninetieth (90<sup>th</sup>) day following the beginning of a Performance Period (or twenty-five percent (25%) of the Performance Period) the Committee shall establish performance goals as described in Section 3.1(b) applicable to Performance Shares awarded to Covered Employees in such a manner as shall permit payments with respect thereto to qualify for the Performance-Based Exception, if applicable. If a Performance Share granted to a Covered Employee is intended to comply with the Performance-Based Exception, the Committee in establishing performance goals shall comply with Treasury Regulation § 1.162-27(e)(2) (or its successor). As soon as practicable following the Company's determination of the Company's financial results for any Performance Period, the Committee shall certify in writing: (i) whether the Company achieved its minimum performance for the objectives for the Performance Period, (ii) the extent to which the Company achieved its performance objectives for the Performance Period, (iii) any other terms that are material to the grant of Performance Shares, and (iv) the calculation of the payments, if any, to be paid to each Grantee for the Performance Period.

### **3.2 Supplemental Payment on Vesting of Performance Shares**

The Committee, either at the time of grant or at the time of vesting of Performance Shares, may provide for a Supplemental Payment by the Company to the Grantee in an amount specified by the Committee, which amount shall not exceed the amount necessary to pay the federal and state income tax payable with respect to both the vesting of such Performance Shares and receipt of the Supplemental Payment, assuming the Grantee is taxed at either the maximum effective income tax rate applicable thereto or at a lower tax rate as seemed appropriate by the Committee. The Committee shall have the discretion to grant Supplemental Payments that are payable in Common Stock.

## **SECTION 4**

### **RESTRICTED STOCK-AND RESTRICTED STOCK UNITS**

#### **4.1 Grant of Restricted Stock or Restricted Stock Units**

Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Restricted Stock and/or Restricted Stock Units to Participants in such amounts as the Committee shall determine. Restricted Stock Units shall be similar to Restricted Stock except that no Shares are actually awarded to the Participant on the date of grant.

#### **4.2 Restricted Stock Award or Restricted Stock Unit Award Terms**

(a) Written Agreement. The terms and conditions of each grant of Restricted Stock Award and/or Restricted Stock Unit Award shall be evidenced by an Incentive Agreement that shall specify the Period(s) of Restriction, the number of shares of Restricted Stock or the number of Restricted Stock Units granted, and such other provisions as the Committee shall determine.

(b) Transferability. Except as provided in this Plan or an Incentive Agreement, Restricted Stock and/or Restricted Stock Units granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Incentive Agreement (and in the case of Restricted Stock Units until the date of delivery or other payment), or upon earlier satisfaction of any other conditions, as specified by the Committee, in its sole discretion, and set forth in the Incentive Agreement or otherwise at any time by the Committee. All rights with respect to the Restricted Stock and/or Restricted Stock Units granted to a Participant under the Plan shall be available during his lifetime only to such Participant, except as otherwise provided in an Incentive Agreement or at any time by the Committee.

(c) *Other Restrictions.* The Committee shall impose such other conditions and/or restrictions on any Restricted Stock or Restricted Stock Units granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock or each Restricted Stock Unit, restrictions based upon the achievement of specific performance goals,

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time-based restrictions on vesting following the attainment of the performance goals, time-based restrictions, and/or restrictions under applicable laws or under the requirements of any stock exchange or market upon which such Shares are listed or traded, or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock or Restricted Stock Units.

To the extent deemed appropriate by the Committee, the Company may retain the certificates representing shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such shares have been satisfied or lapse.

Except as otherwise provided in this Section 4, shares of Restricted Stock covered by each Restricted Stock Award shall become freely transferable by the Participant after all conditions and restrictions applicable to such shares have been satisfied or lapse (including satisfaction of any applicable tax withholding obligations) at the close of the Period of Restriction (but no later than 21/2 months following the end of the year that contains the close of the Period of Restriction), or as soon as practicable thereafter, Restricted Stock Units shall be paid in cash, Shares, or a combination of cash and Shares as the Committee, in its sole discretion shall determine.

(d) Certificate Legend. In addition to any legends placed on certificates pursuant to Section 7.1(c), each certificate representing Restricted Stock granted pursuant to the Plan may bear a legend such as the following or as otherwise determined by the Committee in its sole discretion:

the sale or transfer of shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the second amended and restated input/output, inc. 2004 long-term incentive plan, and in the associated incentive agreement. a copy of the plan and such incentive agreement may be obtained from input/output, inc.

(e) Voting Rights. Unless otherwise determined by the Committee or as otherwise set forth in a Participant's Incentive Agreement, to the extent permitted or required by law, as determined by the Committee, Participants holding shares of Restricted Stock granted hereunder may be granted the right to exercise full voting rights with respect to those shares during the Period of Restriction. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.

