INPUT OUTPUT INC
Form S-3
May 10, 2004

Table of Contents

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Input/Output, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**22-2286646**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

12300 Parc Crest Drive

Stafford, Texas 77477
(281) 933-3339
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Offices)

David L. Roland, Esq.
Vice President General Counsel and Corporate Secretary
Input/ Output, Inc.
12300 Parc Crest Drive
Stafford, Texas 77477
(281) 933-3339
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Marc H. Folladori, Esq. **Fulbright & Jaworski L.L.P.** **1301 McKinney, Suite 5100** **Houston, Texas 77010** **(713) 651-5151**	**G. Michael O Leary, Esq.** **David C. Buck, Esq.** **Andrews Kurth LLP** **600 Travis, Suite 4200** **Houston, Texas 77002** **(713) 220-4200**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered(1)**	**Proposed Maximum Offering Price Per Unit**	**Proposed Maximum Aggregate Offering Price(1)**	**Amount of Registration Fee**
Common Stock, par value $.01 per share (including the associated preferred stock purchase rights)	17,600,000	$7.58(1)	$133,408,000	$16,903

(1) Estimated pursuant to Rule 457(c) under the Securities Act of 1933, as amended (the Securities Act) solely for the purpose of calculating the registration fee, based upon the average of the high and low sales prices of the Registrant s common stock on May 7, 2004, as reported by the New York Stock Exchange.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)
Issued May 10, 2004

Shares

COMMON STOCK

We are offering shares. The selling stockholders, none of whom are our directors, officers, employees or their affiliates, are offering shares.

Our common stock is listed on the New York Stock Exchange under the symbol IO. On May 7, 2004, the reported last sale price of our common stock on the New York Stock Exchange was $7.58 per share.

On May 10, 2004, we agreed to acquire all of the outstanding capital stock of GX Technology Corporation. Completion of this offering is conditioned upon our closing of the acquisition of GX Technology Corporation. See Risk Factors Risks Related to Our Planned Acquisition of GXT.

Investing in our common stock involves risks. See Risk Factors beginning on page 16.

PRICE $ A SHARE

	Price to Public	**Underwriting Discounts and Commissions**	**Proceeds to Input/Output, Inc.**	**Proceeds to Selling Stockholders**
Per Share	$	$	$	$
Total	$	$	$	$

We have granted the underwriters the right to purchase up to an additional shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares to purchasers on , 2004.

MORGAN STANLEY

JOHNSON RICE & COMPANY L.L.C. *SANDERS MORRIS HARRIS*

, 2004

TABLE OF CONTENTS

You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, offering to sell shares of common stock or seeking offers to buy shares of common stock in any jurisdiction where offers and sales are not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock offered hereby. As used in this prospectus, Input/ Output, I/ O, company, we, our, ours and us refer t Output, Inc. and its consolidated subsidiaries, except where the context otherwise requires or as otherwise indicated.

i

Table of Contents

PROSPECTUS SUMMARY

This summary highlights selected information about us, this offering and our acquisition of GX Technology Corporation (GXT) contained elsewhere in this prospectus and the documents incorporated by reference. This summary is not complete and may not contain all of the information that is important to you. We encourage you to read this prospectus, including the information under the caption Risk Factors, the information we incorporate by reference, and the documents to which we refer you in their entirety.

Company Overview

We are a leading provider of seismic imaging technology used by oil and gas companies and seismic contractors for exploration, appraisal, development and reservoir monitoring in both land and marine environments. We add value for our customers by providing technologies and services to collect seismic data and develop geophysical images to find, develop and extract hydrocarbons more quickly and economically. We offer a full suite of related products and services for seismic data acquisition and processing without owning vessels or maintaining crews typically used in the field to acquire seismic data.

Our strategy is to be the leading company in delivering cost-effective seismic imaging technologies, from designing and planning seismic surveys to acquiring and processing seismic data which we refer to as the seismic value chain. Through recent acquisitions, we have implemented our strategy to reposition our business from being primarily an equipment and technology provider to offering our customers full-seismic imaging solutions. We believe our technologies and solutions will improve exploration and production economics for the energy industry. Our seismic data acquisition products are well suited for both traditional three-dimensional (3-D) and time-lapse, or four-dimensional (4-D), data collection as well as more advanced multi-component or full-wave seismic data collection techniques. Based on historical revenues, we believe that we are a market leader in numerous product lines, such as geophones, navigation and data management software and marine positioning systems. Through our AXIS business unit, we also offer advanced seismic data processing and imaging services, with a particular focus on land environments.

On February 23, 2004, we acquired Concept Holdings Systems Limited. Concept Systems, based in Scotland, is a leading provider of integrated planning, navigation and data management software and solutions for towed streamer, seabed and land seismic operations. Its software is installed on the majority of towed streamer marine vessels worldwide and has rapidly become an integral component of redeployable and permanent seabed monitoring systems. Concept Systems also offers services to assist oil and gas companies in implementing 4-D seismic programs to permanently monitor hydrocarbon reservoirs. Its software and services will complement our marine control and positioning equipment and VectorSeis digital sensor technologies. This acquisition will also extend our services offering to the design and optimization of 4-D reservoir monitoring (or life-of-field) seismic projects. See Recent Developments below for a further description of the Concept Systems acquisition.

Table of Contents

Planned Acquisition of GXT

On May 10, 2004, we entered into a stock purchase agreement with GXT and its stockholders to acquire all of the outstanding capital stock of GXT, a leading provider of seismic data processing and subsurface imaging services to oil and gas companies. GXT is focused on marine environments and specializes in providing customized imaging solutions utilizing GXT s expertise in computer processing technology. The scope of GXT s products and services has expanded over time in response to increased demand from its customers for enhanced technologies. Revenues have grown from $18.0 million for the year ended June 30, 2001 to $41.0 million for the year ended June 30, 2003. Income from operations for the same periods increased from $1.0 million to $6.2 million. During 2003, GXT expanded its business to include full-scope seismic services through its Integrated Seismic Solutions (ISS) offering and related services. This expanded offering of products and services resulted in continued revenue and earnings growth. For the nine months ended March 31, 2004 GXT s revenues grew to $47.2 million, a 58% increase compared to the same period during its prior fiscal year. Income from operations grew 55% to $7.2 million over the same period. GXT s EBITDA for the nine months ended March 31, 2004 was $17.6 million, reflecting continued growth across all product and service lines. See Reconciliation of Non-GAAP Financial Data on page 14. We expect to complete the GXT acquisition concurrently with the completion of this offering.

Anticipated Benefits of GXT Acquisition

We believe that the acquisition of GXT will provide us with several strategic benefits:

More Balanced Position in the Seismic Value Chain. The GXT acquisition will solidify our transition from primarily manufacturing seismic data collection equipment to providing full-scope seismic technology solutions. In addition, the GXT acquisition will strengthen our expertise and capabilities at each technology link in the seismic value chain, from survey planning and design to data collection management and pre-processing to image development. This broader, more technology-focused and seismic-oriented presence will enable us to deliver additional integrated, full-service imaging solutions to our customers. Additionally, we expect that the more consistent service-based revenue streams from GXT s business will lessen the historical volatility in our revenues from original equipment manufacturing.

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

Accelerated Development of Imaging Solutions. GXT s advanced imaging technology, particularly pre-stack depth and time migration solutions, as well as its experience in deep marine environments, complements the advanced velocity imaging technology and experience in land environments that we have developed in our AXIS group. GTX s pre-stack depth migration solutions involve advanced processing techniques to convert seismic wave time-based information to depth-based information. This conversion to depth-based data is relied upon by geologists to more accurately map subsurface structures. GXT s pre-stack depth migration techniques are well suited for complex hydrocarbon reservoirs and deeper drilling targets. The accurate time-to-depth conversion that GXT s techniques feature is important in processing digital, full-wave data from next-generation sensors, including our VectorSeis sensors. We believe that the combination of our technologies, bases of experience and technology development teams will enable us to accelerate our seismic technology development and advance our capabilities to provide improved digital full-wave imaging solutions.

Enhanced Ability to Service the Full Reservoir Life Cycle. The GXT acquisition will improve our ability to provide seismic imaging solutions throughout the life cycle of an oil or natural gas reservoir. The combination of our digital seismic data collection and monitoring technology and AXIS processing and imaging capabilities, when combined with GXT s advanced processing and imaging expertise, will improve our ability to extend the use of our seismic services across the productive life of the reservoir.

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

Transaction Structure

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

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

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

The completion of the GXT acquisition is subject to a number of conditions, including the absence of a material breach by either party of its respective representations or covenants contained in the purchase agreement, the absence of a material adverse effect on either party and the delivery

Table of Contents

of legal opinions and other documentation on behalf of each party. In addition, the transaction will not close until the waiting period required under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended, has expired or been terminated. The parties have the right to terminate the GXT acquisition if it is not completed by August 15, 2004. We may also terminate the transaction if we are unable to satisfy our financing requirements to fund the purchase price for the acquisition.

Our Strengths and Challenges

We believe our strengths include the following:

A Leader in Subsurface Imaging Technology. We believe that our technology is central to the development of digital full-wave imaging. We expect full-wave imaging to be the next generation of seismic data acquisition and processing. Combined with those of GXT, our proprietary technologies will include our:

VectorSeis digital sensors, which allow full-wave data acquisition on land, on the seabed and in-well, and which have been proven effective in nearly 100 field surveys worldwide;

processing services incorporating our AXIS subsidiary s AZIM processing technology, along with GXT s processing technologies, which, when combined with VectorSeis data, result in higher quality seismic images;

positioning and streamer control systems, which support accurate and repeatable surveys in marine applications; and

data management software, which facilitates the collection and integration of acquired data streams.

We believe we have a leading market share in a number of important seismic technologies, including digital sensors, geophones, navigation and data management software, positioning and streamer control systems and anisotropic processing.

Experienced Management. Our executive management team has extensive experience in the seismic technology and services industry. In April 2003, Robert P. Peebler became our Chief Executive Officer after serving as a member of our Board of Directors since 1999. Mr. Peebler has over 30 years experience in the oil and gas industry, during which he has focused most of his time on recognizing and commercializing new technology to enhance hydrocarbon exploration and production. To help lead the development and implementation of our seismic image-focused strategy, Mr. Peebler recruited several new senior executives to augment our management team, including Jorge Machnizh, Executive Vice President and Chief Operating Officer, J. Michael Kirksey, Executive Vice President and Chief Financial Officer, Chris Friedemann, Vice President Commercial Development, and Jim Hollis, Vice President Land Imaging Systems. In addition, Bjarte Fageraas, who served as our Vice President and Chief Technology Officer since 2001, has become Vice President Marine Imaging Systems. The Concept Systems acquisition further augmented our management team, adding Alastair Hay, Managing Director of Concept Systems, and Alan Faichney, Director of Technology of Concept Systems, among others. With the GXT acquisition, we intend for Mick Lambert, currently President and Chief Executive Officer of GXT, to continue to lead the GXT operations and join our senior management group. In addition, we will inherit an accomplished GXT management team with proven success in the development and commercial application of seismic processing technology.

Strategic Alliances with Oil Companies. In October 2003, we entered into a non-binding memorandum of understanding to form a strategic seismic technology alliance with Apache Corporation, a leading independent oil and gas exploration and production company. This alliance is designed to accelerate the adoption of our VectorSeis sensor and AZIM processing and imaging technologies while solving some of the more complex reservoir problems in Apache s global portfolio. We are pursuing similar strategic alliances with other oil and gas exploration and production companies. The collaborative relationships that GXT has established with oil and gas companies will contribute to these efforts.

Global Presence. We have resources and operations located in the historical North American oil and gas centers of Houston, New Orleans and Denver as well as key oil and gas centers around the world, including the Middle East, North Sea, Beijing and Moscow. This global presence gives us the local contacts necessary to be responsive with our growing international customer base. GXT adds to this capability with offices in Calgary, London and Aberdeen.

Despite these strengths, we continue to face a number of serious challenges in our business. We experienced operating losses for the years ended December 31, 2003 and 2002, the seven months ended December 31, 2000, and the years ended May 31, 2000 and 1999. As of December 31, 2003, we had an accumulated deficit of approximately $158.5 million. A number of factors have contributed to our operating losses, including a general downturn in the seismic equipment market, significant charges related to our restructuring activities and research and development expenditures.

Furthermore, our business is subject to numerous risks. Since our current strategy depends, to a large extent, on market acceptance of our VectorSeis products and other seismic technology, any actual or perceived failures in the performance or reliability of those products would negatively impact our sales and results of operations. In addition, our reliance on a relatively small number of significant customers has traditionally exposed us to risks related to customer concentration. For a discussion of the risks related to our business, please read Risk Factors beginning on page 16.

Our Strategy

Our goal is to integrate the next generation of sensors and processing technology into seismic imaging solutions that will enable oil and gas companies to more cost-effectively find and manage reservoirs throughout the production life cycle. We intend to do this by building on our current technology platforms through both internal development and selective acquisitions. In addition, we intend to use our technology to lower the cost and shorten the cycle times of seismic surveys by replacing labor-intensive processes with more efficient, technology-based systems. Specifically, we intend to:

Lead the Next Generation of Seismic Imaging Technology. The reservoir discovery and management process has grown increasingly challenging due to greater reservoir depths, more complex and subtle reservoir structures and the need to track fluid movements within hydrocarbon reservoirs. Conventional analog sensor and seismic processing technology has matured and proven unable to adequately meet these more difficult reservoir challenges. Our digital VectorSeis sensor captures significantly greater data than conventional analog sensors. We believe that using

Table of Contents

VectorSeis sensors in conjunction with the advanced processing techniques of AXIS and GXT generally produces more detailed, better quality seismic images than conventional seismic technology. We believe that these improved images will enable oil and gas companies to more economically find and develop the deeper and more geologically complex and subtle hydrocarbon fields that they are increasingly exploring and developing. We believe our integrated service and technology offerings across the seismic value chain and our digital sensor and full-wave processing technologies will position us as one of the leaders in subsurface imaging technologies.

Extend Our Seismic Imaging Solutions Across the Full Reservoir Life Cycle. In the past, seismic imaging has been used primarily to assist in hydrocarbon exploration, rather than in developing, or enhancing production from, a proven field. By comparing detailed images of the same reservoir at different points in time, oil and gas companies can track fluid movements and enhance production from a reservoir. We intend to leverage the strength of Concept Systems in designing and managing 4-D life-of-field projects to work with oil and gas companies to apply our seismic imaging technology to reservoir development and production, as well as exploration. These technologies will include processing services, such as those provided by GXT.

Reduce the Costs and Cycle Time of the Seismic Process. We intend to collaborate with oil and gas companies through survey planning, data acquisition, processing and image development in order to deliver seismic image solutions. We believe that there are efficiencies to be gained from integrating the process components and improving sequencing and outsourcing logistics, which should shorten the overall cycle time as well as reduce the overall cost of the seismic process to oil and gas companies.

Make Selective Acquisitions. We intend to pursue selective acquisitions of products and services that accelerate the adoption of our advanced seismic imaging products and services. We seek to acquire and integrate technologies and services that will expand our ability to provide next generation imaging services and products to oil and gas companies and seismic contractors throughout the life of a reservoir. We will continue to identify, evaluate and pursue acquisitions of products, services and organizations that are strategically important to us and our growth strategy. In February 2004, we acquired Concept Systems. We plan to complete the acquisition of GXT concurrently with the consummation of this offering. See Planned Acquisition of GXT above and Recent Developments below.

Expand Our Strategic Alliances. We intend to pursue strategic alliances with oil and gas exploration and production companies, which we believe will enable us to more effectively influence technology and equipment deployment in the seismic value chain. These alliances will also provide us with the opportunity to directly market our technology and services for use throughout the reservoir life cycle. Working directly with oil and gas companies will also provide us with valuable information to guide our product development efforts. Our strategic alliance with Apache Corporation is the first of these alliances that we are pursuing. We believe that GXT s collaborative relationships with oil and gas customers should help us develop other relationships. In addition, we intend to enhance our current relationships with seismic contractors.

Industry Overview

Oil and gas companies have traditionally used seismic data to reduce exploration risk by creating an image of the subsurface. Typically, an oil and gas company contracts with a geophysical

Table of Contents

logistics contracting company to acquire seismic data in a selected area. The contractor will often rely on third parties, such as I/ O, to provide the contractor with the technology and equipment necessary for data acquisition. After collection, either the geophysical contractor or another data processor processes the data through algorithms designed to create a seismic image. Geoscientists then interpret the data by reviewing the image and integrating known facts about the surrounding geology.

In recent years, two principal factors have negatively affected demand for seismic data by oil and gas companies: the maturation of 3-D data collection technology and the business model adopted by geophysical contractors to leverage large fixed investments in equipment. The advent of commercial 3-D seismic data collection in the 1980s caused a sharp increase in demand for seismic data as oil and gas companies sought to capitalize on the improved images from 3-D technology compared to those from 2-D technology. Recently, however, without advances beyond 3-D in imaging technology, oil and gas companies have not had a compelling reason to maintain a high rate of purchasing seismic surveys. Much of the current demand for conventional analog 3-D seismic surveys comes from areas where use of the technology was not quickly adopted, such as China and the Commonwealth of Independent States (CIS).

The traditional business model employed by geophysical contractors has also impacted demand. In an effort to achieve higher utilization of the large investments needed to conduct 3-D surveys, geophysical contractors increasingly began to collect speculative surveys for their own account as customer-requested demand for surveys declined. Contractors typically selected an area, acquired data using generic acquisition parameters and generic processing algorithms, capitalized the acquisition costs and sold the survey results to multiple parties. These general speculative surveys were not tailored to meet a particular request and caused an oversupply of seismic data. Additionally, since contractors incurred most of the costs of speculative seismic data at the time of acquisition, contractors lowered prices to recover as much of the fixed investment as possible which, in the process, drove margins down.

We believe that the demand for seismic services will increase. Accelerating global reservoir decline rates coupled with recent reserve writedowns have increased the pressure on oil and gas companies to discover additional reserves. We expect these increased exploration demands to drive increased demand for seismic technology and services. Additionally, oil and gas companies are focusing on deeper hydrocarbon reservoirs with more complex and more subtle structures, making development more challenging. As a result, oil and gas companies are increasingly using seismic data to enhance the development of and production from known fields. By repeating a seismic survey over a defined area, oil and gas companies can detect untapped areas of a reservoir and adjust their drilling program to optimize production. Such time-lapse seismic images are referred to as 4-D surveys and make seismic data relevant to the entire life cycle of the reservoir.

We also believe that oil and gas companies will increasingly value seismic technology providers who will collaborate with them to tailor surveys that address specific geophysical problems and to apply advanced digital sensor and imaging technologies that account for the geologic peculiarities of a specific area. We believe oil and gas companies will rely less on undifferentiated, mass seismic studies created using analog sensors and traditional processing technologies that do not adequately identify geologic complexities such as lithology and fluid properties.

Table of Contents

Recent Developments

In December 2003, we issued $60.0 million of convertible unsecured notes, which mature in December 2008 and bear interest at an annual rate of 5.5%, payable semi-annually. The notes, which are not redeemable by us prior to their maturity, are convertible into our common stock at an initial conversion rate of 231.4815 shares per $1,000 principal amount of notes (a conversion price of $4.32 per share), which represents approximately 13.9 million total common shares. A portion of the proceeds from the convertible notes offering was applied to repay the remaining $16.0 million outstanding indebtedness under an unsecured promissory note scheduled to mature on May 7, 2004, which bore interest at 13% per annum.

In accordance with the terms of a registration rights agreement we entered into with the initial purchaser of the convertible notes, we filed a registration statement with the SEC covering resales of the convertible notes and underlying shares of common stock that could be acquired on conversion. On April 30, 2004, this registration statement was declared effective. As a result, and subject to certain exceptions, the convertible notes and approximately 13.9 million shares of common stock that may be acquired on conversion of the convertible notes will become free of previously existing restrictions upon their resale under that registration statement.

On February 23, 2004, we purchased all of the share capital of Concept Systems in a privately negotiated transaction. The total purchase price was approximately $38.4 million in cash, including acquisition costs, and 1,680,000 shares of our common stock. On February 23, 2004, the last reported sale price of our common stock on the New York Stock Exchange was $6.41 per share. The cash used to acquire Concept Systems was primarily from the proceeds of our convertible notes offering completed in December 2003 and from general corporate funds. A portion of the cash component of the purchase price was used to pay down certain outstanding debt of Concept Systems totaling approximately $26.0 million. In connection with the acquisition, we granted to former Concept Systems securityholders certain demand and piggyback registration rights for the shares of our common stock issued in the transaction.

On April 28, 2004, we announced that Terra Seismic Services A/S, a seismic contractor headquartered in Oslo, Norway, had become the first customer to purchase our VectorSeis Ocean redeployable seabed system. Capable of operating in depths down to approximately 6,500 feet of water, this VectorSeis Ocean system will initially be deployed in the Gulf of Mexico to acquire data for use by a major integrated oil and gas company. We recognized revenue of approximately $3.1 million from this sale in the first quarter of 2004, and expect to receive additional revenues from Terra Seismic of approximately $12.0 million over the next 18 months.

Trademarks, Service Marks and Registered Marks

The information contained or incorporated by reference in this prospectus contains references to trademarks, service marks and registered marks of Input/ Output and our subsidiaries, as indicated. Except where stated otherwise or unless the context otherwise requires, the terms VectorSeis, Tescorp, DigiCourse and VectorSeis System Four re to our VectorSeis®, Tescorp®, DigiCourse® and VectorSeis System Four® registered marks, and the terms AZIM, True Digital, DigiShot, Applied MEMS, MRX, RSR, Vib Pro and Image refer to our AZIM™, True Digital™, DigiShot™, Applied MEMS™, MRX™, RSR™, Vib Pro™ and Image™ trademarks and service marks.

Table of Contents

Principal Executive Offices

Our principal executive offices are located at 12300 Parc Crest Drive, Stafford, Texas 77477. Our telephone number at that location is (281) 933-3339.

Table of Contents

THE OFFERING

Common stock offered by Input/ Output, Inc.	shares
Common stock offered by selling stockholders	shares
Total	shares
Common stock to be outstanding after this offering	shares
Over-allotment option	shares
Use of proceeds	The net proceeds we receive from this offering are expected to be used to pay a portion of the purchase price for the GXT acquisition. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders. See Use of Proceeds on page 30.
Dividend Policy	We do not expect to pay dividends on our shares of common stock for the foreseeable future.
New York Stock Exchange symbol	IO

The number of shares of common stock to be outstanding after this offering is based on 53,126,054 shares outstanding as of April 30, 2004 and, unless we indicate otherwise, excludes:

- 6,231,287 shares of common stock reserved for issuance under our stock option and stock incentive plans and agreements, of which options to purchase 5,719,131 shares at an average exercise price of $8.00 were outstanding as of April 30, 2004;
- 13,888,888 shares of common stock issuable upon conversion of our 5.5% senior convertible notes due 2008;
- shares of common stock issuable upon exercise of I/O stock options (estimated to be million options) granted in connection with the GXT acquisition; and
- shares of common stock that the underwriters have an option to purchase solely to cover over-allotments.

RISK FACTORS

In evaluating an investment in our common stock, prospective investors should carefully consider, along with the other information set forth in this prospectus, the specific factors set forth under Risk Factors beginning on page 16.

Table of Contents

SUMMARY FINANCIAL DATA

The following data (except pro forma data), insofar as they relate to each of the years in the three-year period ended December 31, 2003, have been derived from our audited consolidated financial statements, including the consolidated balance sheets at December 31, 2002 and 2003 and the related consolidated statements of operations and cash flows for the three years ended December 31, 2003 and the notes thereto, incorporated by reference into this prospectus. The following data (except pro forma data) relating to the three months ended March 31, 2003 and 2004 have been derived from our unaudited consolidated financial statements, including the consolidated balance sheet at March 31, 2004, and the consolidated statements of operations and of cash flows for the three months ended March 31, 2003 and 2004, and the notes thereto, incorporated by reference into this prospectus. With regards to the unaudited consolidated financial data as of and for the three months ended March 31, 2003 and 2004, in the opinion of our management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations for the three months ended March 31, 2004 are not necessarily indicative of our operating results for a full year or of our future operations.

The unaudited pro forma statement of operations data gives effect to this offering, the GXT acquisition and our initial borrowings under the New Credit Facility as if those transactions had been consummated on January 1, 2003. The unaudited pro forma balance sheet data give effect to this offering, the GXT acquisition and our initial borrowings under the New Credit Facility as if they had been consummated on March 31, 2004. The unaudited pro forma financial data are not necessarily indicative of operating results or financial position that would have been achieved had the GXT acquisition been consummated on the dates indicated and should not be construed as representative of future operating results or financial position. The following data should be read in conjunction with our historical audited and unaudited consolidated financial statements and the related notes thereto, which are incorporated by reference into this prospectus, the Unaudited Pro Forma Financial Statements beginning on page 36, and the historical consolidated financial statements and the related notes of GXT beginning on page F-3.

Summary Financial Data of Input/ Output

	Year Ended December 31,				Three Months Ended March 31,		
	2001	2002	2003	Pro Forma 2003	2003	2004	Pro Forma 2004
				(unaudited)		(unaudited)	
	(in thousands, except per share data)						
Statement of Operations Data[1] :							
Net sales	$212,050	$118,583	$150,033	$ 199,089	$41,177	$36,287	$56,109
Cost of sales	139,478	101,018	122,192	154,388	32,720	24,026	36,886
Gross profit	72,572	17,565	27,841	44,701	8,457	12,261	19,223
Operating expenses (income):							
Research and development	29,442	28,756	18,696	18,696	5,518	4,075	4,075
Marketing and sales	11,657	11,218	12,566	17,031	2,811	3,299	4,636
General and administrative	19,695	19,760	16,753	23,883	4,065	4,693	7,141
Gain on sale of assets						(850)	(850)
Amortization of goodwill	3,873						
Impairment of long-lived assets		6,274	1,120	1,120	1,120		
Goodwill impairment		15,122					
Total operating expenses	64,667	81,130	49,135	60,730	13,514	11,217	15,002

Table of Contents

	Year Ended December 31,				Three Months Ended March 31,		
	2001	2002	2003	Pro Forma 2003	2003	2004	Pro Forma 2004
				(unaudited)			
	(unaudited) (in thousands, except per share data)						
Income (loss) from operations	7,905	(63,565)	(21,294)	(16,029)	(5,057)	1,044	4,221
Interest expense	(695)	(3,124)	(4,087)	(7,413)	(1,345)	(1,496)	(2,351)
Interest income	4,685	2,280	1,903	1,903	591	469	469
Fair value adjustment and exchange of warrant obligation		3,252	1,757	1,757	871		
Impairment of investment			(2,059)	(2,059)			
Other income (expense)	574	(798)	976	976	249	16	16
Income (loss) before income taxes	12,469	(61,955)	(22,804)	(20,865)	(4,691)	33	2,355
Income tax expense	3,128	56,770	348	574	588	591	660
Net income (loss)	9,341	(118,725)	(23,152)	(21,439)	(5,279)	(558)	1,695
Preferred dividend	5,632	947					
Net income (loss) applicable to common shares	$ 3,709	$(119,672)	$(23,152)	$(21,439)	$ (5,279)	$ (558)	$ 1,695
Basic income (loss) per common share	$ 0.07	$ (2.35)	$ (0.45)	$ (0.34)	$ (0.10)	$ (0.01)	$ 0.03
Weighted average number of common shares outstanding	51,166	51,015	51,237	63,737	51,195	52,113	64,613
Diluted income (loss) per common share	$ 0.07	$ (2.35)	$ (0.45)	$ (0.34)	$ (0.10)	$ (0.01)	$ 0.03
Weighted average number of diluted common shares outstanding	52,309	51,015	51,237	63,737	51,195	52,113	67,027
Other Data:							
Capital expenditures	$ 9,202	$ 8,230	$ 4,587	$	$ 1,395	$ 675	$
Depreciation and amortization	17,535	13,237	11,444	20,663	3,574	2,422	7,242
EBITDA(2)	26,014	(47,874)	(9,176)	5,308	(363)	3,482	11,479

	As of December 31,		As of March 31, 2004	
	2002	2003	Actual	Pro Forma
	(in thous		ands) (unaudited)	
Balance Sheet Data:				
Working capital	$114,940	$133,467	$ 97,994	$ 83,100
Total assets	249,594	249,204	260,391	433,118
	2,142	2,687	2,168	7,108

Notes payable and current maturities of long-term debt				
Long-term debt, net of current maturities	51,430	78,516	78,033	114,512
Stockholders equity	152,486	133,764	143,733	253,234

(1) Our results of operations for the years ended December 31, 2001, 2002 and 2003, respectively, include specific charges (where applicable) as discussed in our Notes to Consolidated Financial Statements incorporated by reference into this prospectus.

(2) EBITDA represents our earnings (loss) before net interest expense, income taxes, and depreciation and amortization. See Reconciliation of Non-GAAP Financial Data on page 14.

Table of Contents

Summary Financial Data of GXT

The following data for each of the fiscal years of GXT ended June 30, 2002 and 2003, and the nine months ended March 31, 2003 and 2004, and as of June 30, 2002 and 2003 and March 31, 2004, have been derived from the historical financial statements of GXT and the related notes of GXT beginning on page F-3. With regard to the unaudited consolidated financial data as of and for the nine months ended March 31, 2003 and 2004, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations for the three months ended March 31, 2004 are not necessarily indicative of operating results for a full year or of future operations.

	Year Ended June 30,			Nine Months Ended March 31,	
	2001	2002	2003	2003	2004
		(in thousands)		(unaudited)	
Statement of Operations Data:					
Revenues	$18,017	$21,141	$41,019	$29,811	$47,157
Cost of revenues	10,689	13,048	24,571	17,533	29,929
Gross profit	7,328	8,093	16,448	12,278	17,228
Operating expenses:					
General and administrative	2,774	3,299	5,934	4,335	6,612
Sales and marketing	3,532	3,065	4,334	3,306	3,425
Total operating expenses	6,306	6,364	10,268	7,641	10,037
Income from operations	1,022	1,729	6,180	4,637	7,191
Interest expense	(662)	(530)	(723)	(517)	(665)
Income before income taxes	360	1,199	5,457	4,120	6,526
Income tax expense	21	233	826	623	2,359
Net income	$ 339	$ 966	$ 4,631	$ 3,497	$ 4,167
Other Data:					
EBITDA[(1)]	$ 2,557	$ 3,807	$12,878	$ 9,523	$17,605

	As of June 30,		As of March 31,
	2002	2003	2004
		(in thousands)	(unaudited)
Balance Sheet Data:			
Working capital	$ (666)	$ (7,708)	$(12,935)
Total assets	16,597	31,031	46,164
Line of credit and current maturities of long-term obligations	5,602	7,043	8,715
Long-term obligations	1,661	2,436	2,730
Redeemable preferred stock	10,446	10,446	10,446
Stockholders equity (deficit)	(6,953)	(3,158)	451

(1)

EBITDA represents GXT s earnings (loss) before interest expense, income taxes and depreciation and amortization. See Reconciliation of Non-GAAP Financial Data below.

Table of Contents

Reconciliation of Non-GAAP Financial Data

EBITDA is used as a supplemental financial measure by our management and by external users of financial statements to assess:

- the financial performance of assets without regard to financing methods, capital structures or historical cost basis;
- the ability of assets to generate cash sufficient to pay interest on our indebtedness; and
- operating performance and return on invested capital as compared to those of other companies in the seismic industry, without regard to financing methods and capital structure.

EBITDA has limitations as an analytical tool and should not be considered an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with generally accepted accounting principles (GAAP). EBITDA excludes some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Limitations to using EBITDA as an analytical tool include the following:

- EBITDA does not reflect cash expenditures or future requirements for capital expenditures or capital commitments;
- EBITDA does not reflect changes in, or cash requirements necessary to service interest or principal payments on, debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- other companies in the seismic industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of the non-GAAP financial measures of our and GXT s EBITDA to the most directly comparable GAAP financial measures on a historical basis and on a pro forma basis for each of the periods indicated.

I/O s EBITDA represents earnings (loss) before net interest expense, income taxes and depreciation and amortization. I/O s reconciliation of EBITDA to net income (loss) is as follows:

	Year Ended December 31,				Three Months Ended March 31,		
	2001	2002	2003	Pro Forma 2003	2003	2004	Pro Forma 2004
			(in thousands)			(unaudited)	
I/O Reconciliation of EBITDA to Net Income:							
Net income (loss)	$ 9,341	$ (118,725)	$ (23,152)	$ (21,439)	$ (5,279)	$ (558)	$ 1,695
Interest expense	695	3,124	4,087	7,413	1,345	1,496	2,351
Interest income	(4,685)	(2,280)	(1,903)	(1,903)	(591)	(469)	(469)
Income tax expense	3,128	56,770	348	574	588	591	660
Depreciation and amortization expense	17,535	13,237	11,444	20,784	3,574	2,422	7,242
EBITDA	$ 26,014	$ (47,874)	$ (9,176)	$ 5,429	$ (363)	$ 3,482	$ 11,479

Table of Contents

EBITDA of GXT represents GXT s earnings (loss) before interest expense, income taxes and depreciation and amortization. GXT s reconciliation of EBITDA to net income is as follows:

	Year Ended June 30,			Nine Months Ended March 31,		Three Months Ended March 31,
	2001	2002	2003	2003	2004	2004
					(unaudited)	
			(in thousands)			
GXT Reconciliation of EBITDA to Net Income:						
Net income (loss)	$ 339	$ 966	$ 4,631	$ 3,497	$ 4,167	$ 2,067
Interest expense	662	530	723	517	666	252
Income tax expense	21	233	826	623	2,359	1,171
Depreciation and amortization	1,535	2,078	6,698	4,886	10,413	4,820
EBITDA	$ 2,557	$ 3,807	$ 12,878	$ 9,523	$ 17,605	$ 8,310

Table of Contents

RISK FACTORS

An investment in our common stock involves risks. The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. Our business, financial condition, results of operations or prospects could be materially adversely affected by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. This prospectus, including the documents it incorporates by reference, also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus. The following risk factors relate to our current and anticipated business, and would also apply to our company after giving effect to the GXT acquisition.

Risks Related to Our Planned Acquisition of GXT

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

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

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

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

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

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

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

16

Table of Contents

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

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

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

Risks Related to Our Business and Our Common Stock

We may not gain rapid market acceptance for our VectorSeis products, which could materially adversely affect our results of operations and financial condition.

We have spent considerable time and capital developing our VectorSeis products line. Because VectorSeis products rely on a new digital sensor, our ability to sell our VectorSeis products will depend on acceptance of our digital sensor and technology solutions by geophysical contractors and exploration and production companies. If our customers do not believe that our digital sensor delivers higher quality data with greater operational efficiency, our results of operations and financial condition will be materially adversely affected.

System reliability is an important competitive consideration for seismic data acquisition systems. Even though we attempt to assure that our systems are always reliable in the field, the many technical variables related to operations can cause a combination of factors that can and have from time to time caused service issues with our analog products. If our customers believe that our analog products have reliability issues, then those customers may delay acceptance of our new products and reduce demand for our analog products. Our business, our results of operations and our financial condition, therefore, may be materially adversely affected.

While we believe that our new VectorSeis System Four land data acquisition system has made significant improvements in both field troubleshooting and reliability compared to our legacy systems, products as complex as this system sometimes contain undetected errors or bugs when first introduced. Despite our testing program, these undetected errors may not be discovered until the product is purchased and used by a customer. If our customers deploy our new products and they do not work correctly, our relationship with our customers may be materially adversely affected. Errors may be found in future releases of our products, and these errors could impair the market acceptance of our products. If our customers do not accept our new products as rapidly as we anticipate, our business, our results of operations and our financial condition may be materially adversely affected.

We may not be able to generate sufficient cash flows to meet our operational, growth and debt service needs.

Our cash and cash equivalents declined from $76.2 million at December 31, 2002 to $59.5 million at December 31, 2003, a decrease of $16.7 million, or 22%. At March 31, 2004, our cash and cash equivalents had decreased to $25 million primarily due to our payment of approximately $38.4 million cash, including acquisition costs, to acquire Concept Systems in February 2004. Our ability to fund our operations, grow our business and to make scheduled payments on our indebtedness and our other obligations, including our convertible notes, will depend on our financial and operating performance, which in turn will be affected by general economic conditions in the energy industry and by many financial, competitive, regulatory and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future sources of capital will be available to us in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs.

Table of Contents

If we are unable to generate sufficient cash flows to fund our operations, grow our business and satisfy our debt obligations, we may have to undertake additional or alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any refinancing would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds that may be realized from those sales, or that additional financing could be obtained on acceptable terms, if at all. Our inability to generate sufficient cash flows to satisfy debt obligations, or to refinance our indebtedness on commercially reasonable terms, would materially adversely affect our financial condition and results of operations and our ability to satisfy our obligations under the convertible notes.

The loss of any significant customer could materially adversely affect our results of operations and financial condition.

We rely on a relatively small number of significant customers. Consequently, our business is exposed to the risks related to customer concentration. During 2003 and for the three months ended March 31, 2004, BGP, an international seismic contractor and subsidiary of the China National Petroleum Corporation, accounted for approximately 28% and 13%, respectively, of our consolidated net sales. In 2002, two of our largest customers, WesternGeco and Laboratory of Regional Geodynamics Limited, were responsible for approximately 11% and 10%, respectively, of our consolidated net sales. The loss of any of our significant customers or a deterioration in our relations with any of them could materially adversely affect our results of operations and financial condition.

Our past business reorganization and facilities closure actions may not yield the benefits we expect and could harm our financial condition, reputation and prospects.

We have significantly reduced our corporate and operational headcount, closed certain manufacturing facilities and combined certain of our business units. These activities may not yield the benefits we expect, and may raise product costs, delay product production, result in labor disruptions or labor-related legal actions against us or create inefficiencies in our business. In addition, if the markets for our products do not improve, we will take additional restructuring actions to address these market conditions. Any such additional actions could result in additional restructuring charges.

If we fail to implement our business strategy, our financial condition and results of operations could be materially adversely affected.

Our future financial performance and success are dependent in large part upon our ability to successfully implement our business strategy to introduce new seismic technologies and to reduce costs through outsourcing manufacturing and certain research and development activities. We cannot assure you that we will be able to successfully implement our business strategy or improve our operating results. In particular, we cannot assure you that we will be able to stimulate sufficient demand for our VectorSeis products, our AZIM processing services or our traditional analog product line, to execute our growth strategy (including acquisitions) or to sufficiently reduce our costs to achieve required efficiencies. Our strategic direction also may give rise to unforeseen costs, which could wholly or partially offset any expense reductions or other financial benefits we attain as a result of the changes to our business.

We are in the process of evaluating and may, from time to time in the future, evaluate the acquisition of assets or operations that complement our existing businesses. We cannot estimate what impact, if any, our acquisition of these assets or operations may have on our business.

Furthermore, we cannot assure you that we will be successful in our acquisition efforts or that we will be able to effectively manage expanded or acquired operations. Our ability to achieve our acquisition or expansion objectives and to effectively manage our growth depends on a number of factors, including:

- our ability to identify appropriate acquisition targets and to negotiate acceptable terms for their acquisition;

Table of Contents

- our ability to integrate new businesses into our operations; and
- the availability of capital on acceptable terms.

