

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

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HAROLD READ, Individually and On Behalf of All Others Similarly Situated,	)	
	)	<b>CIVIL ACTION NO.</b>
Plaintiff,	)	
	)	
vs.	)	<b>CLASS ACTION COMPLAINT</b>
	)	
INPUT/OUTPUT, INC., ROBERT P. PEEBLER, J. MICHAEL KIRKSEY, and MICHAEL K. LAMBERT,	)	
	)	<b><u>JURY TRIAL DEMANDED</u></b>
Defendants.	)	
	)	

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Plaintiff, Harold Read ("Plaintiff"), individually and on behalf of all other persons similarly situated, by his undersigned attorneys, for his complaint against defendants, alleges the following based upon personal knowledge as to himself and his own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through his attorneys, which included, among other things, a review of the defendants' public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding Input/Output, Inc. ("I/O" or the "Company") securities analysts' reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

### NATURE OF THE ACTION

1. This is a federal class action on behalf of all who purchased or otherwise acquired the securities of I/O between May 10, 2004 and January 4, 2005, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

### JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. §§ 78j(b) and 78t(a)), and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

3. This Court has jurisdiction over the subject matter of this action pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. § 1331.

4. Venue is proper in this Judicial District pursuant to §27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this Judicial District. Additionally, the Company maintains a principal executive office in this Judicial District.

5. In connection with the acts, conduct and other wrongs alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

## PARTIES

6. Plaintiff, Harold Read, as set forth in the accompanying certification, incorporated by reference herein, purchased I/O securities at artificially inflated prices during the Class Period and has been damaged thereby.

7. Defendant I/O is a Delaware corporation and maintains its principal executive offices at 12300 Parc Crest Dr., Stafford, Texas.

8. Defendant Robert P. Peebler ("Peebler") was, at all relevant times, the President and Chief Executive Officer of I/O since April 2003 and a member of the Board of Directors since 1999.

9. Defendant J. Michael Kirksey ("Kirksey") was, at all relevant times, the Executive Vice President and Chief Financial Officer of I/O since January 2004.

10. Defendant Michael K. Lambert ("Lambert") was, at all relevant times, the President of GX Technology Corporation since 1997 and continued in that position after the acquisition of GXT by I/O in June 2004.

11. Defendants Peebler, Kirksey, and Lambert are collectively referred to hereinafter as the "Individual Defendants." During the Class Period, each of the Individual Defendants, as senior executive officers and/or directors of I/O were privy to non-public information concerning its business, finances, products, markets and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded the fact that adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

12. Because of the Individual Defendants' positions with the Company, they had access to the adverse undisclosed information about the Company's business, operations, operational trends, financial statements, markets and present and future business prospects via access to internal corporate documents (including the Company's operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith.

13. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the Company's public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of defendants identified above. Each of the above officers of I/O, by virtue of their high-level positions with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels and was privy to confidential proprietary information concerning the Company and its business, operations, growth, financial statements, and financial condition, as alleged herein. Said defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware, or recklessly disregarded, that the false and misleading statements were being issued regarding the Company, and approved or ratified these statements, in violation of the federal securities laws.

14. As officers and controlling persons of a publicly-held company whose securities were, and are, registered with the SEC pursuant to the Exchange Act, and was traded on the New York Stock Exchange ("NYSE") and governed by the provisions of the federal securities laws, the

Individual Defendants each had a duty to disseminate promptly, accurate and truthful information with respect to the Company's financial condition and performance, growth, operations, financial statements, business, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company's publicly-traded securities would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

15. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public and shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with I/O, each of the Individual Defendants had access to the adverse undisclosed information about I/O financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about I/O and its business issued or adopted by the Company materially false and misleading.

16. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is

responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

17. Each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of I/O securities by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding I/O business, operations, management and the intrinsic value of I/O securities; and (ii) caused Plaintiff and other members of the Class to purchase I/O securities at artificially inflated prices.

