INPUT OUTPUT INC
Form 10-Q/A
June 05, 2006

Table of Contents

FORM 10-Q/A
(Amendment No. 1)
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
COMMISSION FILE NUMBER 1-12691
INPUT/OUTPUT, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (State or other jurisdiction of incorporation or organization)	22-2286646 (I.R.S. Employer Identification No.)
12300 PARC CREST DR., STAFFORD, TEXAS (Address of principal executive offices)	77477 (Zip Code)

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (281) 933-3339

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: þ No: o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

At July 28, 2005, there were 78,969,036 shares of common stock, par value $0.01 per share, outstanding.

Table of Contents

INPUT/OUTPUT, INC. AND SUBSIDIARIES
EXPLANATORY NOTE

This Form 10-Q/A (Amendment No. 1) amends our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, as initially filed with the Securities and Exchange Commission (the SEC) on August 15, 2005, and is being filed to reflect the restatement of our consolidated financial statements for the quarterly period ended June 30, 2005, as discussed in Note 1 of the Notes to Unaudited Consolidated Financial Statements contained herein. The restatements were necessitated principally due to an incorrect application of accounting principles for revenue recognition by the company s GX Technology Corporation subsidiary in connection with license sales of its multi-client seismic survey data. On March 16, 2006, we announced that our previously reported consolidated financial statements as of and for the three and six months ended June 30, 2005 and the year ended December 31, 2004 should no longer be relied upon. Also, we included in our restated balance sheet at June 30, 2005 a deferred tax liability and a corresponding increase in goodwill related to the book and tax differences between the acquired intangible assets of Concept Systems, in addition to its deferred income tax expense impact on our results of operations for the three and six months ended June 30, 2005. The consolidated financial information contained in this Form 10-Q/A as of and for the three and six months ended June 30, 2005 reflects our restated results of operations for that three and six month period. Our consolidated balance sheet at December 31, 2004 has been updated to reflect the restatements and reclassifications as previously reported in our Annual Report on Form 10-K for the year ended December 31, 2005 as filed with the SEC on March 31, 2006. Our consolidated statement of cash flows for the six months ended June 30, 2005 has been restated resulting in changes within cash flows from operating activities, but no change to net cash used in operating activities. For additional information concerning the restatements, the accounting periods affected and the impact on the company s results of operations and financial condition, see Note 1 of Notes to Unaudited Consolidated Financial Statements and Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-Q/A.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), new certifications of our principal executive officer and principal financial officer are being filed as exhibits to this Form 10-Q/A under Item 6 of Part II. For purposes of this Form 10-Q/A, and in accordance with Rule 12b-15 under the Exchange Act, each item in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 that was affected by this Amendment No. 1 has been amended and replaced in its entirety. No attempt has been made in this Form 10-Q/A to modify or update other disclosures as presented in the original Form 10-Q, except as required to reflect such amendments. This Amendment No. 1 does not reflect events, other than those relating to the restatements, that have occurred after August 15, 2005, the date the Quarterly Report on Form 10-Q was originally filed, except that the information and disclosure contained in Part I, Item 4. Controls and Procedures has been brought current to the date of this filing. Information with respect to events occurring after August 15, 2005 has been or will be set forth, as appropriate, in our subsequent periodic filings, including our Quarterly Reports on Form 10-Q and Form 10-Q/A, and Current Reports on Form 8-K. Any reference to facts and circumstances at a current date refer to such facts and circumstances as of such original filing date.

TABLE OF CONTENTS FOR FORM 10-Q/A
AMENDMENT NO. 1 TO FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2005

Table of Contents

INPUT/OUTPUT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2005 (Restated)	December 31, 2004 (Restated)
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,413	$ 14,935
Restricted cash	1,645	1,592
Accounts receivable, net	72,816	61,598
Current portion of notes receivable, net	10,185	10,784
Unbilled revenue	9,954	7,309
Inventories	83,877	86,659
Prepaid expenses and other current assets	12,964	7,974
Total current assets	211,854	190,851
Notes receivable	2,462	4,143
Non-current deferred income tax asset	1,113	1,113
Property, plant and equipment, net	28,555	46,051
Multi-client data library, net	9,233	10,025
Investments at cost	4,000	3,500
Goodwill	154,890	152,958
Intangible and other assets, net	70,596	77,453
Total assets	$ 482,703	$ 486,094
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt and lease obligations	$ 3,648	$ 6,564
Accounts payable	24,479	40,856
Accrued expenses	25,727	26,116
Deferred revenue	10,334	15,081
Deferred income tax liability	1,113	1,113
Total current liabilities	65,301	89,730
Long-term debt and lease obligations, net of current maturities	70,544	79,387
Non-current deferred income tax liability	5,078	5,529
Other long-term liabilities	4,561	2,688
Total liabilities	145,484	177,334
Cumulative convertible preferred stock	29,779	
Stockholders equity:		