Our business strategy may require additional funding, which may be provided in the form of additional debt, equity financing or a combination thereof. We cannot assure you that we will be able to obtain this financing, and if so, on advantageous terms and conditions.

Implementation of our business strategy could be affected by a number of factors beyond our control, such as increased competition, general economic conditions or increased operating costs. Any failure to successfully implement our business strategy could materially adversely affect our financial condition and results of operations. We may, in addition, decide to alter or discontinue certain aspects of our business strategy at any time.

Technologies and businesses that we acquire may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.

An important aspect of our current business strategy has been to seek new technologies, products and businesses to broaden the scope of our existing and planned product lines and technologies. Acquisitions may result in unexpected costs, expenses and liabilities. For example, during 2002, we acquired certain assets of S/N Technologies and, in April 2003, we invested $3.0 million in Energy Virtual Partners (EVP). These transactions were not successful, and we have since completely written down the costs of the assets we purchased from S/N Technologies and have written down our investment in EVP to its liquidation value of $1.0 million.

Our ability to achieve our expansion and acquisition objectives will also depend on the availability of capital on acceptable terms. Our combined businesses resulting from any acquisitions may not be able to generate sufficient operating cash flows in order for us to obtain additional financing or fund our acquisition strategy.

Acquisitions expose us to:

- increased costs associated with the acquisition and operation of the new businesses or technologies and the management of geographically dispersed operations;
- risks associated with the assimilation of new technologies, operations, sites and personnel;
- the possible loss of key employees;
- risks that any technology we acquire may not perform as well as we had anticipated;
- the diversion of management s attention and other resources from existing business concerns;
- the potential inability to replicate operating efficiencies in the acquired company s operations;
- the inability to generate revenues to offset associated acquisition costs;
- the continuing need to maintain uniform standards, controls, and procedures;
- the impairment of relationships with employees and customers as a result of any integration of new and inexperienced management personnel; and
- the risk that acquired technologies do not provide us with the benefits we anticipated.

Our integration of acquired businesses requires significant efforts from the management of each entity, including coordinating existing business plans and research and development efforts. Integrating operations may distract management s attention from the day-to-day operation of the combined companies. Ultimately, our attempts to integrate the operations, technology and personnel of acquired businesses may not be successful. If we are unable to successfully integrate acquired businesses, including Concept Systems, which we acquired in February 2004, our future results will be negatively impacted.

Table of Contents

Acquisitions may also result in the issuance of dilutive equity securities, the incurrence or assumption of debt and additional expenses associated with the amortization of acquired intangible assets or potential businesses. There is no assurance that past or future acquisitions will generate additional income, cash flows or provide any benefit to our business.

We have developed outsourcing arrangements with third parties to manufacture some of our products. If these third parties fail to deliver quality products or components at reasonable prices on a timely basis, we may alienate some of our customers and our revenues, profitability and cash flow may decline.

As part of our strategic direction, we are increasing our use of contract manufacturers as an alternative to our own manufacture of products. If, in implementing this outsourcing initiative, we are unable to identify contract manufacturers willing to contract with us on competitive terms and to devote adequate resources to fulfill their obligations to us, or if we do not properly manage these relationships, our existing customer relationships may suffer. In addition, by undertaking this initiative, we are exposed to the risk that the reputation and competitiveness of our products and services may deteriorate as a result of the reduction of our control over quality and delivery schedules. We also may experience supply interruptions, cost escalations and competitive disadvantages if our contract manufacturers fail to develop, implement or maintain manufacturing methods appropriate for our products and customers.

If any of these risks are realized, our revenues, profitability and cash flow may decline. In addition, as we rely more heavily on contract manufacturers, we may have fewer personnel resources with expertise to manage problems that may arise from these third-party arrangements.

The current oversupply of seismic data and downward pricing pressures has, and may continue to, adversely affect our operations and significantly reduce our operating margins and income.

The current industry-wide oversupply of speculative surveys conducted and collected by geophysical contractors, and their practice of lowering prices to their customers for these surveys in order to recover investments in assets used to conduct 3-D surveys, has in recent years adversely affected our results of operations and financial condition. Particularly during periods of reduced levels of exploration for oil and gas, the oversupply of seismic data and downward pricing pressures limit our ability to meet sales objectives and maintain profit margins for our products and sustain growth of our business. These industry conditions have reduced, and if continued into the future, will reduce, our revenues and operating margins.

Oil and gas companies and geophysical contractors will reduce demand for our products and services if the level of exploration expenditures continues to remain relatively low.

Historically, demand for our products has been sensitive to the level of exploration spending by oil and gas companies and geophysical contractors. Exploration expenditures have tended in the past to follow trends in the price of oil and gas, which have fluctuated widely in recent years in response to relatively minor changes in supply and demand for oil and gas, market uncertainty and a variety of other factors beyond our control. Prolonged reductions in oil and gas prices will generally depress the level of exploration activity and correspondingly depress demand for our products and services. A prolonged downturn in market demand for our products or services will have a material adverse effect on our results of operations and financial condition. Additionally, we cannot assure you that increases in oil and gas prices will increase demand for our products and services or otherwise have a positive effect on our results of operations or financial condition.

Factors affecting the prices of oil and gas include:

- level of demand for oil and gas;
- worldwide political, military and economic conditions, including the ability of the Organization of Petroleum Exporting Countries (OPEC) to set and maintain production levels and prices for oil;
- level of oil and gas production;

Table of Contents

government policies regarding the exploration for, and production and development of, oil and gas reserves in their jurisdictions; and

global weather conditions.

The markets for oil and gas historically have been volatile and are likely to continue to be so in the future. In addition, we cannot predict the effect that the development of alternative energy sources might have on our operations.

We have a history of operating losses and we may have losses in the future.

As of and for the year ended December 31, 2003, we had:

an accumulated deficit of approximately $158.5 million; and

incurred loss from operations of $21.3 million and net loss of $23.2 million.

We also had operating losses and net losses for the year ended December 31, 2002, the seven months ended December 31, 2000 and the year ended May 31, 2000. While we intend to increase our revenues, operating income and net income through acquisitions and internal growth, there can be no assurance we will be successful and our business and financial condition could be materially adversely affected.

Additional funds may not be available on acceptable terms, if at all. If adequate funds are unavailable from operations or additional sources of financing, we might be forced to reduce or delay acquisitions or capital expenditures, sell assets, reduce operating expenses, refinance all or a portion of our debt, or delay or reduce important initiatives, such as marketing programs and research or development programs.

In addition, we may seek to raise any necessary additional funds through equity or debt financings, convertible debt financing, alliance arrangements with corporate partners or other sources, which may be dilutive to existing stockholders and may cause the price of our common stock to decline.

Our debt service obligations and cash requirements to fund our operations could harm our ability to operate our business.

As of March 31, 2004, after giving effect to the GXT acquisition and the New Credit Facility, on a pro forma basis, we would have had approximately $121.6 million of total indebtedness outstanding (including lease obligations under our facilities lease-back arrangements), and for the three months ended March 31, 2004 and for the year ended December 31, 2003 our interest expense would have been approximately $2.4 million and $7.4 million, respectively. Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of our indebtedness. Our ability to make scheduled payments of principal or interest on, or to refinance, our indebtedness depends on our future business performance, which is subject to many economic, financial, competitive and other factors beyond our control. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions in the documents governing our indebtedness. If we incur additional debt, the risks associated with our substantial leverage would increase.

Our degree of leverage may have important consequences to you, including the following:

we may have difficulty satisfying our obligations under our indebtedness and, if we fail to comply with these requirements, an event of default could result;

we may be required to dedicate a substantial portion of our cash flow from operations to required payments on indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures and other general corporate activities;

covenants relating to future debt may limit our ability to obtain additional financing for working capital, capital expenditures and other general corporate activities;

Table of Contents

- covenants relating to future debt may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- we may be more vulnerable to the impact of economic downturns and adverse developments in our business; and
- we may be placed at a competitive disadvantage against any less leveraged competitors.

The occurrence of any one of these events could have a material adverse effect on our business, financial condition, results of operations and prospects.

We have typically financed operations from internally generated cash and funds from equity and debt financings. Our cash and cash equivalents decreased $16.7 million, or 22%, from December 31, 2002 to December 31, 2003. This decrease was primarily due to net cash used in operating activities of $33.1 million and the payment of $31.0 million of indebtedness under the unsecured promissory note we had issued to SCF Partners in August 2002 (SCF Note). These factors were partially offset by the $56.5 million of net proceeds from our issuance of convertible securities in December 2003. At March 31, 2004, our cash and cash equivalents had decreased to $25.0 million primarily due to our payment of approximately $38.4 million cash, including acquisition costs, to acquire Concept Systems in February 2004.

There is increasing risk that our collections cycle will further lengthen as we anticipate a larger percentage of our sales will be to foreign customers, particularly in China and the CIS.

We cannot assure you that our sources of cash will be sufficient to meet our anticipated future capital requirements. We used a substantial portion of the proceeds from the sale of the convertible notes to repay in full the approximately $16.0 million of outstanding indebtedness under the SCF Note and we used a total of $38.4 million cash, including acquisition costs, from such proceeds and from our general corporate funds for the Concept Systems acquisition in February 2004. As a result, the proceeds from the offering of the convertible notes are not available to fund our future capital requirements and contractual obligations.

We derive a substantial amount of our revenues from foreign sales, which pose additional risks.

Sales to destinations outside of North America accounted for approximately 77% of our consolidated net sales for the year ended December 31, 2003, and approximately 80% of our consolidated net sales for the three month period ended March 31, 2004. We believe that export sales will remain a significant percentage of our revenue. United States export restrictions affect the types and specifications of products we can export. Additionally, to complete certain sales, United States laws may require us to obtain export licenses, and we cannot assure you that we will not experience difficulty in obtaining these licenses. Operations and sales in countries other than the United States are subject to various risks peculiar to each country. With respect to any particular country, these risks may include:

- expropriation and nationalization;
- political and economic instability;
- armed conflict and civil disturbance;
- currency fluctuations, devaluations and conversion restrictions;
- confiscatory taxation or other adverse tax policies;
- tariff regulations and import/export restrictions;
- governmental activities that limit or disrupt markets, or restrict payments or the movement of funds; and
- governmental activities that may result in the deprivation of contractual rights.

There is increasing risk that our collections cycle will further lengthen as we anticipate a larger percentage of our sales will be to foreign customers, particularly those in China and the CIS.

22

The majority of our foreign sales are denominated in United States dollars. An increase in the value of the dollar relative to other currencies will make our products more expensive, and therefore less competitive, in foreign markets.

In addition, we are subject to taxation in many jurisdictions and the final determination of our tax liabilities involves the interpretation of the statutes and requirements of taxing authorities worldwide. Our tax returns are subject to routine examination by taxing authorities, and these examinations may result in assessments of additional taxes, penalties and/or interest.

The rapid pace of technological change in the seismic industry requires us to make substantial research and development expenditures and could make our products obsolete.

The markets for our products are characterized by rapidly changing technology and frequent product introductions. We must invest substantial capital to maintain a leading edge in technology, with no assurance that we will receive an adequate rate of return on such investments. If we are unable to develop and produce successfully and timely new and enhanced products, we will be unable to compete in the future and our business, our results of operations and financial condition will be materially adversely affected.

Competition from sellers of seismic data acquisition systems and equipment is intensifying and could adversely affect our results of operations and financial condition.

Our industry is highly competitive. Our competitors have been consolidating into better-financed companies with broader product lines. Certain of our competitors are affiliated with seismic contractors, which forecloses a portion of the market to us. Some of our competitors have greater name recognition, more extensive engineering, manufacturing and marketing capabilities, and greater financial, technical and personnel resources than those available to us. Our ability to compete effectively in the manufacture and sale of seismic instruments and data acquisition systems depends principally upon continued technological innovation, as well as our reputation for quality, our ability to deliver on schedule and price.

Our competitors have expanded or improved their product lines, which has adversely affected our results of operations. One competitor has introduced a lightweight land seismic system that we believe has made our current land system more difficult to sell at acceptable margins. In addition, another competitor introduced a marine solid streamer product that competes with our oil-filled towed streamer product. Streamers are towed behind marine vessels to acquire seismic data in marine environments and can either be solid or oil-filled. Our net sales of marine streamers have been, and will continue to be, adversely affected by customer preferences for solid products. In May 2003, we decided to cancel our internal project to develop a solid streamer product.

Further consolidation among our significant customers could materially adversely affect us.

Historically, a relatively small number of customers has accounted for the majority of our net sales in any period. In recent years, our customers have been rapidly consolidating, thereby shrinking the demand for our products. The loss of any of our significant customers to further consolidation could materially adversely affect our results of operations and financial condition.

Large fluctuations in our sales and gross margins can result in operating losses.

As our products are technologically complex, we experience a very long sales cycle. In addition, the revenues from any particular sale can vary greatly from our expectations due to changes in customer requirements. These factors create substantial fluctuations in our net sales from period to period. Variability in our gross margins compound the uncertainty associated with our sales cycle. Our gross margins are affected by the following factors:

- pricing pressures from our customers and competitors;
- product mix sold in a period;
- inventory obsolescence;

unpredictability of warranty costs;

changes in sales and distribution channels;

availability and pricing of raw materials and purchased components; and

absorption of manufacturing costs through volume production.

We must establish our expenditure levels for product development, sales and marketing and other operating expenses based, in large part, on our forecasted net sales and gross margins. As a result, if net sales or gross margins fall below our forecasted expectations, our operating results and financial condition are likely to be adversely affected because not all of our expenses vary with our revenues.

Write-offs related to the impairment of long-lived assets and other non-cash charges may adversely impact our profitability.

We may incur significant non-cash charges related to impairment write-downs of our long-lived assets, including goodwill and other intangible assets. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets,* we recorded an impairment charge of $15.1 million in 2002 relating to our analog land products reporting unit. Also, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* we recorded an impairment charge relating to other long-lived assets of $6.3 million in 2002 (relating to the impairment of our Alvin, Texas manufacturing facility, the leasehold improvements in our Norwich, U.K. geophone stringing facility and certain related manufacturing equipment at both facilities) and $1.1 million in 2003 (relating to the cancellation of our solid streamer project within our Marine Imaging segment in the first quarter of 2003).

We will continue to incur non-cash charges related to amortization of other intangible assets. We are required to perform periodic impairment reviews of our goodwill at least annually. To the extent these reviews conclude that the carrying value of our goodwill exceeds its implied fair value, we will be required to record an impairment charge to write down our goodwill to its implied fair value. Also, we periodically evaluate the net realizable values of our other long-lived assets. To the extent these reviews conclude that the expected future cash flows generated from our business activities are not sufficient to recover the cost of our other long-lived assets, we will be required to measure and record an impairment charge to write down these assets to their net realizable values. We conduct our annual goodwill assessment in the fourth quarter of each year. We cannot assure you that upon completion of this and subsequent reviews, a material impairment charge will not be recorded. If this and future periodic reviews determine that our assets are impaired and a write down is required, it will adversely impact or delay our profitability.

Our outsourcing relationships may require us to purchase inventory when demand for products produced by third-party manufacturers is low.

Under a few of our outsourcing arrangements, our contract manufacturers purchase agreed-upon inventory levels to meet our forecasted demand. Since we typically operate without a significant backlog of orders for our products, our manufacturing plans and inventory levels are principally based on sales forecasts. If demand proves to be less than we originally forecasted, these contract manufacturers have the right to require us to purchase any excess or obsolete inventory. Should we be required to purchase inventory under these provisions, we may have to hold inventory that we may never utilize.

To date, we have not been required to purchase any fixed amount of excess inventory under our outsourcing arrangements, and we have no existing obligation to purchase any such fixed amount of excess inventory. We are in the process of revising our sales forecasting techniques with our Contract Manufacturers, providing short-term forecasts (usually less than three months) rather than long-term forecasts, which should assist with mitigating the risk that we will significantly overestimate our inventory needs from these outsourcers.

Table of Contents

We may be unable to obtain broad intellectual property protection for our current and future products and we may become involved in intellectual property disputes.

We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary technologies. We believe that the technological and creative skill of our employees, new product developments, frequent product enhancements, name recognition and reliable product maintenance are the foundations of our competitive advantage. Although we have a considerable portfolio of patents, copyrights, trademarks and trade secrets, these property rights offer us only limited protection. Our competitors may attempt to copy aspects of our products despite our efforts to protect our proprietary rights, or may design around the proprietary features of our products. Policing unauthorized use of our proprietary rights is difficult, and we are sometimes unable to determine the extent to which such use occurs. Our difficulties are compounded in certain foreign countries where the laws do not offer as much protection for proprietary rights as the laws of the United States.

Third parties inquire and claim from time to time that we have infringed upon their intellectual property rights. Any such claims, with or without merit, could be time consuming, result in costly litigation, result in injunctions, require product modifications, cause product shipment delays or require us to enter into royalty or licensing arrangements. Such claims could have a material adverse affect on our results of operations and financial condition.

As of the date of this prospectus, we are not aware of any parties that intend to pursue intellectual property claims against us.

Significant payment defaults under extended financing arrangements could adversely affect us.

We often sell to customers on payment terms other than cash on delivery. We allow many of our customers to finance substantial purchases of our products through the issuance to us of promissory notes. The terms of these promissory notes initially range from eight months to five years. As of March 31, 2004, we had outstanding accounts receivable of approximately $33.9 million and notes receivable of approximately $17.9 million. Significant payment defaults by customers could have a material adverse effect on our results of operations and financial condition.

Approximately $10.6 million of our total notes receivable outstanding at March 31, 2004 related to one customer, a subsidiary of a major Russian energy company. During 2003, this customer became delinquent on approximately $0.8 million of its scheduled principal and interest payments, in addition to becoming delinquent on $1.8 million of its trade payable to us. In January 2004, we refinanced the delinquent portion of its notes and accounts payable to us into a new note totaling $2.6 million, with payments due in equal installments over a twelve month period. Based on our internal credit review and meetings with the customer and its parent company, we expect the customer will pay all of its obligations in full and, therefore, no allowance has been established for these receivables.

With respect to customer defaults, our levels of expense for loan loss in recent periods have been as follows:

Period Ended	Expense for Loan Loss
	(in thousands)
Year ended May 31, 2000	$7,057
Seven months ended December 31, 2000	1,305
Year ended December 31, 2001	1,577
Year ended December 31, 2002	158
Year ended December 31, 2003	

The above table of expense for loan loss may not be indicative of future trends.

Table of Contents

Our operations, and the operations of our customers, are subject to numerous government regulations, which could adversely limit our operating flexibility.

Our operations are subject to laws, regulations, government policies and product certification requirements worldwide. Changes in such laws, regulations, policies or requirements could affect the demand for our products or result in the need to modify products, which may involve substantial costs or delays in sales and could have an adverse effect on our future operating results. Our export activities are also subject to extensive and evolving trade regulations. Certain countries are subject to restrictions, sanctions and embargoes imposed by the United States government. These restrictions, sanctions and embargoes also prohibit or limit us from participating in certain business activities in those countries. Our operations are subject to numerous local, state and federal laws and regulations in the United States and in foreign jurisdictions concerning the containment and disposal of hazardous materials, the remediation of contaminated properties and the protection of the environment. These laws have been changed frequently in the past, and there can be no assurance that future changes will not have a material adverse effect on us. In addition, our customers operations are also significantly impacted by laws and regulations concerning the protection of the environment and endangered species. Consequently, changes in governmental regulations applicable to our customers may reduce demand for our products. For instance, regulations regarding the protection of marine mammals in the Gulf of Mexico may reduce demand for our airguns and other marine products. To the extent that our customers operations are disrupted by future laws and regulations, our business and results of operations may be materially adversely affected.

Disruption in vendor supplies will adversely affect our results of operations.

Our manufacturing processes require a high volume of quality components. Certain components used by us are currently provided by only one supplier. We may, from time to time, experience supply or quality control problems with suppliers, and these problems could significantly affect our ability to meet production and sales commitments. Reliance on certain suppliers, as well as industry supply conditions, generally involves several risks, including the possibility of a shortage or a lack of availability of key components and increases in component costs and reduced control over delivery schedules; any of these could adversely affect our future results of operations.

Our stock price may fluctuate, and your investment in our stock could decline in value.

The average daily trading volume of our common stock for the three months ended March 31, 2004, was approximately 665,289 shares. The trading volume of our stock may contribute to its volatility, and an active trading market in our stock might not continue.

If substantial amounts of our common stock were to be sold in the public market, the market price of our common stock could decline. Some of the other factors that can affect our stock price are:

- future demand for seismic equipment and services;
- the announcement of new products, services or technological innovations by us or our competitors;
- the adequacy of our liquidity and capital resources;
- consolidation among our significant customers;
- continued variability in our revenues or earnings;
- changes in quarterly revenue or earnings estimates for us made by the investment community;
- speculation in the press or investment community about our strategic position, financial condition, results of operations, business or significant transactions; and
- general perception of the energy or technology sectors of the economy.

The market price of our common stock may also fluctuate significantly in response to factors that are beyond our control. The stock market in general has recently experienced extreme price and volume

fluctuations. In addition, the market prices of securities of technology companies have also been extremely volatile, and have experienced fluctuations that often have been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations could result in extreme fluctuations in the price of our common stock, which could cause a decline in the value of our investors stock.

If we, or our existing stockholders holding registration rights, sell additional shares of our common stock after this offering, the market price of our common stock could decline.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market after this offering, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, could make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Approximately 7,474,000 of our shares of common stock are subject to registration rights, which include the right to require us to register the sale of their shares or the right to include their shares in secondary public offerings we undertake in the future. These holders include Laitram, L.L.C., which beneficially owns approximately 10.9% of our common stock subject to piggyback registration rights. We also may enter into additional registration rights agreements in the future in connection with any subsequent acquisitions we may undertake. Any sales of our common stock under these registration rights arrangements with these stockholders could be negatively perceived in the trading markets and negatively affect the price of our common stock. Sales of a substantial number of our shares of common stock in the public market under these arrangements, or the expectation of such sales, could cause the market price of our common stock to decline.

Conversion of our outstanding convertible notes will dilute the ownership interests of existing stockholders.

The conversion of some or all of the convertible notes we issued in December 2003 will dilute the ownership interests of existing stockholders. Sales in the public market of shares of common stock issued upon conversion would apply downward pressure on their prevailing market prices. In addition, the very existence of the convertible notes represent a future acquisition, and perhaps a future sale, of our common stock to be acquired on conversion, which could also depress trading prices for our common stock.

Our certificate of incorporation and bylaws, Delaware law and our stockholder rights plan contain provisions that could discourage another company from acquiring us.

Provisions of Delaware law, our certificate of incorporation, bylaws and stockholder rights plan may discourage, delay or prevent a merger or acquisition that our stockholders may consider favorable, including transactions in which you might otherwise receive a premium for shares of our common stock. These provisions include:

- authorizing the issuance of blank check preferred stock without any need for action by stockholders;
- providing for a dividend on our common stock, commonly referred to as a poison pill, which can be triggered after a person or group acquires, obtains the right to acquire, or commences a tender or exchange offer to acquire, 20% or more of our outstanding common stock;
- providing for a classified board of directors with staggered terms;
- requiring supermajority stockholder voting to effect certain amendments to our certificate of incorporation and by-laws;
- eliminating the ability of stockholders to call special meetings of stockholders;
- prohibiting stockholder action by written consent; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

Table of Contents

The loss of certain members of our senior management team (many of whom have only recently joined our company) could have a material adverse effect on our financial condition and results of operations.

Our success depends, in part, on the efforts of our senior management and other key employees. These individuals possess sales, marketing, technical, engineering, manufacturing and processing skills that are critical to executing our business strategy. If we lose or suffer an extended interruption in the services of one or more of our senior officers, our financial condition and results of operations may be adversely affected. Moreover, the market for qualified individuals may be highly competitive, and we may not be able to attract and retain qualified personnel to replace or succeed members of our senior management or other key employees, should the need arise.

While many members of our current senior management team have significant experience working at various large corporations, with some of them working together at those corporations, our senior management has had limited experience working together at our company and implementing our current business strategy. See Business Our Strengths and Challenges.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein contain statements concerning our future results and performance and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry s results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed under Risk Factors and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as may, will, should, intend, expect, plan, anticipate, believe, estimate, predict, potential, or continue or the negati comparable terminology.

Examples of other forward-looking statements contained or incorporated by reference in this prospectus include statements regarding:

- anticipated benefits of our acquisitions, including our acquisition of Concept Systems and our proposed acquisition of GXT;
- our ability to integrate the operations, personnel and technologies of businesses we acquire;
- our expected revenues, gross margins, operating income, net income and cash flows;
- future growth rates and margins for certain of our products and services;
- the adequacy of our future liquidity and capital resources;
- anticipated timing and success of commercialization and capabilities of products and services under development;
- our plans for facility closures and other future business reorganizations;
- charges we expect to take for future reorganization activities;
- savings we expect to achieve from our restructuring activities;
- future demand for seismic equipment and services;
- future seismic industry fundamentals;
- future oil and gas commodity prices;
- future worldwide economic conditions;
- our expectations regarding future mix of business and future asset recoveries;
- our expectations regarding realization of deferred tax assets;
- our beliefs regarding accounting estimates we make;
- the result of pending or threatened disputes and other contingencies;
- our future acquisitions and levels of capital expenditures; and

our proposed strategic alliances.

These forward-looking statements reflect our best judgment about future events and trends based on the information currently available to us. Our results of operations can be affected by inaccurate assumptions we make, or by risks and uncertainties known or unknown to us. Therefore, we cannot guarantee the accuracy of the forward-looking statements. Actual events and results of operations may vary materially from our current expectations and assumptions.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance, or achievements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements. We do not intend to update any of the forward-looking statements after the date of this prospectus to conform them to actual results.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds from the sale of the shares of common stock by us will be approximately $100.0 million, or approximately $ million if the underwriters exercise their over-allotment option in full, based on an assumed offering price of $ per share and after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

The net proceeds we receive from this offering will be used to pay a portion of the purchase price for the GXT acquisition. We expect to complete the GXT acquisition concurrently with the completion of this offering. Completion of this offering is conditioned upon the completion of the GXT acquisition. The remaining portion of the purchase price will be paid with borrowings under our New Credit Facility, which we expect to enter by the time we complete this offering. See GXT Acquisition Summary of Transaction for a description of that transaction.

Table of Contents

COMMON STOCK PRICE RANGE

Our common stock trades on the New York Stock Exchange (NYSE) under the symbol IO. The following table sets forth the high and low sales prices of the common stock for the periods indicated, as reported on the NYSE composite tape.

	Common Stock Price	
	High	Low
Year ended December 31, 2002		
First Quarter	$10.00	$7.48
Second Quarter	9.93	7.95
Third Quarter	9.50	4.50
Fourth Quarter	5.90	3.54
Year ended December 31, 2003		
First Quarter	4.79	3.40
Second Quarter	5.76	2.91
Third Quarter	6.00	3.61
Fourth Quarter	4.90	3.30
Period ended May 7, 2004		
First Quarter	7.82	4.55
Second Quarter (through May 7)	9.60	7.33

A recent reported last sale price per share for our common stock on the NYSE is set forth on the cover page of this prospectus. At April 30, 2004, there were 681 stockholders of record of our common stock.

DIVIDEND POLICY

We have not historically paid, and do not intend to pay in the foreseeable future, cash dividends on our common stock. We presently intend to retain cash from operations for use in our business, with any future decision to pay cash dividends on our common stock dependent upon our growth, profitability, financial condition, and other factors our board of directors considers relevant. Furthermore, the New Credit Facility may contain customary restrictions on our ability to pay dividends on our common stock.

Table of Contents

CAPITALIZATION

The following table shows our capitalization as of March 31, 2004:

on an actual basis; and

on a pro forma basis, to reflect:

the consummation of the GXT acquisition;

anticipated borrowings under our New Credit Facility; and

the sale by us of shares of our common stock pursuant to this offering (assuming no exercise of the underwriters over-allotment option).

You should read this table in conjunction with our financial statements and the notes to those financial statements incorporated by reference into this prospectus, the Unaudited Pro Forma Financial Statements beginning on page 36, and the historical consolidated financial statements and the related notes of GXT beginning on page F-3.

	March 31, 2004	
	Actual	Pro Forma
	(unaudited) (in thousands)	
Cash and cash equivalents	$ 25,000	$ 19,262
Long-term debt, net of current maturities		
5.50% Convertible Senior Notes Due 2008	$ 60,000	$ 60,000
New Credit Facility		34,500
Other long-term debt	18,033	20,013
Total long-term debt	78,033	114,513
Stockholders equity:		
Common stock, $0.01 par value; authorized 100,000,000 shares; issued and outstanding: 53,106,829 shares actual, net of treasury stock; and 65,606,829 shares pro forma and as adjusted(1)	540	665
Additional paid-in capital	307,604	416,979
Accumulated deficit	(159,095)	(159,095)
Accumulated other comprehensive income	909	909
Treasury stock, at cost, 791,869 shares	(5,905)	(5,905)
Unamortized restricted stock compensation	(320)	(320)
Total stockholders equity	143,733	253,233
Total capitalization	$ 221,766	$ 367,746

(1) Excludes (a) 6,231,287 shares of common stock reserved for issuance under our stock option and incentive plans and agreements, of which options to purchase 5,719,131 shares at an average exercise price of $8.00 were outstanding as of April 30, 2004; (b) 13,888,888 shares of

common stock issuable upon conversion of our 5.5% senior convertible notes due 2008; (c) approximately million of shares of common stock exercisable under our stock options issuable in connection with the GXT acquisition; and (d) shares of common stock that the underwriters have an option to purchase solely to cover over-allotments.

Table of Contents

GXT ACQUISITION

Overview of GXT

GXT is a leading provider of seismic data processing and subsurface imaging services to oil and gas companies. GXT is focused on marine environments and specializes in providing customized imaging solutions utilizing GXT s expertise in computer processing technology. The improved images derived from GXT s processing and imaging technology enable oil and gas companies to more easily and economically identify and access hydrocarbon reservoirs. GXT s geoscientists and computer scientists have developed advanced processing algorithms that incorporate technologies such as illumination analysis, velocity models and pre-stack depth and time migration. GXT leverages the power of parallel computer clusters to process seismic data through these algorithms in order to develop higher-quality, more accurate, clearer images in shorter cycle times than conventional seismic processing.

Currently, the majority of GXT s processing and imaging involves data collected with traditional 2-D and 3-D techniques. GXT, however, has several development projects underway to apply its advanced processing technologies to data gathered through multi-component and 4-D time-lapse data collection methods.

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

- survey design, project management and quality control for seismic data acquisition;
- data preconditioning for advanced pre-stack depth and time imaging;
- 4-D monitoring of reservoir fluid movement; and
- outsourced, integrated management of seismic data acquisition and image processing services.

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

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

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

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

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

Table of Contents

GXT is headquartered in Houston with service centers in other major energy markets, including Calgary, Canada, London, England and Aberdeen, Scotland. GXT also has an experienced employee base. Of its more than 180 employees, over half have advanced degrees in geology, geophysics or other related sciences.

Anticipated Benefits of GXT Acquisition

We believe that the acquisition of GXT will provide us with several strategic benefits:

More Balanced Position in the Seismic Value Chain. The GXT acquisition will solidify our transition from primarily manufacturing seismic data collection equipment to providing full-scope seismic technology solutions. In addition, the GXT acquisition will strengthen our expertise and capabilities at each technology link in the seismic value chain, from survey planning and design to data collection management and pre-processing to image development. This broader, more technology-focused and seismic-oriented presence will enable us to deliver additional integrated, full-service imaging solutions to our customers. Additionally, we expect that the more consistent service-based revenue streams from GXT s business will lessen the historical volatility in our revenues from original equipment manufacturing.

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

Accelerated Development of Imaging Solutions. GXT s advanced imagining technology, particularly pre-stack depth and time migration solutions, as well as its experience in deep marine environments, complements the advanced velocity imaging technology and experience in land environments that we have developed in our AXIS group. GTX s pre-stack depth migration solutions involve advanced processing techniques to convert seismic wave time-based information to depth-based information. This conversion to depth-based data is relied upon by geologists to more accurately map subsurface structures. GXT s pre-stack depth migration techniques are well suited for complex hydrocarbon reservoirs and deeper drilling targets. The accurate time-to-depth conversion that GXT s techniques feature is important in processing digital, full-wave data from next-generation sensors, including our VectorSeis sensors. We believe that the conjunction of these technologies and experience bases along with the combination of the companies technology development teams will enable us to accelerate our seismic technology development and advance our capabilities to provide improved digital full-wave imaging solutions.

Enhanced Ability to Service the Full Reservoir Life Cycle. The GXT acquisition will improve our ability to provide seismic imaging solutions throughout the life cycle of an oil or natural gas reservoir. The combination of our digital seismic data collection and monitoring technology and AXIS processing and imagining capabilities, when combined with GXT s advanced processing and imaging expertise, will improve our ability to extend the use of our seismic services across the productive life of the reservoir.

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

Table of Contents

Summary of Transaction

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

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

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

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

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

Anticipated New Credit Facility

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

Table of Contents

UNAUDITED PRO FORMA FINANCIAL STATEMENTS

The unaudited pro forma statements of income for the year ended December 31, 2003 and the three months ended March 31, 2004 give pro forma effect to: (1) the GXT acquisition, (2) our initial borrowings under our New Credit Facility, and (3) this offering as described in Use of Proceeds, as if the transactions had been consummated on January 1, 2003. See the information included under the captions Prospectus Summary Planned Acquisition of GXT Transaction Structure, Prospectus Summary The Offering, Use of Proceeds and GXT Acquisition for a more detailed description of the GXT acquisition, our New Credit Facility and this offering.

The unaudited pro forma balance sheet as of March 31, 2004 gives pro forma effect to (1) the GXT acquisition, (2) our initial borrowings under our New Credit Facility, and (3) this offering as described under Use of Proceeds, as if those transactions had been consummated on March 31, 2004.

We expect to complete the GXT acquisition concurrently with the completion of this offering. This offering is conditioned upon the completion of the GXT acquisition. We also expect to enter into our New Credit Facility by the time we complete this offering.

The unaudited pro forma financial information is based on the assumptions and adjustments described in the accompanying notes. The unaudited pro forma statement of operations does not purport to represent what our results of operations actually would have been if the events described above had occurred as of the date indicated or what our results will be for any future periods. The unaudited pro forma financial statements are based upon assumptions and adjustments that we believe are reasonable. The unaudited pro forma financial statements and the accompanying notes should be read in conjunction with the historical financial statements of I/O and of GXT, including the notes thereto, incorporated by reference or included elsewhere in this prospectus.

For financial accounting purposes, the assets acquired and the liabilities assumed under the GXT acquisition referred to in these unaudited pro forma financial statements have been or will be recorded at their fair values as of the date of the acquisition. The allocation in these unaudited pro forma financial statements is a preliminary allocation based on an internally prepared valuation of the fair value of the acquired assets and liabilities of GXT. When finalized, the allocation may vary materially from the allocation presented in these unaudited pro forma financial statements.

Table of Contents

INPUT/OUTPUT, INC.

UNAUDITED PRO FORMA STATEMENT OF INCOME

Year Ended December 31, 2003

	Input/ Output	GXT As Adjusted(1)(2)	Pro Forma Adjustments(1)(3)	Pro Forma Input/Output(1)
		(in thousands, except per share data)		
Net sales	$150,033	$49,056	$	$199,089
Cost of sales	122,192	30,946	1,250(4)	154,388
Gross profit	27,841	18,110	(1,250)	44,701
Operating expenses:				
Research and development	18,696			18,696
Marketing and sales	12,566	4,465		17,031
General and administrative	16,753	7,130		23,883
Impairment of long lived assets	1,120			1,120
Total operating expenses	49,135	11,595		60,730
Income (loss) from operations	(21,294)	6,515	(1,250)	(16,029)
Interest expense	(4,087)	(821)	(2,505)(5)	(7,413)
Interest income	1,903			1,903
Fair value adjustment and exchange of warrant obligation	1,757			1,757
Impairment of investment	(2,059)			(2,059)
Other income	976			976
Income (loss) before income taxes	(22,804)	5,694	(3,755)	(20,865)
Income tax expense (benefit)	348	1,968	(1,742)(7)	574
Net income (loss)	$ (23,152)	$ 3,726	$ (2,013)	$ (21,439)
Basic loss per share	$ (0.45)			$ (0.34)
Diluted loss per share	$ (0.45)			$ (0.34)
Weighted average number of shares outstanding	51,237		12,500(6)	63,737
Weighted average number of diluted shares outstanding	51,237		12,500(6)	63,737

Table of Contents

INPUT/OUTPUT, INC.

UNAUDITED PRO FORMA STATEMENT OF INCOME

Three Months Ended March 31, 2004

	Input/ Output	GXT As Adjusted(1)(2)	Pro Forma Adjustments(1)(3)	Pro Forma Input/Output(1)
	(in thousands, except per share data)			
Net sales	$36,287	$19,822	$	$56,109
Cost of sales	24,026	12,547	313(4)	36,886
Gross profit	12,261	7,275	(313)	19,223
Operating expenses (income):				
Research and development	4,075			4,075
Marketing and sales	3,299	1,337		4,636
General and administrative	4,693	2,448		7,141
Gain on sale of assets	(850)			(850)
Total operating expenses	11,217	3,785		15,002
Income (loss) from operations	1,044	3,490	(313)	4,221
Interest expense	(1,496)	(252)	(603)(5)	(2,351)
Interest income	469			469
Other income	16			16
Income (loss) before income taxes	33	3,238	(916)	2,355
Income tax expense (benefit)	591	1,171	(1,102)(7)	660
Net income (loss)	$ (558)	$ 2,067	$ 186	$ 1,695
Basic income (loss) per share	$ (0.01)			$ 0.03
Diluted income (loss) per share	$ (0.01)			$ 0.03
Weighted average number of shares outstanding	52,113		12,500(6)	64,613
Weighted average number of diluted shares outstanding	52,113		14,914(16)	67,027

38

Table of Contents

INPUT/OUTPUT, INC.

UNAUDITED PRO FORMA BALANCE SHEET

March 31, 2004

	Input/ Output	GXT	Pro Forma Adjustments(1)(3)	Pro Forma Input/ Output(1)
			(in thousands)	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 25,000	$ 2,512	$ (8,250)(8)	$ 19,262
Restricted cash	1,080			1,080
Accounts receivable, net	33,928	9,536		43,464
Unbilled revenue		6,455		6,455
Current portion notes receivable, net	11,987			11,987
Inventories	57,333			57,333
Prepaid expenses and other current assets	3,476	1,100	500(9)	5,076
Total current assets	132,804	19,603	(7,750)	144,657
Notes receivable	5,938			5,938
Net assets held for sale	2,430			2,430
Property, plant and equipment, net	28,160	13,319		41,479
Seismic data library		12,354		12,354
Deferred tax asset	1,149	620	(620)(10)	1,149
Goodwill, net	76,367		118,933(11)	195,300
Other assets, net	13,543	268	16,000(12)	29,811
Total assets	$260,391	$46,164	$126,563	$433,118
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Notes payable and current maturities of long-term debt	$ 2,168	$ 8,715	$ (3,775)(13)	$ 7,108
Accounts payable	15,908	2,961		18,869
Accrued expenses	14,740	7,957		22,697
Deferred revenue	1,994	8,897		10,891
Dividends payable		1,992		1,992
Deferred tax liability		2,016	(2,016)(10)	
Total current liabilities	34,810	32,538	(5,791)	61,557
Long-term debt, net of current maturities	78,033	2,730	33,750(14)	114,513
Other long-term liabilities	3,815			3,815
Redeemable preferred stock		10,446	(10,446)(17)	
Stockholders equity:				
Stockholders equity	143,733	450	109,050(15)	253,233
Total stockholders equity	143,733	450	109,050	253,233
Total liabilities and stockholders equity	$260,391	$46,164	$126,563	$433,118

Table of Contents

INPUT/OUTPUT, INC.