(f) Termination of Employment. Each Incentive Agreement shall set forth the extent to which the Participant shall have the right to retain Restricted Stock and/or Restricted Stock Units following termination of the Participant's employment with or provision of services to the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Incentive Agreement entered into with each Participant, need not be uniform among all Shares of Restricted Stock or Restricted Stock Units issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

(g) Section 83(b) Election. The Committee may provide in an Incentive Agreement that the Award of Restricted Stock is conditioned upon the Participant making or refraining from making an election with respect to the Award under Section 83(b) of the Code. If a Participant makes an election pursuant to Section 83(b) of the Code concerning a Restricted Stock Award, the Participant shall be required to file promptly a copy of such election with the Company.

### **4.3 Supplemental Payment on Vesting of Restricted Stock and Restricted Stock Units**

The Committee, either at the time of grant or at the time of vesting of Restricted Stock or Restricted Stock Units, may provide for a Supplemental Payment by the Company to the Grantee in an amount specified by the Committee, which amount shall not exceed the amount necessary to pay the federal and state income tax payable with respect to both the vesting of such Restricted Stock or Restricted Stock Units and receipt of the Supplemental Payment, assuming the

Grantee is taxed at either the maximum effective income tax rate applicable thereto or at a lower tax rate as seemed appropriate by the Committee. The Committee shall also have the discretion to grant Supplemental Payments that are payable in Common Stock.

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**SECTION 5**

**OTHER STOCK-BASED AWARDS**

**5.1 Grant of Other Stock-Based Awards**

Other Stock-Based Awards may be awarded by the Committee to selected Grantees that are denominated or payable in, valued in whole or in part by reference to, or otherwise related to, Shares of Common Stock, as deemed by the Committee to be consistent with the purposes of the Plan and the goals of the Company. Other types of Stock-Based Awards include, without limitation, Deferred Stock, purchase rights, Shares of Common Stock awarded which are not subject to any restrictions or conditions, convertible or exchangeable debentures, other rights convertible into Shares, Incentive Awards valued by reference to the value of securities of or the performance of a specified Subsidiary, division or department, and settlement in cancellation of rights of any person with a vested interest in any other plan, fund, program or arrangement that is or was sponsored, maintained or participated in by the Company or any Parent or Subsidiary. As is the case with other Incentive Awards, Other Stock-Based Awards may be awarded either alone or in addition to or in tandem with any other Incentive Awards.

**5.2 Other Stock-Based Award Terms**

(a) Written Agreement. The terms and conditions of each grant of an Other Stock-Based Award shall be evidenced by an Incentive Agreement.

(b) Purchase Price. Except to the extent that an Other Stock-Based Award is granted in substitution for an outstanding Incentive Award or is delivered upon exercise of a Stock Option, the amount of consideration required to be received by the Company shall be either (i) no consideration other than services actually rendered (in the case of authorized and unissued shares) or to be rendered, or (ii) in the case of an Other Stock-Based Award in the nature of a purchase right, consideration (other than services rendered or to be rendered) at least equal to 50% of the Fair Market Value of the Shares covered by such grant on the date of grant (or such percentage higher than 50% that is required by any applicable tax or securities law).

(c) Performance Criteria and Other Terms. In its discretion, the Committee may specify such criteria, periods or goals for vesting in Other Stock-Based Awards and payment thereof to the Grantee as it shall determine; and the extent to which such criteria, periods or goals have been met shall be determined by the Committee. All terms and conditions of Other Stock-Based Awards shall be determined by the Committee and set forth in the Incentive Agreement. The Committee may also provide for a Supplemental Payment similar to such payment as described in Section 3.2.

(d) Payment. Other Stock-Based Awards may be paid in Shares of Common Stock or other consideration related to such Shares, in a single payment or in installments on such dates as determined by the Committee, all as specified in the Incentive Agreement.

(e) Dividends. The Grantee of an Other Stock-Based Award may be entitled to receive, currently or on a deferred basis, dividends or dividend equivalents with respect to the number of Shares covered by the Other Stock-Based Award, as determined by the Committee and set forth in the Incentive Agreement. The Committee may also provide in the Incentive Agreement that such amounts (if any) shall be deemed to have been reinvested in additional Shares of Common Stock.

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**SECTION 6**

**PROVISIONS RELATING TO NON-EMPLOYEE DIRECTOR AWARDS**

**6.1 Generally**

All Awards to Non-Employee Directors shall be determined by the Board or Committee.

**6.2 Vesting Period**

Unless the Committee shall otherwise prescribe or as otherwise specified in an applicable Incentive Agreement, each Incentive Award granted to a Non-Employee Director shall vest as follows:

- (a) each Incentive Award granted to a Non-Employee Director under the Plan during his initial year of service as a Non-Employee Director, if any, shall vest in 33.33% consecutive annual installments on the first, second and third anniversary dates of the date of grant of each such Incentive Award;
- (b) each Incentive Award granted to a Non-Employee Director under the Plan during his second full year of service as a Non-Employee Director, if any, shall vest in 50% consecutive annual installments on the first and second anniversary dates of the Date of Grant of each such Incentive Award;
- (c) each Incentive Award granted to a Non-Employee Director under the Plan during his third full year of service as a Non-Employee Director, if any, shall fully vest on the first anniversary date of the date of grant of each such Incentive Award; and
- (d) each Incentive Award granted to a Non-Employee Director following the completion of his third full year of service as a Non-Employee Director, if any, shall be fully vested on the date of grant.