Common stock, $0.01 par value; authorized 200,000,000 shares; outstanding 78,881,989 shares at June 30, 2005 and 78,561,675 shares at December 31, 2004, net of treasury stock	798	795
Additional paid-in capital	481,801	480,845
Accumulated deficit	(168,325)	(167,151)
Accumulated other comprehensive income	363	2,332
Treasury stock, at cost, 778,391 shares at June 30, 2005 and 784,009 shares at December 31, 2004	(5,777)	(5,844)
Unamortized restricted stock compensation	(1,420)	(2,217)
Total stockholders equity	307,440	308,760
Total liabilities and stockholders equity	$ 482,703	$ 486,094

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

INPUT/OUTPUT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 (Restated)	2004	2005 (Restated)	2004
	(In thousands, except per share data)			
Net sales	$ 90,167	$ 62,326	$ 152,209	$ 98,614
Cost of sales	62,204	41,183	113,372	65,503
Gross profit	27,963	21,143	38,837	33,111
Operating expenses (income):				
Research and development	4,779	4,722	9,334	8,505
Marketing and sales	7,522	5,016	15,009	8,314
General and administrative	6,494	5,852	12,799	10,545
Loss (gain) on sale of assets	81	(47)	76	(896)
Total operating expenses	18,876	15,543	37,218	26,468
Income from operations	9,087	5,600	1,619	6,643
Interest expense	(1,615)	(1,497)	(3,359)	(2,993)
Interest income	193	290	264	758
Other income	24	140	65	158
Income (loss) before income taxes	7,689	4,533	(1,411)	4,566
Income tax expense (benefit)	363	347	(852)	938
Net income (loss)	7,326	4,186	(559)	3,628
Preferred dividend	422		616	
Net income (loss) applicable to common shares	$ 6,904	$ 4,186	$ (1,175)	$ 3,628
Basic net income (loss) per common share	$ 0.09	$ 0.07	$ (0.01)	$ 0.07
Weighted average number of common shares outstanding	78,745	57,074	78,694	54,596
Diluted net income (loss) per common share	$ 0.08	$ 0.07	$ (0.01)	$ 0.07
Weighted average number of diluted common shares outstanding	93,565	71,425	78,694	55,005

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

INPUT/OUTPUT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2005 (Restated)	Six Months Ended June 30, 2004
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (559)	$ 3,628
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization (other than multi-client library)	13,004	5,811
Amortization of multi-client library	4,565	610
Amortization of restricted stock and other stock compensation	922	112
Reduction of tax reserves	(1,303)	
Deferred income taxes	(158)	
Bad debt expense	457	297
Loss (gain) on sale of fixed assets	76	(896)
Change in operating assets and liabilities:		
Accounts and notes receivable	(9,895)	(18,924)
Unbilled revenue	(2,645)	(1,076)
Inventories	6,722	(6,083)
Accounts payable and accrued expenses	(17,917)	7,148
Deferred revenue	(5,058)	4,588
Other assets and liabilities	(5,670)	473
Net cash used in operating activities	(17,459)	(4,312)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(2,462)	(1,722)
Investment in multi-client data library	(3,763)	
Proceeds from the sale of fixed assets	30	1,588
Proceeds from collection of long-term note receivable		5,800
Business acquisition		(174,999)
Cash of acquired businesses		2,193
Investment at cost	(500)	
Liquidation of Energy Virtual Partners, Inc.		117
Net cash used in investing activities	(6,695)	(167,023)
Cash flows from financing activities:		
Borrowings under revolving line of credit	2,057	
Payments on notes payable, long-term debt and lease obligations	(3,965)	(2,165)
Net proceeds from issuance of common stock		150,066
Net proceeds from preferred stock offering	29,779	
Payment of preferred dividends	(616)	

Return of deposit securing a letter of credit	1,500	
Proceeds from employee stock purchases and exercise of stock options	1,148	408
Purchases of treasury stock	(81)	(79)
Net cash provided by financing activities	29,822	148,230
Effect of change in foreign currency exchange rates on cash and cash equivalents	(190)	(337)
Net increase (decrease) in cash and cash equivalents	5,478	(23,442)
Cash and cash equivalents at beginning of period	14,935	59,507
Cash and cash equivalents at end of period	$ 20,413	$ 36,065

See accompanying Notes to Unaudited Consolidated Financial Statements.