#### **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

18. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired the securities of I/O between May 10, 2004 and January 4, 2005, inclusive (the "Class Period") and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

19. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, I/O's securities were actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from

records maintained by I/O or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

20. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

21. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

22. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of I/O; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

23. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

#### **SUBSTANTIVE ALLEGATIONS**

### **Background**

24. I/O is a provider of seismic acquisition imaging technology for exploration, production and reservoir monitoring in land and marine, as well as shallow water and marsh environments. I/O offers a suite of related products and services for seismic data acquisition and processing, including products incorporating traditional analog technologies and products incorporating its VectorSeis and True Digital technology. The Company's principal customers are seismic contractors that operate seismic data acquisition systems and related equipment to collect data in accordance with their customers' specifications or for their own seismic data libraries. In addition, I/O markets and sells products directly to oil and gas companies, particularly for reservoir monitoring applications.

### **Materially False And Misleading Statements Issued During The Class Period**

25. The Class Period commences on May 10, 2004. At that time, I/O announced that it had entered into a stock purchase agreement with GX Technology Corporation ("GXT") and its shareholders to acquire all of the equity interest of GXT for approximately \$150 million. I/O had agreed to pay a total of approximately \$150 million through a combination of cash and stock option value to acquire GXT. The \$150 million purchase price included the assumption of \$4.5 million in debt and the delivery of I/O stock options with a value of approximately \$15.5 million. The transaction contemplated the completion of an offering of I/O common stock with net proceeds of approximately \$100 million and a new senior bank facility, all were expected to be completed within the next 45 to 60 days.

26. Commenting on this, defendant Peebler stated:

"We view GXT as a crown jewel in the world of seismic technology. Recognized as a leading imaging solutions provider, GXT will play a critical role in I/O's strategy to lead the oil & gas industry into the digital full-wave era. GXT will re-orient our company from primarily manufacturing seismic acquisition equipment to offering a full range of seismic imaging solutions. We've said that digital, full-wave imaging will be about more than just the sensor. It's also about planning, field execution and advanced processing. GXT complements I/O's VectorSeis(R) sensor technology and we believe positions us to deliver digital, full-wave images to oil & gas companies.

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GXT possesses advanced tools along with a team of talented professionals who know how to maximize image quality for their customers. The company has developed integrated solutions with one objective -- to deliver the highest quality, fit-for-purpose image of the subsurface. GXT thinks 'image first' with their oil & gas company customers and then works backwards to custom design a complete seismic program including survey planning, technology deployment, field acquisition and processing. The terrific thing about their model is that field acquisition is subcontracted. GXT works with established contracting specialists to acquire seismic data according to specifications of the survey. The imaging consulting relationships that GXT has developed with oil & gas companies are both broad and deep. By having GXT in the I/O family, we think there will be a significant opportunity to better understand the needs of oil & gas companies, explain the merits of all the technologies we have in the toolkit and work together to develop tailored solutions in hydrocarbon basins around the world."

27. Also commenting on this was defendant Lambert, who stated:

"We are excited that I/O and GXT have reached this agreement. Both companies share the same vision of creating a high technology seismic company focused on solving difficult imaging problems for our clients. After this transaction closes, the combined company will have a development capability that will allow us to tackle some of the more challenging seismic opportunities in geophysics -- full-wave (multicomponent) processing and 4-D imaging. With the tools and expertise of the combined company, we will be truly unique in the oil and gas industry."

28. On June 14, 2004, I/O announced that it closed on June 14, 2004 the public offering of 20,209,631 shares of its common stock, which was priced at \$7.00 per share. Of the shares sold in the offering, 20,000,000 shares were sold by I/O and 209,631 shares were sold by certain selling stockholders, none of whom were I/O directors, officers, employees or their affiliates. I/O had received net proceeds of approximately \$131 million from the offering. As previously announced, I/O had granted the underwriters an option to purchase up to an additional 3,031,445 shares of common stock within 30 days after the offering to cover over-allotments, if any. The Company used all the net proceeds from the sale of its shares of common stock to pay a portion of the purchase price for the acquisition of GXT. I/O completed the GXT acquisition concurrently with the closing of the offering.