**SECTION 7**

**PROVISIONS RELATING TO PLAN PARTICIPATION**

**7.1 Plan Conditions**

(a) Incentive Agreement. Each Grantee to whom an Incentive Award is granted shall be required to enter into an Incentive Agreement with the Company, in such a form as is provided by the Committee. The Incentive Agreement shall contain specific terms as determined by the Committee, in its discretion, with respect to the Grantee's particular Incentive Award. Such terms need not be uniform among all Grantees or any similarly-situated Grantees. The Incentive Agreement may include, without limitation, vesting, forfeiture and other provisions particular to the particular Grantee's Incentive Award, as well as, for example, provisions to the effect that the Grantee (i) shall not disclose any confidential information acquired during Employment with the Company, (ii) shall abide by all the terms and conditions of the Plan and such other terms and conditions as may be imposed by the Committee, (iii) shall not interfere with the employment or other service of any employee, (iv) shall not compete with the Company or become involved in a conflict of interest with the interests of the Company, (v) shall forfeit an Incentive Award as determined by the Committee (including if terminated for Cause), (vi) shall not be permitted to make an election under Section 83(b) of the Code when applicable, and (vii) shall be subject to any other agreement between the Grantee and the Company regarding Shares that may be acquired under an Incentive Award including, without limitation, a stockholders' agreement or other agreement restricting the transferability of Shares by Grantee. An Incentive Agreement shall include such terms and conditions as are determined by the Committee, in its discretion, to be

appropriate with respect to any individual Grantee. The Incentive Agreement shall be signed by the Grantee to whom the Incentive Award is made and by an Authorized Officer.

(b) No Right to Employment. Nothing in the Plan or any instrument executed pursuant to the Plan shall create any Employment rights or right to serve on the Board (including without limitation, rights to continued Employment or to continue to provide services as a Director or Consultant) by any Grantee or affect the right

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of the Company to terminate the Employment or services of any Grantee at any time without regard to the existence of the Plan.

(c) Securities Requirements. The Company shall be under no obligation to effect the registration pursuant to the Securities Act of 1933 of any Shares of Common Stock to be issued hereunder or to effect similar compliance under any state laws. Notwithstanding anything herein to the contrary, the Company shall not be obligated to cause to be issued or delivered any certificates evidencing Shares pursuant to the Plan unless and until the Company is advised by its counsel that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities, and the requirements of any securities exchange or national quotation system on which Shares are traded or quoted. The Committee may require, as a condition of the issuance and delivery of certificates evidencing Shares of Common Stock pursuant to the terms hereof, that the recipient of such Shares make such covenants, agreements and representations, and that such certificates bear such legends, as the Committee, in its discretion, deems necessary or desirable.

If the Shares issuable on exercise of an Incentive Award are not registered under the Securities Act of 1933, the Company may imprint on the certificate for such Shares the following legend or any other legend which counsel for the Company considers necessary or advisable to comply with the Securities Act of 1933:

The shares of stock represented by this certificate have not been registered under the securities act of 1933 or under the securities laws of any state and may not be sold or transferred except upon such registration or upon receipt by the corporation of an opinion of counsel satisfactory to the corporation, in form and substance satisfactory to the corporation, that registration is not required for such sale or transfer.

## **7.2 Transferability**

Incentive Awards granted under the Plan shall not be transferable or assignable, pledged, or otherwise encumbered other than by will or the laws of descent and distribution. However, only with respect to Incentive Awards that are not Incentive Stock Options, the Committee may, in its discretion, authorize all or a portion of the Nonstatutory Stock Options to be granted on terms which permit transfer by the Grantee to (i) the members of the Grantee's Immediate Family, (ii) a trust or trusts for the exclusive benefit of Immediate Family members, (iii) a partnership in which Immediate Family members are the only partners, (iv) any other entity owned solely by Immediate Family members, or (v) pursuant to a domestic relations order that would qualify under Code Section 414(p); provided that (A) the Incentive Agreement pursuant to which such Nonstatutory Stock Options are granted must expressly provide for transferability in a manner consistent with this Section 5.2, (B) the actual transfer must be approved in advance by the committee, and (C) subsequent transfers of transferred Nonstatutory Stock Options shall be prohibited except in accordance with the first sentence of this section. Following any permitted transfer, the Nonstatutory Stock Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that the term "Grantee" (subject to the immediately succeeding paragraph) shall be deemed to refer to the transferee. The events of termination of employment, as set out in Section 5.6 and in the Incentive Agreement, shall continue to be applied with respect to the original Grantee, and the Incentive Award shall be exercisable by the transferee only to the extent, and for the periods, specified in the Incentive Agreement.

Except as may otherwise be permitted under the Code, in the event of a permitted transfer of a Nonstatutory Stock Option hereunder, the original Grantee shall remain subject to withholding taxes upon exercise. In addition, the Company and the Committee shall have no obligation to provide any notices to any Grantee or transferee thereof, including, for example, notice of the expiration of an Incentive Award following the original Grantee's termination of employment.