NOTES TO PRO FORMA FINANCIAL INFORMATION

(1) The following is a preliminary estimate of the purchase price (in thousands) for the GXT acquisition:

Cash payment paid for GXT shares	$ 129,975
Exchange of vested employee stock options	15,500
Payoff of GXT debt	4,525
Acquisition costs	750
Total purchase price	$ 150,750

This preliminary estimate of the purchase price has been allocated as presented below based on an internally prepared preliminary assessment of the fair value of the assets and liabilities of GXT at March 31, 2004.

	Book Value of Assets Acquired (Liabilities Assumed)	Preliminary Purchase Price Allocation	Preliminary Fair Value
		(in thousands)	
Cash and cash equivalents	$ 2,512	$	$ 2,512
Accounts receivables	9,536		9,536
Unbilled revenues	6,455		6,455
Prepaid and other current assets	1,100		1,100
Property, plant and equipment	13,319		13,319
Seismic data library	12,354		12,354
Deferred tax asset	620	(620)	
Other assets	268	15,000	15,268
Goodwill		118,933	118,933
Notes payable current	(8,715)	3,775	(4,940)
Accounts payable	(2,961)		(2,961)
Accrued expenses	(7,957)		(7,957)
Deferred revenue	(8,897)		(8,897)
Deferred tax liability	(2,016)	2,016	
Long-term debt, net of current maturities	(2,730)	750	(1,980)
Dividends payable	(1,992)		(1,992)
	$ 10,896	$ 139,854	$ 150,750

All liabilities assumed were at their estimated fair values, as were the seismic data library and the property, plant and equipment. The fair value of intangibles are estimated to be $15 million (see note 12 below). There were no identified intangible assets which were determined to have indefinite lives. This preliminary assessment of fair value resulted in $118.9 million of goodwill which will be subject to periodic impairment testing.

(2) GXT has a fiscal year end of June 30. Therefore, in order to comply with Article 11 of Regulation S-X of the Securities and Exchange Commission, the GXT Statement of Income for the year ended December 31, 2003 has been adjusted to present results for the twelve months ended December 31, 2003. This adjustment was made by subtracting the results of operations for the six months ended December 31, 2002 from the results of operations for the year ended June 30, 2003 and adding the results of operations for the six months ended December 31, 2003. Additionally, to arrive at the results of operations for the

three months ended March 31, 2004, the results of operations for the six months ended December 31, 2003 were subtracted from the results of operations for the nine months ended March 31, 2004. These adjustments were as follows:

	Year Ended June 30, 2003	Six Months Ended December 31, 2002	Six Months Ended December 31, 2003	Year Ended December 31, 2003 As Adjusted
	(in thousands)			
Total revenues	$41,019	$19,298	$27,335	$49,056
Cost of revenues	24,571	11,007	17,382	30,946
Gross profit	16,448	8,291	9,953	18,110
Operating expenses:				
General and administrative	5,934	2,968	4,164	7,130
Sales and marketing	4,334	1,957	2,088	4,465
Total operating expenses	10,268	4,925	6,252	11,595
Income from operations	6,180	3,366	3,701	6,515
Interest expense	723	315	413	821
Income before income taxes	5,457	3,051	3,288	5,694
Income tax expense	826	46	1,188	1,968
Net income	$ 4,631	$ 3,005	$ 2,100	$ 3,726

	Nine Months Ended March 31, 2004	Six Months Ended December 31, 2003	Three Months Ended March 31, 2004
	(in thousands)		
Total revenues	$47,157	$27,335	$19,822
Cost of revenues	29,929	17,382	12,547
Gross profit	17,228	9,953	7,275
Operating expenses			
General and administrative	6,612	4,164	2,448
Sales and marketing	3,425	2,088	1,337
Total operating expenses	10,037	6,252	3,785
Income from operations	7,191	3,701	3,490
Interest expense	665	413	252
Income before income taxes	6,526	3,288	3,238
Income tax expense	2,359	1,188	1,171
Net income	$ 4,167	$ 2,100	$ 2,067

(3) These columns reflect (a) the issuance of I/O common stock pursuant to this offering, (b) our initial borrowings under the New Credit Facility, (c) the payment of the cash purchase price for the GXT acquisition, (d) the exchange of vested GXT stock options for vested I/O stock options in connection with the GXT acquisition, (e) the preliminary allocation of the purchase price to acquired assets and liabilities assumed, (f) the pro forma income statement effects resulting from the preliminary purchase price accounting adjustments and (g) the payoff of certain outstanding debt of GXT, as set forth in note 8 below.

(4) Reflects the preliminary pro forma adjustment to record the amortization of the acquired intangible assets (customer relationships, proprietary technology, non-compete agreements and employment contracts) over their estimated useful lives ranging from 5 years to 15 years.

(5) Reflects the pro forma adjustment to record additional interest under the New Credit Facility at an estimated weighted average annual interest rate. The amount also assumes that $34.5 million is drawn down under the New Credit Facility in connection with the closing of the GXT acquisition. The pro forma adjustment also reflects the interest savings from the payoff of GXT line of credit and shareholder loan (see note 8 below) and the amortization of debt issuance costs.

	Year Ended December 31, 2003	Three Months Ended March 31, 2004
	(in thousands)	
Interest on the New Credit Facility	$2,415	$ 604
Interest savings on payoff of GXT line of credit and shareholder loans	(410)	(126)
Amortization of debt issuance costs	500	125
	$2,505	$ 603

An one-eighth increase in the interest rate would increase interest expense by $43 thousand per year.

(6) Reflects pro forma issuance of I/O common stock in connection with the GXT acquisition.

(7) Reflects the pro forma adjustment to utilize I/O net operating losses to offset GXT U.S. tax expense.

(8) Reflects the pro forma adjustments to cash and cash equivalents (in thousands) as follows:

Net cash proceeds from the issuance of I/O common stock in this offering	$ 100,000
Initial borrowings under the New Credit Facility	34,500
Cash payment for GXT shares	(129,975)
Payoff of GXT line of credit and shareholder loans	(4,525)
Acquisition costs	(750)
Debt issuance costs on the New Credit Facility	(1,500)
Underwriting fees incurred on the issuance of I/O common stock	(6,000)
	$ (8,250)

(9) Reflects short-term portion of debt issuance costs of $0.5 million.

(10) Reflects the pro forma adjustment to deferred taxes as I/O maintains a valuation allowance against substantially all its net deferred taxes.

(11) Reflects the preliminary pro forma adjustment to record goodwill representing the excess of the purchase price over the fair value of the net assets acquired.

(12) Reflects the pro forma adjustment to record the estimated fair value the intangible assets acquired (customer relationships, proprietary technology, non-compete agreements and employment contracts), as well as the long-term portion of debt issuance costs of $1.0 million.

(13) Reflects the pro forma adjustment for the payoff of GXT line of credit.

(14) Reflects the pro forma borrowings under the New Credit Facility and payoff of GXT shareholder loans (in thousands).

Initial borrowings under the New Credit Facility	$34,500
Payoff of GXT shareholder loans	(750)
	$33,750

(15) Reflects the pro forma adjustments to stockholders equity (in thousands) as follows:

Issuance of I/O common stock to fund a portion of the purchase price	$ 100,000
Exchange of GXT vested options for I/O vested options	15,500
Underwriting fees incurred on the issuance of I/O common stock	(6,000)
Elimination of GXT s historical stockholders equity	(450)
	$ 109,050

(16) Reflects the following pro forma dilutive share adjustments (in thousands) as follows:

Issuance of I/O common stock in connection with the GXT acquisition	12,500
Dilutive stock options issued to GXT	1,875
I/O dilutive stock options	539
	14,914

(17) Reflects the pro forma adjustment to record the purchase of GXT s preferred stock by I/O.

SELECTED CONSOLIDATED FINANCIAL DATA

Selected Consolidated Financial Data of Input/ Output

The following data, insofar as they relate to each of the years in the three-year period ended December 31, 2003 have been derived from our audited consolidated financial statements, including the consolidated balance sheets at December 31, 2002 and 2003 and the related consolidated statements of operations and cash flow for the three years ended December 31, 2003 and the notes thereto, incorporated by reference into this prospectus. The following data relating to the three months ended March 31, 2003 and 2004 have been derived from our unaudited consolidated financial statements as of and for the three months ended March 31, 2003 and 2004, and the notes thereto, incorporated by reference into the prospectus. The following data should be read in conjunction with our historical audited financial statements and the related notes thereto, which are incorporated by reference in this prospectus. With regard to the unaudited consolidated financial data as of and for the nine months ended March 31, 2003 and 2004, in the opinion of our management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the nine months ended March 31, 2004 are not necessarily indicative of our operating results for a full year or of our future operations.

	Year Ended May 31,		Seven Months Ended December 31,	Year Ended December 31,			Three Months Ended March 31,	
	1999	2000	2000	2001	2002	2003	2003	2004
			(in thousands, except per share data)				(unaudited)	
Statement of Operations Data: [1]								
Net sales	$ 197,415	$ 121,454	$ 78,317	$ 212,050	$ 118,583	$ 150,033	$ 41,177	$ 36,287
Cost of sales	206,416	109,329	59,582	139,478	101,018	122,192	32,720	24,026
Gross profit (loss)	(9,001)	12,125	18,735	72,572	17,565	27,841	8,457	12,261
Operating expenses (income):								
Research and development	42,782	28,625	16,051	29,442	28,756	18,696	5,518	4,075
Marketing and sales	13,010	8,757	5,506	11,657	11,218	12,566	2,811	3,299
General and administrative	74,132	21,885	8,127	19,695	19,760	16,753	4,065	4,693
Gain on sale of assets								(850)
Amortization of goodwill	8,529	6,732	2,157	3,873				
Impairment of long-lived assets	14,500				6,274	1,120	1,120	
Goodwill impairment		31,596			15,122			
Total operating expenses	152,953	97,595	31,841	64,667	81,130	49,135	13,514	11,217
Income (loss) from operations	(161,954)	(85,470)	(13,106)	7,905	(63,565)	(21,294)	(5,057)	1,044
Interest expense	(897)	(826)	(627)	(695)	(3,124)	(4,087)	(1,345)	(1,496)
Interest income	7,981	4,930	4,583	4,685	2,280	1,903	591	469
Fair value adjustment and exchange of warrant obligation					3,252	1,757	871	
Impairment of investment						(2,059)		

Other income (expense)	(370)	1,306	176	574	(798)	976	249	16

Table of Contents

	Year Ended May 31,		Seven Months Ended December 31,	Year Ended December 31,			Three Months Ended March 31,	
	1999	2000	2000	2001	2002	2003	2003	2004
	(in thousands, except per share data)						(unaudited)	
Income (loss) before income taxes	(155,240)	(80,060)	(8,974)	12,469	(61,955)	(22,804)	(4,691)	33
Income tax (benefit) expense	(49,677)	(6,097)	1,332	3,128	56,770	348	588	591
Net income (loss)	(105,563)	(73,963)	(10,306)	9,341	(118,725)	(23,152)		(558)
Preferred dividend		4,557	3,051	5,632	947			
Net income (loss) applicable to common shares	$ (105,563)	$ (78,520)	$ (13,357)	$ 3,709	$ (119,672)	$ (23,152)	$ (5,279)	$ (558)
Basic income (loss) per common share	$ (2.17)	$ (1.55)	$ (0.26)	$ 0.07	$ (2.35)	$ (0.45)	$ (0.10)	$ (0.01)
Weighted average number of common shares outstanding	48,540	50,716	50,840	51,166	51,015	51,237	51,195	52,113
Diluted income (loss) per common share	$ (2.17)	$ (1.55)	$ (0.26)	$ 0.07	$ (2.35)	$ (0.45)	$ (0.10)	$ (0.01)
Weighted average number of diluted common shares outstanding	48,540	50,716	50,840	52,309	51,015	51,237	51,195	52,113
Other Data:								
Capital expenditures	$ 9,326	$ 3,077	$ 2,837	$ 9,202	$ 8,230	$ 4,587	$ 1,395	$ 675
Depreciation and amortization	20,776	22,835	11,448	17,535	13,237	11,444	3,574	2,422

	As of May 31,		As of December 31,	As of December 31,			As of March 31,
	1999	2000	2000	2001	2002	2003	2004
							(unaudited)
	(in thousands)						
Balance Sheet Data:							
Working capital	$ 213,612	$ 183,412	$ 181,366	$ 204,600	$ 114,940	$ 133,467	$ 97,994
Total assets	451,748	381,769	365,633	387,335	249,594	249,204	260,391
Notes payable and current maturities of long-term debt	1,067	1,154	1,207	2,312	2,142	2,687	2,168
Long-term debt, net of current maturities	8,947	7,886	7,077	20,088	51,430	78,516	78,033
Stockholders equity	396,974	335,015	325,403	331,037	152,486	133,764	143,733

(1)

Our results for the years ended December 31, 2003, 2002 and 2001, include specific charges (where applicable) as discussed in our Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K (as amended by Form 10K/A-1 and 10K/A-2) for the year ended December 31, 2003, which is incorporated by reference in this prospectus.

Table of Contents

Selected Consolidated Financial Data of GXT

The following data, insofar as they relate to each of GXT s fiscal years ended June 30, 2002 and 2003 have been derived from GXT s audited consolidated financial statements, including the consolidated balance sheets at June 30, 2002 and 2003, and the related audited consolidated statements of operations and cash flows for the fiscal years ended June 30, 2002 and 2003, and the notes thereto, found elsewhere in this prospectus. The following data relating to March 31, 2004, and the nine months ended March 31, 2003 and 2004, have been derived from GXT s unaudited consolidated financial statements found elsewhere in this prospectus. The following data should be read in conjunction with the historical financial statements and the related notes of GXT beginning on page F-3. With regard to the unaudited consolidated financial data as of and for the nine months ended March 31, 2003 and 2004, in the opinion of our management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations for the nine months ended March 31, 2004 are not necessarily indicative of our operating results for a full year or of our future operations.

	Year Ended June 30,			Nine Months Ended March 31,	
	2001	2002	2003	2003	2004
		(in thousands)		(unaudited)	
Statement of Operations Data:					
Revenues	$18,017	$21,141	$41,019	$29,811	$47,157
Cost of revenues	10,689	13,048	24,571	17,533	29,929
Gross profit	7,328	8,093	16,448	12,278	17,228
Operating expenses:					
General and administrative	2,774	3,299	5,934	4,335	6,612
Sales and marketing	3,532	3,065	4,334	3,306	3,425
Total operating expenses	6,306	6,364	10,268	7,641	10,037
Income from operations	1,022	1,729	6,180	4,637	7,191
Interest expense	(662)	(530)	(723)	(517)	(665)
Income before income taxes	360	1,199	5,457	4,120	6,526
Income tax expense	21	233	826	623	2,359
Net income	$ 339	$ 966	$ 4,631	$ 3,497	$ 4,167

	As of June 30,		As of March 31,
	2002	2003	2004
		(in thousands)	(unaudited)
Balance Sheet Data:			
Working capital	$ (666)	$ (7,708)	$(12,935)
Total assets	16,597	31,031	46,164
Line of credit and current maturities of long-term obligations	5,602	7,043	8,715
Long-term obligations	1,661	2,436	2,730
Redeemable preferred stock	10,446	10,446	10,446
Stockholders equity (deficit)	(6,953)	(3,158)	451

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

Our traditional business segments have involved the manufacture and sale of land, marine and transition zone seismic instrumentation for oil and gas exploration and production. In recent years, we have changed our overall focus toward being a provider of seismic acquisition imaging technology for exploration, production and reservoir monitoring in land and marine, including shallow water and marsh, environments. The relatively low level of traditional seismic activity has presented for the past number of years, and continues to present, a challenging environment for companies involved in the seismic industry. This environment, along with product life cycle developments affecting our traditional product lines, have been the principal factors affecting our results of operations in recent years.

However, we believe that positive trends for our business include:

- the increasing worldwide demand for hydrocarbons;

- the increasing use of seismic products by oil companies to enhance production from their existing reserves;

- the increasing needs of exploration and production companies for seismic surveys that are custom-designed to meet particular geological formation characteristics; and

- the increasing need for more sophisticated information tools to monitor and assess new and producing oil and gas reservoirs.

Our strategy involves repositioning our company as a seismic imaging company, providing both equipment and services across a broader spectrum of the seismic technology industry than merely an equipment manufacture and sales company. The advantages of our products and services that incorporate full-wave digital imaging capabilities will, we believe, ultimately drive the demand for new survey designs and the associated processing and interpretive skills that we possess. We believe that our products that digitally monitor seismic characteristics of reservoirs will reduce the costs of performing multiple seismic surveys over the same areas, thereby reducing overall seismic costs for operators and owners of the reserves.

However, executing our strategic plan is not without risk. Seismic industry fundamentals, while improving, remain weak by historical standards. In December 2003, we successfully refinanced substantially all of our existing short-term indebtedness with the proceeds from our convertible debt offering. As of March 31, 2004, our total outstanding indebtedness was $80.2 million, compared to $52.8 million outstanding at March 31, 2003. See Risk Factors and Prospectus Summary Recent Developments.

Our cash needs have increased in 2004. We have typically financed our operations from internally generated cash and funds from equity and debt financings. With our higher debt burden, our interest expense has increased in 2004 compared to 2003. We will continue to need funds to complete the research, development and testing of our products and services. During 2003, net cash flow used in operations was $33.1 million. During the first quarter of 2004 our net cash used in operations was $1.7 million.

Our ability to produce positive operating cash flows, return to consistent profitability, grow our business and service and retire our debt (in addition to our other obligations) will depend on the success of our efforts in increasing our revenues from sales of our seismic imaging systems and equipment and our processing services, successfully introducing and continuing to technologically enhance our product line and service offerings, penetrating new markets for our seismic products and services, achieving more consistency in our period-to-period results of operations, improving margins on our sales and reducing our overall costs.

We have traditionally relied on a relatively small number of significant customers; consequently, our business is exposed to risks related to customer concentration. In recent years, our traditional customers have been rapidly consolidating, reducing the demand for our products. The loss of any of our significant customers or deterioration in our relations with any of them could materially adversely affect our results of operations and

Table of Contents

financial condition. The fact that such a high percentage of our sales currently are made to foreign destinations and customers presents additional issues for our revenues and cash flows. For the year ended December 31, 2003, sales to destinations outside of North America accounted for approximately 77% of our consolidated net sales. We continue to see expansion from Chinese and Eastern European seismic contractors, and we plan to expand our presence internationally. As a result of these factors, the collections cycle for our sales in 2004 may be longer than it has traditionally been, which would thereby increase our working capital funding needs.

While we anticipate an increase in worldwide seismic activity in 2004, this anticipated increase may not materialize. As a result, our internal revenue forecast may not be realized, resulting in lower cash flows available for our future capital and operational needs. In order to meet our future capital requirements, we may need to issue additional debt or equity securities. We cannot assure you that we would be able to issue additional equity or debt securities in the future on terms that would be acceptable to us, or at all.

Through our manufacturing outsourcing activities, we have sought to reduce both the unit cost of our products and our fixed cost structure, as well as to accelerate our research and development cycle for non-core technologies. For example, in July 2003, we closed our Alvin, Texas manufacturing facility. Additionally, we closed our Norwich, U.K. geophone stringing operation in the first quarter of 2003, and moved its operations to our leased facility in Dubai as well as outsourced other manufacturing activities to various partners. In January 2004, we consolidated three operating units of our Land Imaging segment into one division and in April 2004, we consolidated two operating units of our Marine Imaging segment into one division. We will continue to work to reduce the unit costs of our products.

Acquisition of Concept Systems

In February 2004, we purchased all of the share capital of Concept Systems Holdings Limited, a provider of software, systems and services for towed streamer, seabed and land seismic operations based in Edinburgh, Scotland, in a privately negotiated transaction. The purchase price was approximately $38.4 million cash, including acquisition costs, and 1,680,000 shares of our common stock, valued at $10.8 million. The source of the cash component of the consideration paid was from the December 2003 sale of our convertible senior notes, and general corporate funds. Under a registration rights agreement, we granted certain demand and piggyback registration rights for the shares of stock issued in the acquisition transaction.

Significant 2002 and 2003 Charges

In 2002, we recorded significant charges in connection with our restructuring program. The related reserves reflected many estimates, including those pertaining to severance costs of $3.4 million, facility related charges (primarily future, non-cancelable, lease obligations) of $1.9 million and inventory-related charges of $4.3 million. In addition, during 2002, we recorded charges of $15.1 million relating to the impairment of goodwill and $6.3 million for the impairment of long-lived assets. In 2003, we recorded severance costs of $1.3 million, inventory-related charges of $1.0 million, $1.1 million for the impairment of long-lived assets and $2.5 million related to the write-down of rental equipment associated with our first generation radio-based VectorSeis land acquisition system. We will continually reassess the requirements necessary to complete our restructuring program, which may result in additional charges being recorded in future periods. However, we currently do not anticipate any significant future charges or adjustments to our restructuring accruals, except for $0.4 million of additional severance expenses to be incurred in 2004 associated with the consolidation of three operating units within our Land Imaging segment into one division.

In 2002, we recorded a net charge of $58.8 million to income tax expense to establish an additional valuation allowance for substantially all of our net deferred tax assets. At December 31, 2003 and 2002, the unreserved deferred income tax asset of $1.1 million represents our Alternative Minimum Tax payments that are recoverable through the carryback of net operating losses. In accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes,* we established an additional valuation allowance for substantially all of our net deferred tax assets based on our cumulative operating results in the three-year period ended December 31, 2002. Our results in this period were heavily affected by industry conditions and deliberate and planned business restructuring activities in response to the prolonged downturn in the seismic equipment market, as well as heavy expenditures for research and development. Nevertheless, recent losses represented sufficient negative evidence to establish an additional valuation allowance. We have continued to reserve for substantially all of our net deferred tax assets and will continue to do so until we have sufficient evidence to warrant reversal. This valuation allowance does not affect our ability to reduce future tax expense through utilization of net operating losses.

Results of Operations

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Net Sales. Net sales of $36.3 million for the three months ended March 31, 2004 decreased $4.9 million, or 12%, compared to the corresponding period last year. Land Imaging s net sales decreased $10.1 million, or 32%, to $21.0 million compared to $31.1 million in the corresponding period of last year. The decrease was mainly due to vibrator vehicle sales being shifted out of the first quarter of 2004 into the second and third quarter of 2004 because of supply chain management issues and product transition from our mature Image land data acquisition to our new System Four Analog Cable system, which is scheduled for introduction in the second quarter of 2004. Marine Imaging s net sales increased $2.9 million, or 34%, to $11.5 million compared to $8.6 million in the corresponding period last year. The increase was due to the first sale of our VectorSeis Ocean-bottom acquisition system, which represents new technology for seismic imaging directly from the seabed floor. Processing and Software (formerly referred to as Processing) net sales increased $2.3 million to $3.8 million compared to $1.5 million in the corresponding period of last year. The increase is due to the acquisition of Concept Systems, which was acquired in February 2004.

Cost of Sales. Cost of sales of $24.0 million for the three months ended March 31, 2004 decreased $8.7 million, or 27%, compared to the corresponding period last year. Cost of sales for Land Imaging, Marine Imaging and Processing and Software was $16.0 million, $6.7 million and $1.3 million, respectively. Costs of sales decreased primarily as a result of a decrease in sales activity in Land Imaging. Included in costs of sales for the three months ended March 31, 2003 was $0.3 million of severance costs; there was no corresponding charge for the three months ended March 31, 2004.

Gross Profit and Gross Profit Percentage. Gross profit of $12.3 million for the three months ended March 31, 2004 increased $3.8 million, or 45%, compared to the corresponding period last year. Gross profit percentage for the three months ended March 31, 2004 was 34% compared to 21% in the prior year. The improvement in gross profit was driven mainly by the contribution from Concept Systems, the sale of new products within our Marine Imaging segment, such as our VectorSeis Ocean-Bottom system in addition to follow on sales of VectorSeis System Four land acquisition systems by our Land Imaging segment. Also, the decrease in sale volumes of our lower margin vibrator vehicles had a positive impact to our total gross margin percentage. In the first quarter of 2003, we delivered our first VectorSeis System Four acquisition radio-based system, which resulted in lower margins primarily because of a low introductory price.

Research and Development. Research and development expense of $4.1 million for the three months ended March 31, 2004 decreased $1.4 million, or 26%, compared to the corresponding period last year. This decrease primarily reflects lower prototype expenses and the cancellation of our solid streamer project. In the second quarter of 2003, we entered into the commercial phase of our VectorSeis System Four land acquisition cable-based system. This reduced our prototype expenses for the quarter ended March 31, 2004 compared to the quarter ended March 31, 2003. Also, we incurred a charge of $0.2 million during the three months ended March 31, 2003 related to the write-down of inventory associated with our cancelled solid streamer project. There was no corresponding charge for the three months ended March 31, 2004.

Marketing and Sales. Marketing and sales expense of $3.3 million for the three months ended March 31, 2004 increased $0.5 million, or 17%, compared to the corresponding period last year. The increase is primarily related to expanding our sales force within China and Russia. In 2002, we opened our sales representative office in Beijing, China, and we further expanded our personnel and travel to the region throughout 2003 and the first quarter of 2004. In addition, in the first quarter of 2004, we opened a new sales representative office in Moscow, Russia.

General and Administrative. General and administrative expense of $4.7 million for the three months ended March 31, 2004 increased $0.6 million, or 15%, compared to the corresponding period last year. The increase in general and administrative expense is primarily attributable to an increase in professional fees associated with our continued implementation efforts to comply with the new rules and regulations of Sarbanes-Oxley, in addition to an increase in legal fees associated with various on-going legal matters in our ordinary course of business. Also, a portion of this increase is due to the acquisition of Concept Systems in February 2004.

Gain on Sale of Assets. Gain on sale of assets of $0.9 million for the three months ended March 31, 2004, primarily related to the sale of land across from our headquarters in Stafford, Texas.

Impairment of Long-Lived Assets. Impairment of long-lived assets of $1.1 million for the three months ended March 31, 2003 related to the cancellation of our solid streamer project within Marine Imaging. There was no corresponding charge during the three months ended March 31, 2004.

Net Interest and Other Expense. Total net interest and other expense of $1.0 million for the three months ended March 31, 2004 increased $0.5 million compared to the corresponding period last year. The increase is primarily due to an increase in interest expense of $0.2 million due to the issuance of $60.0 million of our convertible senior notes. These convertible notes were issued in December 2003 and bear interest at an annual rate of 5.5%, payable semi-annually.

Fair Value Adjustment of Warrant Obligation. The fair value adjustment of warrant obligation totaling $0.9 million was due to a change in the fair value between January 1, 2003 and March 31, 2003 of our previously outstanding common stock warrant. No comparable adjustment was recorded in the first quarter of 2004 because this warrant was exchanged for 125,000 shares of our common stock in December 2003.

Income Tax Expense. Income tax expense for the three months ended March 31, 2004 was $0.6 million compared to income tax expense of $0.6 million for the three months ended March 31, 2003. Income tax expense for the three months ended March 31, 2004 and 2003 reflected state and foreign taxes, as we continue to maintain a valuation allowance for our net deferred tax assets (other than prior alternative minimum tax payments that are recoverable through the carryback of our net operating losses).

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Net Sales. Net sales of $150.0 million for the year ended December 31, 2003 increased $31.5 million, or 27%, compared to the corresponding period last year. Land Imaging s net sales increased $45.5 million, or 72%, to $108.5 million compared to $63.0 million in the corresponding period of last year. The increase was due to an increase in land seismic activity with our non-Western contractors, primarily in China and the CIS. Marine Imaging s net sales decreased $17.7 million, or 33%, to $35.7 million compared to $53.4 million in the corresponding period last year. The decrease was due to continued overcapacity and reduction in capital spending in the marine contractor market. In 2003, we formed a new reporting segment, Processing, from our acquisition of AXIS in July 2002. Processing s net sales for the twelve months ended December 31, 2003 were $5.8 million compared to $2.2 million recorded from the date of acquisition in July 2002 to the end of 2002.

Cost of Sales. Cost of sales of $121.1 million for the year ended December 31, 2003 increased $21.5 million, or 22%, compared to the corresponding period last year. Cost of sales for Land Imaging, Marine Imaging and Processing were $93.4 million, $25.0 million and $2.7 million, respectively. Cost of sales increased primarily as a result of the increase in sales activity in Land Imaging. In addition, a charge of $2.5 million was included in cost of sales related to the write-down of rental equipment associated with our first-generation radio-based VectorSeis land acquisition systems to its net realizable value. Included in cost of sales for the year ended December 31, 2003 is $0.7 million of severance costs compared to $1.9 million for the year ended December 31, 2002. Cost of sales was also negatively affected by $1.0 million and $4.3 million of inventory-related charges for the years ended December 31, 2003 and 2002, respectively.

Gross Profit and Gross Profit Percentage. Gross profit of $27.8 million for the year ended December 31, 2003 increased $10.3 million, or 59%, compared to the corresponding period last year. Gross profit percentage for the year ended December 31, 2003 was 19% compared to 15% for the year ended December 31, 2002. The improvement in gross profit was driven mainly by volume improvements as well sales of our higher-margin VectorSeis System Four land acquisition system which was commercialized in early 2003. Our gross profit percentage for the year ended December 31, 2003 was negatively impacted in part due to a charge of $2.5 million related to the write-down of rental equipment associated with our first generation radio-based VectorSeis land acquisition systems to its net realizable value, and inventory-related charges of $1.0 million. Inventory related charges for the year ended December 31, 2002 were $4.3 million.

Research and Development. Research and development expense of $18.7 million for the year ended December 31, 2003 decreased $10.1 million, or 35%, compared to the corresponding period last year. This decrease primarily reflects reduced staffing levels, the cancellation of our marine solid streamer project, the entrance into the commercial phase of our VectorSeis System Four land acquisition system and a reduction of rent expense (primarily associated with our vacated Austin, Texas software development facility). For the year ended December 31, 2002, we incurred charges of $1.3 million relating to the closure of this facility. Included in research and development expenses for the year ended December 31, 2003 is $0.4 million of severance costs compared to $0.8 million for the year ended December 31, 2002. For the year ended December 31, 2003, we incurred $0.2 million of expenses related to the cancellation of our solid streamer project within the Marine Imaging segment.

Marketing and Sales. Marketing and sales expense of $12.6 million for the year ended December 31, 2003 increased $1.3 million, or 12%, compared to the corresponding period last year. The increase was primarily related to higher sales and commissions on sales and due to the opening of our sales representative office in Beijing, China. We expect marketing and sales expenses to increase further in 2004, in part due to expenses related to our new Moscow, Russia sales representative office.

General and Administrative. General and administrative expense of $16.8 million for the year ended December 31, 2003 decreased $3.0 million, or 15%, compared to the corresponding period last year. The decrease in general and administrative expense was primarily attributable to reductions in personnel resulting from our 2002 and 2003 staff reduction activities and a reduction in bad debt expense due to collections of previously reserved notes receivable of $0.5 million. This decrease was partially offset by $0.4 million of moving costs associated with vacating our Alvin, Texas facility as well as the inclusion of AXIS, which we acquired in July 2002. Included in general and administrative expenses are severance costs of $0.2 million and $0.4 million for the years ended December 31, 2003 and 2002, respectively.

Impairment of Long-Lived Assets. Impairment of long-lived assets of $1.1 million for the year ended December 31, 2003 relates to the cancellation of our solid streamer project within Marine Imaging in the first quarter of 2003. Impairment of long-lived assets of $6.3 million for the year ended December 31, 2002 primarily relates to the impairment of our Alvin, Texas manufacturing facility, the impairment of the leasehold improvements of our Norwich, U.K. geophone stringing facility and certain related manufacturing equipment of both facilities. These impairment charges were triggered by the announced closure of the facilities.

Goodwill Impairment. Goodwill impairment of $15.1 million for the year ended December 31, 2002 relates to the impairment of goodwill of our analog land products reporting unit. There was no corresponding charge during the year ended December 31, 2003.

Net Interest and Other Income (Expense). Total net interest and other income (expense) of $(1.2) million for the year ended December 31, 2003 decreased $0.4 million compared to the corresponding period last year. Interest expense increased primarily due to the issuance of the $31.0 million SCF Note in August 2002, which in May 2003 we repaid $15.0 million in principal. In December 2003, a portion of the proceeds from the issuance of our convertible senior notes was used to repay in full the $16.0 million remaining SCF debt. Interest income decreased due to a decline in our cash balances and short-term interest rates, partially offset by an increase in our notes receivables. The increase in other income was primarily due to fluctuations in exchange rates and a gain on sale of assets primarily resulting from the auction of equipment related to our vacated Alvin manufacturing facility.

Fair Value Adjustment and Exchange of Warrant Obligation. The fair value adjustment and exchange of our warrant obligation totaling $1.8 million was due to a change in the fair value between January 1, 2003 and December 10, 2003 of our common stock warrant. On December 10, 2003, we exchanged the warrant for 125,000 shares of our common stock, which we issued to SCF. A fair value adjustment of $3.3 million was recorded for the year ended December 31, 2002.

Impairment of Investment. Impairment of investment of $2.1 million for the year ended December 31, 2003 relates to the write-down of our investment in EVP to its approximate final liquidation value of $1.0 million.

Income Tax Expense. Income tax expense of $0.3 million for the year ended December 31, 2003 decreased $56.4 million compared to the corresponding period last year. Income tax expense for the year ended December 31, 2003 reflects $1.5 million of state and foreign taxes as we continue to maintain a valuation allowance for our net deferred tax assets (except for prior alternative minimum tax payments that are recoverable through the carryback of net operating losses), partially offset by federal tax refunds of $1.2 million. In the second quarter of 2002, we began to fully reserve for substantially all of our net deferred tax assets, which resulted in a net charge to income tax expense of $58.8 million during that period.

Preferred Stock Dividend. Preferred stock dividend of $0.9 million for the year ended December 31, 2002 is related to our previously outstanding Series B and Series C Preferred Stock. We repurchased the preferred stock on August 6, 2002 and, as a result, there were no preferred stock dividends for the year ended December 31, 2003. The preferred stock dividend for the year ended December 31, 2002 includes a preferred stock dividend credit of $2.5 million, which represents the difference between the fair value of the consideration granted to the holder and our carrying value of the preferred stock at the time of the repurchase.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net Sales. Net sales of $118.6 million for the year ended December 31, 2002 decreased $93.5 million, or 44%, compared to the corresponding period last year. Land Imaging s net sales decreased $99.2 million, or 61%, to $63.0 million, primarily as a result of declining industry conditions and a loss of market share to our principal competitor. Marine Imaging s net sales increased $3.5 million or 7%, to $53.4 million, compared to the prior year, primarily due to an increase in demand from Russian contractors. Processing s net sales of $2.2 million resulted from our acquisition of AXIS in July 2002.

Cost of Sales. Cost of sales of $99.6 million for the year ended December 31, 2002 decreased $38.8 million, or 28%, compared to the corresponding period last year. Costs of sales of Land Imaging, Marine Imaging and Processing were $65.0 million, $33.8 million and $0.8 million, respectively. The decrease was a result of reduced sales activity in Land Imaging, partially offset by lower gross profit on those revenues. Included in cost of sales for the year ended December 31, 2002 were $1.9 million of severance costs, for which there were no corresponding costs for the year ended December 31, 2001. Cost of sales was negatively affected by $4.3 million and $3.6 million of inventory-related charges for the years ended December 31, 2002 and 2001, respectively.

Gross Profit and Gross Profit Percentage. Gross profit of $17.6 million for the year ended December 31, 2002 decreased $55.0 million, or 76%, compared to the corresponding period last year. Gross profit percentage for the year ended December 31, 2002 was 15% compared to 34% in the prior year. The decline in gross profit percentage was primarily due to under-absorbed manufacturing overhead, inventory-related charges of $4.3 million, and to a lesser degree, severance for work force reductions totaling $1.9 million.

Research and Development. Research and development expense of $28.8 million for the year ended December 31, 2002 decreased $0.7 million, or 2%, compared to the corresponding period last year. Research and development expense remained at relatively high levels as we completed the final stages of VectorSeis commercialization and continued to develop a solid marine streamer, a lightweight ground electronics system and an ocean bottom system that would exploit our VectorSeis technology. Also, research and development expenses included severance expenses of $0.8 million and charges related to the closure of our Austin, Texas facility of $1.3 million.

Marketing and Sales. Marketing and sales expense of $11.2 million for the year ended December 31, 2002 decreased $0.4 million, or 4%, compared to the corresponding period last year. The decrease is primarily related to lower payroll costs and commissions on sales, partially offset by severance for work force reductions of $0.3 million.

General and Administrative. General and administrative expense of $19.8 million for the year ended December 31, 2002 increased $0.1 million compared to the corresponding period last year. The increase in general and administrative expense was primarily due to $0.6 million of abandoned lease costs associated with our Louisville, Colorado facility and an increase in bad debt expense (net of recoveries) of $0.5 million, partially offset by decreases in payroll, profit-based bonuses and facility related costs.

Amortization of Goodwill. Amortization of goodwill for the year ended December 31, 2001 was $3.9 million. There was no amortization of goodwill in 2002 due to the implementation of SFAS No. 142 *Goodwill and Other Intangibles Assets* , which, among other things, eliminated the amortization of goodwill.

Impairment of Long-Lived Assets. Impairment of long-lived assets of $6.3 million for the year ended December 31, 2002 primarily related to the impairment of our Alvin, Texas manufacturing facility, the leasehold improvements of our Norwich, U.K. geophone stringing facility and certain related manufacturing equipment of both facilities. The impairments were triggered by the announced closures of facilities. There was no corresponding charge during the year ended December 31, 2001.

Goodwill Impairment. Goodwill impairment of $15.1 million for the year ended December 31, 2002 related to the impairment of goodwill of our analog land products reporting unit. There was no corresponding charge during the year ended December 31, 2001.

Net Interest and Other Income (Expense). Total net interest and other income (expense) of $(1.6) million for the year ended December 31, 2002 decreased $6.2 million compared to the corresponding period last year. The decrease is primarily due to falling interest rates on cash balances, as well as increased interest expense on new debt, compared to the prior year.

Fair Value Adjustment of Warrant Obligation. The fair value adjustment of our warrant obligation totaling $3.3 million was due to a change in the fair value of the SCF Warrant between August 6, 2002 (the issuance date) and December 31, 2002.