29. Commenting on this, defendant Peebler stated:

"We are very pleased with the support we got from the investment community at large during this equity offering, which allowed us to close on the GXT acquisition in a timely manner. GXT is a crown jewel in the world of seismic technology and it will allow us to re-orient our company from primarily manufacturing seismic acquisition equipment to offering a full range of seismic imaging solutions. We've said previously that digital, full-wave imaging will be about more than just the sensor. It's also about planning, field execution and advanced processing. GXT complements I/O's VectorSeis(R) sensor technology and we believe positions us to deliver digital, full-wave images to oil & gas companies."

30. On July 28, 2004, I/O issued a press release in which it announced the following:

Input/Output, Inc. (NYSE: IO) today announced second quarter 2004 net income of \$4.2 million, or \$0.07 per share, on revenues of \$62.3 million compared to a net loss of \$13.7 million, or \$0.27 per share, on revenues of \$34.6 million for the same period a year ago.

Bob Peebler, I/O's President and Chief Executive Officer, said, "The second quarter of 2004 will prove to be the period when the key

elements of I/O's future were solidly put in place. We successfully completed the acquisition of GX Technology and the simultaneous equity offering of approximately 22,930,000 shares of common stock. We also launched and sold our first System Four Digital-Analog system and continued to deliver our new VectorSeis Ocean seabed system in accordance with the contract signed in the first quarter."

#### SECOND QUARTER 2004

Second quarter revenues of \$62.3 million were above previous guidance of \$45 to \$55 million after excluding the \$5.6 million of revenues contributed by GX Technology. Concept Systems, which was acquired in February of this year, contributed revenues of \$4.7 million during the quarter. Land imaging revenues were \$36.9 million compared to \$22.4 million a year ago, and marine imaging revenues were \$13.1 million compared to \$10.9 million a year ago. The land imaging division had an increase in acquisition systems sales, including the sale of I/O's first System Four Digital-Analog system. The marine imaging division enjoyed attractive margins as the increased sales were in higher margin offerings such as VectorSeis Ocean and Digi positioning products.

Gross margin for the second quarter improved to 35% from 9% for the same period a year ago primarily due to higher margin sales in the land and marine imaging divisions and higher margin sales of Concept Systems software products. Operating expenses for the second quarter were 26% of revenues compared to 38% for the second quarter last year.

Income from operations in the quarter was \$5.6 million compared to a loss from operations of \$10.3 million in the second quarter of 2003. EBITDA (earnings before net interest expense, taxes, depreciation and amortization) for the second quarter was \$9.7 million compared to a negative \$10.6 million for the second quarter of last year. You can find a reconciliation of EBITDA to reported earnings at the end of this press release.

#### FIRST HALF 2004

Revenues for the six months ended June 30, 2004 increased 30% from \$75.7 million in the first half of 2003 to \$98.6 million this year. Approximately half of this increase is due to increases within the land

and marine imaging divisions, with the other half due to the acquisitions of GX Technology and Concept Systems.

Gross margin for the first six months of 2004 rose to 35% compared to 15% in the first six months of 2003. EBITDA for the first six months of 2004 was \$13.2 million compared to a negative \$11.0 million for the first six months of 2003. Income from operations increased to \$6.6 million compared to a loss from operations in the prior year of \$15.4 million. For the six months ended June 30, 2004, I/O recorded net income of \$3.6 million, or \$0.07 per share, on revenues of \$98.6 million compared to a net loss of \$19.0 million, or \$0.37 per share, on revenues of \$75.7 million for the same period a year ago.

## OUTLOOK

The following statements are based on our current expectations. These statements are forward looking and actual results may differ materially. Factors affecting these forward-looking statements are detailed below.

Mr. Peebler stated, "Looking at the first half of 2004, we are pleased with the results so far. We remain on plan to meet this year's objectives, with solid prospects ahead. The additions of GX Technology and Concept Systems added the key pieces we needed to build a seismic solutions company. We have shipped \$15 million of VectorSeis systems through the first half, well on our way to our \$40 million goal. VectorSeis sales are expected to grow in both the land and marine environments as acceptance of this new technology continues."