The designation by a Grantee of a beneficiary of an Incentive Award shall not constitute a transfer of the Incentive Award. No transfer by will or by the laws of descent and distribution shall be effective to bind the Company unless the Committee has been furnished with a copy of the deceased Grantee's enforceable will or such other evidence as the Committee deems necessary to establish the validity of the transfer. Any attempted

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transfer in violation of this Section 5.2 shall be void and ineffective. The Committee in its discretion shall make all determinations under this Section 5.2.

### **7.3 Rights as a Stockholder**

(a) No Stockholder Rights. Except as otherwise set forth in Section 4, a Grantee of an Incentive Award (or a permitted transferee of such Grantee) shall have no rights as a stockholder with respect to any Shares of Common Stock until the issuance of a stock certificate for such Shares.

(b) Representation of Ownership. In the case of the exercise of an Incentive Award by a person or estate acquiring the right to exercise such Incentive Award by reason of the death or Disability of a Grantee, the Committee may require reasonable evidence as to the ownership of such Incentive Award or the authority of such person and may require such consents and releases of taxing authorities as the Committee may deem advisable.

### **7.4 Listing and Registration of Shares of Common Stock**

The exercise of any Incentive Award granted hereunder shall only be effective at such time as counsel to the Company shall have determined that the issuance and delivery of Shares of Common Stock pursuant to such exercise is in compliance with all applicable laws, regulations of governmental authorities and the requirements of any securities exchange or quotation system on which Shares of Common Stock are traded or quoted. The Committee may, in its discretion, defer the effectiveness of any exercise of an Incentive Award in order to allow the issuance of Shares of Common Stock to be made pursuant to registration or an exemption from registration or other methods for compliance available under federal or state securities laws. The Committee shall inform the Grantee in writing of its decision to defer the effectiveness of the exercise of an Incentive Award.

### **7.5 Change in Stock and Adjustments**

(a) Changes in Law. Subject to Section 7.7 (which only applies in the event of a Change of Control), in the event of any change in applicable law which warrants equitable adjustment because it interferes with the intended operation of the Plan, then, if the Committee should determine, in its absolute discretion, that such change equitably requires an adjustment in the number or kind of shares of stock or other securities or property theretofore subject, or which may become subject, to issuance or transfer under the Plan or in the terms and conditions of outstanding Incentive Awards, such adjustment shall be made in accordance with such determination. Such adjustments may include changes with respect to (i) the aggregate number of Shares that may be issued under the Plan, (ii) the number of Shares subject to Incentive Awards, and (iii) the price per Share for outstanding Incentive Awards. Any adjustment under this paragraph of an outstanding Incentive Stock Option shall be made only to the extent not constituting a modification within the meaning of Section 424(h)(3) of the Code unless otherwise agreed to by the Grantee in writing. The Committee shall give notice to each applicable Grantee of such adjustment which shall be effective and binding.

(b) Exercise of Corporate Powers. The existence of the Plan or outstanding Incentive Awards hereunder shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, re-capitalizations, reorganizations or other changes in the Company's capital structure or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stocks ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding whether of a similar character or otherwise.

(c) Recapitalization of the Company. Subject to Section 5.7 (which only applies in the event of a Change in Control), in the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash,



Common Stock, other securities, or other property), re-capitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, spin-off, split-off, combination, subdivision, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar

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corporate transaction or event affects the Common Stock such that an adjustment is determined by the Committee to be appropriate to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it deems equitable, adjust any or all of (i) the number of shares and type of Common Stock (or the securities or property) which thereafter may be made the subject of Incentive Awards, (ii) the number of shares and type of Common Stock (or other securities or property) subject to outstanding Incentive Awards, (iii) the number of shares and type of Common Stock (or other securities or property) subject to the annual per-individual limitation under Section 1.4(a) of the Plan, (iv) the Option Price of each outstanding Incentive Award, and (v) the number of or Option Price of Shares of Common Stock then subject to outstanding SARs previously granted and unexercised under the Plan to the end that the same proportion of the Company's issued and outstanding shares of Common Stock in each instance shall remain subject to exercise at the same aggregate Option Price; *provided however*, that the number of Shares of Common Stock (or other securities or property) subject to any Incentive Award shall always be a whole number. In lieu of the foregoing, if deemed appropriate, the Committee may make provision for a cash payment to the holder of an outstanding Incentive Award. Notwithstanding the foregoing, no such adjustment or cash payment shall be made or authorized to the extent that such adjustment or cash payment would cause the Plan or any Stock Option to violate Section 422 of the Code. Such adjustments shall be made in accordance with the rules of any securities exchange, stock market, or stock quotation system to which the Company is subject.

Upon the occurrence of any such adjustment or cash payment, the Company shall provide notice to each affected Grantee of its computation of such adjustment or cash payment, which shall be conclusive and shall be binding upon each such Grantee.

(d) Issue of Common Stock by the Company. Except as herein above expressly provided in this Section 5.5 and subject to Section 5.7 in the event of a Change in Control, the issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon any conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of, or Fair Market Value of, any Incentive Awards then outstanding under previously granted Incentive Awards.