6

INPUT/OUTPUT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation and Restatement

The consolidated balance sheet of Input/Output, Inc. and its subsidiaries (collectively referred to as the Company or I/O) at December 31, 2004 (restated see below) has been derived from the Company s audited consolidated financial statements at that date. The consolidated balance sheet at June 30, 2005 (restated see below), the consolidated statements of operations for the three and six months ended June 30, 2005 (restated see below) and 2004, and the consolidated statements of cash flows for the six months ended June 30, 2005 (restated see below) and 2004 have been prepared by the Company without audit. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2005 (restated see below) are not necessarily indicative of the operating results for a full year or of future operations.

These consolidated financial statements have been prepared using accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States have been omitted. The accompanying consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2005, which reflects the restatement of the consolidated financial statements as of and for the year ended December 31, 2004. Certain amounts previously reported in the consolidated financial statements have been reclassified to conform to the current period s presentation.

Restatement of Consolidated Financial Statements as of and for the Three and Six Months Ended June 30, 2005

The Company s consolidated balance sheet at June 30, 2005 and December 31, 2004 and the consolidated statements of operations for the three and six months ended June 30, 2005 and the consolidated statement of cash flows for the six months ended June 30, 2005 have been restated as a result of incorrect application of accounting principles for revenue recognition by the Company s subsidiary, GX Technology Corporation (GXT), in connection with license sales of GXT s multi-client seismic survey data. The Company has included in its restated balance sheet at June 30, 2005 and December 31, 2004 a deferred tax liability and a corresponding increase in goodwill related to book and tax differences of the intangible assets of its Concept Systems Holding Limited (Concept Systems) subsidiary, which had been acquired by the Company in 2004, in addition to its deferred income tax expense impact on the Company s results of operations for the three and six months ended June 30, 2005. Also, the Company s balance sheet at December 31, 2004 has been updated to reflect the restatements and reclassifications as previously reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 as filed with the SEC on March 31, 2006.

GXT was acquired by the Company in June 2004; therefore, GXT s internal control over financial reporting was excluded from management s assessment of the Company s internal control over financial reporting as of December 31, 2004. In the process of assessing GXT s internal controls in connection with the preparation of the 2005 consolidated financial statements the Company determined that GXT s policies and procedures for timing of recognizing revenue generated from licenses of multi-client seismic survey data were not in accordance with generally accepted accounting principles. The Company determined that the revenues from certain GXT multi-client data transactions in 2004 and the first three quarters of 2005 were recognized by GXT upon the signing of customer letter agreements and delivery of the multi-client data, but prior to the receipt from the customer of a signed final master geophysical data license agreement and accompanying license supplement. As there was not adequate evidence of a final license arrangement, the Company determined that the revenue from these transactions should not have been recognized by GXT until delivery of the data to the customer and the receipt from the customer of a signed final master geophysical data license agreement and accompanying license supplement.

Table of Contents

A summary of the restatements included in this amended filing are the following:

	As Previously Reported	Adjustments	As Restated
	(In thousands, except share and per share data)		
Balance Sheet as of June 30, 2005:			
Unbilled revenue	$ 12,854	$ (2,900)	$ 9,954
Total current assets	214,754	(2,900)	211,854
Non-current deferred income tax asset		1,113	1,113
Multi-client data library, net	9,542	(309)	9,233
Goodwill	148,998	5,892	154,890
Intangible and other assets, net	71,050	(454)	70,596
Total assets	479,361	3,342	482,703
Accrued expenses	25,942	(215)	25,727
Deferred revenue	7,924	2,410	10,334
Deferred income tax liability		1,113	1,113
Total current liabilities	61,993	3,308	65,301
Non-current deferred income tax liability		5,078	5,078
Total liabilities	137,098	8,386	145,484
Accumulated deficit	(163,081)	(5,244)	(168,325)
Accumulated other comprehensive (loss) income	163	200	363
Total stockholders equity	312,484	(5,044)	307,440
Total liabilities and stockholders equity	479,361	3,342	482,703
Statement of Operations for the three months ended June 30, 2005:			
Net sales	$ 84,024	$ 6,143	$ 90,167
Cost of sales	60,600	1,604	62,204
Gross profit	23,424	4,539	27,963
Marketing and sales	7,281	241	7,522
Total operating expenses	18,635	241	18,876
Income from operations	4,789	4,298	9,087
Income before income taxes	3,391	4,298	7,689
Income tax expense (benefit)	521	(158)	363
Net income (loss)	2,870	4,456	7,326
Net income (loss) applicable to common shares	2,448	4,456	6,904
Basic net income (loss) per common share	0.03	0.06	0.09
Diluted net income (loss) per common share	0.03	0.05	0.08
Weighted average number of diluted common shares outstanding	79,676	13,889	93,565
Statement of Operations for the six months ended June 30, 2005:			
Net sales	$ 150,861	$ 1,348	$ 152,209
Cost of sales	112,298	1,074	113,372
Gross profit	38,563	274	38,837
Marketing and sales	14,967	42	15,009
Total operating expenses	37,176	42	37,218
Income from operations	1,387	232	1,619