Mike Kirksey, Executive Vice President and Chief Financial Officer, stated, "Based on our current pipeline of business, the expected impact of our new product introductions, and the acquisitions of GX Technology and Concept Systems, we now expect 2004 revenues to range between \$255 and \$270 million. Much of our projected top line growth is expected to come from continued market penetration of our acquisition systems, an overall growth trend evident in the seismic market, both land and marine, and continued growth of GX Technology's Integrated Seismic Solutions offering. We expect full year 2004 gross margin percentage to be in the low 30's, EBITDA to range between \$35 and \$45 million and earnings of \$0.20 to \$0.25 per share for the year. As a result, for the third quarter of 2004, we expect

revenues to range between \$75 and \$85 million and earnings per share to range between \$0.06 and \$0.10."

31. On October 5, 2004, I/O announced preliminary results for its third quarter ended September 30, 2004. Total revenues were expected to be approximately \$80 million and earnings per diluted share are expected to be in the range of breakeven to \$0.03 cents per share. This compared to prior guidance of revenues ranging between \$75 and \$85 million and earnings per diluted share ranging between \$0.06 and \$0.10. Commenting on this, defendant Peebler stated:

"Even though our sales were in the range we expected, higher margin land systems and data library sales were delayed and were replaced with lower margin product sales. This combined with higher than expected start-up expenses with some new product introductions resulted in operating income below our expectations. I am satisfied that the fundamental drivers of our business model remain solid. Our VectorSeis System sales goal of \$40+ million for the year is on track, and GXT's business for both high end processing and Integrated Solution Services (ISS) is expanding. I believe that this quarter's shortfall is more of a reflection of the difficulties of managing a lumpy business than anything fundamental to our longer term success.

With regard to the full year, we had previously given guidance of 20 - 25 cents. We believe the low end of that range is a reasonable target but will give a more complete view during our regular October 28th third quarter conference call[.]"

32. On October 27, 2004, I/O issued a press release wherein it stated the following:

Input/Output, Inc. (NYSE: IO) today announced third quarter 2004 net loss of \$5.0 million, or \$(0.07) per share, on revenues of \$80.9 million compared to a net loss of \$4.8 million, or \$(0.09) per share, on revenues of \$30.3 million for the same period a year ago. Included in the third quarter results is a \$(0.07) per share loss related to a Russian receivable.

Bob Peebler, I/O's President and Chief Executive Officer, said, "As indicated in our October 5th conference call, the third quarter financial results were impacted by a number of events that negatively

affected earnings. Project delays, unexpected new product start-up costs and a product mix with lower overall margins occurred simultaneously to affect our business. While the quarter's results are disappointing, the fundamental drivers of our business model remain solid. Top line revenues increased by \$51 million or 167% over the year ago period as the demand for seismic work continues to grow. Our new products are gaining market acceptance and our technology portfolio is focused on the highest value added segments of our markets."

### THIRD QUARTER 2004

Third quarter revenues of \$80.9 million were in line with the October 5th guidance of approximately \$80 million. Excluding GXT and Concept Systems, revenues increased almost 100%. GX Technology, which was acquired in June of this year, contributed revenues of \$17.5 million during the quarter. Land imaging revenues increased to \$38.4 million compared to \$20.7 million a year ago, and marine imaging revenues more than doubled to \$19.1 million compared to \$7.6 million a year ago. The land imaging division continued to enjoy acceptance of System Four Analog with its first sale in the international market. The marine imaging division completed the final sale of this year's VectorSeis Ocean contract.

Gross margin in the third quarter improved to 24% compared to 17% for the same period a year ago. However, third quarter margins were lower than expected as delays in higher margin system sales and data library sales were replaced with lower margin sales of vibrator trucks and other older technology based products. In addition, startup expenses on new products impacted the overall gross margin by nearly 2 percentage points. Operating expenses as a percentage of revenues for the third quarter fell to 28% compared to 38% for the third quarter of last year. During this quarter, I/O sold its Alvin, Texas facility, which was made redundant by the major outsourcing initiative of the Company. The Company recorded a gain of \$2.4 million from this sale.

In recent days, the increasing financial difficulties of one of its Russian customers have led the Company to provide a reserve for the exposure to receivables due from a subsidiary of Yukos. These receivables were collateralized by the equipment, which was sold to the customer in late 2001 through early 2003. The majority of the equipment has been recovered. However, the difference between the

receivables and the estimated fair market value, net of refurbishment cost, of the recovered equipment is \$5.2 million, or (\$0.07 per share), which the Company recorded in the third quarter.