(e) Assumption of Incentive Awards by a Successor. Unless otherwise determined by the Committee in its discretion pursuant to the next paragraph, but subject to the accelerated vesting and other provisions of Section 5.7 that apply in the event of a Change in Control, in the event of a Corporate Event (defined below), each Grantee shall be entitled to receive, in lieu of the number of Shares subject to Incentive Awards, such shares of capital stock (or other securities or property) as may be issuable or payable with respect to or in exchange for the number of Shares which Grantee would have received had he exercised the Incentive Award immediately prior to such Corporate Event, together with any adjustments (including, without limitation, adjustments to the Option Price and the number of Shares issuable on exercise of outstanding Stock Options). A Corporate Event means any of the following: (i) a dissolution or liquidation of the Company, (ii) a sale of all or substantially all of the Company's assets, or (iii) a merger, consolidation or combination involving the Company (other than a merger, consolidation or combination (A) in which the Company is the continuing or surviving corporation and (B) which does not result in the outstanding Shares being converted into or exchanged for different securities, cash or other property, or any combination thereof). The Committee shall take whatever other action it deems appropriate to preserve the rights of Grantees holding outstanding Incentive Awards.

Subject to the accelerated vesting and other provisions of Section 5.7 that apply in the event of a Change in Control, in the event of a Corporate Event, the Committee in its discretion shall have the right and power to:

(i) cancel, effective immediately prior to the occurrence of the Corporate Event, each outstanding Incentive Award (whether or not then exercisable) and, in full consideration of such cancellation, pay to the Grantee an amount in cash

equal to the excess of (A) the value, as determined by the Committee, of

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the property (including cash) received by the holders of Common Stock as a result of such Corporate Event over (B) the exercise price of such Incentive Award, if any; or

(ii) provide for the exchange or substitution of each Incentive Award outstanding immediately prior to such Corporate Event (whether or not then exercisable) for another award with respect to the Common Stock or other property for which such Incentive Award is exchangeable and, incident thereto, make an equitable adjustment as determined by the Committee, in its discretion, in the exercise price of the Incentive Award, if any, or in the number of Shares or amount of property (including cash) subject to the Incentive Award; or

(iii) provide for the assumption of the Plan and such outstanding Incentive Awards by the surviving entity or its parent.

The Committee, in its discretion, shall have the authority to take whatever action it deems to be necessary or appropriate to effectuate the provisions of this Subsection (e).

**7.6 Termination of Employment, Death, Disability and Retirement**

(a) Termination of Relationship. Unless otherwise expressly provided in the Grantee's Incentive Agreement, if the Grantee's Employment or services as a Director or Consultant is terminated for any reason other than due to his death, Disability, Retirement, or for Cause, any non-vested portion of any Stock Option or other applicable Incentive Award at the time of such termination shall automatically expire and terminate and no further vesting shall occur after the termination date. In such event, except as otherwise expressly provided in his Incentive Agreement, the Grantee shall be entitled to exercise his rights only with respect to the portion of the Incentive Award that was vested as of his termination of Employment or service date for a period that shall end on the earlier of (i) the expiration date set forth in the Incentive Agreement or (ii) one hundred eighty (180) days after the date of his termination, except with respect to Incentive Stock Options, in which case such period shall be three (3) months.

(b) Termination for Cause. Unless otherwise expressly provided in the Grantee's Incentive Agreement, in the event of the termination of a Grantee's Employment, or service as a Consultant or Director, for Cause, all vested and non-vested Stock Options and other Incentive Awards granted to such Grantee shall immediately expire, and shall not be exercisable to any extent, as of 12:01 a.m., Houston, Texas time, on the date of such termination of Employment or service for cause

(c) Retirement. Unless otherwise expressly provided in the Grantee's Incentive Agreement, upon the termination of Employment due to the Retirement of any Employee who is a Grantee:

(i) any non-vested portion of any outstanding Option or other Incentive Award shall thereupon automatically be accelerated and become fully vested; and

(ii) any vested Option or other Incentive Award shall expire on the earlier of (A) the expiration date set forth in the Incentive Agreement for such Incentive Award; or (B) the expiration of (1) twelve months after the date of his termination of Employment due to Retirement in the case of any Incentive Award other than an Incentive Stock Option or (2) three months after his termination date in the case of an Incentive Stock Option.

(d) Disability or Death. Unless otherwise expressly provided in the Grantee's Incentive Agreement, upon the termination of Employment or service as a Director due to the Disability or death of any Employee or Non-Employee Director who is a Grantee:

(i) any non-vested portion of any outstanding Option or other Incentive Award shall thereupon automatically be accelerated and become fully vested; and

(ii) any vested Option or other Incentive Award shall expire on the earlier of (A) the expiration date set forth in the Incentive Agreement for such Incentive Award; or (B) the expiration of (1) twelve months after the date of his termination of Employment due to Retirement in the case of any Incentive Award

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other than an Incentive Stock Option or (2) three months after his termination date in the case of an Incentive Stock Option.