Income (loss) before income taxes	(1,643)	232	(1,411)
Income tax expense (benefit)	(694)	(158)	(852)
Net income (loss)	(949)	390	(559)
Net income (loss) applicable to common shares	(1,565)	390	(1,175)
Basic and diluted net income (loss) per common share	(0.02)	0.01	(0.01)
Statement of Cash Flows for the six months ended June 30, 2005:			
Net income (loss)	$ (949)	$ 390	$ (559)
Amortization of multi-client library	3,793	772	4,565
Deferred income taxes		(158)	(158)

8

Table of Contents

	As Previously Reported	Adjustments	As Restated
	(In thousands, except share and per share data)		
Unbilled revenue	(5,545)	2,900	(2,645)
Accounts payable and accrued expenses	(18,261)	344	(17,917)
Deferred revenue	(810)	(4,248)	(5,058)
Balance Sheet as of December 31, 2004:			
Non-current deferred income tax asset	$ 480	$ 633	$ 1,113
Multi-client data library, net	9,572	453	10,025
Goodwill	147,066	5,892	152,958
Total assets	479,116	6,978	486,094
Accrued expenses	26,686	(570)	26,116
Deferred revenue	8,423	6,658	15,081
Deferred income tax liability		1,113	1,113
Total current liabilities	82,529	7,201	89,730
Non-current deferred income tax liability		5,529	5,529
Total liabilities	164,604	12,730	177,334
Accumulated deficit	(161,516)	(5,635)	(167,151)
Accumulated other comprehensive income (loss)	2,449	(117)	2,332
Total stockholders equity	314,512	(5,752)	308,760
Total liabilities and stockholders equity	479,116	6,978	486,094

(2) Summary of Significant Accounting Policies and Estimates

Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2004 for a complete discussion of the Company s significant accounting policies and estimates.

In the first quarter of 2005, the Company determined that the estimated useful economic life of its multi-client data library is four years from the date a multi-client data library becomes available for commercial sale. Prior to the first quarter of 2005, the estimated useful life of a multi-client data library once it became available for commercial sale was two years for 2-D projects and three years for 3-D projects. Therefore, the Company s method of amortizing the costs of a multi-client data library available for commercial sale is the greater of (i) the percentage of actual revenue to the total estimated revenue multiplied by the estimated total cost of the project or (ii) the straight-line basis over a four-year period. The change in estimate was determined based upon the further historical experience of GXT in marketing and selling its multi-client data libraries, in addition to a review of industry standards regarding such useful economic lives. The change did not have a material impact to the Company s results of operations during the six months ended June 30, 2005.

(3) Pro Forma Results of Acquisitions

In June 2004, the Company purchased all the equity interest of GXT, and in February 2004, the Company purchased all the share capital of Concept Systems. The consolidated results of operations of the Company include the results of GXT and Concept Systems from the dates of acquisition. The following summarized unaudited pro forma consolidated income statement information for the three and six months ended June 30, 2004, assumes that the GXT and Concept Systems acquisitions had occurred as of the beginning of the period presented. The Company has prepared these unaudited pro forma financial results for comparative purposes only. These unaudited pro forma financial results may not be indicative of the results that would have occurred if the Company had completed the acquisitions as of the beginning of the period presented or the results that will be attained in the future.

The Company has adjusted these pro forma income statements as a result of the final purchase price studies which were completed in the fourth quarter of 2004. In addition, during the second quarter of 2005 the Company discovered that royalty expenses incurred by GXT related to its multi-client data library had not been properly recorded in the first quarter of 2005. See Item 4. Controls and Procedures for further discussion of the procedures implemented during the second quarter of 2005 that discovered these errors. As a result of these errors, the Company restated its financial statements for the three months ended March 31, 2005. The pro forma information for the three and six month periods ended June 30, 2004 are also being restated to give effect to a correction of the royalty expense of that pre-acquisition period. Amounts presented below are in thousands, except for the per share amounts:

Table of Contents

	As Previously Reported Pro forma Three Months Ended June 30, 2004	Adjustment	Pro forma Three Months Ended June 30, 2004	As Previously Reported Pro forma Six Months Ended June 30, 2004	Adjustment	Pro forma Six Months Ended June 30, 2004
Net sales	$ 74,915	$	$ 74,915	$ 132,677	$	$ 132,677
Income from operations	$ 3,573	$ (401)	$ 3,172	$ 5,064	$ (454)	$ 4,610
Net income applicable to common shares	$ 1,979	$ (446)	$ 1,533	$ 3,158		