Loss from operations in the quarter was \$3.3 million, including the Russian reserve, compared to a loss from operations of \$6.4 million in the third quarter of 2003. EBITDA (earnings before net interest expense, taxes, depreciation and amortization) for the third quarter was \$4.3 million compared to a negative \$1.9 million for the third quarter of last year. You can find a reconciliation of EBITDA to reported earnings at the end of this press release.

#### YEAR-TO-DATE 2004

Revenues for the nine months ended September 30, 2004 increased 69% to \$179.5 million compared to \$106.0 million in the comparable period of 2003. Approximately half of this increase is due to better performance within the land and marine imaging divisions, while the remaining increase is due to the acquisitions of GX Technology and Concept Systems.

Gross margin for the first nine months of 2004 rose to 30% compared to 16% in the first nine months of 2003. EBITDA for the first nine months of 2004 was \$17.5 million compared to a negative \$12.9 million for the first nine months of 2003. Income from operations increased to \$3.3 million compared to a loss from operations in the prior year of \$21.8 million. For the nine months ended September 30, 2004, I/O recorded a net loss of \$1.3 million, or (\$0.02) per share, compared to a net loss of \$23.8 million, or \$(0.46) per share in the prior year.

#### OUTLOOK

The following statements are based on our current expectations. These statements are forward looking and actual results may differ materially. Factors affecting these forward-looking statements are detailed below.

Mr. Peebler stated, "Looking at 2004 to date, I/O has accomplished a great deal. We have launched two major next-generation product lines on time and continue to increase market penetration of our full-wave VectorSeis technology. VectorSeis sales are expected to grow in both the land and marine environments as acceptance of this

new technology continues. The additions of GX Technology and Concept Systems have added the necessary key pieces we needed to build a seismic solutions company. While we have a lot more work to do, these are major steps in the first year of our plan."

Mike Kirksey, Executive Vice President and Chief Financial Officer, added, "Based on our current view of fourth quarter orders in the pipeline and our judgment on expected shipments, we expect 2004 revenues to range between \$260 and \$270 million. Much of our projected top line growth in the fourth quarter is expected to come from continued market penetration of our new field acquisition systems and continued growth of GX Technology's Integrated Seismic Solutions offering. We expect full year 2004 gross margin to be approximately 30% and EBITDA to range between \$30 and \$35 million. Excluding the Russian reserve, we expect earnings per share to range between \$0.14 and \$0.20 for 2004. As a result, for the fourth quarter of 2004, we expect revenues to range between \$80 and \$90 million and earnings per share to range between \$0.08 and \$0.14."

33. The statements contained in ¶¶ 25-32 were materially false and misleading when made because failed to disclose or indicate the following: (1) that the integration of GXT and I/O was a significant failure; (2) that in contract to I/O representations, GXT project pipeline lacked in volume; (3) that, in addition to the Company as a whole, I/O's business development group, within the ISG group, was suffering from poor management execution; (4) that Company's internal growth, due to poor management execution, remained stagnant irregardless of managements assertions otherwise; and (5) that as a result of the above, the defendants statements about the Company were lacking in any reasonable basis when made.

#### **The Truth Begins to Emerge**

34. On January 4, 2005, I/O issued a press release wherein it announced that fourth quarter results would be significantly below the low end of the Company's guidance of \$0.08 per share primarily because two high margin GXT data library sales were not completed as expected.

Additionally, I/O announced 2005 earnings guidance in the range of \$0.15 to \$0.40 per share.

Commenting on this, defendant Peebler stated:

"Events in the last two weeks of 2004 significantly affected our fourth quarter expectations. A customer involved in a year-end acquisition imposed a freeze on spending while the approval process of another customer extended the transaction into 2005. These two significant GXT transactions were in our original forecast and amounted to approximately \$10 million in revenue and earnings per share of \$0.10. These events could result in the Company incurring a loss for the quarter.