In the case of any vested Incentive Stock Option held by an Employee following termination of Employment, notwithstanding the definition of Disability in Section 1.2, whether the Employee has incurred a Disability for purposes of determining the length of the Option exercise period following termination of Employment under this paragraph (d) shall be determined by reference to Section 22(e)(3) of the Code to the extent required by Section 422(c)(6) of the Code. The Committee shall determine whether a Disability for purposes of this Subsection (d) has occurred.

(e) Continuation. Subject to the conditions and limitations of the Plan and applicable law and regulation in the event that a Grantee ceases to be an Employee or Consultant, as applicable, for whatever reason, the Committee and Grantee may mutually agree with respect to any outstanding Option or other Incentive Award then held by the Grantee (i) for an acceleration or other adjustment in any vesting schedule applicable to the Incentive Award, (ii) for a continuation of the exercise period following termination for a longer period than is otherwise provided under such Incentive Award, or (iii) to any other change in the terms and conditions of the Incentive Award. In the event of any such change to an outstanding Incentive Award, a written amendment to the Grantee's Incentive Agreement shall be required.

## **7.7 Change in Control**

In the event of a Change in Control (as defined below), the following actions shall automatically occur as of the day immediately preceding the Change in Control date unless expressly provided otherwise in the Grantee's Incentive Agreement:

(a) all of the Stock Options and Stock Appreciation Rights then outstanding shall become 100% vested and immediately and fully exercisable;

(b) any Period of Restriction with respect to any Restricted Stock or Restricted Stock Unit shall be deemed to have expired and all restrictions imposed on Restricted Stock or Restricted Stock Units shall lapse, and thus each such Incentive Award shall become free of all restrictions and fully vested;

(c) all of the restrictions and conditions of any Other Stock-Based Awards then outstanding shall be deemed satisfied, and the Period of Restriction with respect thereto shall be deemed to have expired, and thus each such Incentive Award shall become free of all restrictions and fully vested; and

(d) all of the Performance Shares, Restricted Stock, Restricted Stock Units and any Other Stock-Based Awards shall become fully vested, deemed earned in full, and promptly paid within thirty (30) days to the affected Grantees without regard to payment schedules and notwithstanding that the applicable performance cycle, retention cycle or other restrictions and conditions have not been completed or satisfied.

Notwithstanding any other provision of this Plan, unless otherwise expressly provided in the Grantee's Incentive Agreement, the provisions of this Section 5.7 may not be terminated, amended, or modified to adversely affect any Incentive Award theretofore granted under the Plan without the prior written consent of the Grantee with respect to his outstanding Incentive Awards, subject, however, to the last paragraph of this Section 5.7.

For all purposes of this Plan, a Change in Control of the Company means the occurrence of any one or more of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a Person )) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either (i) the then outstanding shares of common stock of the Company (the Outstanding Company Stock ) or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities ); provided, however, that the following acquisitions shall not constitute a Change in Control: (i) any acquisition directly from the Company or

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any Subsidiary, (ii) any acquisition by the Company or any Subsidiary or by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary, or (iii) any acquisition by any corporation pursuant to a reorganization, merger, consolidation or similar business combination involving the Company (a Merger ), if, following such Merger, the conditions described in clauses (i) and (ii) of Section 5.7(c) (below) are satisfied;

(b) Individuals who, as of the Effective Date, constitute the Board of Directors of the Company (the Incumbent Board ) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (a solicitation by any person or group of persons for the purpose of opposing a solicitation of proxies or consents by the Board with respect to the election or removal of Directors at any annual or special meeting of stockholders) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(c) Approval by the stockholders of the Company of a Merger, unless immediately following such Merger, (i) substantially all of the holders of the Outstanding Company Voting Securities immediately prior to Merger beneficially own, directly or indirectly, more than 50% of the common stock of the corporation resulting from such Merger (or its parent corporation) in substantially the same proportions as their ownership of Outstanding Company Voting Securities immediately prior to such Merger and (ii) at least a majority of the members of the board of directors of the corporation resulting from such Merger (or its parent corporation) were members of the Incumbent Board at the time of the execution of the initial agreement providing for such Merger; or

(d) The sale or other disposition of all or substantially all of the assets of the Company.

## **7.8 Exchange of Incentive Awards**

The Committee may, in its discretion, permit any Grantee to surrender outstanding Incentive Awards in order to exercise or realize his rights under other Incentive Awards or in exchange for the grant of new Incentive Awards, or require holders of Incentive Awards to surrender outstanding Incentive Awards (or comparable rights under other plans or arrangements) as a condition precedent to the grant of new Incentive Awards.

## **SECTION 8**

### **GENERAL**

#### **8.1 Effective Date and Grant Period**

The amendment and restatement of this Plan is adopted by the Board effective as of March 13, 2006, subject to the approval of the stockholders of the Company. Incentive Awards may be granted under the Plan at any time prior to receipt of such stockholder approval; provided, however, if the requisite stockholder approval is not obtained then any Incentive Awards granted hereunder shall automatically become null and void and of no force or effect. No Incentive Award that is an Incentive Stock Option shall be granted under the Plan after ten (10) years from the Effective Date.