Income Tax Expense. Income tax expense of $56.8 million for the year ended December 31, 2002 increased $53.6 million compared to the year ended December 31, 2001 due to a charge of $58.8 million in 2002 to establish an additional valuation allowance for substantially all of our net deferred tax assets. In the second quarter of 2002, we began to reserve for substantially all of our net deferred tax assets.

Preferred Stock Dividends. Preferred stock dividends for the years ended December 31, 2002 and 2001 were related to previously outstanding Series B and Series C Preferred Stock. The preferred stock dividend charge for the year ended December 31, 2002 was $0.9 million, compared to $5.6 million for the year ended December 31, 2001. We repurchased the preferred stock on August 6, 2002. The decrease in preferred stock dividends was due to a preferred stock dividend credit of approximately $2.5 million, which represented the difference in the fair value of the consideration granted to the holders of the preferred stock and our carrying value of the preferred stock at the time of the repurchase, and less than a full year of dividends in 2002.

Liquidity and Capital Resources

Cash Flow from Operations

We have traditionally financed operations from internally generated cash and funds from equity and debt financings. Cash and cash equivalents were $25.0 million at March 31, 2004, a decrease of $34.5 million, or 58%, compared to December 31, 2003. Net cash used in operating activities was $1.7 million for the three months ended March 31, 2004, compared to cash used in operating activities of $18.7 million for the three months ended March 31, 2003. The amount of net cash used in our operating activities for the three months ended March 31, 2004 was due to an increase in data acquisition systems inventory within our Land Imaging segment that is scheduled to be delivered to customers in the second quarter of 2004.

Table of Contents

Cash and cash equivalents were $59.5 million at December 31, 2003, a decrease of $16.7 million, or 22%, compared to December 31, 2002. Net cash used in operating activities was $33.1 million for the year ended December 31, 2003, compared to cash provided by operating activities of $13.7 million for the year ended December 31, 2002. The net cash used in operating activities for 2003 was due in part to the loss from operations for the year. Also contributing to the net cash used during the period were an increase in accounts and notes receivable, as well as an increase in inventory related to increased activity in Land Imaging. We also took advantage of our cash position to reduce our accounts payable level. The increase in our accounts receivable was primarily due to a continued shift in our sales to foreign customers, which historically have been slower to pay.

Cash and cash equivalents were $76.2 million at December 31, 2002, a decrease of $25.1 million, or 25%, compared to December 31, 2001. Net cash provided by operating activities was $13.7 million for the year ended December 31, 2002, compared to $17.6 million for the year ended December 31, 2001. This decrease in cash flow provided from operations was generally a result of lower operating levels in 2002 with smaller gross margins.

Cash Flow from Investing Activities

Net cash flow used in investing activities was $31.7 million for the three months ended March 31, 2004, compared to $1.3 million for the three months ended March 31, 2003. The principal investing activity was related to our purchase of Concept Systems in February 2004 for $38.4 million of cash including acquisition costs and 1,680,000 of our common shares, valued at $10.8 million. During the three months ended March 31, 2004, we sold excess property and equipment for net proceeds of $1.5 million, a majority of which related to land located across from our headquarters in Stafford, Texas and received full payment on our $5.8 million note receivable that related to the sale of a subsidiary in 1999. We purchased $0.7 million of equipment during the three months ended March 31, 2004 and expect to spend an additional $5.0 million for equipment and other capital expenditures through the remainder of 2004.

Net cash flow used in investing activities was $7.5 million for the year ended December 31, 2003, which represented a decrease of $3.3 million compared to the year ended December 31, 2002. The principal investing activities were $4.6 million relating to capital expenditure projects, $3.0 million related to the investment in EVP in April 2003 and $1.3 million of additional consideration paid to the former shareholders of AXIS to settle all future contingent purchase price obligations. In the fourth quarter of 2003 we received $0.9 million from the liquidation of EVP. Planned capital expenditures for 2004 are approximately $5.8 million.

Net cash flow used in investing activities was $10.9 million for the year ended December 31, 2002; a decrease of $3.9 million compared to the year ended December 31, 2001. Our principal investing activities in 2002 were $8.2 million relating to capital expenditure projects and $2.7 million, net of cash acquired, relating to our acquisitions of AXIS and S/N Technologies.

Cash Flow from Financing Activities

Net cash flow used in financing activities was $0.9 million for the three months ended March 31, 2004, compared to $0.6 million of cash used in financing activities for the three months ended March 31, 2003. The cash flow used in financing activities primarily related to scheduled payments of $1.0 million on our notes payable.

Cash flow provided by financing activities was $21.2 million for the year ended December 31, 2003; an increase of $52.5 million compared to the use of cash for the year ended December 31, 2002. In December 2003, we issued $60.0 million of convertible senior notes which mature in December 2008. As part of this issuance we incurred approximately $3.5 million of underwriting and professional fees, which were recorded as deferred financing costs and are being amortized over the 5-year term. A portion of the proceeds from this issuance was used to repay in full the $16.0 million in outstanding debt under the SCF Note. In May 2003, we had repaid $15.0 million of outstanding debt under the SCF Note. In addition, we paid $3.2 million related to other debt obligations.

Cash flow used in financing activities was $31.3 million for the year ended December 31, 2002, representing a decrease of $38.9 million compared to the year ended December 31, 2001. The principal use of cash was $30.0 million relating to the repurchase of preferred stock and $2.6 million for the repayment of long-term debt, partially offset by proceeds of $0.8 million from the issuance of common stock under our employee stock purchase plan and $1.0 million from the exercise of stock options.

Acquisition Indebtedness

In July 2002, in connection with our acquisition of AXIS, we issued a $2.5 million three-year unsecured promissory note payable to the former shareholders of AXIS, bearing interest at 4.34% per year. Principal is payable in quarterly installments of $0.2 million, plus interest, with the final payment due in July 2005. The unpaid balance as of March 31, 2004 was $1.3 million.

In January 2001, in connection with our acquisition of all of the outstanding capital stock of Pelton Company, we issued a $3.0 million two-year unsecured promissory note payable to the former shareholder of Pelton, bearing interest at 8.5% per year. Principal was payable in quarterly payments of $0.4 million plus interest. The final payment on this note was made in February 2003.

Sale and Lease of Stafford Facilities

In August 2001, we sold the land and buildings that house our corporate headquarters, our land imaging division and our MEMS facility in Stafford, Texas for $21.0 million cash, and repaid the outstanding mortgage loan secured by that property. At the same time, we entered into a non-cancelable lease with the purchaser of the property. This lease has a 12-year term with three consecutive options to extend the lease for five years each. We have no purchase option under this lease. As a result of the terms of the lease, the commitment was recorded as a twelve-year $21.0 million lease obligation with an implicit annual interest rate of 9.1%. We paid $1.7 million in commissions and professional fees, which were recorded as deferred financing costs and are being amortized over the 12-year term of the obligation. The unpaid balance of the lease payments as of March 31, 2004 was $18.6 million.

The carrying value of the land and buildings are included as assets, and the value of the related lease obligations are included as liabilities, on our consolidated balance sheet under U.S. generally accepted accounting principles. As of December 31, 2003, the net carrying value of the facilities on our consolidated balance sheet was approximately $12.6 million.

The lease agreement contains financial covenants requiring us to maintain certain current ratios and tangible net worth during the first five years of the lease term. These financial covenants provide that if we fail to meet certain current ratio or tangible net worth requirements for any four consecutive quarters, we would have to provide a letter of credit to the landlord in the amount of $1.5 million. At June 30, 2003, we failed to meet the tangible net worth requirement for four consecutive quarters, and as a result, we provided a letter of credit to the landlord in the amount of $1.5 million during the third quarter of 2003. To secure the issuance of the letter of credit, we were required to deposit $1.5 million with the issuing bank. This letter of credit will remain outstanding until we are back in compliance with the tangible net worth requirements for eight consecutive quarters, or until the expiration of the eighth year of the lease, which is in 2009. We were not in compliance with the tangible net worth requirement at December 31, 2003 and March 31, 2004.

Liquidity and Capital Resources After this Offering

In December 2003, we issued $60.0 million of 5.5% senior convertible notes due in 2008. We used a substantial portion of the proceeds from the sale of convertible notes to repay in full the approximately $16.0 million of outstanding indebtedness under the SCF Note and we used a total of $38.4 million cash, including acquisition costs, from such proceeds and from our general corporate funds for the Concept acquisition in February 2004. As a result, our interest expense is expected to increase for 2004 and the foreseeable future. Our ability to make scheduled payments of principal or interest on, or to refinance, our indebtedness depends on our future business performance, which is subject to many economic, financial, competitive and other factors beyond our control.

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

Based upon our management s internal revenue forecast, our liquidity requirements in the near term and our projected increase in seismic activity primarily outside of North America, we currently believe that the combination of our projected internally generated cash and our working capital (including cash and cash equivalents on hand), will be adequate to meet our anticipated capital and liquidity requirements for the next twelve months. We also anticipate that a larger percentage of our future sales in 2004 and beyond will be to foreign customers, particularly those in China and the CIS. As a result of this change in customer mix, our collections cycle may be longer than we have traditionally experienced.

We anticipate an increase in worldwide seismic activity in 2004. However, this anticipated increase may not materialize. As a result, our internal revenue forecast may not be realized, resulting in lower cash flows available for our future capital needs. In order to meet these future capital requirements, we may need to issue additional debt or equity securities. We cannot assure you that we would be able to issue additional equity or debt securities in the future on terms that would be acceptable to us, or at all.

Future Contractual Obligations

The following table sets forth estimates of future payments for 2004 through 2009, and thereafter, of our consolidated contractual obligations as of December 31, 2003 (in thousands). This table does not include any future obligations under our proposed New Credit Facility.

	Payments Due by Fiscal Year						
Contractual Obligations	**Total**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009 and Thereafter**
Long-Term Debt and Lease Obligations	$ 81,203	$ 2,687	$1,840	$1,470	$1,610	$61,763	$11,833
Operating Leases	5,120	2,453	806	559	374	928	
Product Warranty	3,433	3,433					
Purchase Obligations	19,812	19,422	390				
Total	$109,568	$27,995	$3,036	$2,029	$1,984	$62,691	$11,833

The debt and lease obligations at December 31, 2003 consist primarily of $60.0 million in convertible senior notes that mature in December 2008. The remaining amount of these obligations consist of $1.5 million in unsecured promissory notes related to our acquisition of AXIS in 2002, $0.9 million of insurance costs we financed through short-term notes payable, and $18.8 million related to the lease arrangement housing our corporate headquarters, our Land Imaging division and MEMS facility in Stafford, Texas.

The operating lease commitments at December 31, 2003 relate to our lease of certain equipment, offices, and warehouse space under non-cancelable operating leases.

The liability for product warranties at December 31, 2003 relates to the estimated future warranty expenditures associated with our products. Our warranty periods range from 90 days to three years from the date of original purchase, depending on the product. We record an accrual for product warranties and other contingencies when estimated future expenditures associated with those contingencies become probable and the amounts can be reasonably estimated.

Our purchase obligations primarily relate to our committed inventory purchase orders for which deliveries are scheduled to be made in 2004. Included in this amount is a minimum payment commitment of labor hours

Table of Contents

to the outsource provider for the manufacturing of our vibrator vehicles, which extends through 2005 and approximates $0.4 million in each of the years ending December 31, 2004 and 2005.

As part of our business plan, we are increasing the use of contract manufacturers as an alternative to in-house manufacturing. Under a few of our outsourcing arrangements, our manufacturing outsourcers first utilize our on-hand inventory, then directly purchase inventory at agreed-upon quantities and lead times in order to meet our scheduled deliveries. If demand proves to be less than we originally forecasted (thereby allowing us to cancel our committed purchase orders with our outsourcer), our manufacturing outsourcer has the right to require us to purchase inventory which it had purchased on our behalf. However, since we now issue purchase orders to our outsourcers based upon our short-term forecast (usually three months or less), we believe we have reduced the risk that we may be required to purchase any substantial quantities of inventory that we may never utilize.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, *Accounting for Asset Retirement Obligations.* This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of this statement are effective for fiscal years beginning after June 15, 2002. We adopted SFAS No. 143 on January 1, 2003 and its adoption did not have an impact on our results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred. Under EITF Issue 94-3, a liability for an exit cost was recognized at the date of an entity s commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, and we have adopted them for 2003. For all exit and disposal activities initiated on or before December 31, 2002, we have continued to follow EITF No. 94-3.

In November 2002, the FASB issued Interpretation (FIN) No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others: an Interpretation of FASB Statements No. 5, 67, and 107 and Rescission of FASB Interpretation No. 34.* FIN No. 45 clarifies the requirements of FASB No. 5, *Accounting for Contingencies,* relating to the guarantor s accounting for, and disclosure of, the issuance of certain types of guarantees. The initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Our adoption of FIN No. 45 did not have a significant impact on our results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure and Amendment of FASB No. 123.* SFAS No. 148 amends FASB No. 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition for a voluntary change in fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have elected to continue to follow the intrinsic value method of accounting prescribed by Accounting Principal Board Opinion No. 25.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.* The primary objective of the interpretation is to provide guidance on the identification of and financial reporting for entities over which control is achieved through means other than voting rights; such entities are known as variable-interest entities (VIEs). FIN No. 46 provides guidance that determines (1) whether consolidation is required under the controlling financial interest model of Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* or other existing authoritative guidance, or, alternatively, (2) whether the variable-interest model under FIN No. 46 should be used to account for existing and new entities. In December 2003, the FASB completed deliberations of proposed modifications to FIN 46 (FIN 46-R) resulting in multiple effective dates based on the nature as well as creation date of the VIE. FIN No. 46, as revised, did not have an impact on our results of operations or financial position.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities,* which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Our adoption of this statement had no initial impact on the results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150*, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires a financial instrument within its scope to be classified as a liability. It is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. These effective dates are not applicable to the provisions of paragraphs 9 and 10 of SFAS 150 as they apply to mandatorily redeemable noncontrolling interests, as the FASB has delayed these provisions indefinitely. Our adoption of this statement had no initial impact on our results of operations or financial position.

In December 2003, the SEC issued Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition,* which supercedes SAB 101, *Revenue Recognition in Financial Statements.* SAB 104 s primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superceded as a result of the issuance of EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables.* While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The impact of SAB 104 did not have a material effect on the Company s results of operations or financial position.

Credit Risk

Currently, our principal customers are seismic contractors, which 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, we market and sell products and services to oil and gas companies. In 2003, BGP accounted for approximately 28% of our consolidated net sales. For the three months ended March 31, 2004, BGP accounted for approximately 13% of our consolidated net sales. In 2002, two of our largest customers, WesternGeco and Laboratory of Regional GeoDynamics, Limited, were responsible for approximately 11% and 10%, respectively, of our consolidated net sales. The loss of any one of these customers or deterioration in our relations with any of them could have a material adverse effect on our results of operations and financial condition. In recent years, our customers have been rapidly consolidating, shrinking the demand for our products.

Approximately $10.6 million of our total notes receivable at March 31, 2004 related to one customer, a subsidiary of a major Russian energy company. During 2003, this customer became delinquent on approximately $0.8 million of its scheduled principal and interest payments, in addition to becoming delinquent on $1.8 million of its trade receivables. In January 2004, we refinanced the delinquent portion of its notes and trade receivables into a new notes totaling $2.6 million, with payments due in equal installments over a twelve-month period. Based on our internal credit review and meetings with the customer and its parent company, we expect the customer will pay all of its obligations in full and, therefore, no allowance has been established for these receivables.

During the year ended December 31, 2003, we recognized $20.0 million of sales to customers in the CIS, $15.4 million of sales to customers in Latin American countries, $20.0 million of sales to customers in Europe and $44.7 million of sales to customers in Asia. The majority of our foreign sales are denominated in

U.S. dollars. During the three months ended March 31, 2004, we recognized $3.4 million of sales to customers in the CIS, $0.9 million of sales to customers in Latin American countries, $12.0 million of sales to customers in Europe and $8.0 million of sales to customers in Asia. In recent years, the CIS and certain Latin American countries have experienced economic problems and uncertainties as well as devaluations of their currencies. A continuation of weak demand for the services provided by certain of our customers will further strain their revenues and cash resources, thereby resulting in a higher likelihood of defaults in the timely payment of their obligations to us under our credit sales arrangements. Increased levels of payment defaults by our customers with respect to our credit sales arrangements could have a material adverse effect on our results of operations. To the extent that world events or economic conditions negatively affect our future sales to customers in those and other regions of the world or the collectibility of our existing receivables, our future results of operations, liquidity and financial condition may be adversely affected.

SCF Note and Warrant

In August 2002, we repurchased all of the 40,000 outstanding shares of our Series B Convertible Preferred Stock and all of the 15,000 outstanding shares of our Series C Convertible Preferred Stock from SCF Partners, a Houston-based private equity fund specializing in oil service investments. In exchange for the preferred stock, we paid SCF $30.0 million in cash at closing, issued SCF a $31.0 million unsecured promissory note due May 7, 2004 and granted SCF a warrant to purchase 2,673,517 shares of our common stock at $8.00 per share which was set to expire on August 5, 2005. The note bore interest at 8% per annum until May 7, 2003, at which time the interest rate increased to 13%. We recorded interest on this note at an effective rate of approximately 11% per year. In May 2003, we repaid $15.0 million of the note and in December 2003, we repaid, in full, the remaining outstanding $16.0 million indebtedness. In addition, in December 2003, we terminated the warrant in exchange for 125,000 shares of our common stock with a market value of $3.54 per share.

Under the terms of a registration rights agreement, SCF had the right to demand that we file a registration statement for the resale of the shares of common stock SCF acquired upon exercise of the warrant. If we were acquired in a business combination pursuant to which our stockholders receive less than 60% of the aggregate consideration in the form of publicly traded common equity, then the holder of the warrant had the option to require the Company to acquire the warrant at its fair value as determined by the Black-Scholes valuation model, as further refined by the terms of the warrant agreement. Because we could have been required to repurchase the warrant in these limited circumstances, we had classified the warrant as a current liability on our consolidated balance sheet.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make choices between acceptable methods of accounting and to use judgment in making estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. The following accounting policies are based on, among other things, judgments and assumptions made by management that include inherent risk and uncertainties. Management s estimates are based on the relevant information available at the end of each period.

Revenue Recognition and Product Warranty Revenue is derived from the sale of data acquisition systems and other seismic equipment as well as from the processing of seismic data. For the sales of data acquisition systems, we follow the requirements of SOP 97-2 *Software Revenue Recognition,* and recognize revenue when the system is delivered to the customer and risk of ownership has passed to the customer, or, in the limited case where a customer acceptance clause exists in the contract, the later of delivery or when customer acceptance is obtained. For the sales of other seismic equipment, we recognize revenue when the equipment is shipped and risk of ownership has passed to the customer. For processing of seismic data, revenue is recognized at the time of delivery of the processed data to the customer.

When elements such as a data acquisition system and other seismic equipment are contained in a single arrangement, or in related arrangements with the same customer, we allocate revenue to each element based on its relative fair value, provided that such element meets the criteria for treatment as a separate unit of accounting. The price charged when the element is sold separately generally determines fair value. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services. We do not grant return or refund privileges to our customers.

We warrant that all manufactured equipment will be free from defects in workmanship, material and parts. Warranty periods range from 90 days to three years from the date of original purchase, depending on the product. At the time of sale, we record an accrual for product warranties and other contingencies, at which time estimated future expenditures associated with such contingencies are probable, and the amounts can be reasonably estimated. However, new information may become available, or circumstances (such as applicable laws and regulations) may change, thereby resulting in an increase or decrease in the amount required to be accrued for such matters (and therefore a decrease or increase in reported net income in the period of such change).

Impairment of Long-Lived Assets We periodically evaluate the net realizable value of long-lived assets, including property, plant and equipment, relying on a number of factors including operating results, business plans, economic projections and anticipated future cash flows. We recognize impairment in the carrying value of an asset whenever we estimate that anticipated future cash flows (undiscounted) from an asset are less than its carrying value. We recognize the difference between the carrying value of the asset and its fair value as the amount of the impairment. Since we must exercise judgment in determining the fair value of long-lived assets, the carrying value of our long-lived assets may be either overstated or understated.

In May 2003, a strategic marketing alliance with Veritas DGC Inc. was terminated. We reassessed the net realizable value of our rental equipment, which was being utilized in North America as part of the alliance. This equipment was associated with our first generation radio-based VectorSeis land acquisition systems. This equipment was an older generation of our technology, therefore the market demand and its net realizable value was significantly less than our current generation VectorSeis land acquisition systems. As a result, we recorded an impairment charge of $2.5 million in 2003.

In early 2003, we initiated an evaluation of our marine solid streamer project and concluded we would no longer internally pursue this product for commercial development. In conjunction with this evaluation, certain fixed assets and patented technology were considered impaired, resulting in a write-down of fixed assets of $0.5 million and intangible assets of $0.6 million in the first quarter of 2003.

In 2002, we announced plans to close our Alvin, Texas and Norwich, U.K. manufacturing facilities. Applicable accounting rules required us to perform an impairment analysis as a result of the announced closures. As a result, we recorded an impairment charge of $6.3 million in 2002. We relied upon third party quoted market prices for the facilities and internally developed operating cash flows during the interim period prior to their closure to determine the amount of the impairment of other related assets.

Impairment of Goodwill On January 1, 2002, we adopted SFAS No. 142 *Goodwill and Other Intangible Assets.* Since adoption of SFAS No. 142 we no longer amortize goodwill, but instead test for impairment at least annually and as triggering events occur. In making this assessment we rely on a number of factors including operating results, business plans, internal and external economic projections, anticipated future cash flows and external market data. There are inherent uncertainties related to these factors and our judgment in applying them to the analysis of goodwill impairment. Since our judgment is involved in performing goodwill valuation analyses, the carrying value of our goodwill may be either overstated or understated.

In the third quarter of 2002, we recorded an impairment charge of $15.1 million, which related to all the goodwill of our land analog products reporting unit, a reporting unit within Land Imaging. The continuing weakness in the traditional analog land seismic markets and the financial condition of many of the seismic contractors, coupled with the anticipated decrease in demand for analog products, precipitated the need for this interim impairment. We determine the fair value of our reporting units using a discounted future returns valuation method.

Realization of Investments We accounted for our investment in EVP under the cost method, where we review the investment for impairment when we estimate that the fair value of our investment has fallen below the then-current carrying amount. When we deem the decline to be other than temporary, we record an impairment charge for the difference between the investment s carrying value and its estimated fair value at the time. Since the time of our investment, EVP failed to close two anticipated asset management agreements, which resulted in EVP s management re-evaluating its business model and adequacy of capital. The board of directors of EVP voted to liquidate EVP, as it was unable to present a clear and feasible business strategy. As a result, we wrote our investment in EVP down to its approximate fair value of $1.0 million. This fair value represents our best estimate of the expected liquidation payout. In December 2003, we received a portion of our liquidation payment and expect to receive our final liquidation payment in the first quarter of 2004.

Accounts and Notes Receivable Collectibility We consider current information and circumstances regarding our customers ability to repay their obligations, and consider an account or note impaired when it is probable that we will be unable to collect all amounts due. When we consider an account or note as impaired, we measure the amount of the impairment based on the present value of expected future cash flows or the fair value of collateral. We include impairment losses (recoveries) in our allowance for doubtful accounts and for loan loss through an increase (decrease) in bad debt expense. Notes receivable are collateralized by the products sold, bear interest at contractual rates up to 12.7% per year and are due at various dates through 2006. The weighted average interest rate at December 31, 2003 for our notes receivable was 7.4%. We first apply cash receipts on impaired notes to reduce the principal amount of such notes until the principal has been recovered and then we recognize additional cash receipts as interest income.

Inventory Obsolescence We provide reserves for estimated obsolescence or excess inventory equal to the difference between the cost of inventory and its estimated market value based upon assumptions about future demand for our products and market conditions. For the years ended December 31, 2003, 2002 and 2001, we recorded inventory-related charges of approximately $1.0 million, $4.3 million and $3.6 million, respectively.

Deferred Tax Valuation Allowance In 2002, we established an additional valuation allowance to reserve substantially all of our net deferred tax assets. In accordance with SFAS No. 109, we established an additional valuation allowance for substantially all of our net deferred tax assets based on our cumulative operating results in the most recent three-year period. Our results in this period were heavily affected by both industry conditions and deliberate and planned business restructuring activities in response to the prolonged downturn in the seismic equipment market, as well as heavy expenditures on research and development of our VectorSeis technology. Nevertheless, more recent losses represented sufficient negative evidence to establish an additional valuation allowance. We will continue to reserve substantially all of our net deferred tax assets until we have sufficient evidence to warrant reversal. This valuation allowance does not affect our ability to reduce future tax expense through utilization of net operating losses.

Table of Contents

Stock-Based Compensation We have elected to continue to follow the intrinsic value method of accounting for equity-based compensation as prescribed by APB Opinion No. 25. If we had adopted SFAS No. 123, net income (loss), basic income (loss) per share and diluted income (loss) per share for the periods presented would have been reduced (increased) as follows (in thousands, except per share amounts):

	Year Ended December 31,			Three Months Ended March 31,	
	2003	2002	2001	2004	2003
	(in thousands, except per share data)				
Net income (loss) applicable to common shares	$(23,152)	$(119,672)	$ 3,709	$ (558)	$(5,279)
Add: Stock-based employee compensation expense included in reported income (loss) applicable to common shares	(222)	417	246	39	(312)
Deduct: Stock-based employee compensation expense determined under fair value methods for all awards	(2,463)	(3,531)	(4,244)	(657)	(329)
Pro forma net loss	$(25,837)	$(122,786)	$ (289)	$(1,176)	$(5,920)
Basic and diluted income (loss) per common share as reported	$ (0.45)	$ (2.35)	$ 0.07	$ (0.01)	$ (0.10)
Pro forma basic and diluted loss per common share	$ (0.50)	$ (2.41)	$ (0.01)	$ (0.02)	$ (0.12)

The above amounts are based on Black-Scholes valuation model variables of an average risk free interest rate based on 5-year Treasury bonds, an estimated option term of five years, no dividends and expected price volatility of 60% during the years ended December 31, 2003 and 2002 and 41% during the year ended December 31, 2001.

We believe that all of the judgments and estimates used to prepare our financial statements were reasonable at the time we made them, but circumstances may change requiring us to revise our estimates in ways that could be materially adverse to our results of operations and financial condition.

Table of Contents

BUSINESS

Company Overview

We are a leading provider of seismic imaging technology used by oil and gas companies and seismic contractors for exploration, appraisal, development and reservoir monitoring in both land and marine environments. We add value for our customers by providing technologies and services to collect seismic data and develop geophysical images to find, develop and extract hydrocarbons more quickly and economically. We offer a full suite of related products and services for seismic data acquisition and processing without owning vessels or maintaining crews typically used in the field to acquire seismic data.

Our strategy is to be the leading company in delivering cost-effective seismic imaging technologies, from designing and planning seismic surveys to acquiring and processing seismic data which we refer to as the seismic value chain. Through recent acquisitions, we have implemented our strategy to reposition our business from being primarily an equipment and technology provider to offering our customers full-seismic imaging solutions. We believe our technologies and solutions will improve exploration and production economics for the energy industry. Our seismic data acquisition products are well suited for both traditional three-dimensional (3-D) and time-lapse, or four-dimensional (4-D), data collection as well as more advanced multi-component or full-wave seismic data collection techniques. Based on historical revenues, we believe that we are a market leader in numerous product lines, such as geophones, navigation and data management software and marine positioning systems. Through our AXIS business unit, we also offer advanced seismic data processing and imaging services, with a particular focus on land environments.

On February 23, 2004, we acquired Concept Holdings Systems Limited. Concept Systems, based in Scotland, is a leading provider of integrated planning, navigation and data management software and solutions for towed streamer, seabed and land seismic operations. Its software is installed on the majority of towed streamer marine vessels worldwide and has rapidly become an integral component of redeployable and permanent seabed monitoring systems. Concept Systems also offers services to assist oil and gas companies in implementing 4-D seismic programs to permanently monitor hydrocarbon reservoirs. Its software and services will complement our marine control and positioning equipment and VectorSeis digital sensor technologies. This acquisition will also extend our services offering to the design and optimization of 4-D reservoir monitoring (or life-of-field) seismic projects.

Planned Acquisition of GXT

On May 10, 2004, we entered into a stock purchase agreement with GXT and its stockholders to acquire all of the outstanding capital stock of GXT, a leading provider of seismic data processing and subsurface imaging services to oil and gas companies.

GXT is focused on marine environments and specializes in providing customized imaging solutions utilizing GXT s expertise in computer processing technology. The improved images derived from GXT s processing and imaging technology enable oil and gas companies to more easily and economically identify and access hydrocarbon reservoirs. GXT s geoscientists and computer scientists have developed advanced proprietary processing algorithms that incorporate technologies such as illumination analysis, velocity models and pre-stack depth and time migration. GXT leverages the power of parallel computer clusters to process seismic data through these algorithms in order to develop higher-quality, more accurate, clearer images in shorter cycle times than conventional seismic processing.

Currently, the majority of GXT s processing and imaging involves data collected with traditional 2-D and 3-D techniques. GXT, however, has several development projects underway to apply its advanced processing technologies to data gathered through multi-component and 4-D time-lapse data collection methods.

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

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

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

Table of Contents

4-D monitoring of reservoir fluid movement; and

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

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

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

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

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

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

GXT is headquartered in Houston with service centers in other major energy markets, including Calgary, Canada, London, England and Aberdeen, Scotland. GXT also has an experienced employee base. Of its more than 180 employees, over half have advanced degrees in geology, geophysics or other related sciences.

Anticipated Benefits of GXT Acquisition

We believe that the acquisition of GXT will provide us with several strategic benefits:

More Balanced Position in the Seismic Value Chain. The GXT acquisition will solidify our transition from primarily manufacturing seismic data collection equipment to providing full-scope seismic technology solutions. In addition, the GXT acquisition will strengthen our expertise and capabilities at each technology link in the seismic value chain, from survey planning and design to data collection management and pre-processing to image development. This broader, more technology-focused and seismic-oriented presence will enable us to deliver additional integrated, full-service imaging solutions to our customers. Additionally, we expect that the more consistent service-based revenue streams from GXT s business will lessen the historical volatility in our revenues from original equipment manufacturing.

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

Accelerated Development of Imaging Solutions. GXT s advanced imaging technology, particularly pre-stack depth and time migration solutions, as well as its experience in deep marine environments, complements the advanced velocity imaging technology and experience in land environments that we have developed in our AXIS group. GTX s pre-stack depth migration solutions involve advanced processing techniques to convert seismic wave time-based information to depth-based information. This conversion to depth-based data is relied upon by geologists to more accurately map subsurface structures. GXT s pre-stack depth migration techniques are well suited for complex hydrocarbon reservoirs and deeper drilling targets. The accurate time-to-depth conversion that GXT s techniques feature is important in processing digital, full-wave data from next-generation sensors, including our VectorSeis sensors. We believe that the combination of our technologies, bases of experience and technology development teams will enable us to accelerate our seismic technology development and advance our capabilities to provide improved digital full-wave imaging solutions.

Enhanced Ability to Service the Full Reservoir Life Cycle. The GXT acquisition will improve our ability to provide seismic imaging solutions throughout the life cycle of an oil or natural gas reservoir. The combination of our digital seismic data collection and monitoring technology and AXIS processing and imaging capabilities, when combined with GXT s advanced processing and imaging expertise, will improve our ability to extend the use of our seismic services across the productive life of the reservoir.

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

Our Strengths and Challenges

We believe our strengths include the following:

A Leader in Subsurface Imaging Technology. We believe that our technology is central to the development of digital full-wave imaging. We expect full-wave imaging to be the next generation of seismic data acquisition and processing. Combined with those of GXT, our proprietary technologies will include our:

- VectorSeis digital sensors, which allow full-wave data acquisition on land, on the seabed and in-well, and which have been proven effective in nearly 100 field surveys worldwide;

- processing services incorporating our AXIS subsidiary s AZIM processing technology, along with GXT s processing technologies, which, when combined with VectorSeis data, result in higher quality seismic images;

- positioning and streamer control systems, which support accurate and repeatable surveys in marine applications; and

- data management software, which facilitates the collection and integration of acquired data streams.

We believe we have a leading market share in a number of important seismic technologies, including digital sensors, geophones, navigation and data management software, positioning and streamer control systems and anisotropic processing.

Experienced Management. Our executive management team has extensive experience in the seismic technology and services industry. In April 2003, Robert P. Peebler became our Chief Executive Officer after serving as a member of our Board of Directors since 1999. Mr. Peebler has over 30 years experience in the oil and gas industry, during which he has focused most of his time on recognizing and commercializing new

Table of Contents

technology to enhance hydrocarbon exploration and production. To help lead the development and implementation of our seismic image-focused strategy, Mr. Peebler recruited several new senior executives to augment our management team, including Jorge Machnizh, Executive Vice President and Chief Operating Officer, J. Michael Kirksey, Executive Vice President and Chief Financial Officer, Chris Friedemann, Vice President Commercial Development, and Jim Hollis, Vice President Land Imaging Systems. In addition, Bjarte Fageraas, who served as our Vice President and Chief Technology Officer since 2001, has become Vice President Marine Imaging Systems. The Concept Systems acquisition further augmented our management team, adding Alastair Hay, Managing Director of Concept Systems, Alan Faichney, Director of Technology of Concept Systems, among others. With the GXT acquisition, we intend for Mick Lambert, currently President and Chief Executive Officer of GXT, to continue to lead the GXT operations and join our senior management group. In addition, we will inherit an accomplished GXT management team with proven success in the development and commercial application of seismic processing technology.

Strategic Alliances with Oil Companies. In October 2003, we entered into a non-binding memorandum of understanding to form a strategic seismic technology alliance with Apache Corporation, a leading independent oil and gas exploration and production company. This alliance is designed to accelerate the adoption of our VectorSeis sensor and AZIM processing and imaging technologies while solving some of the more complex reservoir problems in Apache s global portfolio. We are pursuing similar strategic alliances with other oil and gas exploration and production companies. The collaborative relationships that GXT has established with oil and gas companies will contribute to these efforts.

Global Presence. We have resources and operations located in the historical North American oil and gas centers of Houston, New Orleans and Denver as well as key oil and gas centers around the world, including the Middle East, North Sea, Beijing and Moscow. This global presence gives us the local contacts necessary to be responsive with our growing international customer base. GXT adds to this capability with offices in Calgary, London and Aberdeen.

Despite these strengths, we continue to face a number of serious challenges in our business. We experienced operating losses for the years ended December 31, 2003 and 2002, the seven months ended December 31, 2000, and the years ended May 31, 2000 and 1999. As of December 31, 2003, we had an accumulated deficit of approximately $158.5 million. A number of factors have contributed to our operating losses, including a general downturn in the seismic equipment market, significant charges related to our restructuring activities and research and development expenditures.

Furthermore, our business is subject to numerous risks. Since our current strategy depends, to a large extent, on market acceptance of our VectorSeis products and other seismic technology, any actual or perceived failures in the performance or reliability of those products would negatively impact our sales and results of operations. In addition, our reliance on a relatively small number of significant customers has traditionally exposed us to risks related to customer concentration. For a discussion of the risks related to our business, please read Risk Factors beginning on page 16.

Our Strategy

Our goal is to integrate the next generation of sensors and processing technology into seismic imaging solutions that will enable oil and gas companies to more cost-effectively find and manage reservoirs throughout the production life cycle. We intend to do this by building on our current technology platforms through both internal development and selective acquisitions. In addition, we intend to use our technology to lower the cost and shorten the cycle times of seismic surveys by replacing labor-intensive processes with more efficient, technology-based systems. Specifically, we intend to:

Lead the Next Generation of Seismic Imaging Technology. The reservoir discovery and management process has grown increasingly challenging due to greater reservoir depths, more complex and subtle reservoir structures and the need to track fluid movements within hydrocarbon reservoirs. Conventional analog sensor and seismic processing technology has matured and proven unable to adequately meet these more difficult reservoir challenges. Our digital VectorSeis sensor captures significantly greater data than conventional analog sensors. We believe that using VectorSeis sensors in conjunction with the advanced processing techniques of

Table of Contents

AXIS and GXT generally produces more detailed, better quality seismic images than conventional seismic technology. We believe that these improved images will enable oil and gas companies to more economically find and develop the deeper and more geologically complex and subtle hydrocarbon fields that they are increasingly exploring and developing. We believe our integrated service and technology offerings across the seismic value chain and our digital sensor and full-wave processing technologies will position us as one of the leaders in subsurface imaging technologies.

Extend our Seismic Imaging Solutions Across the Full Reservoir Life Cycle. In the past, seismic imaging has been used primarily to assist in hydrocarbon exploration, rather than in developing, or enhancing production from, a proven field. By comparing detailed images of the same reservoir at different points in time, oil and gas companies can track fluid movements and enhance production from a reservoir. We intend to leverage the strength of Concept Systems in designing and managing 4-D life-of-field projects to work with oil and gas companies to apply our seismic imaging technology to reservoir development and production, as well as exploration. These technologies will include processing services, such as those provided by GXT.

Reduce the Costs and Cycle Time of the Seismic Process. We intend to collaborate with oil and gas companies through survey planning, data acquisition, processing and image development in order to deliver seismic image solutions. We believe that there are efficiencies to be gained from integrating the process components and improving sequencing and outsourcing logistics, which should shorten the overall cycle time as well as reduce the overall cost of the seismic process to oil and gas companies.

Make Selective Acquisitions. We intend to pursue selective acquisitions of products and services that accelerate the adoption of our advanced seismic imaging products and services. We seek to acquire and integrate technologies and services that will expand our ability to provide next generation imaging services and products to oil and gas companies and seismic contractors throughout the life of a reservoir. We will continue to identify, evaluate and pursue acquisitions of products, services and organizations that are strategically important to us and our growth strategy. In February 2004, we acquired Concept Systems. We plan to complete the acquisition of GXT concurrently with the consummation of this offering. See Planned Acquisition of GXT.

Expand our Strategic Alliances. We intend to pursue strategic alliances with oil and gas exploration and production companies, which we believe will enable us to more effectively influence technology and equipment deployment in the seismic value chain. These alliances will also provide us with the opportunity to directly market our technology and services for use throughout the reservoir life cycle. Working directly with oil and gas companies will also provide us with valuable information to guide our product development efforts. Our strategic alliance with Apache Corporation is the first of these alliances that we are pursuing. We believe that GXT s collaborative relationships with oil and gas customers should help us develop other relationships. In addition, we intend to enhance our current relationships with seismic contractors.

Industry Overview

Oil and gas companies have traditionally used seismic data to reduce exploration risk by creating an image of the subsurface. Typically, an oil and gas company contracts with a geophysical logistics contracting company to acquire seismic data in a selected area. The contractor will often rely on third parties, such as I/ O, to provide the contractor with the technology and equipment necessary for data acquisition. After collection, either the geophysical contractor or another data processor processes the data through algorithms designed to create a seismic image. Geoscientists then interpret the data by reviewing the image and integrating known facts about the surrounding geology.