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Integration of two major acquisitions has proved more challenging than expected. Specifically, GXT fourth quarter income was highly dependent on data sales in contrast to their historically balanced mix of data acquisition projects, data processing and data sales. We look forward to 2005 with a growing backlog of client projects and expansion in our proprietary processing business, which should give us a more balanced portfolio with less dependency on data sales. In general, we have seen less year-end spending in the geophysical area by the larger oil companies than expected but are seeing positive indications of increases in planned spending in 2005.

While our earnings have fallen short for the last half of 2004, we continue to make progress on the foundation of our business. Regarding GXT, we have made significant strides related to supporting VectorSeis Full Wave processing and other strategic goals that over time we believe will be proven out by our business results. We enter 2005 with the expectation to deliver profitable growth across our business lines and, as importantly, make significant progress in introducing our new technologies including VectorSeis Full Wave[.]"

35. News of this shocked the market. Shares of I/O fell \$1.41 per share, or about 17 percent, to close at \$6.90 per share on usually high trading volume.

#### **UNDISCLOSED ADVERSE FACTS**

36. The market for I/O's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, I/O's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired I/O securities relying upon the integrity of the market price of I/O's securities and market information relating to I/O, and have been damaged thereby.

37. During the Class Period, defendants materially misled the investing public, thereby inflating the price of I/O's securities, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

38. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about I/O's business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of I/O and its business, prospects and operations, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in plaintiff and other members

of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein.

#### **ADDITIONAL SCIENTER ALLEGATIONS**

39. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding I/O, their control over, and/or receipt and/or modification of I/O allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning I/O, participated in the fraudulent scheme alleged herein.

40. Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public. The ongoing fraudulent scheme described in this complaint could not have been perpetrated over a substantial period of time, as has occurred, without the knowledge and complicity of the personnel at the highest level of the Company, including the Individual Defendants.

41. Additionally, during the Class Period, defendant Lambert sold, on November 4, 2004, 225,548 at \$7.167 per share for gross proceeds of \$1,616,502.52.

42. Moreover, the Company was able to complete a \$141 million offering and complete a stock acquisition of GXT during the Class Period.

**Applicability Of Presumption Of Reliance:  
Fraud-On-The-Market Doctrine**

43. At all relevant times, the market for I/O securities was an efficient market for the following reasons, among others:

(a) I/O stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, I/O filed periodic public reports with the SEC and the NYSE;

(c) I/O regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) I/O was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

44. As a result of the foregoing, the market for I/O securities promptly digested current information regarding I/O from all publicly-available sources and reflected such information in I/O stock price. Under these circumstances, all purchasers of I/O securities during the Class Period suffered similar injury through their purchase of I/O securities at artificially inflated prices and a presumption of reliance applies.

**NO SAFE HARBOR**

45. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of I/O who knew that those statements were false when made.

**FIRST CLAIM**  
**Violation Of Section 10(b) Of**  
**The Exchange Act Against And Rule 10b-5**  
**Promulgated Thereunder Against All Defendants**

46. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

47. During the Class Period, defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase I/O securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

48. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for I/O securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

49. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of I/O as specified herein.

50. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of I/O value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about I/O and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of I/O securities during the Class Period.

51. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or

directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of his responsibilities and activities as a senior officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of and had access to other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

52. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing I/O operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by defendants' overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

53. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of I/O securities was

artificially inflated during the Class Period. In ignorance of the fact that market prices of I/O publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the securities trades, and/or on the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by defendants during the Class Period, Plaintiff and the other members of the Class acquired I/O securities during the Class Period at artificially high prices and were damaged thereby.

54. At the time of said misrepresentations and omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that I/O was experiencing, which were not disclosed by defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their I/O securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

55. By virtue of the foregoing, defendants have violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

56. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

**SECOND CLAIM**  
**Violation Of Section 20(a) Of**  
**The Exchange Act Against the Individual Defendants**

57. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

58. The Individual Defendants acted as controlling persons of I/O within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contend are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

59. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

60. As set forth above, I/O and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and other members

of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

**WHEREFORE**, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

(b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

Dated:

**HOEFFNER & BILEK, L.L.P.**

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