#### **8.2 Funding and Liability of Company**

No provision of the Plan shall require the Company, for the purpose of satisfying any obligations under the Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made, or otherwise to segregate any assets. In addition, the Company shall not be required to maintain separate bank accounts, books, records or other



evidence of the existence of a segregated or separately maintained or

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administered fund for purposes of the Plan. Although bookkeeping accounts may be established with respect to Grantees who are entitled to cash, Common Stock or rights thereto under the Plan, any such accounts shall be used merely as a bookkeeping convenience. The Company shall not be required to segregate any assets that may at any time be represented by cash, Common Stock or rights thereto. The Plan shall not be construed as providing for such segregation, nor shall the Company, the Board or the Committee be deemed to be a trustee of any cash, Common Stock or rights thereto. Any liability or obligation of the Company to any Grantee with respect to an Incentive Award shall be based solely upon any contractual obligations that may be created by this Plan and any Incentive Agreement, and no such liability or obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company. Neither the Company, the Board nor the Committee shall be required to give any security or bond for the performance of any obligation that may be created by the Plan.

### **8.3 Withholding Taxes**

(a) *Tax Withholding*. The Company shall have the power and the right to deduct or withhold, or require a Grantee to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of the Plan or an Incentive Award hereunder.

(b) *Share Withholding*. With respect to tax withholding required upon the exercise of Stock Options or SARs, or upon any other taxable event arising as a result of any Incentive Awards, Grantees may elect, subject to the approval of the Committee in its discretion, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum withholding tax which could be imposed on the transaction. All such elections shall be made in writing, signed by the Grantee, and shall be subject to any restrictions or limitations that the Committee, in its discretion, deems appropriate.

(c) *Incentive Stock Options*. With respect to Shares received by a Grantee pursuant to the exercise of an Incentive Stock Option, if such Grantee disposes of any such Shares within (i) two years from the date of grant of such Option or (ii) one year after the transfer of such shares to the Grantee, the Company shall have the right to withhold from any salary, wages or other compensation payable by the Company to the Grantee an amount sufficient to satisfy federal, state and local tax withholding requirements attributable to such disqualifying disposition.

### **8.4 No Guarantee of Tax Consequences**

Neither the Company nor the Committee makes any commitment or guarantee that any federal, state or local tax treatment will apply or be available to any person participating or eligible to participate hereunder.

### **8.5 Designation of Beneficiary by Participant**

Each Grantee may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his death before he receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Grantee, shall be in a form prescribed by the Committee, and will be effective only when filed by the Grantee in writing with the Committee during the Grantee's lifetime. In the absence of any such designation, benefits remaining unpaid at the Grantee's death shall be paid to the Grantee's estate.

### **8.6 Amendment and Termination**

The Board shall have the power and authority to terminate or amend the Plan at any time. No termination, amendment, or modification of the Plan shall adversely affect in any material way any outstanding Incentive Award

previously granted to a Grantee under the Plan, without the written consent of such Grantee or other designated holder of such Incentive Award.

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In addition, to the extent that the Committee determines that (a) the listing or qualification requirements of any national securities exchange or quotation system on which the Company's Common Stock is then listed or quoted, if applicable, or (b) the Code (or regulations promulgated thereunder), require stockholder approval in order to maintain compliance with such listing or quotation system requirements or to maintain any favorable tax advantages or qualifications, then the Plan shall not be amended in such respect without approval of the Company's stockholders.

### **8.7 Governmental Entities and Securities Exchanges**

The granting of Incentive Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. Certificates evidencing shares of Common Stock delivered under this Plan (to the extent that such shares are so evidenced) may be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules and regulations of the Securities and Exchange Commission, any securities exchange or transaction reporting system upon which the Common Stock is then listed or to which it is admitted for quotation, and any applicable federal or state securities law, if applicable. The Committee may cause a legend or legends to be placed upon such certificates (if any) to make appropriate reference to such restrictions.

### **8.8 Successors to Company**

All obligations of the Company under the Plan with respect to Incentive Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

### **8.9 Miscellaneous Provisions**

(a) No Employee or Consultant, or other person shall have any claim or right to be granted an Incentive Award under the Plan. Neither the Plan, nor any action taken hereunder, shall be construed as giving any Employee, Director or Consultant, any right to be retained in the Employment or other service of the Company or any Parent or Subsidiary.

(b) By accepting any Incentive Award, each Grantee and each person claiming by or through him shall be deemed to have indicated his acceptance of the Plan.

### **8.10 Severability**

In the event that any provision of this Plan shall be held illegal, invalid or unenforceable for any reason, such provision shall be fully severable, but shall not affect the remaining provisions of the Plan, and the Plan shall be construed and enforced as if the illegal, invalid, or unenforceable provision was not included herein.

### **8.11 Gender, Tense and Headings**

Whenever the context so requires, words of the masculine gender used herein shall include the feminine and neuter, and words used in the singular shall include the plural. Section headings as used herein are inserted solely for convenience and reference and constitute no part of the interpretation or construction of the Plan.

### **8.12 Governing Law**

The Plan shall be interpreted, construed and constructed in accordance with the laws of the State of Texas without regard to its conflicts of law provisions, except as may be superseded by applicable laws of the United States or applicable provisions of the Delaware General Corporation Law.