In recent years, two principal factors have negatively affected demand for seismic data by oil and gas companies: the maturation of 3-D data collection technology and the business model adopted by geophysical contractors to leverage large fixed investments in equipment. The advent of commercial 3-D seismic data collection in the 1980s caused a sharp increase in demand for seismic data as oil and gas companies sought to capitalize on the improved images from 3-D technology compared to those from 2-D technology. Recently, however, without advances beyond 3-D in imaging technology, oil and gas companies have not had a compelling reason to maintain a high rate of purchasing seismic surveys. Much of the current demand for

Table of Contents

conventional analog 3-D seismic surveys comes from areas where use of the technology was not quickly adopted, such as China and the CIS.

The traditional business model employed by geophysical contractors has also impacted demand. In an effort to achieve higher utilization of the large investments needed to conduct 3-D surveys, geophysical contractors increasingly began to collect speculative surveys for their own account as customer-requested demand for surveys declined. Contractors typically selected an area, acquired data using generic acquisition parameters and generic processing algorithms, capitalized the acquisition costs and sold the survey results to multiple parties. These general speculative surveys were not tailored to meet a particular request and caused an oversupply of seismic data. Additionally, since contractors incurred most of the costs of speculative seismic data at the time of acquisition, contractors lowered prices to recover as much of the fixed investment as possible which, in the process, drove margins down.

We believe that the demand for seismic services will increase. Accelerating global reservoir decline rates coupled with recent reserve writedowns have increased the pressure on oil and gas companies to discover additional reserves. We expect these increased exploration demands to drive increased demand for seismic technology and services. Additionally, oil and gas companies are focusing on deeper hydrocarbon reservoirs with more complex and more subtle structures, making development more challenging. As a result, oil and gas companies are increasingly using seismic data to enhance the development of and production from known fields. By repeating a seismic survey over a defined area, oil and gas companies can detect untapped areas of a reservoir and adjust their drilling program to optimize production. Such time-lapse seismic images are referred to as 4-D surveys and make seismic data relevant to the entire life cycle of the reservoir.

We also believe that oil and gas companies will increasingly value seismic technology providers who will collaborate with them to tailor surveys that address specific geophysical problems and to apply advanced digital sensor and imaging technologies that account for the geologic peculiarities of a specific area. We believe oil and gas companies will rely less on undifferentiated, mass seismic studies created using analog sensors and traditional processing technologies that do not adequately identify geologic complexities such as lithology and fluid properties.

Products and Services

Land Imaging Products

Products for our Land Imaging Division include the following:

VectorSeis Data Acquisition Systems. Our VectorSeis digital platforms offer high-resolution, cost-effective compression-wave (P-wave) data collection as well as shear wave multi-component acquisition. Digital sensors, when compared with traditional analog geophones, provide increased response linearity and bandwidth and preserve a higher degree of vector fidelity. In addition, one digital sensor can replace a string of six or more analog geophones, providing users with significant operating efficiencies. These advantages enable improved location and characterization of reservoir structure and fluids and more accurate identification of rock properties at reduced total costs.

We began VectorSeis land acquisition field tests in 1999 and we have acquired data throughout Canada, Mexico, the United States, France, Eastern Europe and the CIS. In May 2002, we commercialized our VectorSeis System Four radio-based land acquisition system, and in the second quarter of 2003, we commercialized our cable-based telemetry system.

Analog Acquisition Systems. Our Image land data acquisition system consists of a central electronics unit and multiple remote ground equipment modules, which are either connected by cable or utilize radio transmission and retrievable data storage. The central electronics unit, which acts as the control center of the system, is typically mounted within a vehicle or helicopter transportable enclosure. The central electronics unit receives digitized data, stores the data on storage media for subsequent processing and displays the data on optional monitoring devices. It also provides calibration, status and test functionality. The remote ground equipment of the I/ O Image system consists of multiple remote modules (MRX) and line taps positioned over the survey area. Seismic signals from geophones are collected by the MRX modules, which collect

Table of Contents

multiple channels of analog seismic data. The MRX modules filter and digitize the data, which is then transmitted by the MRX modules via cable to a line tap. Alternatively, our radio telemetry system (RSR) records data across a variety of environments, including transition zones, swamps, mountain ranges, jungles and other environments. RSRs are radio controlled and do not require cables for data transmission since the information is stored at the unit source and subsequently retrieved.

We plan to introduce our new hybrid System Four Digital-Analog system during the second quarter of 2004. The hybrid System Four A/C Digital-Analog will be based on our System Four platform and will give seismic contractors the flexibility to use traditional analog geophone sensors, or digital full-wave VectorSeis sensors, even on the same survey. With our planned introduction of System Four A/C, we plan to transition out of our Image analog system during the first half of 2004.

Geophones. Geophones are analog electro-mechanical seismic sensor devices that measure acoustic energy reflected from rock layers in the earth s subsurface. We market a full suite of geophones and geophone test equipment that operate in all environments, including land, marine, ocean-bottom and downhole. Our principal geophone product, the SM-24, provides low distortion and wide bandwidth for greater realization of the potential of 24-bit seismic recording systems.

Vibrators and Traditional Energy Sources. Vibrators are devices carried by large vehicles and are used as energy sources for land seismic acquisition. We market and sell the AHV-IV, an articulated vibrator vehicle with simplified hydraulics and superior maneuverability. In addition, we offer a low impact, tracked vibrator, the X-Vib, for use in environmentally sensitive areas like the Arctic tundra and desert environments.

Our 2001 acquisition of Pelton Company (Pelton) added energy source control and positioning technology to our suite of products. The Vib Pro control system provides digital technology for energy control, and integrates global positioning system (GPS) technology for navigation and positioning of vibrator vehicles. The Shot Pro dynamite firing system is the equivalent technology for seismic operations using dynamite energy sources. Integrated GPS technology and compatibility with the Vib Pro control system helps to streamline field operations and improve operational efficiency.

Specialty Cables and Connectors. Cables and connectors are used in conjunction with most seismic equipment. Our Tescorp cables not only are a replacement option to correct for ordinary wear, but also offer performance improvement and specialization for new environments and applications.

MEMS. Our subsidiary, Applied MEMS, Inc., holds our MEMS technology development and manufacturing capabilities. In addition to producing the accelerometers for our VectorSeis digital sensor, this business unit is also actively pursuing sales of accelerometer products for applications outside of oil and gas seismic imaging as well as offering product commercialization foundry services for third parties.

Reliability Issues. System reliability is an important competitive consideration for seismic data acquisition systems. Even though we attempt to assure that our systems are always reliable in the field, the many technical variables related to operations can cause a combination of factors that can, and has from time to time, caused service issues. It is believed that our new VectorSeis System Four land data acquisition system has made significant improvements in both field troubleshooting and reliability compared to our analog products, but until we have significantly more field experience we cannot be certain that problems will not arise. Even though we have a large installed base of customers using our analog products without reported problems, we may have customers who have experienced problems and therefore may believe our new products may also suffer from similar issues. In that case, acceptance of our new products could be delayed and our results of operations and financial condition could be adversely affected.

Marine Imaging Products

Products for our Marine Imaging Division include the following:

VectorSeis Ocean-Bottom Acquisition Systems. Since 2002, we have expanded our focus on reservoir applications by placing VectorSeis into our Marine Imaging product line. We believe that the VectorSeis ocean-bottom product line will address many shortcomings of current ocean-bottom systems. VectorSeis modules can operate at angles, which eliminates the need for gimbal receiver units that distort data and add cost. In addition, our patented cable de-coupler design further reduces data distortions and improves sea-bottom coupling. In 2002, we completed the first test of our VectorSeis ocean-bottom acquisition system in the Ekofisk Field in the North Sea. This test was supported by ConocoPhillips and delivered higher frequency and better vector fidelity than previous ocean-bottom cable surveys. During 2003, we sold this test system to ConocoPhillips, which represented the only sale of a VectorSeis ocean-bottom acquisition system we recognized in fiscal 2003.

Marine Positioning Systems. Our DigiCourse positioning systems include streamer cable depth control devices, compasses, acoustic positioning systems (DigiRANGE II) and other auxiliary sensors. Marine positioning equipment controls the depth of the streamer cables and provides acoustic, compass and depth measurements to allow processors to tie navigation and location data with geophysical data to determine the location of potential hydrocarbon reserves for precise drilling operations.

Data Acquisition Systems. Our marine data acquisition system consists primarily of towed marine streamers and shipboard electronics that collect seismic data in marine environments with water depths greater than 30 meters. Marine streamers, which contain hydrophones, electronic modules and cabling, may measure up to 12,000 meters in length and are towed behind a seismic acquisition vessel. Seismic sensors installed in the cable (hydrophones) detect acoustical energy transmitted through water from the earth s subsurface structure.

Source and Source Control Systems. Seismic sources (airguns) are the primary seismic energy source used in marine environments to initiate the acoustic energy transmitted through the earth s subsurface. An airgun fires a high compression burst of air underwater to create an energy wave for seismic measurement. Additionally, we offer a digital source control system (DigiSHOT), which allows more precise and reliable control and quality control of airgun arrays for 4-D exploration activities.

Processing

In July 2002, we acquired AXIS, a seismic data service company based in Denver, Colorado, that provides specialized data processing and integration services to major and independent exploration and production companies. The AXIS Interpretation-Ready Process integrates seismic and subsurface geological data to provide customers accurate and high quality data that can result in improved reservoir characterizations. In addition, AXIS developed proprietary AZIM data processing techniques. Most processors make a simplifying assumption that seismic energy travels at the same velocity through a geological structure regardless of the path that the energy takes through that structure. In reality, the earth is anisotropic, which means that energy will travel at different velocities through the same structure depending on the direction of the energy. AZIM accounts for the anisotropy effects of the earth, which allows for clearer, more accurate images, particularly in complex reservoirs. In 2002, we combined AXIS with our geophysical software operations, Green Mountain Geophysics. Green Mountain offers a wide range of geophysical software used in seismic survey planning and design. These groups, which together make up our Processing Division, allow us to provide oil and gas companies a custom designed survey addressing particular imaging problems while accounting for the actual geophysical properties encountered in a survey.

Product Research and Development

Our research and development efforts are focused on improving both the quality of the subsurface image and the seismic data acquisition economics for our customers. Our ability to compete effectively in the manufacture and sale of seismic equipment and data acquisition systems, as well as related processing services, depends principally upon continued technological innovation. Development cycles of most products, from initial conception through commercial introduction, may extend over several years.

During 2003, our principal research and development efforts involved the migration of our VectorSeis platform into ocean-bottom systems. In 2002, we completed the first test of our retrievable VectorSeis ocean-bottom system and in 2003, we sold the test system. On April 28, 2004, we announced the first commercial sale of our VectorSeis Ocean redeployable seabed system.

Table of Contents

Our efforts in prior years developing our VectorSeis land seismic data acquisition systems incorporating our digital sensors resulted in their commercialization in late 2002 and 2003, producing approximately $20 million in sales of these systems in 2003. We also completed the development of our new DigiRANGE II marine acoustic positioning system, which we commercialized in the fourth quarter of 2003.

For 2004, one of our principal research and development projects is to introduce our new System Four A/C product by the third quarter of 2004.

Because many of these new products are under development, their commercial feasibility or degree of commercial acceptance, if any, is not yet known. No assurance can be given concerning the successful development of any new products or enhancements, the specific timing of their release or their level of acceptance in the market place.

Markets and Customers

Our 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, we market and sell products directly to oil and gas companies, particularly for reservoir monitoring applications. In 2003, BGP, an international seismic contractor and subsidiary of the China National Petroleum Corporation, accounted for approximately 28% of our consolidated net sales. For the three months ended March 31, 2004, BGP accounted for approximately 13% of our consolidated net sales. In 2002, two of our largest customers, WesternGeco and Laboratory of Regional Geodynamics Limited, were responsible for approximately 11% and 10%, respectively, of our consolidated net sales. In recent years, our customers have been rapidly consolidating, shrinking the demand for our products. The loss of any of our significant customers or deterioration in our relations with any of them could materially adversely affect our results of operations and financial condition.

A significant part of our marketing efforts are focused on areas outside the United States. Contractors from China and the CIS are increasingly active not only in their own countries, but also in other international markets. Foreign sales are subject to special risks inherent in doing business outside of the United States, including the risk of armed conflict, civil disturbances, currency fluctuations, embargo and governmental activities, as well as risks of non-compliance with U.S. and foreign laws, including tariff regulations and import/ export restrictions. We sell products through a direct sales force consisting of employees and several international third-party sales representatives responsible for key geographic areas. During the years ended December 31, 2002 and 2003 and for the three months ended March 31, 2004, sales to destinations outside of North America accounted for approximately 71%, 77% and 80% of our net sales, respectively. Further, systems sold to domestic customers are frequently deployed internationally and, from time to time, certain foreign sales require export licenses.

During 2002, we formed a strategic marketing alliance with Veritas DGC, Inc., a geophysical services company, for the purpose of collecting VectorSeis data in North America in 2002 and into 2003. Under the terms of the alliance, we provided Veritas with our first-generation radio-based VectorSeis land acquisition equipment, and repair and maintenance of this equipment. Veritas utilized the equipment in its day-to-day operations and retained legal title to all seismic library data and proprietary data services utilizing the VectorSeis equipment. During the years ended December 31, 2003 and 2002, we recognized revenues related to alliance activities of $0.9 million and $0.3 million, respectively. Under the terms of the alliance, Veritas was our exclusive VectorSeis customer within North America, subject to certain minimum utilization requirements. No separate joint venture, partnership or other legal entity was formed.

In May 2003, we agreed with Veritas to terminate this marketing alliance. Upon termination, all VectorSeis equipment was returned to us. As a result, we reassessed the net realizable value of our first-generation VectorSeis land acquisition system equipment that was utilized in alliance activities and recorded an impairment charge of $2.5 million in 2003.

During 2003, we signed a non-binding memorandum of understanding for the formation of a strategic technology alliance with Apache Corporation, a leading independent oil and gas producer. This arrangement provides for cooperation between the parties to develop next-generation seismic imaging technology, including collaboration between each party s technical staffs to identify projects within the context of Apache s portfolio of oil and gas properties. The memorandum of understanding is intended to provide the basic outline for our technical collaboration. No separate legal entity has been formed, and we do not expect this alliance to impose any on-going legal obligations on either party.

Under the Apache arrangement, we are focusing our initial efforts in using System Four land acquisition systems with digital full-wave VectorSeis sensors and AZIM processing techniques for subsurface imaging. Our alliance with Apache is enabling us to work directly with an upstream oil and gas company to gain a better sense of its seismic challenges and opportunities and to use that knowledge to make recommendations regarding technology deployment. In working directly with oil and gas companies, we believe that we will be able to stimulate end-user demand for our VectorSeis products and technology, as well as for our associated processing capabilities. As a result of our alliance with Apache, we announced in December 2003 that Trace Energy Services, a privately held seismic contractor based in Calgary, had purchased a VectorSeis System Four cable-based land acquisition system for use in connection with a north American acquisition program of Apache.

Sales to customers are normally on standard net 30-day terms. We also provide financing arrangements to customers through short-term and long-term notes receivable. Notes receivable, which are collateralized by the products sold, bear interest at contractual rates up to 12.7% per year and are due at various dates through 2006. The weighted average annual interest rate at December 31, 2003 was 7.4%.

Suppliers

As part of our strategic direction, we are increasing our use of contract manufacturers as an alternative to our own manufactured products. We may experience supply interruptions, cost escalations and competitive disadvantages if we do not monitor these relationships properly.

We and our contract manufacturers purchase a substantial portion of the components used in our systems and products from third-party vendors. Certain items, such as integrated circuits used in our systems, are purchased from sole source vendors. Although we and our contract manufacturers attempt to maintain an adequate inventory of these single source items, the loss of ready access to any of these items could temporarily disrupt our ability to manufacture and sell certain products. Since our components are designed for use with these single source items, replacing the single source items with functional equivalents could require a redesign of our components and costly delays could result.

Competition

The market for seismic data acquisition systems and seismic instrumentation is highly competitive and is characterized by consolidation, as well as continual and rapid changes in technology. Our principal competitor for land and marine seismic equipment is Societe d Etudes Recherches et Construction Electroniques (Sercel), an affiliate of Compagnie General de Geophysique. Unlike us, Sercel possesses an advantage of selling to an affiliated seismic contractor. In addition, we compete with other companies on a product-by-product basis. Our ability to compete effectively in the manufacture and sale of seismic instruments and data acquisition systems depends principally upon continued technological innovation, as well as our prices, our reputation for quality, and our ability to deliver on schedule.

Intellectual Property

We rely on a combination of patents, copyrights, trademark, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary technologies. We believe that the technological and creative skill of our employees, new product developments, frequent product enhancements, name recognition and reliable product maintenance are the foundations of our competitive advantage. Although patents are considered important to our operations, no one patent is considered essential to our success.

Table of Contents

Our portfolio of patents, copyrights and trademarks offer us only limited protection. Our competitors may attempt to copy aspects of our products despite our efforts to protect our proprietary rights, or may design around the proprietary features of our products. Policing unauthorized use of our proprietary rights is difficult, and we are unable to determine the extent to which such use occurs. Our difficulties are compounded in certain foreign countries where the laws do not offer as much protection for proprietary rights as the laws of the United States. Third parties inquire and claim from time to time that we have infringed upon their intellectual property rights. We are not currently aware of any parties that intend to pursue intellectual property claims against us.

Regulatory Matters

Our operations are subject to laws, regulations, government policies and product certification requirements worldwide. Changes in such laws, regulations, policies or requirements could affect the demand for our products or result in the need to modify products, which may involve substantial costs or delays in sales and could have an adverse effect on our future operating results. Our export activities are also subject to extensive and evolving trade regulations. Certain countries are subject to trade restrictions, embargoes and sanctions imposed by the U.S. government. These restrictions and sanctions prohibit or limit us from participating in certain business activities in those countries.

Our operations are subject to numerous local, state and federal laws and regulations in the United States and in foreign jurisdictions concerning the containment and disposal of hazardous materials, the remediation of contaminated properties and the protection of the environment. We do not currently foresee the need for significant expenditures to ensure our continued compliance with current environmental protection laws. Regulations in this area are subject to change, and there can be no assurance that future laws or regulations will not have a material adverse effect on us. Our customers operations are also significantly impacted by laws and regulations concerning the protection of the environment and endangered species. For instance, many of our marine contractors have been affected by new regulations protecting marine mammals in the Gulf of Mexico. To the extent that our customers operations are disrupted by future laws and regulations, our business and results of operations may be materially adversely affected.

Employees

At March 31, 2004, we had 557 full-time employees worldwide, 342 of whom were employed in the United States. Also, at March 31, 2004, we had 164 temporary employees. Our temporary employee base fluctuates based upon our level of manufacturing activity, as a majority of these positions are manufacturing related. U.S. employees are not subject to any collective bargaining agreements and we have never experienced a work stoppage.

Table of Contents

Properties

Our primary manufacturing facilities at March 31, 2004 were as follows:

Manufacturing Facilities	Square Footage	Segment
Stafford, Texas*	110,000	Land Imaging
Harahan, Louisiana*	40,000	Marine Imaging
Voorschoten, The Netherlands*	30,000	Land Imaging
Jebel Ali, Dubai, United Arab Emirates*	11,000	Land Imaging
Ponca City, Oklahoma**	26,000	Land Imaging
Denver, Colorado*	11,000	Processing and Software
Edinburgh, Scotland*	12,000	Processing and Software
	240,000	

* Leased

** Owned

In addition, we lease sales and support offices in Norwich, England, Beijing, China and Moscow, Russia to support our global sales force. Our executive headquarters (utilizing approximately 25,000 square feet) are located at 12300 Parc Crest Drive, Stafford, Texas. The machinery, equipment, buildings and other facilities owned and leased by us are considered by our management to be sufficiently maintained and adequate for our current operations.

Legal Proceedings

In the ordinary course of business, we have been named in various lawsuits or threatened actions. While the final resolution of these matters may have an impact on our consolidated financial results for a particular reporting period, we believe that the ultimate resolution of these matters will not have a material adverse impact on our financial position or liquidity.

MANAGEMENT

The following table sets forth information regarding our directors and executive officers:

Name	Age	Position
James M. Lapeyre, Jr.	51	Chairman of the Board of Directors and Director
Robert P. Peebler	56	President, Chief Executive Officer and Director
Bruce S. Appelbaum	56	Director
Theodore H. Elliott, Jr.	68	Director
Franklin Myers	51	Director
Sam K. Smith	72	Director
John N. Seitz	52	Director
Jorge Machnizh	47	Executive Vice President and Chief Operating Officer
J. Michael Kirksey	48	Executive Vice President and Chief Financial Officer
Bjarte Fageraas	44	Vice President Marine Imaging Systems
Christopher M. Friedemann	39	Vice President Commercial Development
Laura D. Guthrie	45	Vice President Human Resources
James R. Hollis	42	Vice President Land Imaging Systems
David L. Roland	42	Vice President General Counsel and Corporate Secretary
Michael L. Morrison	33	Controller and Director of Accounting

James M. Lapeyre, Jr.

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 Compensation Committee of our Board of Directors.

Robert P. Peebler

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 leading provider of products and services to the petroleum and energy industries. Mr. Peebler joined Halliburton in 1996 when Halliburton acquired Landmark Graphics Corporation, the leading provider of workstation-based software for oil and gas exploration and production, where he 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.

Bruce S. Appelbaum

Bruce S. Appelbaum joined our Board of Directors in 2003. He is currently the Chairman of Mosaic Natural Resources Ltd., a newly formed oil and gas exploration and production company focusing on opportunities in the North Sea. Prior to co-founding Mosaic, Mr. Appelbaum was President of Worldwide Exploration and New Ventures for Texaco, Inc. and a Vice President of Texaco. Mr. Appelbaum joined

Texaco in 1990 as Division Manager of Texaco U.S.A. s offshore exploration division and was elected as an officer of Texaco in 2000. Mr. 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 Board of the School of Earth Sciences at Stanford University. Mr. Appelbaum is a member of the Audit Committee of our Board of Directors.

Theodore H. Elliott, Jr.

Theodore H. Elliott, Jr. joined our Board of Directors in 1987. In 1981, he co-founded Prime Capital Management Co., Inc., a Connecticut-based venture capital company, and has served as its Chairman since 1987. 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 is a Director 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 also a Director of National Interstate, a specialty property and casualty insurance company based in Ohio. Mr. Elliott is Chairman of the Audit Committee of our Board of Directors.

Franklin Myers

Franklin Myers joined our Board of Directors in 2001. He is currently the Senior Vice President and Chief Financial Officer of Cooper Cameron Corporation, a leading international manufacturer of oil and gas pressure 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 is Chairman of the Compensation Committee and a member of the Governance Committee of our Board of Directors.

Sam K. Smith

Mr. 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 responsibility such as Group Vice President for the Equipment Group, Texas Instruments defense business.

John N. Seitz

John N. Seitz joined our Board of Directors in 2003. He is the co-CEO and founder of North Sea New Ventures, a company focused on exploration and development opportunities in the North Sea. 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 member of the Audit, Compensation and Governance Committees of our Board of Directors.

Jorge Machnizh

Jorge Machnizh has been our Executive Vice President and Chief Operating Officer since May 2003. Previously, he was employed by Landmark Graphics Corporation, where he worked in a variety of positions, most recently serving as Vice President Operations for North and South America. Prior to joining Landmark in 1997, Mr. Machnizh held senior management appointments with large geophysical contractors, including Geco-Prakla (a division of Schlumberger) and Petty-Ray Geophysical (a division of Geosource, Inc.). Mr. Machnizh started his career as a crew chief for United Geophysical.

Table of Contents

J. Michael Kirksey

J. Michael Kirksey has been our Executive Vice President and Chief Financial officer since January 2004. Before then, Mr. Kirksey had been the Chief Financial Officer, and then the Chief Executive Officer, of Metals USA, a leading metals processor and distributor based in Houston, Texas. Following the departure of Metals USA s Chief Executive Officer, he was appointed CEO by the Metals USA board of directors and charged with restructuring the company s operations and finances, and leading the company through an industry recession. Mr. Kirksey led the company through bankruptcy reorganization and succeeded in obtaining confirmation of a plan of reorganization in eleven months. Prior to joining Metals USA in 1997, Mr. Kirksey was Senior Vice President of Corporate Strategic Planning and the Chief Financial Officer Europe for Keystone International Inc., a manufacturer of industrial valves and systems. Before joining Keystone, Mr. Kirksey worked for Arthur Andersen for thirteen years where he focused on growth strategies and technology companies.

Bjarte Fageraas

Bjarte Fageraas has been our Vice President Marine Imaging Systems since February 2004, and was our Vice President and our Chief Technology Officer from May 2001 to February 2004. Prior to joining I/O, Mr. Fageraas was President of and a stockholder in Geophysical Instruments AS, a Norwegian seismic technology company that we acquired in May 2001. From 1998 to 1999, Mr. Fageraas was Vice President-Research & Development of Aker Geo ASA, a Norwegian seismic contractor. Previously, Mr. Fageraas was Technical Manager of PGS Reservoir, a provider of seismic contracting services. Mr. Fageraas started his career at Geco-Prakla where he held several research and development positions.

Christopher M. Friedemann

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.

Laura D. Guthrie

Laura D. Guthrie has been our Vice President Human Resources since March 2002. Prior to joining I/O, Ms. Guthrie had been an independent management consultant specializing in executive coaching and compensation and organization development. From July 1999 until March 2000, Ms. Guthrie served as Vice President Human Resources for Splitrock Services, Inc., a broadband communications company, until the company was sold to McCleod USA. Before joining Splitrock in July 1999, Ms. Guthrie was a management consultant with Sterling Consulting Group, a boutique firm specializing in strategy development for the oil and gas industry. Prior to joining Sterling in 1998, she was the HR Planning Manager for Unocal Corporation. Before joining Unocal in 1996, Ms. Guthrie served as the Region HR Manager for the Americas Division of BHP Petroleum, an Australian oil and gas company, where she held a variety of HR roles during her 11 year tenure.

James R. Hollis

James R. Hollis has been our Vice President Land Imaging Systems since November 2003, and Business Unit Manager Land Surface Systems since July 2003. Prior to joining I/O, Mr. Hollis served in various positions at Landmark Graphics, most recently as General Manager Exploration and Development Solutions. Mr. Hollis joined Landmark Graphics when Landmark acquired Western Atlas Software in 1996.

Table of Contents

Mr. Hollis managed the Seismic Modeling Software Product line for Western Atlas. Mr. Hollis joined Western Atlas in 1993 when Western Atlas acquired Sierra Geophysics in 1993, where Mr. Hollis led the depth imaging and velocity modeling support and consulting services.

David L. Roland

David L. Roland has been our Vice President General Counsel and Corporate Secretary since April 2004. Prior to joining I/ O, Mr. Roland held several positions 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 from 1988 until 1994, when he joined Caltex.

Michael L. Morrison

Michael L. Morrison has been our Controller and Director of Accounting since November 2002, and our Assistant Controller from June 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

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

On March 31, 2003, we announced that we had appointed Robert P. Peebler as our president and chief executive officer. In April 2003, we invested $3.0 million in preferred securities of Energy Virtual Partners, LP and its affiliated corporation (EVP) in exchange for 22% of the outstanding ownership interests and 12% of the outstanding voting interests of EVP. EVP had been formed in 2001 to provide asset management services to large oil and gas companies in order to enhance the value of their oil and gas properties. Mr. Peebler had founded EVP and had served as its president and chief executive officer until his joining us in March 2003. Mr. Peebler continued to serve as the Chairman of EVP and presently holds a 23% ownership interest in EVP. Under Mr. Peebler s employment agreement with us, he was permitted to devote up to 20% of his time to EVP.

During the second quarter of 2003, EVP failed to close two anticipated asset management agreements. After that time, EVP management subsequently re-evaluated its business model and adequacy of capital. During August 2003, the board of directors of EVP voted to liquidate EVP, since it was unable to present a clear and feasible business strategy. For that reason, we wrote our investment in EVP down to its approximate liquidation value of $1.0 million, resulting in a charge against earnings for our second quarter of 2003 of $2.1 million. Since then, Mr. Peebler has offered, and we have agreed, that all proceeds Mr. Peebler receives from the liquidation of EVP will be paid to us. In December 2003, we received liquidation payments of $0.7 million from EVP and $0.1 from Mr. Peebler. In March 2004, we received final liquidation payments of $0.1 million from EVP and $0.01 from Mr. Peebler. These amounts were included in our estimates of EVP s liquidation value.

Mr. Lapeyre is the chairman and a significant equity owner of Laitram, L.L.C. (Laitram) 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 14.9% of our outstanding common stock as of April 15, 2004.

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 certain accounting, software, manufacturing and maintenance services. These manufacturing services consist primarily of machining of parts for our marine positioning systems. The term of this agreement expired in September 2001 but we continue to operate under its terms. In addition, when we request, the legal staff of Laitram advises us on certain intellectual property matters with regard to our marine positioning systems. During 2003, we paid Laitram a total of $1.2 million, which consisted of $0.6 million for manufacturing services, $0.6 million for rent and other facilities charges, and $0.1 million for other services. For the 2002 and 2001 fiscal years, we paid Laitram an total of $1.9 million and $1.4 million, respectively, under this agreement and for these legal advisory services. In the opinion of our management, the terms of these services are fair and reasonable and as favorable to us as those which could have been obtained from unrelated third parties at the time of their performance.

In March 2000, our board of directors established an executive matching program under which we issued one share of restricted stock for each share purchased by our senior executives in open-market transactions in March and April of 2000. In connection with this program, we issued 33,000 shares of restricted stock to C. Robert Bunch, a former executive officer of I/ O. Mr. Bunch funded his purchase through a loan from a commercial bank in the amount of $200,000. We guaranteed this indebtedness in 2000 and would have been liable for the entire amount outstanding under this loan if Mr. Bunch had defaulted on his obligation under the loan. Our guarantee of Mr. Bunch s indebtedness expired by its terms in March 2003. Mr. Bunch left our employment in May 2003.

Table of Contents

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information as of April 15, 2004, and after completion of this offering, with regard to the ownership of our common stock by the following persons:

Each person known by us to be a beneficial owner of more than 5% of our common stock;

Each of our directors; and

All of our directors and executive officers as a group.

Name of Beneficial Owner	Common Stock[1]	Rights to Acquire[2]	Restricted Stock[3]	Percentage of Shares Before the Offering[4]	Percentage of Shares After the Offering[5]
Laitram, L.L.C.[6]	6,941,044			13.1%	
Royce & Associates, Inc.[7]	6,306,200			11.9%	
Barclays Global Investors, N.A.[8]	4,394,707			8.3%	
Morgan Stanley[9]	3,430,081			6.5%	
PRIMECAP Management Company[10]	3,333,896			6.3%	
Daruma Asset Management, Inc.[11]	3,237,200			6.1%	
Dimensional Fund Advisors Inc.[12]	2,837,750			5.3%	
Steinberg Priest & Sloane Capital Management, LLC[13]	2,800,100			5.3%	
James M. Lapeyre, Jr.[14]	7,832,540	70,000		14.9%	
Bruce S. Appelbaum	3,000			*	
Theodore H. Elliott, Jr.[15]	15,000	167,000		*	
Franklin Myers	12,874	60,000		*	
Robert P. Peebler	35,340	454,861		*	
John N. Seitz	5,000			*	
Sam K. Smith	24,007	70,000		*	
Timothy J. Probert				*	
C. Robert Bunch				*	
Jorge Machnizh		50,000	25,000	*	
Brad Eastman	15,229	13,125		*	
Bjarte Fageraas	14,168	41,250	16,180	*	
Laura Guthrie	8,653	9,375	12,849	*	
All directors and executive officers as a group (14 Persons)	7,946,582	877,986	94,029	16.3%	

* 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. Excludes 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 can be acquired through stock options exercised through June 14, 2004.

(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.

(5) Does not reflect the exercise of the Underwriters over-allotment option.

(6) The address for Laitram, L.L.C. is 220 Laitram Lane, Harahan, Louisiana 70123. Mr. Lapeyre is the President and a Director of Laitram, L.L.C. Please see note 14 below. Mr. Lapeyre disclaims beneficial ownership of any shares held by Laitram, L.L.C.

(7) The address for Royce & Associates, Inc. is 1414 Avenue of the Americas, New York, New York 10019.

(8) The address for Barclays Global Investors, N.A. is 45 Fremont Street, San Francisco, California 94105. The shares reported are owned by Barclays Global Investors, N.A., Barclays Global Fund Advisors, Barclays Bank PLC, Barclays Capital Securities Limited and other

related entities in trust accounts for the economic beneficiaries of those accounts.

(9) The address for Morgan Stanley and Morgan Stanley & Co. Incorporated is 1585 Broadway, New York, New York 10036. Morgan Stanley is filing solely in its capacity as the parent company of and indirect owner of securities held by one of its business units.

(10) The address for PRIMECAP Management Company is 225 S. Lake Avenue #400 Pasadena, California 91101-3005. PRIMECAP Management Company has sole voting power over only 2,039,652 of the shares of common stock.

(11) The address for Daruma Asset Management, Inc. is 80 West 40th Street, 9th Floor, New York, New York 10018. The shares reported by Daruma Asset Management, Inc. are held by investment advisory clients whose accounts are managed by Daruma Asset Management, Inc. Mariko O. Gordon, who owns in excess of 50% of the outstanding voting stock and is the President of Daruma Asset Management, Inc., may also be considered a beneficial owner of the shares reported by Daruma Asset Management, Inc. Daruma Asset Management, Inc. has sole voting discretion over only 1,521,700 shares.

(12) The address for Dimensional Fund Advisors Inc. is 1229 Ocean Avenue, 11th Floor, Santa Monica, California 90401. The shares of common stock are held by investment companies, trusts and accounts for which Dimensional Fund Advisors Inc. serves as the investment advisor. Dimensional Fund Advisors Inc. disclaims beneficial ownership of all such shares.

(13) The address for Steinberg, Priest & Sloane Capital Management, LLC is 12 East 49th Street, New York, New York 10017. Steinberg Priest & Sloane Capital Management, LLC has sole voting power over only 2,604,500 shares.

(14) The shares of common stock include 10,500 shares over which Mr. Lapeyre holds joint voting and investment control with his wife, 33,280 shares that Mr. Lapeyre holds as a custodian or trustee for the benefit of his children and 6,941,044 shares owned by Laitram L.L.C., of which Mr. Lapeyre disclaims any beneficial interest. Please read note 5 above. These shares exclude 30,000 shares owned by Mr. Lapeyre s wife, who exercises sole voting and investment control over those shares.

(15) The shares of common stock include 4,000 shares owned by Mr. Elliott s wife, of which Mr. Elliott disclaims beneficial interest.

SELLING STOCKHOLDERS

The following table sets forth certain information regarding the selling stockholders beneficial ownership of our common stock before and after this offering, and number of shares of common stock to be sold by them in this offering. To our knowledge, each of the selling stockholders has sole voting and investment power as to the shares shown unless otherwise noted. Beneficial ownership as shown in the table below has been determined in accordance with the applicable rules and regulations promulgated under the Exchange Act. None of the selling stockholders is a director, officer or employee of I/O or an affiliate of such persons.

	Beneficial Ownership Prior to the Offering			Beneficial Ownership After the Offering	
Selling Stockholders	**Number of Shares**	**Percent of Class**	**Number of Shares Offered hereby**	**Number of Shares**	**Percent of Class**

I/O and all of the selling stockholders are parties to a registration rights agreement pursuant to which we have granted to such stockholders rights to register their shares of common stock. We granted these registration rights in connection with our purchase of Concept Systems in February 2004. We are also a party to a registration rights agreement with a predecessor of Laitram, L.L.C., which we entered into in 1998 in connection with our acquisition in DigiCourse, Inc., our marine positioning products business.

Table of Contents

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 100,000,000 shares of common stock, $0.01 par value per share, and 5,000,000 shares of preferred stock, $0.01 par value per share, of which 100,000 shares have been designated as Series A Preferred Stock. As of April 30, 2004, there were 53,126,054 shares of common stock outstanding. No shares of Series A Preferred Stock are outstanding.

Common Stock

Holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders, and do not have any cumulative voting rights. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by our board of directors out of funds legally available therefor, and may be subject to any preferential dividend rights of our preferred stock that we may issue in the future. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all of our assets remaining after the payment of all debt and other liabilities and subject to any liquidation preference of any then outstanding preferred stock. Holders of common stock have no preemptive, subscription or conversion rights. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

Our board of directors is authorized, subject to certain restrictions, without further stockholder approval, to issue at any time and from time to time, preferred stock in one or more series. Each such series shall have such number of shares, designations, preferences, voting powers, qualifications, and special or relative rights or privileges and restrictions as shall be determined by our board of directors. These rights, privileges and restrictions may include dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and preemptive rights, to the full extent now or hereafter provided by Delaware law.

The rights of holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. In addition, the issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of I/ O without further action by our stockholders. The issuance of preferred stock having voting and conversion rights may adversely affect the holders of our common stock. Satisfaction of any dividend preferences of outstanding preferred stock would reduce the amount of funds available, if any, for the payment of dividends on our common stock. Holders of preferred stock would typically be entitled to receive a preference payment upon our liquidation. Under certain circumstances, the issuance of preferred stock could have the effect of decreasing the market price of our common stock.

In August 2002, we repurchased from SCF all of our then-outstanding Series B Convertible Preferred Stock and Series C Convertible Preferred Stock in exchange for $30.0 million in cash and the issuance to SCF of a $31.0 million principal amount unsecured promissory note due May 2004 and a warrant to purchase 2,673,517 shares of our common stock. All outstanding indebtedness remaining under the SCF Note was repaid with the proceeds from our offering and sale of the notes in December 2003. The warrant was acquired by us at the same time in exchange for our issuance of 125,000 shares to SCF in a privately-negotiated transaction exempt from the registration requirements under the Securities Act.

Options

As of April 30, 2004, options to purchase a total of 5,719,131 shares of our common stock were outstanding, having a weighted-average exercise price of $8.00 per share. As of that date, 512,156 additional shares of common stock were available for options that could be granted in the future under our stock option and stock incentive plans and agreements.

Table of Contents

Registration Rights

In connection with our August 2002 repurchase of our Series B and Series C Preferred Stock, we entered into a registration rights agreement with SCF, which was terminated in December 2003 in connection with our exchange of 125,000 shares of our common stock for the warrant.

In connection with our acquisition of our marine positioning systems subsidiary in November 1998, we entered into a registration rights agreement with a predecessor of Laitram with respect to our shares of common stock acquired by Laitram under the transaction. This registration rights agreement grants piggyback registration rights to Laitram, which allow it to participate in underwritten public offerings initiated by us, subject to limitations and conditions set forth in the agreement. In addition, the registration rights agreement grants Laitram two demand registration rights, subject to certain limitations and conditions, including a requirement that each demand for registration shall not be made for less than 1,000,000 shares of our common stock.

In connection with our acquisition of Concept Systems in February 2004, we entered into a registration rights agreement with certain former stockholders of Concept Systems with respect to shares of our common stock acquired by them in the transaction. The agreement provides for certain piggyback registration rights and two demand registrations. Any demand registration may not be made for less than 420,000 shares.

