

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:

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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. Director since 1987  
Age 70

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. Director since 1998  
Age 53

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 Director since 2001  
Age 53

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 Director since 2003  
Age 58

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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

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.

Director	Compensation Committee	Audit Committee	Governance Committee
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.

**Table of Contents****EXECUTIVE COMPENSATION**

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			Restricted	Securities	
		(\$)	(\$)(1)	(\$)	(\$)(2)	Options/SAR (#)(3)	LTIP Payouts (\$)	(\$)(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		Exercise or Base Price			Potential Realizable	
	Number of Securities	Percentage of Total Options/SARs				Value at Assumed Annual Rates of Stock Price Appreciation for Option Term*	
	Underlying Option/SARs Granted (#)(1)	Granted to Employees in Fiscal Year(2)		Expiration Date	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		Value of Unexercised In-the-Money Options/SARs	
			Options/SARs at Fiscal		at Fiscal Year-End \$(1)	
			Year-End (#)			
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert P. Peebler Michael K.	0	0	859,723	515,277	896,915	530,735
Lambert(2)	48,346	246,250	21,250	103,750	0	0
J. Michael Kirksey Christopher M. Friedemann	0	0	51,250	228,750	81,900	245,700
David L. Roland	0	0	57,500	127,500	90,525	90,525
	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.

**Table of Contents****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 Employee Stock Purchase Plan	1,353,300	\$ 7.24	0
2003 Stock Option Plan	1,325,000	\$ 6.00	446,325
2004 Long-Term Incentive Plan	1,545,750	\$ 8.10	175,000
GX Technology Corporation Employee Stock Option Plan	627,137	\$ 2.35	263,249
Subtotal	6,451,877		0
<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

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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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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.* O