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**8.13 Successor to Director Plan**

This Plan shall serve as the successor to the Director Plan and, subject to obtaining stockholder approval of this Plan pursuant to Section 8.1, no further grants shall be made under the Director Plan from and after the Effective Date of this amendment and restatement of the Plan. All outstanding Awards under the Director Plan shall continue to be governed solely by the terms and conditions of the instrument evidencing such grant or issuance. Notwithstanding any provision in this Plan to the contrary, no provision of this Plan is intended to modify, extend or renew any option granted under the Director Plan. Any provision in this Plan that is contrary to a provision in the Director Plan that would create a modification, extension or renewal of such option is hereby incorporated into this Plan. All terms, conditions and limitations, if any, that are set forth in any previously granted option agreement shall remain in full force and effect under the terms of the Plan pursuant to which it was issued.

**8.14 Deferred Compensation**

This Plan and any Incentive Agreement issued under the Plan is intended to meet the requirements of Section 409A of the Code and shall be administered in a manner that is intended to meet those requirements and shall be construed and interpreted in accordance with such intent. To the extent that an Incentive Award or payment, or the settlement or deferral thereof, is subject to Section 409A of the Code, except as the Board otherwise determines in writing, the Incentive Award shall be granted, paid, settled or deferred in a manner that will meet the requirements of Section 409A of the Code, including regulations or other guidance issued with respect thereto, such that the grant, payment, settlement or deferral shall not be subject to the excise tax applicable under Section 409A of the Code. Any provision of this Plan or any Incentive Agreement that would cause an Incentive Award or the payment, settlement or deferral thereof to fail to satisfy Section 409A of the Code shall be amended (in a manner that as closely as practicable achieves the original intent of this Plan or the Incentive Agreement, as applicable) to comply with Section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under Section 409A of the Code. In the event the Plan allows for a deferral of compensation, the Plan is intended to qualify for certain exemptions under Title I of ERISA provided for plans that are unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly-compensated employees.

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**Annual Meeting Proxy Card**

**Election of Directors**

1. A vote FOR the following nominees is recommended by the Board of Directors:
  - A. To elect the following two (2) members to the Board of Directors to serve until the 2009 Annual Meeting of Stockholders or until their respective successors are elected and qualify:

**For      Withhold**

01 Theodore H.    o            o  
 Elliott, Jr.

02 James M.       o            o  
 Lapeyre, Jr.

**Issues**

A vote FOR the following proposals is recommended by the Board of Directors:

	For	Against	Abstain
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2. To approve certain amendments to the Input/Output, Inc. 2004 Long-Term Incentive Plan, with the principal amendments being (i) the proposed increase of the total number of shares of Input/Output's common stock available for issuance under the plan from 2,600,000 to 4,300,000 shares and (ii) the addition of equity compensation awards to non-employee directors.

	For	Against	Abstain
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3. To ratify the appointment of Ernst & Young LLP as Input/Output's independent auditors for 2006.

**Authorized Signatures Sign Here This section must be completed for your instructions to be executed.**

The undersigned hereby revokes all previous proxies given. This Proxy may be revoked at any time prior to a vote thereon. Receipt of the accompanying Proxy Statement and Annual Report of the Company for the fiscal year ended December 31, 2005 is hereby acknowledged.

Please sign exactly as your name(s) appears on this card. If shares stand of record in the names of two or more persons or in the name of husband and wife, whether as joint tenants or otherwise, both or all of such persons should sign this Proxy. If shares are held of record by a corporation, this Proxy should be executed by the President or Vice President and the Secretary or Assistant Secretary, and the corporate seal should be affixed thereto. Executors or administrators or other fiduciaries who execute this Proxy for a deceased stockholder should give their full title. Please date the Proxy.

Signature 1 Please keep signature within the box

Signature 2 Please keep signature within the box

Date (mm/dd/yyyy)

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**Proxy Input/Output, Inc.**

**PROXY FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 17, 2006  
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints James M. Lapeyre, Jr. and Robert P. Peebler, and each of them, with full power of substitution to represent the undersigned and to vote all of the shares of Common Stock in Input/Output, Inc., a Delaware corporation (the Company), that the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Company to be held on May 17, 2006, and at any adjournment or postponement thereof (1) as hereinafter specified upon the proposals listed on the reverse side and as more particularly described in the Proxy Statement of the Company dated April 13, 2006 (the Proxy Statement) and (2) in their discretion upon such other matters as may properly come before the meeting or any adjournment thereof.

**ALL SHARES OF COMMON STOCK REPRESENTED HEREBY WILL BE VOTED AS SPECIFIED. IF NO SPECIFICATION IS MADE, SUCH SHARES WILL BE VOTED FOR THE NOMINEES LISTED IN PROPOSAL NO. 1 AND FOR PROPOSALS NO. 2 AND NO. 3.**

**PLEASE DATE, SIGN AND MAIL YOUR PROXY CARD IN THE ENVELOPE PROVIDED AS SOON AS POSSIBLE!**