Our registration rights agreements with Laitram and the former stockholders of Concept Systems contain provisions whereby we have agreed to indemnify the selling stockholders against certain liabilities, including liabilities under the Securities Act. Sales or the availability for sale of a substantial number of our shares of common stock in the public market could adversely affect the market price for our common stock.

Stockholder Rights Plan

Our board of directors has adopted a stockholder rights plan. The stockholder rights plan was adopted to give our board of directors increased power to negotiate in our best interests and to discourage appropriation of control of us at a price that is unfair to our stockholders. It is not intended to prevent fair offers for acquisition of control determined by our board of directors to be in the best interest of us and our stockholders, nor is it intended to prevent a person or group from obtaining representation on or control of our board of directors through a proxy contest, or to relieve our board of directors of its fiduciary duty to consider any proposal for our acquisition in good faith.

The stockholder rights plan involved the distribution of one preferred share purchase right as a dividend on each outstanding share of our common stock to all holders of record on January 27, 1997. Each right will entitle the holder to purchase one one-thousandth of a share of our Series A Preferred Stock at an purchase price of $200 per one one-thousandth of a share of Series A Preferred Stock, subject to adjustment. The rights trade in tandem with our common stock until, and become exercisable following, the occurrence of certain triggering events. Our board of directors retains the right to discontinue the stockholder rights plan through the redemption of all rights or to amend the stockholder rights plan in any respect prior to our announcement of the occurrence of any such triggering event, including the acquisition of 20% or more of our voting stock by an acquiror. The rights will expire at the close of business on January 27, 2007, unless earlier redeemed by us.

The description and terms of the rights are set forth in a rights agreement between us and our transfer agent as successor to Harris Trust and Savings Bank, as rights agent.

Effects of Certain Certificate of Incorporation and Bylaws Provisions

Certain provisions of our certificate of incorporation and bylaws summarized below may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that an investor might consider in that investor s best interest, including any attempt that might result in a premium over the market price for shares of our common stock.

Table of Contents

Our board of directors is divided into three classes that are elected for staggered three-year terms. Our stockholders may only remove a director for cause.

Our certificate of incorporation provides that our directors generally will not be personally liable for monetary damages for breach of their fiduciary duties as a director. These provisions would not limit the liability of a director for breach of the director s duty of loyalty, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, payment of an unlawful dividend or any unlawful stock purchase or redemption, or any transaction for which the director derived an improper benefit.

Our certificate of incorporation and bylaws also provide that we will indemnify our directors and officers to the fullest extent permitted by Delaware law. We have entered into separate indemnification agreements with our directors and executive officers. In addition, we carry officer and director liability insurance.

Our certificate of incorporation contains a fair price provision that requires the approval of holders of not less than 75% of the outstanding shares of our voting stock (including not less than 66 2/3% of the outstanding shares of voting stock not owned, directly or indirectly, by persons who are Related Persons) as a condition for mergers, consolidations and certain other business combinations, including management buyouts, involving I/ O and any Related Person; however, this 66 2/3% voting requirement is not applicable if the business combination is approved by the holders of not less than 90% of the outstanding shares of our voting stock. Related Persons include the holders of 10% or more of our outstanding voting stock and any affiliate of such persons. The 75% voting requirement of the fair price provision is not applicable to a business combination between I/ O and any wholly-owned subsidiary, or a business combination involving a holder of 10% or more of our outstanding voting stock so long as the acquisition by such holder of such stock or the proposed transaction is approved in advance of such person becoming a holder of 10% of our outstanding voting stock by not less than 75% of our directors then holding office, or if the following conditions are met:

- the transaction is a merger or consolidation proposed to occur within one year of the time such holder acquired 10% of our outstanding voting stock and the price to be paid to holders of common stock is at least as high as the highest price paid by such holder in acquiring any of our common stock;

- the consideration to be paid in the transaction is cash or the same form of consideration paid by such holder to acquire a majority of its holdings of common stock;

- between the date of the acquisition by the holder of 10% of our outstanding voting stock and the transaction, there has been no failure to declare and pay preferred stock dividends and no reduction in common stock dividends (except as approved by a majority of our unaffiliated directors), no further acquisition of voting stock by such holder and no benefit, direct or indirect, received by such holder through loans or other financial assistance from I/ O or tax credits or other tax advantages provided by I/ O; and

- a proxy statement shall have been mailed to stockholders at least 30 days prior to the consummation of the transaction for the purpose of soliciting stockholder approval of the transaction.

Our certificate of incorporation also provides that

- special meetings of stockholders can be called only by our board of directors;

- stockholders may act only at an annual or special meeting of stockholders and may not act by written consent;

- our bylaws may be amended only by our board of directors or with the vote of not less than 75% of the outstanding shares of our voting stock;

- a 75% vote of the outstanding voting stock is required to amend our certificate of incorporation with respect to certain matters, including, without limitation, the matters set forth in the two immediately preceding clauses above and the 75% voting requirement for certain business combinations described in the preceding paragraph; and

Table of Contents

in addition to the 75% voting requirement referred to in the immediately preceding clause above, a 66 2/3% vote of the outstanding shares of our voting stock not owned by a Related Person is required to amend the provisions of our certificate of incorporation relating to certain business combinations described in the preceding paragraph.

Our bylaws establish advance notice procedures with regard to the nomination, other than those made by or at the direction of the board of directors, of candidates for election as directors and as to any other business to be brought before an annual or special meeting of our stockholders. These procedures provide that the notice of proposed stockholder nominations for the election of directors must be timely given in writing to our corporate secretary prior to the meeting at which directors are to be elected. To be timely, notice must be delivered to or mailed and received at our principal executive offices (a) for annual meetings of stockholders, not later than the close of business on the one hundred twentieth day prior to the first anniversary of the date our proxy statement was released to stockholders in connection with our previous year s annual meeting of stockholders, or (b) for special meetings at which our board of directors has determined that directors shall be elected, not later than the close of business on the one hundred twentieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. The procedures also provide that at an annual meeting, and subject to any other applicable requirements, only such business may be conducted as has been brought before the meeting by, or at the direction of, the board of directors or by a stockholder who has given timely prior written notice to our corporate secretary of that stockholder s intention to bring such business before the meeting. For such stockholder s notice to be timely, notice must be delivered to or mailed and received at our principal executive offices not later than the close of business on the date that is 120 days prior to the first anniversary of the date our proxy statement was released to stockholders in connection with our previous year s annual meeting of stockholders. The notices must contain certain information, and are subject to other qualifications, specified in the bylaws.

Delaware Law

We are incorporated in Delaware and are subject to Section 203 of the Delaware General Corporation Law. In general, Section 203 prevents an interested stockholder (defined generally as a person owning 15% or more of a corporation s outstanding voting stock) from engaging in a business combination (as defined) with a Delaware corporation for three years following the date such person became an interested stockholder, unless (i) before such person became an interested stockholder, the board of directors of the corporation approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination; (ii) upon consummation of the transaction that resulted in the interested stockholder s becoming an interested stockholder, the interested stockholder owns at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding stock held by directors who are also officers of the corporation and by employee stock plans that do not provide employees with the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); or (iii) on or subsequent to the date of the transaction in which such person became an interested stockholder, the business combination is approved by the board of directors of the corporation and authorized at a meeting of the stockholders by the affirmative vote of the holders of two-thirds of the outstanding voting stock of the corporation not owned by the interested stockholder.

Table of Contents

Under Section 203, the restrictions described above also do not apply to certain business combinations proposed by an interested stockholder following the announcement or notification of one of certain extraordinary transactions involving the corporation and a person who had not been an interested stockholder during the previous three years or who became an interested stockholder with the approval of a majority of the corporation s directors, if such extraordinary transaction is approved or not opposed by a majority of the directors who were directors prior to any person becoming an interested stockholder during the previous three years or were recommended for election or elected to succeed such directors by a majority of such directors.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Investor Service L.L.C. It is located at 2 North LaSalle St., Chicago, Illinois 60602-3705 and its telephone number is (312) 360-5286.

Table of Contents

UNDERWRITERS

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. Incorporated is acting as representative, have severally agreed to purchase, and we and the selling stockholders have agreed to sell to them, severally, the number of shares indicated below:

Name	Number of Shares
Morgan Stanley & Co. Incorporated	
Johnson Rice & Company L.L.C.	
Sanders Morris Harris Inc.	
	—
Total	

The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $ a share under the public offering price. Any underwriters may allow, and such dealers may reallow, a concession not in excess of $ a share to other underwriters or to certain dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of additional shares of common stock at the public offering price set forth on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered hereby. To the extent the option is exercised, each underwriter will become obligated, subject to specified conditions, to purchase about the same percentage of additional shares of common stock as the number listed next to the underwriter s name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.

The following table shows public offering price, underwriting discount, proceeds before expenses to Input/Output, Inc. and proceeds to the selling stockholders. This information assumes either no exercise or full exercise by the underwriters of their over-allotment option.

		Total	
	Per Share	Without Over-Allotment Option	With Over-Allotment Option
Public offering price	$	$	$
Underwriting discounts and commissions	$	$	$
Proceeds, before expenses, to Input/Output, Inc.	$	$	$
Proceeds to the selling stockholders	$	$	$

The expenses of this offering, not including the underwriting discounts and commissions, are estimated at $ and are payable by Input/Output, Inc.

87

Table of Contents

We, our directors and executive officers, Laitram and the selling stockholders have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, none of us will, during the period ending 90 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock or file any registration statement under the Securities Act of 1933 with respect to the foregoing; or

- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock;

whether any transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, the selling stockholders have agreed that, without the prior consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, they will not, during the period ending 90 days after the date of this prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock.

The restrictions described in this paragraph do not apply to:

- the sale of shares to the underwriters pursuant to the underwriting agreement;

- the issuance by us of shares of common stock upon the exercise of an option or a warrant or the conversion of a security outstanding on the date of this prospectus of which the underwriters have been advised in writing, however these shares of common stock may not be sold other than in accordance with the 90 day lock up described above; or

- the issuance by us of shares of common stock upon the exercise of options we will issue to employees of GXT in connection with the GXT acquisition, however these shares of common stock may not be sold other than in accordance with the 90 day lock up described above; or

- transactions by any person other than us relating to shares of common stock or other securities acquired in open market transactions after the completion of the offering of the shares.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. As an additional means of facilitating the offering, the underwriters may bid for, and purchase, shares of common stock in the open market to stabilize the price of the common stock. The underwriting syndicate may also reclaim selling concessions allowed to an underwriter or a dealer for distributing common stock in the offering, if the syndicate repurchases previously distributed common stock to cover syndicate short positions, or to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of our common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

Table of Contents

A prospectus in electronic format may be made available on the website maintained by one or more underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the lead manager to underwriters that may make distributions on the same basis as other allocations.

From time to time, some of the underwriters and their affiliates have provided, and may continue to provide, investment banking and commercial banking services to us for fees and commissions that we believe are customary.

We have agreed to indemnify the underwriters against a variety of liabilities, including liabilities under the Securities Act.

A business unit of Morgan Stanley owns 3,430,081 shares of our common stock, representing approximately 6.5% of the shares outstanding prior to this offering.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Fulbright & Jaworski, L.L.P., Houston, Texas. The underwriters are being represented in connection with this offering by Andrews Kurth LLP, Houston, Texas.

EXPERTS

The consolidated financial statements incorporated in this prospectus by reference to the Annual Report on Form 10-K, as amended by the Form 10-K/A-1 and Form 10-K/A-2, of Input/Output, Inc. for the year ended December 31, 2003, have been so incorporated in reliance on the report, which contains an explanatory paragraph that we have restated our consolidated statement of operations for 2002 and our consolidated balance sheet for 2002 and 2003, of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of GX Technology Corporation as of June 30, 2003 and June 30, 2002, and for each of the three years in the period ended June 30, 2003, included in this prospectus and elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

Table of Contents

ADDITIONAL INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy materials that we have filed with the SEC at the SEC public reference room located at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. You may obtain information about the public reference room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public on the SEC s Internet website at *http://www.sec.gov*.

Our common stock is listed on the New York Stock Exchange (NYSE) and we are required to file reports, proxy statements and other information with the NYSE. You may read any document we file with the NYSE at the offices of the New York Stock Exchange, Inc. which is located at 20 Broad Street, New York, New York 10005.

INCORPORATION BY REFERENCE

We incorporate by reference into this prospectus the documents listed below and any filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of the offering of common stock under this prospectus. The information incorporated by reference into this prospectus is considered a part of this prospectus, and information that we file later with the SEC, prior to the termination of the offering of common stock under this prospectus, will automatically update and supercede the previously filed information.

- Our Annual Report on Form 10-K for our fiscal year ended December 31, 2003, as amended by our Form 10-K/ A-1 filed on April 23, 2004 and Form 10-K/A-2 filed on May 10, 2004.
- Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.
- Our Current Report on Form 8-K filed on March 5, 2004.
- The description of our common stock contained in our Form 8-A dated October 14, 1994 filed under Section 12(b) of the Exchange Act, as amended by our Current Report on Form 8-K filed on February 8, 2002.
- Our Form 8-A12B filed on January 27, 1997 and our Form 8-A12B/ A filed on May 7, 1999.

You may request a copy of these filings, at no cost, by writing to or telephoning us at the following address:

Input/ Output, Inc.

12300 Parc Crest Drive
Stafford, Texas 77477
Tel: (281) 933-3339
Attention: Corporate Secretary

Table of Contents

INDEX TO FINANCIAL STATEMENTS

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

Table of Contents

INDEPENDENT AUDITORS REPORT

Board of Directors

GX Technology Corporation

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

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

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

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
November 17, 2003

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

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

See notes to consolidated financial statements.

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

See notes to consolidated financial statements.

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

	Common Stock	Additional Paid-In Capital	Accumulated Earnings/(Deficit)	Total Stockholders Equity
BALANCE July 1, 2000	$15,435	$2,745,283	$ (9,988,647)	$(7,227,929)
Dividends on preferred stock			(400,000)	(400,000)
Net income			338,583	338,583
BALANCE July 1, 2001	15,435	2,745,283	(10,050,064)	(7,289,346)
Dividends on preferred stock			(629,787)	(629,787)
Net income			965,819	965,819
BALANCE July 1, 2002	15,435	2,745,283	(9,714,032)	(6,953,314)
Dividends on preferred stock			(835,700)	(835,700)
Net income			4,631,433	4,631,433
BALANCE June 30, 2003	15,435	2,745,283	(5,918,299)	(3,157,581)
Issuance of common stock due to exercise of stock options (Unaudited)	40	67,460		67,500
Dividends on preferred stock (Unaudited)			(626,063)	(626,063)
Net income (unaudited)			4,166,809	4,166,809
BALANCE March 31, 2004 (unaudited)	$15,475	$2,812,743	$ (2,377,553)	$ 450,665

See notes to consolidated financial statements.

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31,		Year Ended June 30,		
	2004	2003	2003	2002	2001
	(Unaudited)				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 4,166,809	$ 3,495,981	$ 4,631,433	$ 965,819	$ 338,583
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	10,413,580	4,886,391	6,698,393	2,078,027	1,534,908
Changes in operating assets and liabilities:					
(Increase)/ Decrease in accounts receivable	(437,985)	(3,326,079)	(5,207,964)	(254,839)	341,245
(Increase)/ Decrease in unbilled revenue	(3,153,228)	49,219	331,314	(2,055,558)	(256,519)
(Increase)/ Decrease in prepayments and other	(612,636)	(228,089)	(182,643)	20,206	15,554
(Increase)/ Decrease in other assets	(122,653)	(113,897)		136,000	114,000
Increase/(Decrease) in accounts payable	2,064,610	(443,576)	(34,353)	521,473	(1,552)
Increase/(Decrease) in accrued liabilities and other	(1,431,010)	217,334	1,391,241	204,978	(353,828)
Increase in deferred revenue	5,329,721	49,016	769,361	1,021,899	190,638
Deferred income taxes	755,897	573,432	755,988	170,415	
Net cash provided by operating activities	16,973,105	5,159,732	9,152,770	2,808,420	1,923,029
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment net	(9,656,745)	(1,711,727)	(1,842,444)	(2,094,796)	(1,090,979)
Purchase of seismic data library	(1,765,516)	(1,779,057)	(4,264,336)		
Purchase of software	(526,243)	(370,014)	(781,573)	(580,810)	(78,595)
Net cash used in investing activities	(11,948,504)	(3,860,798)	(6,888,353)	(2,675,606)	(1,169,574)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of preferred stock				2,042,340	
Proceeds from borrowings	5,500,000	2,750,000	6,048,136	8,043,006	3,778,354
Repayments of borrowings	(8,792,063)	(6,156,791)	(10,549,980)	(8,679,135)	(3,191,477)
Proceeds from issuance of stock	67,500				

Net cash provided by (used in) financing activities	(3,224,563)	(3,406,791)	(4,501,844)	1,406,211	586,877
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,800,038	(2,107,857)	(2,237,427)	1,539,025	1,340,332
CASH AND CASH EQUIVALENTS Beginning of period	712,394	2,949,821	2,949,821	1,410,796	70,464
CASH AND CASH EQUIVALENTS End of period	$ 2,512,432	$ 841,964	$ 712,394	$ 2,949,821	$ 1,410,796
SUPPLEMENTARY CASH FLOW INFORMATION:					
Cash paid for interest	$ 539,936	$ 439,665	$ 608,386	$ 282,257	$ 392,372
Cash paid for income taxes	$ 165,265	$ 79,391	$ 92,873	$ 30,000	$ 21,250
Cash received from income tax refund	$	$ 67,602	$	$ 2,132	$
NONCASH TRANSACTIONS:					
Capital lease additions	$ 4,378,751	$ 4,355,869	$ 6,718,424	$ 2,499,744	$
Series A preferred stock dividends exchanged for Series B preferred stock	$	$	$	$ 2,766,152	$
Interest accumulated on unpaid Series A preferred stock dividends in exchange for Series B preferred stock	$	$	$	$ 637,748	$

See notes to consolidated financial statements.

F-6

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information for the nine month periods ended March 31, 2004 and 2003 is unaudited)

1. Organization and Operations

General

GX Technology Corporation (the Company) has three wholly owned subsidiaries: GX Technology France SARL, located in Paris, France; GX Technology EAME Limited, located in London, England; and GX Technology Canada, Ltd., located in Calgary, Canada.

The Company provides seismic imaging services and data licensing of seismic data used in oil and gas exploration.

The interim financial data is unaudited; however, in the opinion of management, the interim financial data includes all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position as of March 31, 2004 and the results of operations for the nine-month periods ended March 31, 2004 and 2003. The results of operations for the nine months ended March 31, 2004 and 2003 are not necessarily indicative of the results to be expected for the full year.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Revenue Recognition

Revenues for geophysical services (mainly imaging services and licensing of seismic data) are recognized on the percentage of completion method. The Company considers the percentage of completion method to be the best available measure of progress on these contracts. The percentage complete is assessed by measuring the actual progress to the estimated progress of the project. Accordingly, changes in job performance, job conditions, estimated profitability, contract price, cost estimates, and availability of human and computer resources are reviewed periodically as the work progresses and revisions to the percentage completion are reflected in the accounting period in which the facts require such adjustments become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. The asset Unbilled Revenues represents revenues recognized in excess of amounts billed. The liability Deferred Revenue represents amounts billed in excess of revenues recognized.

Revenues for sales of software are recognized when the software has been invoiced, delivered, and accepted by the customer. Payments received in advance for software maintenance agreements are deferred and recognized as revenue over the life of the agreements. Software revenues also include royalties from software license agreements with resellers, which are recognized upon receipt of specific sales information from the licensee and delivery of the product.

Property and Equipment

Property and equipment are depreciated using a straight-line method based on each asset s estimated useful life. Maintenance and repairs are charged to expense as incurred and renewals and betterments are capitalized.

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Seismic Data Library

The seismic data library consists of seismic surveys that are offered for license to customers on a nonexclusive basis. The capitalized costs include costs paid to third parties for the acquisition of data and related activities associated with the data creation activity. The Company does not capitalize any internal processing costs, such as imaging, salaries, benefits, and other costs incurred for seismic data project design and management.

Costs are amortized using the greater of (i) the percentage of estimated total costs compared to the percentage of actual revenue to the total estimated revenue from the project or (ii) a straight-line basis over the useful economic life of the data.

The Company forecasts the ultimate revenue expected to be derived from a particular data survey over its estimated useful economic life to determine the costs to amortize if greater than straight-line amortization. That forecast is made by the Company at project initiation and is reviewed and updated periodically. If, during any such review and update, the Company determines that the ultimate revenue for a survey is expected to be less than the original estimate of total revenue for such survey, the Company increases the amortization rate attributable to future revenue from such survey. In addition, in connection with such reviews and updates, the Company evaluates the recoverability of its seismic data library, and if required under Statement of Financial Accounting Standards No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets, records an impairment charge with respect to such data.

Foreign Currency Translation

GX Technology France SARL, GX Technology EAME Limited, and GX Technology Canada, Ltd. use the U.S. dollar as their functional currency. Foreign currency transactions are included in net income. The Company realized transaction (gain) losses of $(85,351), $19,802 and $66,015 for the years ended June 30, 2003, 2002, and 2001, respectively, and $(158,489) and $(33,344) for the-nine month period ended March 31, 2004 and March 31, 2003.

Software Costs

All internal costs of developing software are expensed as incurred. Purchased software costs are capitalized and amortized on a product-by-product basis over the economic useful life of the software product.

Income Taxes

The Company utilizes an asset and liability approach in the calculation of deferred income taxes. This approach gives consideration to the future tax consequences of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

Stock Options

Stock options are accounted for by applying APB Opinion No. 25, *Accounting for Stock Issued to Employees,* in accounting for equity-based awards granted to employees whereby no compensation expense is recorded related to the options granted when the exercise price equals the market price of the underlying equity issue on the date of grant. See Note 8 for the pro forma effect on the Company s net income, as if compensation expense had been determined based on the minimum value method at the grant date for the stock option awards consistent with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation.* No compensation expense was recorded for the years ended 2003 or 2002. If compensation expense for

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the stock option plan had been determined based on fair value of stock options at the date of grant, the impact on net income would have been as follows:

	Nine Months Ended March 31,		Year Ended June 30,		
	2004	**2003**	**2003**	**2002**	**2001**
	(Unaudited)	**(Unaudited)**			
Net income as reported	$4,166,809	$3,495,981	$4,631,433	$965,819	$338,583
Compensation expense included in net income					
Compensation expense that would have been included in the determination of net income if the fair value based method had been applied to all awards	440,482	377,984	510,524	328,704	189,734
Pro forma net income	$3,726,327	$3,117,997	$4,120,909	$637,115	$148,849

The fair value of each option grant is estimated on the date of grant using the minimum value method using the assumptions as follows:

Expected life of options	10 years
Risk-free interest rate	4.01%-6.20%
Expected dividend yield	0%

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassification

Certain reclassifications of prior year financial statements and related footnote amounts have been made to conform with the 2003 presentation.

3. Property and Equipment

Property and equipment consisted of the following:

Description	**Estimated Useful Lives**	**March 31, 2004**	**June 30, 2003**	**June 30, 2002**

		(Unaudited)		
Computer equipment	3 years	$19,069,805	$15,548,931	$ 9,201,192
Furniture and fixtures	3 years	1,524,188	1,659,960	1,048,796
Total		$20,593,993	$17,208,891	$10,249,988

F-9

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Seismic Data Library

Seismic data library creation and amortization consisted of the following:

	March 31, 2004	June 30, 2003
	(Unaudited)	
Gross costs of seismic data creation	$20,889,351	$8,610,680
Less accumulated amortization	8,535,096	2,685,182
Total	$12,354,255	$5,925,498

Gross costs of seismic data creation include $7,113,839 at March 31, 2004 and $4,491,913 at June 30, 2003 for amounts which the Company has not remitted payment under an agreement with the company performing data acquisition. The Company does not have the payment obligation for these amounts until certain revenues have been collected from licensing sales of the data.

5. Line of Credit

On October 27, 1999, the Company entered into a line of credit with a bank with a borrowing capacity of up to $3,500,000 with an interest rate of prime plus .5%. The line of credit matured and was renewed for one year through March 15, 2005, with a borrowing capacity of $6,000,000. The amount borrowed under the agreement at June 30, 2003 and 2002 was $2,025,000 and $2,975,000 respectively, and $3,775,000 at March 31, 2004. The line of credit is collateralized by marketable securities owned by a stockholder and all of the Company s inventory, accounts receivable, general intangibles and other property, and allows the Company to borrow and repay such borrowings until maturity.

The weighted average borrowings outstanding under the bank loans were $1,791,667 and $2,739,013 for the years ended June 30, 2003 and 2002, respectively, and $3,591,667 at March 31, 2004. The average interest rate was 4.75% and 5.85% for the years ended June 30, 2003 and 2002, respectively, and 5.0% for both of the nine-month periods ended March 31, 2004 and 2003.

The credit agreement contains various affirmative and negative covenants related to the Company s ability to sell, transfer, pledge, collaterally assign, grant a security interest in, or otherwise transfer or encumber any of its assets except for the pledge of collateral to the lender and except for the sale or transfer of its assets (other than the collateral) in the ordinary course of its business. The Company will not at any time permit: a) its current ratio to be less than 1.0 to 1.0; b) tangible net worth to be less than $4,800,000 prior to December 31, 2003 and $10,000,000 after December 31, 2003; and c) its debt to tangible net worth to be greater than 3.0 to 1.0 until December 31, 2003, 3.8 to 1.0, until June 29, 2004, 3.5 to 1.0, between June 30, 2004 and December 30, 2004, and 3.0 to 1.0 on and after December 31, 2004. Management of the Company believes they were in compliance with these covenants at June 30, 2003, except for two financial condition covenants which were waived by the bank. Management of the Company believes they were in compliance with these covenants at March 31, 2004, except for one financial condition covenant which has been waived by the bank.

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Long-Term Obligations

Long-term obligations were as follows:

	March 31, 2004	June 30, 2003	June 30, 2002
	(Unaudited)		
Equipment loans	$6,919,089	$6,704,794	$3,538,214
Shareholder loans	750,000	750,000	750,000
Total obligations	7,669,089	7,454,794	4,288,214
Less short-term obligations	4,939,525	5,018,435	2,627,432
Total long-term obligations	$2,729,564	$2,436,359	$1,660,782

The shareholder term loans bear interest at the lesser of 1) the maximum nonusurious rate of interest permitted by applicable state or federal law in effect or 2) the fixed rate of 10% per annum. The weighted average interest rate for 2003 and 2002 and the interest rate at March 31, 2004, June 30, 2003 and 2002 were 10%.

Outstanding indebtedness under the term note is $750,000, which was amended with the holder of the term note wherein all payments of principal and interest on the note were extended until June 30, 2004.

Long-term obligations as of June 30, 2003, mature as follows: $5,018,435 in the year ending June 30, 2004, $1,918,042 in the year ending June 30, 2005 and $518,317 for the year ending June 30, 2006.

The Company entered into a series of equipment loans that are due in installments for the purpose of financing the purchase of computer equipment in the form of capital leases expiring in various years through 2007. Interest charged under these loans which range from 5.8% to 20.7% is collateralized by liens on the computer equipment. The assets and liabilities under capital leases are recorded at lower of the present value of minimum lease payments or the fair value of the assets. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for the nine-month periods ended March 31, 2004 and 2003 and for the years ended 2003 and 2002.

As of June 30, 2003, future minimum lease payments under capital leases for each of the next four years and in aggregate are:

Year Ending June 30	
2004	$4,765,095
2005	1,452,015
2006	452,682
2007	12,537
Total	$6,682,329

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Operating Lease Agreements

The Company has certain noncancelable operating leases for office space and miscellaneous equipment. At June 30, 2003, the future minimum lease commitments were as follows:

Year Ending June 30	
2004	$1,662,191
2005	1,270,875
2006	248,626
2007	248,626
2008	185,906
Total	$3,616,224

Rent expense for all operating leases was $2,414,537, $1,788,033 and $2,032,287 for the years ended June 30, 2003, 2002 and 2001, respectively, and $2,738,523 and $1,778,926 for the nine-month periods ended March 31, 2004 and March 31, 2003, respectively.

8. Income Taxes

Income taxes consist of the following:

	Nine Months Ended March 31,		Year Ended June 30,		
	2004	2003	2003	2002	2001
	(Unaudited)	(Unaudited)			
U.S. Federal:					
Current tax (benefit)/expense	$1,363,885	$	$	$ (16,132)	$21,250
Deferred tax expense	790,031	536,035	708,796	170,415	
State:					
Current tax expense	125,000				
Foreign:					
Current tax expense	114,399	49,864	69,747	78,786	
Deferred tax (benefit)/expense	(34,134)	37,397	47,192		
Total	$2,359,181	$623,296	$825,735	$233,069	$21,250

Deferred tax assets and liabilities computed at the statutory tax rates were as follows:

	March 31, 2004	June 30, 2003	June 30, 2002
	(Unaudited)		
Current deferred tax assets and liabilities related to:			
Assets	$ 53,523	$ 172,361	$ 743,290
Liabilities	(2,069,798)	(1,025,730)	(913,705)
Current deferred tax liabilities	$ (2,016,275)	$ (853,369)	$ (170,415)
Noncurrent deferred tax asset-fixed assets	$ 619,390	$ 212,381	$

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ending June 30, 2003, as a result of its net operating loss carryforward, the Company did not generate any liability for regular federal income tax purposes. The Company recognized a liability for alternative minimum tax of $115,000 and $32,000 as of June 30, 2003 and 2002, respectively.

9. Stock Options

The Company maintains an employee stock option plan. The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for the plan. Accordingly, no compensation expense has been recognized for options issued under the plan.

The Company may grant options to purchase shares of its common stock under a qualified incentive stock option agreement (Qualified Plan), as defined by Internal Revenue Code Section 422 and a nonqualified stock option agreement (Nonqualified Plan). The Company has reserved for grant, 1,000,000 shares of its common stock under the Qualified Plan and 144,656 shares of its common stock under the Nonqualified Plan. Options under the Qualified Plan have a vesting period of five years and an expiration period from five to ten years from the date of grant. Options under the Nonqualified Plan have a vesting period of four years and an expiration period of ten years from the date of grant. The shares are subject to adjustment for subsequent recapitalizations and stock splits.

The information set forth in the following table covers options granted under the Company s stock option plan:

	June 30, 2003	June 30, 2002
Stock options outstanding beginning of year	1,044,656	877,256
Granted (per share):		
2003 ($15.00)	17,000	225,500
2002 ($15.00)		
Expired or cancelled		(58,100)
Stock options outstanding end of year (per share: $.05 to $15.00 at June 30, 2003; average exercise price per share of $10.84 at June 30, 2003)	1,061,656	1,044,656
Stock options exercisable end of year	768,216	665,936

10. Redeemable Preferred Stock

The Company has issued and has outstanding 481,696 shares of its Series A 8% cumulative convertible redeemable preferred stock (Series A Preferred)($1 par value per share and $10.38 liquidation preference per share) for $5,000,000.

On December 20, 2001, the Company issued 480,000 shares of Series B senior convertible preferred stock (Series B Preferred), with a par value of $1.00 (one dollar) and a liquidation preference and initial conversion price of $11.35 per share. 300,000 shares of the Series B Preferred were issued in lieu of cash payment of $2,766,152 in accrued and unpaid dividends on Series A Preferred and $637,748 in accrued interest on those accrued and unpaid dividends. An additional 180,000 shares of Series B Preferred were issued to one of the Company s principal stockholders in exchange for a capital infusion of $2,042,339 in cash.

Dividends on both Series A and B are payable annually on the Annual Dividend Date. Any unpaid dividends accumulate until paid which represent noncash transactions. As of March 31, 2004, no dividends have been paid. All accrued but unpaid dividends amass interest after each

Annual Dividend Date, at a rate of

Table of Contents

GX TECHNOLOGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8% per annum. The preferred shares are convertible into the Company s common stock at the option of the holder at any time on a one-for-one basis and are automatically converted in the event that the proceeds of a public offering exceed certain levels. In addition, holders of a majority of Series A Preferred may require the Company to repurchase all or any of the then outstanding preferred stock at a price equal to the greater of the fair market value or the original issuance price. The redemption of Series A Preferred allows the holders of Series B Preferred to redeem their preferred stock under similar terms.

11. Benefit Plan

The Company maintains a 401(k) retirement savings plan that covers all U.S. employees. The Company makes matching contributions equal to 50% of the amount of the contribution elected by the employee, up to a maximum employee contribution of 6% of the employee s gross salary. For the years ended June 30, 2003, 2002 and 2001 contributions charged to operations were $256,131, $193,890 and $176,981, respectively, and $261,210 and $179,777 for the nine-month periods ended March 31, 2004, and March 31, 2003, respectively.

12. Related-Party Transactions

As of June 30, 2003 and 2002, the related party balance totaled $2,720,370 and $1,766,888, respectively, as of March 31, 2004 the balance totaled $3,476,968, and consists of unpaid dividends and interest on the Series A and Series B preferred stock and note payable to shareholder. The Company recognized interest expense on obligations to related parties for the years ended June 30, 2003, 2002 and 2001 of $122,451, $368,947 and $396,068, respectively, and $129,822 and $80,080 for nine-month periods ended March 31, 2004 and March 31, 2003, respectively.

13. Subsequent Event (Unaudited)

On May 10, 2004, the Company entered into a stock purchase agreement to sell all outstanding common and preferred stock of the Company to Input/ Output, Inc.

Table of Contents

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. ***Other Expenses of Issuance and Distribution.***

An estimate (other than the SEC registration fee) of the fees and expenses of issuance and distribution of the securities offered hereby (all of which will be paid by Input/ Output, Inc. (I/O)) is as follows:

SEC registration fee	$16,903
New York Stock Exchange Listing Fee	
Legal fees and expenses	
Blue Sky fees and expenses	
Accounting fees and expenses	
Printing and mailing expenses	
Miscellaneous expenses	
Total	$

Item 15. ***Indemnification of Directors and Officers.***

The General Corporation Law of the State of Delaware (DGCL) permits I/O and its stockholders to limit directors exposure to liability for certain breaches of the directors fiduciary duty, either in a suit on behalf of I/O or in an action by stockholders of I/O. The Restated Certificate of Incorporation of I/O (the Charter) provides that a director of I/O shall not be personally liable to I/O or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director s duty of loyalty to I/O or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit.

The Amended and Restated Bylaws (the Bylaws) of I/O provide that I/O shall, to the full extent permitted by applicable laws (including the DGCL), indemnify its directors, officers, employees and agents with respect to expenses (including counsel fees), judgments, fines, penalties, other liabilities and amounts incurred by any such person in connection with any threatened, pending or completed action, suit or proceeding to which such person is or was a party, or is or was threatened to be made a party, by reason of the fact that such person is or was serving as a director, officer, employee or agent of I/ O or any of its subsidiaries, or is or was serving at the request of I/ O or any of its subsidiaries as a director, officer, employee, agent or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise. The Bylaws provide that the indemnification provided pursuant to the Bylaws is not exclusive of any other rights to which those seeking indemnification may be entitled under any provision of law, certificate of incorporation, bylaws, governing documents, agreement, vote of stockholders or disinterested directors or otherwise. I/ O has entered into indemnification agreements with each of its officers and directors and intends to enter into indemnification agreements with each of its future officers and directors. Pursuant to such indemnification agreements, I/ O has agreed to indemnify its officers and directors against certain liabilities.

I/ O maintains a standard form of officers and directors liability insurance policy which provides coverage to the officers and directors of I/ O for certain liabilities, including certain liabilities which may arise out of this Registration Statement.

Table of Contents

Item 16. ***Exhibits.***

The exhibits listed in the Exhibit Index are filed as part of this Registration Statement.

Exhibit Number	Description
*1.1	Underwriting Agreement.
**2.1	Stock Purchase Agreement by and among GX Technology Corporation, Input/ Output, Inc. and the Sellers party thereto, dated as of May 7, 2004.
4.1	Specimen Certificate for shares of Common Stock, incorporated by reference to Exhibit F of the Company s Registration Statement on Form 8-A dated October 17, 1994, and incorporated herein by reference.
4.2	Amended and Restated Certificate of Incorporation filed as Exhibit 3.1 to the Company s Transition Report on Form 10-K for the seven months ended December 31, 2000, and incorporated herein by reference.
4.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, dated October 10, 1966, incorporated by reference to the Company s Form 10-K for the year ended December 31, 2003.
4.4	Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 4.3 of the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 8, 2002.
4.5	Form of Certificate of Designation, Preference and Rights of Series A Preferred Stock of Input/ Output, Inc., filed as Exhibit 2 to the Company s Registration Statement on Form 8-A dated January 27, 1997 (attached as Exhibit 1 to the Rights Agreement referenced in Exhibit 4.6), and incorporated herein by reference.
4.6	Rights Agreement, dated as of January 17, 1997, by and between Input/Output, Inc. and Harris Trust and Savings Bank, as Rights Agent, including exhibits thereto, filed as Exhibit 4 to the Company s Form 8-A dated January 27, 1997, and incorporated herein by reference.
4.7	First Amendment to Rights Agreement by and between the Company and Harris Trust and Savings Bank as Rights Agent, dated April 21, 1999, filed as Exhibit 10.3 to the Company s Form 8-K dated April 21, 1999, and incorporated herein by reference.
*5.1	Opinion of Fulbright & Jaworski L.L.P.
**23.1	Consent of PricewaterhouseCoopers LLP.
**23.2	Consent of Deloitte & Touche LLP.
*23.3	Consent of Fulbright & Jaworski L.L.P. (incorporated by reference to Exhibit 5.1).
24.1	Power of Attorney (included in Signature Page).

* To be filed by amendment.

** Filed herewith.

Item 17. 1,103,810

Nevada, Total	1,103,810
North Carolina	
Creedmoor (Highway 50) and Crabtree Valley Avenue, Raleigh	510,959
Highway 17 and Highway 210, Surf City	2,024,233
U.S. 15-501 and Bruce Wood Rd., Southern Pines	1,047,182

Table of Contents

Center and Location	Building Total	Land Total
U.S. Highway 1 at Caveness Farms Rd., Wake Forest		3,074,900
U.S. Hwy. 17 & U.S. Hwy. 74/76, Leland		549,727
North Carolina, Total		7,207,001
Tennessee		
Poplar Avenue and Ridgeway Road, Memphis		53,579
Tennessee, Total		53,579
Texas		
9th Ave. at 25th St., Port Arthur		243,065
Bissonnet at Wilcrest, Houston		40,946
Citadel Plaza at 610 North Loop, Houston		137,214
Culebra Road and Westwood Loop, San Antonio		403,366
East Orem, Houston		121,968
FM 1957 (Potranco Road) and FM 211, San Antonio		8,655,372
FM 2920 and Highway 249, Tomball		1,467,972
Highway 3 at Highway 1765, Texas City		200,812
Kirkwood at Dashwood Drive, Houston		321,908
Leslie Rd. at Bandera Rd., Helotes		74,052
Mesa Road at Tidwell, Houston		35,719
Nolana Ave. and 29th St., McAllen		163,350
Northwest Freeway at Gessner, Houston		117,612
River Pointe Drive at Interstate 45, Conroe		118,483
Rock Prairie Rd. at Hwy. 6, College Station		394,218
SH 151 and Ingram Rd, San Antonio		369,389
Shary Rd. at North Hwy. 83, Mission		1,607,364
U.S. 77 and 83 at SHFM 802, Brownsville		954,835
US Hwy. 281 at Wilderness Oaks, San Antonio		1,269,774
West Little York at Interstate 45, Houston		161,172
West Loop North at Interstate 10, Houston		145,055

Texas, Total	17,003,646
Utah	
South 300 West & West Paxton Avenue, Salt Lake City	324,958
Utah, Total	324,958

27

Table of Contents

Property Listing Summary
as of December 31, 2010

ALL PROPERTIES BY STATE	Number of Properties	Building Total	Land Total
Arizona	24	3,432,223	11,901,321
Arkansas	3	358,030	1,489,000
California	30	5,445,127	19,583,510
Colorado	12	3,787,977	12,457,921
Florida	52	11,092,633	44,248,845
Georgia	23	4,866,487	20,731,663
Illinois	1	303,566	1,013,380
Kansas	2	248,335	970,987
Kentucky	4	738,429	3,102,384
Louisiana	11	2,258,846	6,316,953
Maine	1	204,713	962,667
Missouri	2	257,549	1,307,000
Nevada	12	3,528,247	11,348,520
New Mexico	4	690,668	2,270,407
North Carolina	25	3,465,057	24,359,335
Oklahoma	2	163,996	682,000
Oregon	3	273,436	672,288
South Carolina	1	86,120	436,000
Tennessee	9	2,048,530	5,614,132
Texas	155	24,643,786	93,677,252
Utah	3	663,767	1,985,003
Virginia	9	2,504,937	6,774,973
Washington	4	474,718	1,750,000
Grand Total	392	71,537,177	273,655,541
Total Retail	312	54,254,681	196,112,470
Total Industrial	77	17,001,049	44,052,529
Total Unimproved Land			33,088,611

Total Other	3	281,447	401,931

Total square footage includes 464,561 square feet of building area and 13,354,380 square feet of land leased from others.

Footnotes for detail property listing:

(1) Denotes property is held by a real estate joint venture or partnership; however, the building and land square feet figures include our partners' ownership interest in the property.

(2) Denotes property currently under development.

(3) Denotes properties that are not consolidated under generally accepted accounting principles.

NOTE: Square feet are reflective of area available to be leased. Certain listed properties may have additional square feet that are not owned by us.

Table of Contents

General. In 2010, no single property accounted for more than 4.0% of our total assets or 1.6% of revenues. The five largest properties, in the aggregate, represented approximately 7.5% of our revenues for the year ended December 31, 2010; otherwise, none of the remaining properties accounted for more than 1.2% of our revenues during the same period. As of December 31, 2010, the weighted average occupancy rate for all of our improved properties was 91.9% compared to 90.8% as of December 31, 2009. The average effective annual rental per square foot was approximately $13.60 in 2010, $13.31 in 2009, $13.16 in 2008, $12.57 in 2007 and $12.12 in 2006 for retail properties and $4.83 in 2010, $4.90 in 2009, $4.98 in 2008, $4.86 in 2007 and $4.91 in 2006 for industrial properties.

As of December 31, 2010, lease expirations for the next ten years, assuming tenants do not exercise renewal options, are as follows:

				Annual Net Rent of Expiring Leases	
Year	Number of Expiring Leases	Square Feet of Expiring Leases (000's)	Percentage of Leaseable Square Feet	Total (000's)	Per Square Foot
2011	902	4,252	8.22	$ 52,722	$ 12.40
2012	975	5,266	10.19	64,581	12.26
2013	999	6,065	11.73	68,724	11.33
2014	711	5,488	10.62	57,439	10.47
2015	703	4,898	9.47	56,065	11.45
2016	260	2,964	5.73	32,570	10.99
2017	121	1,637	3.17	20,524	12.54
2018	110	1,435	2.78	17,676	12.32
2019	80	1,263	2.44	15,779	12.49
2020	79	1,179	2.28	14,780	12.54

In the ordinary course of business, we have tenants who cease making payments under their leases or who file for bankruptcy protection. We are unable to predict or forecast the timing of store closings or unexpected vacancies. While we believe the effect of this will not have a material impact on our financial position, results of operations or liquidity due to the significant diversification of our tenant base, the uncertainty in the economy and commercial credit markets could result in a negative impact.

The majority of our properties are owned directly by us (subject in some cases to mortgages), although our interests in some properties are held indirectly through interests in real estate joint ventures or under long-term leases. In our opinion, our properties are well maintained and in good repair, suitable for their intended uses, and adequately covered by insurance.

We participate in 67 real estate joint ventures or partnerships that hold 147 of our properties. Our ownership interest ranges from 7.8% to 99%; we are normally the managing or operating partner and receive a fee for acting in this capacity.

We may use a DownREIT operating partnership structure in the acquisition of some real estate properties. In these transactions, a fair value purchase price is agreed upon between us, as general partner of the DownREIT, and the seller where the seller receives operating partnership units in exchange for some or all of its ownership interest in the property. Each operating partnership unit is the equivalent of one of our common shares of beneficial interest ("common shares"). These units generally allow our partners the right to put their limited partnership units' interest to us on or after the first anniversary of the entity's formation. We may acquire these limited partnership units for either cash or a fixed number of our common shares at our discretion.

Shopping Centers. At December 31, 2010, we owned or operated under long-term leases, either directly or through our interest in real estate joint ventures or partnerships, a total of 303 developed income-producing properties and nine properties under various stages of construction and development, which are located in 22 states spanning the country from coast to coast.

Table of Contents

Our shopping centers are primarily neighborhood and community shopping centers that typically range in size from 50,000 to 650,000 square feet of building area, as distinguished from large regional enclosed malls and small strip centers, which generally contain 5,000 to 25,000 square feet. None of the centers have climatized common areas, but are designed to allow retail customers to park their automobiles in close proximity to any retailer in the center. Our centers are customarily constructed of masonry, steel and glass, and all have lighted, paved parking areas, which are typically landscaped with berms, trees and shrubs. They are generally located at major intersections in close proximity to neighborhoods that have existing populations sufficient to support retail activities of the types conducted in our centers.

We have approximately 7,100 separate leases with 5,100 different tenants. Included among our top revenue-producing tenants are: The Kroger Co., T.J.X. Companies, Safeway, Ross Stores, H E Butt Grocery, Home Depot, Office Depot, PetSmart and Gap (primarily Old Navy stores). The diversity of our tenant base is also evidenced by the fact that our largest tenant accounted for only 3.0% of rental revenues during 2010.

Our shopping center leases have lease terms generally ranging from three to five years for tenant space under 5,000 square feet and from 10 to 25 years for tenant space over 10,000 square feet. Leases with primary lease terms in excess of 10 years, generally for anchor and out-parcels, frequently contain renewal options which allow the tenant to extend the term of the lease for one or more additional periods, with each of these periods generally being of a shorter duration than the primary lease term. The rental rates paid during a renewal period are generally based upon the rental rate for the primary term; sometimes adjusted for inflation, market conditions or an amount of the tenant's sales during the primary term.

Most of our leases provide for the monthly payment in advance of fixed minimum rentals, the tenants' pro rata share of real estate taxes, insurance (including fire and extended coverage, rent insurance and liability insurance) and common area maintenance for the center (based on estimates of the costs for these items). They also provide for the payment of additional rentals based on a percentage of the tenants' sales. Utilities are generally paid directly by tenants except where common metering exists with respect to a center. In this case we make payments for the utilities, and the tenants reimburse us on a monthly basis. Generally, our leases prohibit the tenant from assigning or subletting its space. They also require the tenant to use its space for the purpose designated in its lease agreement and to operate its business on a continuous basis. Some of the lease agreements with major tenants contain modifications of these basic provisions in view of the financial condition, stability or desirability of those tenants. Where a tenant is granted the right to assign its space, the lease agreement generally provides that the original lessee will remain liable for the payment of the lease obligations under that lease agreement.

During 2010, we acquired four retail shopping centers located one each in Arizona, Colorado, Florida and North Carolina for approximately $75.3 million.

During 2010, we sold one shopping center located in Texas and a retail building at two operating properties located in Kansas and Kentucky. Gross sales proceeds from these dispositions totaled $3.0 million and generated gains of $.8 million.

During the first quarter of 2010, we contributed the final two properties to an unconsolidated joint venture for $47.3 million, which included loan assumptions of $28.1 million and the receipt of net proceeds totaling $14.0 million.

Effective April 1, 2010, we assumed control of two 50%-owned unconsolidated real estate joint ventures related to a development project in Sheridan, Colorado that we had previously accounted for under the equity method. This transaction resulted in the consolidation of these joint ventures, which required us to revalue our investments to fair value, resulting in an impairment loss of $15.8 million and an increase in net assets of $87.6 million.

During 2010, we acquired a 67%-owned unconsolidated real estate joint venture interest in a retail shopping center located in Moreno Valley, California and a 58%-owned unconsolidated real estate joint venture interest in a retail shopping center located in Houston, Texas for approximately $35.8 million. Also, two unconsolidated real estate joint ventures each sold a retail building located in California with aggregate gross sales proceeds totaling $4.4 million.

We have a real estate limited partnership agreement with a foreign institutional investor to purchase up to $280 million of retail properties in various states. Our ownership in this unconsolidated real estate limited partnership is 51%. To date, no properties had been purchased.

Table of Contents

Industrial Properties. At December 31, 2010, we owned, either directly or through our interest in real estate joint ventures or partnerships, 77 industrial projects and three other operating properties totaling approximately 17.3 million square feet of building area. Our industrial properties consist of bulk warehouse, business distribution and office-service center assets ranging in size from 9,000 to 727,000 square feet. Similar to our shopping centers, these properties are customarily constructed of masonry, steel and glass, and have lighted, concrete parking areas and are well landscaped. Some of the national and regional tenants in our industrial properties include Sears Logistics, Publix, Shell, Rooms to Go, Rooftop Systems Inc., Wells Fargo Bank, Fed Ex, Mazda, McGraw Hill and Iron Mountain. Our properties are located in Arizona, California, Florida, Georgia, Tennessee, Texas and Virginia.

During 2010, we acquired a distribution center and an industrial business park both located in Texas for approximately $16.8 million. Also, we sold an unconsolidated real estate joint venture interest in a Texas property to our partner with gross sales proceeds totaling $1.4 million, which generated a gain of $1.3 million.

Land Held for Development. At December 31, 2010, we owned, either directly or through our interest in real estate joint ventures or partnerships, 42 parcels of unimproved land consisting of approximately 33.1 million square feet of land area located in Arizona, California, Colorado, Florida, Georgia, Louisiana, Nevada, North Carolina, Tennessee, Texas and Utah. These properties include approximately 3.5 million square feet of land adjacent to certain of our existing developed properties, which may be used for expansion of these developments, as well as approximately 29.6 million square feet of land, which may be used for new development. Almost all of the land held for development is served by roads and utilities and are suitable for development as shopping centers or industrial projects, and we intend to emphasize the development of these parcels for such purpose. We have approximately $170.2 million in land held for development. Due to our analysis of current economic considerations, including the effects of tenant bankruptcies, credit availability to retailers, reduction of tenant expansion plans for new development projects, declines in real estate values and any changes to our plans related to our new development properties, including land held for development, we recorded an impairment charge of $5.1 million related to land held for development for the year ended December 31, 2010.

New Development Properties. At December 31, 2010, we had nine properties in various stages of development. We have funded $155.6 million to date on these projects, and we estimate our investment upon completion to be $131.3 million, after consideration of anticipated land sales and tax incentive financing which is estimated to be $19.1 million. The majority of these properties are slated to be completed over the next three years with an average projected return on investment of approximately 6.5% when completed.

Merchant Development. During 2010, we sold two land parcels each located in Texas with gross sales proceeds of $10.6 million. Also, two unconsolidated real estate joint ventures each sold a land parcel located in Florida with gross sales proceeds totaling $2.5 million.

ITEM 3. Legal Proceedings

We are involved in various matters of litigation arising in the normal course of business. While we are unable to predict with certainty the amounts involved, our management and legal counsel believe that when such litigation is resolved, our resulting liability, if any, will not have a material adverse effect on our consolidated financial statements.

Table of Contents

ITEM 4. Removed and Reserved

PART II

ITEM 5. Market for Registrant's Common Shares of Beneficial Interest, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common shares of beneficial interest ("common shares") are listed and traded on the New York Stock Exchange under the symbol "WRI." As of January 31, 2011, the number of holders of record of our common shares was 2,634. The closing high and low sale prices per common share as reported on the New York Stock Exchange, and dividends per share paid for the fiscal quarters indicated were as follows:

	High	Low	Dividends
2010:			
Fourth	$25.92	$21.92	$.260
Third	22.70	18.34	.260
Second	23.93	18.71	.260
First	22.95	18.16	.260
2009:			
Fourth	$20.86	$18.19	$.250
Third	22.29	13.29	.250
Second	16.58	9.18	.250
First	20.72	8.41	.525

The following table summarizes the equity compensation plans under which our common shares may be issued as of December 31, 2010:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of shares remaining available for future issuance
Equity compensation plans approved by shareholders	4,614,272	$ 27.62	2,766,273
Equity compensation plans not approved by shareholders			
Total	4,614,272	$ 27.62	2,766,273

32

Table of Contents

Performance Graph

The graph below provides an indicator of cumulative total shareholder returns for us as compared with the S&P 500 Stock Index and the NAREIT All Equity Index, weighted by market value at each measurement point. The graph assumes that on December 31, 2005, $100 was invested in our common shares and that all dividends were reinvested by the shareholder.

Comparison of Five Year Cumulative Return

	2006	2007	2008	2009	2010
Weingarten	127.49	91.18	65.35	68.72	86.66
S&P 500 Index	115.80	122.16	76.96	97.33	111.99
The NAREIT All Equity Index	135.06	113.87	70.91	90.76	116.12

There can be no assurance that our share performance will continue into the future with the same or similar trends depicted in the graph above. We do not make or endorse any predications as to future share performance.

33

Table of Contents

ITEM 6. Selected Financial Data

The following table sets forth our selected consolidated financial data and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation," the Consolidated Financial Statements and accompanying Notes in "Item 8. Financial Statements and Supplementary Data" and the financial schedules included elsewhere in this Form 10-K.

	(Amounts in thousands, except per share amounts) Year Ended December 31,				
	2010	2009	2008	2007	2006
Revenues (primarily real estate rentals)	$554,667	$571,988	$592,647	$561,099	$501,265
Expenses:					
Depreciation and amortization	151,101	147,877	149,795	122,228	111,617
Other	228,983	234,517	262,380	190,912	163,920
Total	380,084	382,394	412,175	313,140	275,537
Operating Income	174,583	189,594	180,472	247,959	225,728
Interest Expense, net	(148,794)	(153,207)	(156,318)	(156,248)	(148,052)
Interest and Other Income, net	9,825	11,427	4,333	8,483	9,043
(Loss) Gain on Redemption of Convertible Senior Unsecured Notes	(135)	25,311	12,961		
Equity in Earnings of Real Estate Joint Ventures and Partnerships, net	12,889	5,548	12,196	19,853	14,655
Gain on Land and Merchant Development Sales		18,688	8,342	16,385	7,166
(Provision) Benefit for Income Taxes	(240)	(6,337)	10,220	(4,073)	(1,366)
Income from Continuing Operations	48,128	91,024	72,206	132,359	107,174
Income from Discontinued Operations (1)	630	58,986	80,391	103,893	178,573
Gain on Sale of Property	2,480	25,266	1,998	4,086	22,493
Net Income	$51,238	$175,276	$154,595	$240,338	$308,240
Net Income Adjusted for Noncontrolling Interests	$46,206	$171,102	$145,652	$230,101	$301,826
Net Income Attributable to Common Shareholders	$10,730	$135,626	$109,091	$204,726	$291,725
Per Share Data - Basic:					
Income from Continuing Operations	$0.08	$0.70	$0.34	$1.18	$1.29
Net Income	$0.09	$1.24	$1.29	$2.39	$3.33
Weighted Average Number of Shares	119,935	109,546	84,474	85,504	87,719
Per Share Data - Diluted:					
Income from Continuing Operations	$0.08	$0.70	$0.34	$1.18	$1.29
Net Income	$0.09	$1.23	$1.28	$2.35	$3.24
Weighted Average Number of Shares	120,780	110,178	84,917	88,893	91,779
Property (at cost)	$4,777,794	$4,658,396	$4,915,472	$4,972,344	$4,445,888
Total Assets	$4,807,855	$4,890,385	$5,114,212	$4,992,636	$4,373,066
Debt, net	$2,589,448	$2,531,847	$3,148,636	$3,131,977	$2,899,860

Other Data:					
Cash Flows from Operating Activities	$214,625	$244,316	$220,150	$223,309	$242,592
Cash Flows from Investing Activities	$(121,421)	$191,872	$(115,391)	$(480,630)	$(314,686)
Cash Flows from Financing Activities	$(222,929)	$(341,550)	$(111,590)	$252,095	$100,407
Cash Dividends per Common Share	$1.04	$1.28	$2.10	$1.98	$1.86
Funds from Operations: (2)					
Net Income Attributable to Common Shareholders	$10,730	$135,626	$109,091	$204,726	$291,725
Depreciation and Amortization	163,478	162,644	162,035	141,150	131,792
Gain on Sale of Property	(3,068)	(81,010)	(70,068)	(86,076)	(172,056)
Total	$171,140	$217,260	$201,058	$259,800	$251,461

Table of Contents

(1) Generally accepted accounting principles ("GAAP") requires the operating results and gain (loss) on the sale of operating properties to be reported as discontinued operations for all periods presented.

(2) The National Association of Real Estate Investment Trusts ("NAREIT") defines funds from operations ("FFO") as net income (loss) attributable to common shareholders computed in accordance with GAAP, excluding gains or losses from sales of operating real estate assets and extraordinary items, plus depreciation and amortization of operating properties, including our share of unconsolidated real estate joint ventures and partnerships. We calculate FFO in a manner consistent with the NAREIT definition.

Management uses FFO as a supplemental measure to conduct and evaluate our business because there are certain limitations associated with using GAAP net income by itself as the primary measure of our operating performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, management believes that the presentation of operating results for real estate companies that uses historical cost accounting is insufficient by itself. There can be no assurance that FFO presented by us is comparable to similarly titled measures of other REITs.

FFO should not be considered as an alternative to net income or other measurements under GAAP as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity. FFO does not reflect working capital changes, cash expenditures for capital improvements or principal payments on indebtedness.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto and the comparative summary of selected financial data appearing elsewhere in this report. Historical results and trends which might appear should not be taken as indicative of future operations. Our results of operations and financial condition, as reflected in the accompanying consolidated financial statements and related footnotes, are subject to management's evaluation and interpretation of business conditions, retailer performance, changing capital market conditions and other factors which could affect the ongoing viability of our tenants.

Executive Overview

Weingarten Realty Investors is a real estate investment trust ("REIT") organized under the Texas Real Estate Investment Trust Act. Effective January 1, 2010, the Texas Real Estate Investment Trust Act was replaced by the Texas Business Organizations Code. We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping and industrial centers we own or lease. We also manage centers for joint ventures in which we are partners or for other outside owners for which we charge fees.

We operate a portfolio of rental properties which includes neighborhood and community shopping centers and industrial properties of approximately 71.5 million square feet. We have a diversified tenant base with our largest tenant comprising only 3.0% of total rental revenues during 2010.

Our long-term strategy is to focus on increasing funds from operations ("FFO") and shareholder value. We do this through hands-on leasing and management, selective redevelopment of the existing portfolio of properties, disciplined growth from strategic acquisitions and new developments and disposition of assets that no longer meet our ownership criteria. We do this while remaining committed to maintaining a conservatively leveraged balance sheet, a well-staggered debt maturity schedule and strong credit agency ratings.

Table of Contents

Currently, we are focusing our efforts on improvements to our operating fundamentals and increasing shareholder value. We have also positioned ourselves to take advantage of growth opportunities as the markets continue to improve. We have implemented a multifaceted approach to utilizing associates from leasing, acquisitions and new development to source these opportunities. We are also leveraging their efforts with the relationships we have in the brokerage, banking and institutional arenas. Competition for quality acquisition opportunities remains substantial; nevertheless, we have been successful in indentifying selected properties, which meet our return hurdles, and we will continue to actively evaluate other opportunities as they enter the market.

We strive to maintain a strong, conservative capital structure, which provides ready access to a variety of attractive capital sources. We carefully balance obtaining low cost financing with matching long-term liabilities with the acquired or developed long-term assets. While the availability of capital has improved over the past year, there can be no assurance that such pricing and availability will not deteriorate in the near future.

At December 31, 2010, we owned or operated under long-term leases, either directly or through our interest in real estate joint ventures or partnerships, a total of 383 developed income-producing properties and nine properties under various stages of construction and development. The total number of centers includes 312 neighborhood and community shopping centers, 77 industrial projects and three other operating properties located in 23 states spanning the country from coast to coast.

We also owned interests in 42 parcels of land held for development that totaled approximately 33.1 million square feet.

We had approximately 7,100 leases with 5,100 different tenants at December 31, 2010.

Leases for our properties range from less than a year for smaller spaces to over 25 years for larger tenants. Rental revenues generally include minimum lease payments, which often increase over the lease term, reimbursements of property operating expenses, including real estate taxes, and additional rent payments based on a percentage of the tenants' sales. The majority of our anchor tenants are supermarkets, value-oriented apparel/discount stores and other retailers or service providers who generally sell basic necessity-type goods and services. Through this challenging economic environment, we believe the stability of our anchor tenants, combined with convenient locations, attractive and well-maintained properties, high quality retailers and a strong tenant mix, should ensure the long-term success of our merchants and the viability of our portfolio.

In assessing the performance of our properties, management carefully tracks the occupancy of the portfolio. Occupancy for the total portfolio increased from 90.8% at December 31, 2009 to 91.9% at December 31, 2010. While we will continue to monitor the economy and the effects on our retailers, we believe the significant diversification of our portfolio, both geographically and by tenant base, and the quality of our portfolio will allow us to maintain occupancy levels at or above these levels as we move through 2011, absent bankruptcies by multiple national or regional tenants. The weakened economy contributed to a decrease in rental rates on a same-space basis as we completed new leases and renewed existing leases. We completed 1,523 new leases or renewals during 2010 totaling 7.2 million square feet; decreasing rental rates an average of 2.5% on a cash basis. While we have seen some strengthening on our renewal rates, new lease rates continue to be a challenge. Although we believe the gap in the new lease rate margins will not continue to widen, they are expected to remain a challenge through 2011.

New Development

At December 31, 2010, we had nine properties in various stages of development. We have funded $155.6 million to date on these projects, and we estimate our investment upon completion to be $131.3 million, after consideration of anticipated land sales and tax incentive financing which is estimated to be $19.1 million. The majority of these properties are slated to be completed over the next three years with an average projected return on investment of approximately 6.5% when completed.

We have approximately $170.2 million in land held for development. Due to our analysis of current economic considerations, including the effects of tenant bankruptcies, credit availability to retailers, reduction of tenant expansion plans for new development projects, declines in real estate values and any changes to our plans related to our new development properties, including land held for development, we recorded an impairment charge of $5.1 million in 2010. While we will continue to monitor this market closely, we anticipate minimal investment in land held for development or new projects during 2011.

Acquisitions and Joint Ventures

Acquisitions are a key component of our long-term strategy. The availability of quality acquisition opportunities in the market remains sporadic. Competition for the highest quality core properties is intense which has in many cases driven pricing to pre-recession highs. We remain disciplined in approaching these opportunities, pursuing only those that provide appropriate risk-adjusted returns. The use of joint venture arrangements is key to our long-term strategy. Partnering with institutional investors through real estate joint ventures enables us to acquire high quality assets in our target markets while also meeting our financial return objectives. Under these arrangements, we benefit from access to lower-cost capital, as well as leveraging our expertise to provide fee-based services, such as acquisition, leasing, property management and asset management, to the joint ventures.

During 2010, we acquired four retail shopping centers and two industrial properties with two located in Texas and one each in Arizona, Colorado, Florida and North Carolina for approximately $92.1 million. We anticipate to continue to acquire properties through 2011 that meet our strategic and pricing objectives.

During the first quarter of 2010, we contributed the final two properties to an unconsolidated real estate joint venture for $47.3 million, which included loan assumptions of $28.1 million and the receipt of net proceeds totaling $14.0 million.

Effective April 1, 2010, we assumed control of two 50%-owned unconsolidated real estate joint ventures related to a development project in Sheridan, Colorado that we had previously accounted for under the equity method. This transaction resulted in the consolidation of these joint ventures, which required us to revalue our investments to fair value, resulting in an impairment loss of $15.8 million and an increase in net assets of $87.6 million.

Also, in 2010, we acquired a 67%-owned unconsolidated real estate joint venture interest in a retail shopping center located in Moreno Valley, California and a 58%-owned unconsolidated real estate joint venture interest in a retail shopping center located in Houston, Texas for approximately $35.8 million.

We have a real estate limited partnership agreement with a foreign institutional investor to purchase up to $280 million of retail properties in various states. Our ownership in this unconsolidated real estate limited partnership is 51%. To date, no properties had been purchased.

We continue to monitor our joint venture relationships and evaluate whether new or existing relationships could provide equity for new investments.

Joint venture and outside fee income for 2010 and 2009 was approximately $7.0 million and $6.3 million, respectively. This fee income is based upon revenues, net income and in some cases appraised property values. We expect to receive approximately the same amount of fees in 2011.

Dispositions

Dispositions are also a key component of our ongoing management process where we prune from our portfolio properties that no longer meet our geographic or growth targets. Dispositions provide capital, which may be recycled into properties that have high barrier-to-entry locations within high growth metropolitan markets, and thus have higher long-term growth potential. Over time, we expect this to produce a portfolio with higher occupancy rates and stronger internal revenue growth. With a continued return of debt financing available to prospective purchasers, we expect to continue to dispose of selected non-core properties throughout 2011 as opportunities present themselves.

Table of Contents

Summary of Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate our assumptions and estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies require more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition
Rental revenue is generally recognized on a straight-line basis over the term of the lease, which begins the date the leasehold improvements are substantially complete, if owned by us, or the date the tenant takes control of the space, if the leasehold improvements are owned by the tenant. Revenue from tenant reimbursements of real estate taxes, maintenance expenses and insurance is subject to our interpretation of lease provisions and is recognized in the period the related expense is recognized. Revenue based on a percentage of tenants' sales is recognized only after the tenant exceeds their sales breakpoint. In addition, in circumstances where we would provide a tenant improvement allowance for improvements that are owned by the tenant, we would recognize the allowance as a reduction of rental revenue on a straight-line basis over the term of the lease. Other revenue is income from contractual agreements with third parties, tenants or partially owned real estate joint ventures or partnerships, which is recognized as the related services are performed under the respective agreements.

Real Estate Joint Ventures and Partnerships
To determine the method of accounting for partially owned real estate joint ventures and partnerships, we apply the guidelines as set forth in GAAP. Entities identified as variable interest entities are consolidated if we are determined to be the primary beneficiary of the partially owned real estate joint venture or partnership.

Partially owned real estate joint ventures and partnerships over which we have a controlling financial interest are consolidated in our financial statements. In determining if we have a controlling financial interest, we consider factors such as ownership interest, authority to make decisions, kick-out rights and substantive participating rights. Management continually analyzes and assesses reconsideration events, including changes in these factors, to determine if the consolidation treatment remains appropriate. Partially owned real estate joint ventures and partnerships where we do not have a controlling financial interest, but have the ability to exercise significant influence, are accounted for using the equity method. Decisions regarding consolidation of partially owned entities frequently require significant judgment by our management. Errors in the assessment of consolidation could result in material changes to our consolidated financial statements.

Property
Real estate assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method, generally over estimated useful lives of 18-40 years for buildings and 10-20 years for parking lot surfacing and equipment. Major replacements where the betterment extends the useful life of the asset are capitalized, and the replaced asset and corresponding accumulated depreciation are removed from the accounts. All other maintenance and repair items are charged to expense as incurred. If we do not allocate these costs appropriately or incorrectly estimate the useful lives of our real estate, depreciation expense may be misstated.

38

Table of Contents

Acquisitions of properties are accounted for utilizing the acquisition method and, accordingly, the results of operations of an acquired property are included in our results of operations from the date of acquisition. Estimates of fair values are based upon future cash flows and other valuation techniques in accordance with our fair value measurements accounting policy, which are used to record the purchase price of acquired property among land, buildings on an "as if vacant" basis, tenant improvements, other identifiable intangibles and any goodwill or gain on purchase. Other identifiable intangible assets and liabilities include the effect of out-of-market leases, the value of having leases in place ("as is" versus "as if vacant" and absorption costs), out-of-market assumed mortgages and tenant relationships. Depreciation and amortization is computed using the straight-line method, generally over estimated useful lives of 40 years for buildings and over the lease term which includes bargain renewal options for other identifiable intangible assets. The impact of these estimates, including incorrect estimates in connection with acquisition values and estimated useful lives, could result in significant differences related to the purchased assets, liabilities and resulting depreciation or amortization. Effective 2009, acquisition costs are expensed as incurred.

Property also includes costs incurred in the development of new operating properties and properties in our merchant development program. Merchant development is a program in which we develop a project with the objective of selling all or part of it, instead of retaining it in our portfolio on a long-term basis. Also, disposition of land parcels and non-operating properties are included in this program. These properties are carried at cost, and no depreciation is recorded on these assets until rent commences or no later than one year from the completion of major construction. These costs include pre-acquisition costs directly identifiable with the specific project, development and construction costs, interest and real estate taxes. Indirect development costs, including salaries and benefits, travel and other related costs that are directly attributable to the development of the property, are also capitalized. The capitalization of such costs ceases at the earlier of one year from the completion of major construction or when the property, or any completed portion, becomes available for occupancy. The impact of the estimates related to the allocation of indirect costs and interest could result in incorrect estimates in connection with determining the asset value which could be material to our consolidated financial statements.

Property also includes costs for tenant improvements paid by us, including reimbursements to tenants for improvements that are owned by us and will remain our property after the lease expires.

Impairment

Our property is reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property, including any capitalized costs and any identifiable intangible assets, may not be recoverable.

If such an event occurs, a comparison is made of the current and projected operating cash flows of each such property into the foreseeable future, with consideration of applicable holding periods, on an undiscounted basis to the carrying amount of such property. If we determine the carrying amount is not recoverable, our basis in the property is reduced to its estimated fair value to reflect impairment in the value of the asset. Fair values are determined by management utilizing cash flow models, market capitalization and discount rates, or by obtaining third-party broker or appraisal estimates in accordance with our fair value measurements accounting policy.

We review current economic considerations each reporting period, including the effects of tenant bankruptcies, the suspension of tenant expansion plans for new development projects, declines in real estate values and any changes to plans related to our new development projects including land held for development, to identify properties where we believe market values may be deteriorating. Determining whether a property is impaired and, if impaired, the amount of write-down to fair value requires a significant amount of judgment by management and is based on the best information available to management at the time of evaluation. The evaluations used in these analyses could result in incorrect estimates when determining carrying values that could be material to our consolidated financial statements.

Our investment in partially owned real estate joint ventures and partnerships is reviewed for impairment each reporting period. The ultimate realization is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment below its carrying amount is other than temporary. A considerable amount of judgment by our management is used in this evaluation. Our overall future plans for the investment, our investment partner's financial outlook and our views on current market and economic conditions may have a significant impact on the resulting factors analyzed for these purposes.

Fair Value Measurements

Certain financial instruments, estimates and transactions are required to be calculated, reported and/or recorded at fair value. The estimated fair values of such financial items, including debt instruments, impairments, acquisitions, investment securities and derivatives, have been determined using a market-based measurement. This measurement is determined based on the assumptions that management believes market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The assessed inputs used in determining any fair value measurements could result in incorrect valuations that could be material to our consolidated financial statements.

Sales of Real Estate

Sales of real estate include the sale of tracts of land within a shopping center development, property adjacent to shopping centers, shopping center properties, merchant development properties, investments in real estate joint ventures and partnerships and partial sales to real estate joint ventures and partnerships in which we participate.

Profits on sales of real estate, including merchant development sales are not recognized until (a) a sale is consummated; (b) the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay; (c) the seller's receivable is not subject to future subordination; and (d) we have transferred to the buyer the usual risks and rewards of ownership in the transaction, and we do not have a substantial continuing involvement with the property. A considerable amount of judgment by our management is used in this evaluation.

We recognize gains on the sale of real estate to joint ventures and partnerships in which we participate to the extent we receive cash from the joint venture or partnership, if it meets the sales criteria in accordance with GAAP, and we do not have a commitment to support the operations of the real estate joint venture or partnership to an extent greater than our proportionate interest in the real estate joint venture or partnership.

Accrued Rent and Accounts Receivable

Receivable balances outstanding include base rents, tenant reimbursements and receivables attributable to the straight-lining of rental commitments. An allowance for the uncollectible portion of accrued rents and accounts receivable is determined based upon an analysis of balances outstanding, historical bad debt levels, tenant creditworthiness and current economic trends. Additionally, estimates of the expected recovery of pre-petition and post-petition claims with respect to tenants in bankruptcy are considered in assessing the collectability of the related receivables. As these factors change, the allowance is subject to revision and may impact our results of operations.

Income Taxes

We have elected to be treated as a REIT under the Internal Revenue Code of 1986, as amended. As a REIT, we generally will not be subject to corporate level federal income tax on taxable income we distribute to our shareholders. To be taxed as a REIT, we must meet a number of requirements including defined percentage tests concerning the amount of our assets and revenues that come from, or are attributable to, real estate operations. As long as we distribute at least 90% of the taxable income of the REIT (without regard to capital gains or the dividends paid deduction) to our shareholders as dividends, we will not be taxed on the portion of our income we distribute as dividends.

Table of Contents

The Tax Relief Extension Act of 1999 gave REITs the ability to conduct activities which a REIT was previously precluded from doing as long as such activities are performed in entities which have elected to be treated as taxable REIT subsidiaries under the IRS code. These activities include buying or developing properties with the express purpose of selling them. We conduct certain of these activities in taxable REIT subsidiaries that we have created. We calculate and record income taxes in our consolidated financial statements based on the activities in those entities. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between our carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. These are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance for deferred tax assets is established for those assets we do not consider the realization of such assets to be more likely than not. We use estimates in preparing our deferred tax amounts and if revised, these estimates could impact our results of operations.

Additionally, GAAP prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the financial statements if we believe it is more likely than not that the tax position will be sustained upon examination. This evaluation may involve a considerable amount of judgment.

Results of Operations

Comparison of the Year Ended December 31, 2010 to the Year Ended December 31, 2009

Revenues

Total revenues were $554.7 million for the year ended 2010 versus $572.0 million for the year ended 2009, a decrease of $17.3 million or 3.0%. This decrease is attributable to decreases in net rental revenues and other income of $13.3 million and $4.0 million, respectively. The decrease in net rental revenues was primarily attributable to an aggregate $17.9 million reduction from the sale of an 80% interest in six shopping centers. Offsetting this decline is rentals associated primarily with new development completions and the acquisition of six properties. The decrease in other revenues results primarily from a decline in lease cancellation revenue.

Occupancy (leased space) of the portfolio as compared to the prior year was as follows:

	December 31,			
	2010		2009	
Shopping Centers	93.0	%	91.8	%
Industrial	88.8	%	87.8	%
Total	91.9	%	90.8	%

Real Estate Taxes, net

Net real estate taxes for the year ended 2010 were $64.9 million versus $70.7 million for the year ended 2009, a decrease of $5.8 million or 8.2%. The decrease resulted primarily from the sale of an 80% interest in six shopping centers and rate and valuation changes from the prior year.

Impairment Loss

The impairment loss in 2010 is attributable to a $15.8 million loss associated with the requirement to record our equity interests in two previously unconsolidated real estate joint ventures (of which both are related to the same shopping center) at their estimated fair values in accounting for the consolidation of these joint ventures, a loss of $12.3 million associated with tax increment revenue bonds and note and a $5.2 million loss associated primarily with land held for development. The 2009 impairment loss of $35.0 million relates primarily to new development properties resulting from changes in economic conditions, our new development business plans and tenant expansion plans.

Interest Expense, net

Net interest expense totaled $149.0 million for 2010, down $4.4 million or 2.9% from 2009. The components of net interest expense were as follows (in thousands):

	Year Ended December 31, 2010	2009
Gross interest expense	$153,081	$161,015
Amortization of convertible bond discount	2,191	4,969
Over-market mortgage adjustment of acquired properties	(3,073)	(4,061)
Capitalized interest	(3,405)	(8,716)
Total	$148,794	$153,207

Gross interest expense totaled $153.1 million in 2010, down $7.9 million or 4.9% from 2009. The decrease in gross interest expense was due primarily to the reduction in the average debt outstanding, resulting from the retirement of the convertible notes and other unsecured debt. In 2010, the weighted average debt outstanding was $2.5 billion at a weighted effective interest rate of 6.2% as compared to $2.8 billion of outstanding weighted average debt at a weighted effective interest rate of 5.8% in 2009. The decrease of $2.8 million in the amortization of convertible bond discount relates to the retirement of the convertible notes. The decrease in over-market mortgage adjustment of acquired properties of $1.0 million resulted primarily from the sale of an 80% interest in six shopping centers and loan payoffs that occurred in 2010 and 2009. Capitalized interest decreased $5.3 million as a result of new development stabilizations, completions and the cessation of carrying costs capitalization on several new development projects transferred to land held for development.

Equity in Earnings of Real Estate Joint Ventures and Partnerships, net

The increase in net equity earnings of real estate joint ventures and partnerships of $7.3 million or 132.3% is primarily attributable to impairment losses in 2009 of $6.8 million associated with three new development properties with a minimal impairment loss recorded in 2010 associated with a single property.

(Loss) Gain on Redemption of Convertible Senior Unsecured Notes

The loss in 2010 of $.1 million resulted from the purchase and cancellation of $4.0 million of our 3.95% convertible senior unsecured notes at a premium to par value as compared to the gain of $25.3 million from the purchase and cancellation of $402.0 million of our 3.95% convertible senior unsecured notes at a discount to par value in 2009.

Gain on Land and Merchant Development Sales

The decrease in gain on land and merchant development sales of $18.7 million is primarily attributable to the gains in 2009 that did not reoccur in 2010.

Provision for Income Taxes

The decrease in the income tax provision of $6.1 million is attributable primarily to a $5.0 million impairment valuation allowance provision in 2009 at our taxable REIT subsidiary.

Gain on Sale of Property

The decrease in gain on sale of property of $22.8 million is attributable primarily to gains in 2009 from the sale of an 80% interest in four shopping centers and the disposition of 11 retail buildings at seven operating properties. There were no similar sales activities in 2010.

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

Revenues

Total revenues were $572.0 million for the year ended 2009 versus $592.6 million for the year ended 2008, a decrease of $20.6 million or 3.5%. This decrease resulted from a decrease in net rental revenues of $24.8 million, which is offset by an increase in other income of $4.2 million.

Table of Contents

This decrease in net rental revenues resulted primarily from a decline in occupancy, a $12.5 million decrease associated with the deconsolidation of four joint ventures as of December 31, 2008, and a reduction of $3.3 million from the sale of an 80% interest in four shopping centers in October 2009. The increase in other income resulted primarily from an increase in lease cancellation income from various tenants.

Occupancy (leased space) of the portfolio as compared to the prior year was as follows:

	December 31, 2009	December 31, 2008
Shopping Centers	91.8 %	93.0 %
Industrial	87.8 %	91.6 %
Total	90.8 %	92.6 %

Expenses

Total expenses for 2009 were $382.4 million versus $412.2 million in 2008, a decrease of $29.8 million or 7.2%. This decrease resulted primarily from the $17.6 million decrease in impairment losses for certain new development properties based on current economic conditions, changes in our new development business plans, the suspension in tenant expansion plans and declines in real estate values and the $10.5 million decrease in operating expenses. The decrease in operating expenses from the prior year resulted primarily from a reduction in pre-acquisition and pre-development cost write offs and a decline in costs as a result of damage associated with Hurricane Ike in 2008. Overall, direct operating costs and expenses (operating and net real estate taxes) of operating our properties as a percentage of rental revenues were 31.3% and 31.8% in 2009 and 2008, respectively.

Interest Expense, net

Net interest expense totaled $153.2 million for 2009, down $3.1 million or 2.0% from 2008. The components of net interest expense were as follows (in thousands):

	Year Ended December 31, 2009	Year Ended December 31, 2008
Gross interest expense	$161,015	$175,789
Amortization of convertible bond discount	4,969	8,521
Over-market mortgage adjustment of acquired properties	(4,061)	(7,702)
Capitalized interest	(8,716)	(20,290)
Total	$153,207	$156,318

Gross interest expense totaled $161.0 million in 2009, down $14.8 million or 8.4% from 2008. The decrease in gross interest expense was due primarily to the reduction in the average debt outstanding, resulting from the retirement of the convertible notes and other unsecured debt. In 2009, the weighted average debt outstanding was $2.8 billion at a weighted effective interest rate of 5.8% as compared to $3.2 billion of outstanding weighted average debt at a weighted effective interest rate of 5.5% in 2008. The decrease of $3.6 million in the amortization of convertible bond discount relates to the retirement of the convertible notes. The decrease in over-market mortgage adjustment of acquired properties of $3.6 million resulted primarily from loan payoffs in 2008. Capitalized interest decreased $11.6 million as a result of new development stabilizations, completions and the cessation of carrying costs capitalization on several new development projects transferred to land held for development.

Interest and Other Income, net

Net interest and other income was $11.4 million in 2009 versus $4.3 million in 2008, an increase of $7.1 million or 165.1%. This increase resulted primarily from the fair value increase of $7.2 million in the assets held in a grantor trust related to our deferred compensation plan.

Table of Contents

Gain on Redemption of Convertible Senior Unsecured Notes

The gain in 2009 of $25.3 million resulted from the purchase and cancellation of $402.0 million of our 3.95% convertible senior unsecured notes at a discount to par value as compared to the $13.0 million gain from the purchase and cancellation of $37.8 million of our 3.95% convertible senior unsecured notes at a discount to par value in 2008.

Equity in Earnings of Real Estate Joint Ventures and Partnerships, net

The decrease in net equity in earnings of real estate joint ventures and partnerships of $6.6 million or 54.5% is primarily attributable to an increase in our share of impairment losses totaling $3.5 million with the remaining decrease resulting from a decline in income from our investments due to the cessation of carrying cost capitalization on several new development properties, a decline in occupancy, a note receivable write off and completions of new development and other capital activities.

Gain on Land and Merchant Development Sales

Gain on land and merchant development sales of $18.7 million in 2009 resulted primarily from the gain on sale of a land parcel, the sale of an unconsolidated joint venture interest in a shopping center in Colorado and the sale of an industrial building. The gain on land and merchant development sales of $8.3 million in 2008 resulted primarily from the sale of 24 land parcels plus the realization of a land parcel deferred gain totaling $2.1 million.

(Provision) Benefit for Income Taxes

The increase in the tax provision of $16.6 million is attributable primarily to our taxable REIT subsidiary. The benefit in 2008 associated with impairment losses and the write off of pre-development costs was greater compared to the activities in 2009. Also, in 2009 we recorded a valuation allowance of $9.6 million associated with impairment losses and established a $6.3 million deferred liability associated with book-tax basis differentials. The valuation allowance was established as the realization of these losses is dependent on generating sufficient taxable income in the years the related properties are sold.

Gain on Sale of Property

The increase in gain on sale of property of $23.3 million is attributable primarily to the sale of an 80% interest in four shopping centers in October 2009 and the disposition of 11 retail buildings at seven operating properties during 2009.

Effects of Inflation

We have structured our leases in such a way as to remain largely unaffected should significant inflation occur. Most of the leases contain percentage rent provisions whereby we receive increased rentals based on the tenants' gross sales. Many leases provide for increasing minimum rentals during the terms of the leases through escalation provisions. In addition, many of our leases are for terms of less than 10 years, which allow us to adjust rental rates to changing market conditions when the leases expire. Most of our leases also require the tenants to pay their proportionate share of operating expenses and real estate taxes. As a result of these lease provisions, increases due to inflation, as well as real estate tax rate increases, generally do not have a significant adverse effect upon our operating results as they are absorbed by our tenants. Under the current economic climate, little to no inflation is occurring.

Capital Resources and Liquidity

Our primary liquidity needs are paying our common and preferred dividends, maintaining and operating our existing properties, paying our debt service costs, excluding debt maturities, and funding capital expenditures. Under our 2011 business plan cash flows from operating activities are expected to meet our planned capital needs.

Table of Contents

The primary sources of capital for funding any debt maturities and acquisitions are our revolving credit facility; proceeds from both secured and unsecured debt issuances; proceeds from common and preferred capital issuances; cash generated from the sale of property and the formation of joint ventures; and cash flow generated by our operating properties. Amounts outstanding under the revolving credit facility are retired as needed with proceeds from the issuance of long-term debt, common and preferred equity, cash generated from disposition of properties and cash flow generated by our operating properties. As of December 31, 2010, we had no amounts outstanding under our $500 million revolving credit facility and $80.0 million was outstanding under our $99 million credit facility, which we use for cash management purposes. While we have more than adequate capacity under our $500 million revolving credit facility to fund the $343.5 million of 2011 debt maturities (including our 3.95% convertible senior unsecured notes), the capital markets are also available if we choose to issue unsecured debt. Although external market conditions are not within our control, we do not currently foresee any reasons that would prevent us from entering the capital markets.

During July 2010, we established a restricted cash collateral account of $47.6 million as part of a settlement agreement in connection with a development project in Sheridan, Colorado, which was replaced with a $46.3 million letter of credit in November 2010. In 2011, we plan to have this letter of credit released upon the remarketing of the underlying bonds. See "Contractual Obligations" for additional information.

Our most restrictive debt covenants including debt to assets, secured debt to assets, fixed charge and unencumbered interest coverage and debt yield ratios, limit the amount of additional leverage we can add; however, we believe the sources of capital described above are adequate to execute our business strategy and remain in compliance with our debt covenants.

We have non-recourse debt secured by acquired or developed properties held in several of our real estate joint ventures and partnerships. Off balance sheet mortgage debt for our unconsolidated real estate joint ventures and partnerships totaled $552.6 million of which our ownership percentage is $194.0 million at December 31, 2010. Scheduled principal mortgage payments on this debt, excluding non-cash related items, at 100% are as follows (in millions):

2011	$43.3
2012	33.6
2013	55.3
2014	105.0
2015	40.5
Thereafter	272.8
Total	$550.5

We hedge the future cash flows of certain debt transactions, as well as changes in the fair value of our debt instruments, principally through interest rate contracts with major financial institutions. We generally have the right to sell or otherwise dispose of our assets except in certain cases where we are required to obtain our joint venture partners' consent or a third party consent for assets held in special purpose entities, which are 100% owned by us.

Investing Activities:

Acquisitions and Joint Ventures
Retail Properties.
During 2010, we contributed the final two properties to an unconsolidated real estate joint venture for $47.3 million, which included loan assumptions of $28.1 million and the receipt of net proceeds totaling $14.0 million. We also acquired four retail shopping centers with one each in Arizona, Colorado, Florida and North Carolina for

approximately $75.3 million.

Also, in 2010, we acquired a 67%-owned unconsolidated real estate joint venture interest in a retail shopping center located in California and a 58%-owned unconsolidated real estate joint venture interest in a retail shopping center located in Texas for approximately $35.8 million.

Industrial Properties.
During 2010, we acquired a distribution center and an industrial business park both located in Texas for approximately $16.8 million.

Table of Contents

Dispositions

Retail Properties.

During the 2010, we sold a shopping center located in Texas and a retail building at two operating properties located in Kansas and Kentucky. Gross sales proceeds from these dispositions totaled $3.0 million and generated gains of $.8 million. Also, two unconsolidated real estate joint ventures each sold a retail building located in California with aggregate gross sales proceeds totaling $4.4 million.

Industrial Properties.

During 2010, we sold an unconsolidated real estate joint venture interest in a Texas property to our partner with gross sales proceeds totaling $1.4 million, which generated a gain of $1.3 million.

Land and Merchant Development.

During 2010, we sold two land parcels each located in Texas with gross sales proceeds of $10.6 million. Also, two unconsolidated real estate joint ventures each sold a land parcel located in Florida with gross sales proceeds totaling $2.5 million.

New Development and Capital Expenditures

At December 31, 2010, we had nine projects under construction with a total square footage of approximately 1.8 million. The majority of these properties are slated to be completed over the next three years, and we expect our investment in these properties upon completion to be $131.3 million, net of proceeds from land sales and tax incentive financing of $19.1 million.

Our new development projects are financed initially under our revolving credit facility, as it is our practice not to use third party construction financing. Management monitors amounts outstanding under our revolving credit facility and periodically pays down such balances using cash generated from both secured and unsecured debt issuances, from common and preferred share issuances and from dispositions of properties.

Capital expenditures for additions to the existing portfolio, acquisitions, new development and our share of investments in unconsolidated real estate joint ventures and partnerships totaled $189.9 million in 2010, $162.9 million in 2009 and $437.7 million in 2008. We have entered into commitments aggregating $53.1 million comprised principally of construction contracts which are generally due in 12 to 36 months.

Financing Activities:

Debt

Total debt outstanding was $2.6 billion and $2.5 billion at December 31, 2010 and 2009, respectively. Total debt at December 31, 2010 included $2.3 billion on which interest rates are fixed and $239.6 million, including the effect of $120.4 million of interest rate contracts, which bears interest at variable rates. Additionally, debt totaling $1.1 billion was secured by operating properties while the remaining $1.5 billion was unsecured. During July 2010, we established a restricted cash collateral account of $47.6 million as part of a settlement agreement in connection with a development project in Sheridan, Colorado, which was replaced with a $46.3 million letter of credit in November 2010. In February 2010, we entered into an amended and restated $500 million unsecured revolving credit facility. The $500 million unsecured revolving credit facility expires in February 2013 and provides borrowing rates that float at a margin over LIBOR plus a facility fee. The borrowing margin and facility fee are priced off a grid that is tied to our senior unsecured credit ratings, which are currently 275.0 and 50.0 basis points, respectively. The facility also contains a competitive bid feature that will allow us to request bids for up to $250 million. Additionally, an accordion feature allows us to increase the new facility amount up to $700 million. During 2010, the maximum balance and weighted average balance outstanding under both facilities combined were $80.0 million and $12.2 million, respectively, at a weighted average interest rate of 1.8%. As of February 25, 2011, no amounts were outstanding under this facility.

Effective May 2010, we entered into an agreement with a bank for an unsecured and uncommitted overnight facility totaling $99 million that we intend to maintain for cash management purposes. The facility provides for fixed interest rate loans at a 30 day LIBOR rate plus a borrowing margin based on market liquidity. As of February 25, 2011, $75.0 million was outstanding under this facility.

46

The available balance under our revolving credit facility was $448.7 million at February 25, 2011, which is net of $51.3 million in outstanding letters of credit, and the available balance under our unsecured and uncommitted overnight facility was $24.0 million at February 25, 2011.

Our five most restrictive covenants include debt to assets, secured debt to assets, fixed charge and unencumbered interest coverage and debt yield ratios. We believe we were in full compliance with all of our covenants as of December 31, 2010.

Our public debt covenant ratios as defined in our indenture agreement were as follows at December 31, 2010:

Covenant	Restriction	Actual
Debt to Asset Ratio	Less than 60.0%	45.9%
Secured Debt to Asset Ratio	Less than 40.0%	19.8%
Fixed Charge Ratio	Greater than 1.5	2.4
Unencumbered Asset Test	Greater than 100%	249.7%

In December 2009, we entered into 11 interest rate contracts with a total notional amount of $302.6 million, which had various maturities through February 2014. These contracts were designated as fair value hedges, and we determined that they were highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in variable interest rates. In February 2010, we settled $7 million of these interest rate contracts in conjunction with the repurchase of the related unsecured fixed-rate medium term notes, and a $.02 million gain was realized. In November 2010, the remaining $295.6 million of these interest rate contracts was settled for $8.9 million including accrued interest whereby net debt was increased by $8.2 million, and a gain of $.1 million was realized. The increase in net debt is being amortized to net interest expense over the remaining life of the original underlying debt instruments.

In April 2010, we entered into two interest rate contracts with a total notional amount of $71.3 million that mature in October 2017, which convert fixed interest payments at rates of 7.5% to variable interest payments. These contracts were designated as fair value hedges, and we have determined that they are highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in variable interest rates.

At December 31, 2010, we had four interest rate contracts with an aggregate notional amount of $120.4 million that were designated as fair value hedges and convert fixed interest payments at rates ranging from 4.2% to 7.5% to variable interest payments ranging from .3% to 4.4%.

We also have two interest rate contracts with an aggregate notional amount of $11.8 million that were designated as cash flow hedges and fix interest rates at 2.3% and 2.4% at December 31, 2010. We have determined that these contracts are highly effective in offsetting future variable interest cash flows.

We could be exposed to losses in the event of nonperformance by the counter-parties; however, management believes such nonperformance is unlikely.

Equity

Common and preferred dividends decreased to $158.0 million in 2010 compared to $168.6 million in 2009. The dividend rate for our common shares of beneficial interest (“common shares”) for each quarter of 2010 was $.26. The quarterly dividend rate for our common shares was $.525 for the first quarter of 2009 and $.25 from the remaining quarters of 2009. Our dividend payout ratio (as calculated as dividends paid on common shares divided by FFO - basic) for 2010, 2009 and 2008 approximated 73.1%, 62.5% and 88.5%, respectively. These ratios are inclusive of the non-cash transactions including impairment charges and the (loss) gain on the redemption of the convertible senior unsecured notes in the respective periods. Subsequent to December 31, 2010, our Board of Trust Managers approved an increase to our quarterly dividend rate to $.275 per share.

In May 2010, our shareholders approved an amendment to our declaration of trust increasing the number of our authorized common shares, $0.03 par value per share, from 150.0 million to 275.0 million.

Table of Contents

In December 2008, we filed a universal shelf registration which is effective for three years. We will continue to closely monitor both the debt and equity markets and carefully consider our available financing alternatives, including both public and private placements.

Contractual Obligations

We have debt obligations related to our mortgage loans and unsecured debt, including any draws on our revolving credit facilities. We have shopping centers that are subject to non-cancelable long-term ground leases where a third party owns and has leased the underlying land to us to construct and/or operate a shopping center. In addition, we have non-cancelable operating leases pertaining to office space from which we conduct our business. The table below excludes obligations related to our new development projects because such amounts are not fixed or determinable. We have entered into commitments aggregating $53.1 million comprised principally of construction contracts which are generally due in 12 to 36 months. The following table summarizes our primary contractual obligations as of December 31, 2010 (in thousands):

	2011	2012	2013	2014	2015	Thereafter		Total
Mortgages and Notes Payable: (1)								
Unsecured Debt	$81,075	$363,346	$221,403	$422,619	$112,490	$491,027	(2)	$1,691,958
Secured Debt	151,373	185,084	218,846	206,822	187,187	506,019		1,455,331
Lease Payments	3,570	3,382	3,352	3,118	2,891	123,870		140,183
Other Obligations (3)	36,148	223						36,371
Total Contractual Obligations	$272,166	$552,035	$443,601	$632,559	$302,568	$1,120,916		$3,323,843

(1) Includes principal and interest with interest on variable-rate debt calculated using rates at December 31, 2010, excluding the effect of interest rate swaps. Also, excludes a $97.0 million debt service guaranty liability.

(2) Includes our 3.95% convertible senior unsecured notes that mature in 2026, which have a call/put option feature beginning in 2011.

(3) Other obligations include income and real estate tax payments, commitments associated with our secured debt, contributions to our retirement plan and other employee payments. Severance and change in control agreements have not been included as the amounts and payouts are not anticipated.

Related to our investment in a development project in Sheridan, Colorado we, our joint venture partner and the joint venture have each provided a guaranty for the payment of any debt service shortfalls on tax increment revenue bonds issued in connection with the project. The Sheridan Redevelopment Agency ("Agency") issued $97 million of Series A bonds used for an urban renewal project. The bonds are to be repaid with incremental sales and property taxes and a public improvement fee ("PIF") to be assessed on current and future retail sales and, to the extent necessary, any amounts we may have to provide under a guaranty. The incremental taxes and PIF are to remain intact until the earlier of the bond liability has been paid in full or 2030 (unless such date is otherwise extended by the Agency).

In July 2009, we settled a lawsuit in connection with the above project. Among the obligations performed or to be performed by us under the terms of the settlement agreement was to cause the joint venture to purchase a portion of the bonds in the amount of $51.3 million at par, plus accrued and unpaid interest to the date of such purchase. We established a restricted cash collateral account of $47.6 million in lieu of a back-to-back letter of credit previously supporting additional bonds totaling $45.7 million. We replaced the restricted cash collateral account with a $46.3 million letter of credit in November 2010.

Also, in connection with the Sheridan, Colorado joint venture and the issuance of the related Series A bonds, we, our joint venture partner and the joint venture have also provided a performance guaranty on behalf of the Agency for the satisfaction of all obligations arising from two interest rate contracts for the combined notional amount of $97 million that matures in December 2029. We evaluated and determined that the fair value of the guaranty both at inception and December 31, 2010 was nominal.

Table of Contents

In conjunction with the Agency, we are currently working towards bond reissuance alternatives in which the incremental taxes and PIF would be extended an additional 10 years. If we move ahead with the reissuance plan, we would expect the outstanding senior and subordinate bonds to be recalled during the first half of 2011 and new senior and subordinate bonds to be reissued. This transaction could likely result in the receipt of approximately $16 million in cash proceeds and $57 million in new subordinated bonds replacing the face value of our $51 million of senior bonds and $22 million of subordinate bonds, which have been impaired by $11.7 million at December 31, 2010. Furthermore, upon completion of this transaction, we anticipate having to record an additional loss on the new subordinate bonds in a range between $16 million to $18 million based on revised fair value estimates using current market factors and assumptions. This transaction is dependent on many factors including the Agency's ability to reissue the bonds which can not be assured.

We have evaluated the remaining outstanding guaranties and have determined that the fair value of these guaranties is nominal.

Off Balance Sheet Arrangements

As of December 31, 2010, none of our off balance sheet arrangements had a material effect on our liquidity or availability of, or requirement for, our capital resources. Letters of credit totaling $52.4 million and $7.2 million were outstanding under the revolving credit facility at December 31, 2010 and 2009, respectively.

We have entered into several unconsolidated real estate joint ventures and partnerships. Under many of these agreements, we and our joint venture partners are required to fund operating capital upon shortfalls in working capital. We have also committed to fund the capital requirements of several new development joint ventures. As operating manager of most of these entities, we have considered these funding requirements in our business plan.

Reconsideration events, including changes in variable interests, could cause us to consolidate these joint ventures and partnerships. We continuously evaluate these events as we become aware of them. Some triggers to be considered are additional contributions required by each partner and each partner's ability to make those contributions. Under certain of these circumstances, we may purchase our partner's interest. Our material unconsolidated real estate joint ventures are with entities which appear sufficiently stable; however, if market conditions were to continue to deteriorate and our partners are unable to meet their commitments, there is a possibility we may have to consolidate these entities. If we were to consolidate all of our unconsolidated real estate joint ventures, we would still be in compliance with our debt covenants.

An unconsolidated real estate joint venture was determined to be a variable interest entity ("VIE") through the issuance of a secured loan since the lender has the ability to make decisions that could have a significant impact on the success of the entity. In addition, we have another unconsolidated real estate joint venture with an interest in an entity which is deemed to be a VIE since the unconsolidated joint venture provided a guaranty on debt obtained from its investment in a joint venture. Our maximum risk of loss associated with these VIEs was limited to $56.4 million at December 31, 2010.

We have a real estate limited partnership agreement with a foreign institutional investor to purchase up to $280 million of retail properties in various states. Our ownership in this unconsolidated real estate limited partnership is 51%. To date, no properties had been purchased.

Funds from Operations

The National Association of Real Estate Investment Trusts ("NAREIT") defines FFO as net income (loss) attributable to common shareholders computed in accordance with GAAP, excluding gains or losses from sales of operating real estate assets and extraordinary items, plus depreciation and amortization of operating properties, including our share of unconsolidated real estate joint ventures and partnerships. We calculate FFO in a manner consistent with the NAREIT definition.

Table of Contents

Management uses FFO as a supplemental measure to conduct and evaluate our business because there are certain limitations associated with using GAAP net income by itself as the primary measure of our operating performance. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, management believes that the presentation of operating results for real estate companies that uses historical cost accounting is insufficient by itself. There can be no assurance that FFO presented by us is comparable to similarly titled measures of other REITs.

FFO should not be considered as an alternative to net income or other measurements under GAAP as an indicator of our operating performance or to cash flows from operating, investing or financing activities as a measure of liquidity. FFO does not reflect working capital changes, cash expenditures for capital improvements or principal payments on indebtedness.

FFO is calculated as follows (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Net income attributable to common shareholders	$10,730	$135,626	$109,091
Depreciation and amortization	143,393	144,211	150,137
Depreciation and amortization of unconsolidated real estate joint ventures and partnerships	20,085	18,433	11,898
Gain on sale of property	(3,069)	(81,006)	(70,066)
Loss (gain) on sale of property of unconsolidated real estate joint ventures and partnerships	1	(4)	(2)
Funds from operations - basic and diluted	$171,140	$217,260	$201,058
Weighted average shares outstanding - basic	119,935	109,546	84,474
Effect of dilutive securities:			
Share options and awards	845	632	443
Weighted average shares outstanding - diluted	120,780	110,178	84,917

Newly Issued Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board issued Accounting Standards Update No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which provides for additional disclosures about the credit quality of an entity's financing receivables, including loans and trade accounts receivables with contractual maturities exceeding one year and any related allowance for losses. The provisions of this update were effective for us at December 31, 2010, with the exception of disclosures related to activity occurring during a reporting period, which is effective for us in the first quarter of 2011. We do not expect the adoption of this update to materially impact our consolidated financial statements.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

We use fixed and floating-rate debt to finance our capital requirements. These transactions expose us to market risk related to changes in interest rates. Derivative financial instruments are used to manage a portion of this risk, primarily interest rate contracts with major financial institutions. These agreements expose us to credit risk in the event of non-performance by the counter-parties. We do not engage in the trading of derivative financial instruments in the normal course of business. At December 31, 2010, we had fixed-rate debt of $2.3 billion and variable-rate debt of $239.6 million, after adjusting for the net effect of $120.4 million notional amount of interest rate contracts. In the event interest rates were to increase 100 basis points and holding all other variables constant, annual net income and cash flows for the following year would decrease by approximately $2.4 million associated with our variable-rate debt, including the effect of the interest rate contracts. The effect of the 100 basis points increase would decrease the fair value of our variable-rate and fixed-rate debt by approximately $8.8 million and $95.4 million, respectively.

Table of Contents

ITEM 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trust Managers and Shareholders of
Weingarten Realty Investors
Houston, Texas

We have audited the accompanying consolidated balance sheets of Weingarten Realty Investors and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income and comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Weingarten Realty Investors and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/Deloitte & Touche LLP

Houston, Texas
March 1, 2011

51

Table of Contents

STATEMENTS OF CONSOLIDATED INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)

	Year Ended December 31,		
	2010	2009	2008
Revenues:			
Rentals, net	$540,754	$554,014	$578,859
Other	13,913	17,974	13,788
Total	554,667	571,988	592,647
Expenses:			
Depreciation and amortization	151,101	147,877	149,795
Operating	105,745	102,936	113,472
Real estate taxes, net	64,921	70,668	70,608
Impairment loss	33,317	34,983	52,539
General and administrative	25,000	25,930	25,761
Total	380,084	382,394	412,175
Operating Income	174,583	189,594	180,472
Interest Expense, net	(148,794)	(153,207)	(156,318)
Interest and Other Income, net	9,825	11,427	4,333
(Loss) Gain on Redemption of Convertible Senior Unsecured Notes	(135)	25,311	12,961
Equity in Earnings of Real Estate Joint Ventures and Partnerships, net	12,889	5,548	12,196
Gain on Land and Merchant Development Sales		18,688	8,342
(Provision) Benefit for Income Taxes	(240)	(6,337)	10,220
Income from Continuing Operations	48,128	91,024	72,206
Operating Income from Discontinued Operations	12	3,221	11,669
Gain on Sale of Property from Discontinued Operations	618	55,765	68,722
Income from Discontinued Operations	630	58,986	80,391
Gain on Sale of Property	2,480	25,266	1,998
Net Income	51,238	175,276	154,595
Less: Net Income Attributable to Noncontrolling Interests	(5,032)	(4,174)	(8,943)
Net Income Adjusted for Noncontrolling Interests	46,206	171,102	145,652
Dividends on Preferred Shares	(35,476)	(35,476)	(34,711)
Redemption Cost of Preferred Shares			(1,850)
Net Income Attributable to Common Shareholders	$10,730	$135,626	$109,091
Earnings Per Common Share - Basic:			
Income from continuing operations attributable to common shareholders	$0.08	$0.70	$0.34
Income from discontinued operations	0.01	0.54	0.95
Net income attributable to common shareholders	$0.09	$1.24	$1.29
Earnings Per Common Share - Diluted:			
Income from continuing operations attributable to common shareholders	$0.08	$0.70	$0.34
Income from discontinued operations	0.01	0.53	0.94
Net income attributable to common shareholders	$0.09	$1.23	$1.28

Comprehensive Income:			
Net Income	$51,238	$175,276	$154,595
Other Comprehensive Income (Loss):			
Loss on derivatives			(7,204)
Net unrealized gain on derivatives	123		
Amortization of loss on derivatives	2,566	2,481	2,095
Minimum pension liability adjustment	(505)	3,237	(9,092)
Total	2,184	5,718	(14,201)
Comprehensive Income	53,422	180,994	140,394
Comprehensive Income Attributable to Noncontrolling Interests	(5,032)	(4,174)	(8,943)
Comprehensive Income Adjusted for Noncontrolling Interests	$48,390	$176,820	$131,451

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	December 31, 2010	December 31, 2009
ASSETS		
Property	$4,777,794	$4,658,396
Accumulated Depreciation	(971,249)	(856,281)
Property, net *	3,806,545	3,802,115
Investment in Real Estate Joint Ventures and Partnerships, net	347,526	315,248
Total	4,154,071	4,117,363
Notes Receivable from Real Estate Joint Ventures and Partnerships	184,788	317,838
Unamortized Debt and Lease Costs, net	116,437	103,396
Accrued Rent and Accounts Receivable (net of allowance for doubtful accounts of $10,137 in 2010 and $10,380 in 2009) *	95,859	96,372
Cash and Cash Equivalents *	23,859	153,584
Restricted Deposits and Mortgage Escrows	10,208	12,778
Other, net	222,633	89,054
Total	$4,807,855	$4,890,385
LIABILITIES AND EQUITY		
Debt, net *	$2,589,448	$2,531,847
Accounts Payable and Accrued Expenses	126,767	137,727
Other, net	111,383	114,155
Total	2,827,598	2,783,729
Commitments and Contingencies		
Equity:		
Preferred Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 10,000		
6.75% Series D cumulative redeemable preferred shares of beneficial interest; 100 shares issued and outstanding in 2010 and 2009; liquidation preference $75,000	3	3
6.95% Series E cumulative redeemable preferred shares of beneficial interest; 29 shares issued and outstanding in 2010 and 2009; liquidation preference $72,500	1	1
6.5% Series F cumulative redeemable preferred shares of beneficial interest; 140 shares issued and outstanding in 2010 and 2009; liquidation preference $350,000	4	4
Common Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 275,000; shares issued and outstanding: 120,492 in 2010 and 120,098 in 2009	3,630	3,615
Accumulated Additional Paid-In Capital	1,969,905	1,958,975
Net Income Less Than Accumulated Dividends	(151,780)	(37,350)
Accumulated Other Comprehensive Loss	(21,774)	(23,958)
Shareholders' Equity	1,799,989	1,901,290
Noncontrolling Interests	180,268	205,366

Total Equity	1,980,257	2,106,656
Total	$4,807,855	$4,890,385

* Consolidated Variable Interest Entities' Assets and Liabilities included in the above balances (See Notes 2 and 3):

Property, net	$233,706	$237,710
Accrued Rent and Accounts Receivable, net	9,514	9,515
Cash and Cash Equivalents	10,397	13,085
Debt, net	281,519	282,096

See Notes to Consolidated Financial Statements.

Table of Contents

STATEMENTS OF CONSOLIDATED CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2010	2009	2008
Cash Flows from Operating Activities:			
Net Income	$51,238	$175,276	$154,595
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	151,107	151,888	157,894
Write-off of pre-development/acquisition costs			11,724
Amortization of deferred financing costs and debt discount	5,017	6,083	13,496
Impairment loss	33,317	38,836	52,539
Equity in earnings of real estate joint ventures and partnerships, net	(12,889)	(5,548)	(12,196)
Gain on land and merchant development sales		(18,688)	(8,342)
Gain on sale of property	(3,098)	(81,031)	(70,720)
Loss (gain) on redemption of convertible senior unsecured notes	135	(25,311)	(12,961)
Distributions of income from unconsolidated real estate joint ventures and partnerships	1,733	2,841	3,602
Changes in accrued rent and accounts receivable, net	(2,898)	(568)	(11,255)
Changes in other assets, net	(16,225)	(10,309)	(29,669)
Changes in accounts payable, accrued expenses and other liabilities, net	(3,875)	147	(36,397)
Other, net	11,063	10,700	7,840
Net cash provided by operating activities	214,625	244,316	220,150
Cash Flows from Investing Activities:			
Investment in property	(142,972)	(108,914)	(294,886)
Proceeds from sale and disposition of property, net	29,064	333,412	265,421
Change in restricted deposits and mortgage escrows	2,175	20,480	2,688
Notes receivable from real estate joint ventures and partnerships and other receivables:			
Advances	(9,145)	(100,800)	(150,064)
Collections	20,010	22,301	46,254
Real estate joint ventures and partnerships:			
Investments	(37,738)	(5,247)	(4,759)
Distributions of capital	15,663	30,640	19,955
Other, net	1,522		
Net cash (used in) provided by investing activities	(121,421)	191,872	(115,391)
Cash Flows from Financing Activities:			
Proceeds from issuance of:			
Debt	336	367,640	258,060
Common shares of beneficial interest, net	3,122	439,272	101,016
Preferred shares of beneficial interest, net			117,891
Repurchase of preferred shares of beneficial interest, net			(195,824)
Principal payments of debt	(139,722)	(578,390)	(296,902)

Changes in unsecured revolving credit facilities	80,000	(383,000)	128,000
Common and preferred dividends paid	(158,012)	(168,583)	(213,569)
Debt issuance costs paid	(6,622)	(6,446)	(6,822)
Other, net	(2,031)	(12,043)	(3,440)
Net cash used in financing activities	(222,929)	(341,550)	(111,590)
Net (decrease) increase in cash and cash equivalents	(129,725)	94,638	(6,831)
Cash and cash equivalents at January 1	153,584	58,946	65,777
Cash and cash equivalents at December 31	$23,859	$153,584	$58,946

See Notes to Consolidated Financial Statements.

Table of Contents

STATEMENTS OF CONSOLIDATED EQUITY
(In thousands, except per share amounts)

Year Ended December 31, 2010, 2009 and 2008

	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Treasury Shares of Beneficial Interest	Accumulated Additional Paid-In Capital	Net Income Less Than Accumulated Dividends	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance, January 1, 2008	$ 8	$ 2,565	$ (41)	$ 1,485,496	$ 31,639	$ (15,475)	$ 96,885	$ 1,601,077
Net income					145,652		8,943	154,595
Issuance of Series F preferred shares	2			116,949	883			117,834
Redemption of Series G preferred shares	(2)			(193,548)	(1,850)			(195,400)
Shares issued in exchange for noncontrolling interests		1		1,093			(1,094)	-
Issuance of common shares		90		97,971				98,061
Shares issued under benefit plans		9		8,703				8,712
Dividends declared – common shares (1)					(177,975)			(177,975)
Dividends declared – preferred shares (2)					(35,594)			(35,594)
Sale of properties with noncontrolling interests							116,541	116,541
Treasury shares cancelled (3)		(41)	41					-
Purchase and cancellation of convertible senior unsecured notes				(3,926)				(3,926)
Distributions to noncontrolling interests							(9,962)	(9,962)
Contributions from noncontrolling interests							634	634
						(14,201)		(14,201)

Other comprehensive loss								
Other, net		1		2,202			(7,916)	(5,713)
Balance, December 31, 2008	8	2,625	-	1,514,940	(37,245)	(29,676)	204,031	1,654,683
Net income					171,102		4,174	175,276
Shares issued in exchange for noncontrolling interests		15		14,236			(14,251)	-
Issuance of common shares		966		438,089				439,055
Shares issued under benefit plans		9		5,147				5,156
Dividends declared – common shares (1)					(135,731)			(135,731)
Dividends declared – preferred shares (4)					(32,852)			(32,852)
Sale of properties with noncontrolling interests							23,521	23,521
Distributions to noncontrolling interests							(16,368)	(16,368)
Contributions from noncontrolling interests							4,518	4,518
Purchase and cancellation of convertible senior unsecured notes				(16,110)				(16,110)
Other comprehensive income						5,718		5,718
Other, net				2,673	(2,624)		(259)	(210)
Balance, December 31, 2009	8	3,615	-	1,958,975	(37,350)	(23,958)	205,366	2,106,656
Net income					46,206		5,032	51,238
Shares issued in exchange for noncontrolling interests		1		745			(746)	-
Shares issued under benefit plans		14		8,005				8,019
Dividends declared – common shares (1)					(125,160)			(125,160)
Dividends declared – preferred shares (4)					(32,852)			(32,852)
Distributions to noncontrolling interests							(13,014)	(13,014)

Contributions from noncontrolling interests							2,686	2,686
Consolidation of joint ventures							(18,573)	(18,573)
Other comprehensive income						2,184		2,184
Other, net				2,180	(2,624)		(483)	(927)
Balance, December 31, 2010	$ 8	$ 3,630	$ -	$ 1,969,905	$ (151,780)	$ (21,774)	$ 180,268	$ 1,980,257

(1) Common dividend per share was $1.04, $1.275 and $2.10 for the year ended December 31, 2010, 2009 and 2008, respectively.

(2) Series D, E, F and G preferred dividend per share was $50.63, $173.75, $162.50 and $73.73, respectively, for the year ended December 31, 2008.

(3) A total of 1.4 million common shares of beneficial interest were purchased in 2007 and subsequently retired on January 11, 2008.

(4) Series D, E and F preferred dividend per share was $50.63, $173.75 and $162.50 for the year ended December 31, 2010 and 2009, respectively.

See Notes to Consolidated Financial Statements.

55

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Business
Weingarten Realty Investors is a real estate investment trust ("REIT") organized under the Texas Real Estate Investment Trust Act. Effective January 1, 2010, the Texas Real Estate Investment Trust Act was replaced by the Texas Business Organizations Code. We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping and industrial centers we own or lease. We also manage centers for joint ventures in which we are partners or for other outside owners for which we charge fees.

We operate a portfolio of properties that include neighborhood and community shopping centers and industrial properties of approximately 71.5 million square feet. We have a diversified tenant base with our largest tenant comprising only 3.0% of total rental revenues during 2010.

We currently operate, and intend to operate in the future, as a REIT.

Basis of Presentation
Our consolidated financial statements include the accounts of our subsidiaries, certain partially owned real estate joint ventures or partnerships and variable interest entities which meet the guidelines for consolidation. All intercompany balances and transactions have been eliminated.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Such statements require management to make estimates and assumptions that affect the reported amounts on our consolidated financial statements. Actual results could differ from these estimates.

Revenue Recognition
Rental revenue is generally recognized on a straight-line basis over the term of the lease, which begins the date the leasehold improvements are substantially complete, if owned by us, or the date the tenant takes control of the space, if the leasehold improvements are owned by the tenant. Revenue from tenant reimbursements of taxes, maintenance expenses and insurance is subject to our interpretation of lease provisions and is recognized in the period the related expense is recognized. Revenue based on a percentage of tenants' sales is recognized only after the tenant exceeds their sales breakpoint. In addition, in circumstances where we provide a tenant improvement allowance for improvements that are owned by the tenant, we recognize the allowance as a reduction of rental revenue on a straight-line basis over the term of the lease. Other revenue is income from contractual agreements with third parties, tenants or partially owned real estate joint ventures or partnerships, which is recognized as the related services are performed under the respective agreements.

Real Estate Joint Ventures and Partnerships
To determine the method of accounting for partially owned real estate joint ventures and partnerships, we apply the guidelines as set forth in GAAP. Entities identified as variable interest entities are consolidated if we are determined to be the primary beneficiary of the partially owned real estate joint venture or partnership.

Partially owned real estate joint ventures and partnerships over which we have a controlling financial interest are consolidated in our financial statements. In determining if we have a controlling financial interest, we consider factors such as ownership interest, authority to make decisions, kick-out rights and substantive participating rights. Management continually analyzes and assesses reconsideration events, including changes in these factors, to determine if the consolidation treatment remains appropriate. Partially owned real estate joint ventures and partnerships where we do not have a controlling financial interest, but have the ability to exercise significant influence, are accounted for using the equity method.

Table of Contents

Property
Real estate assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method, generally over estimated useful lives of 18-40 years for buildings and 10-20 years for parking lot surfacing and equipment. Major replacements where the betterment extends the useful life of the asset are capitalized and the replaced asset and corresponding accumulated depreciation are removed from the accounts. All other maintenance and repair items are charged to expense as incurred.

Acquisitions of properties are accounted for utilizing the acquisition method and, accordingly, the results of operations of an acquired property are included in our results of operations from the date of acquisition. Estimates of fair values are based upon future cash flows and other valuation techniques in accordance with our fair value measurements accounting policy, which are used to record the purchase price of acquired property among land, buildings on an "as if vacant" basis, tenant improvements, other identifiable intangibles and any goodwill or gain on purchase. Other identifiable intangible assets and liabilities include the effect of out-of-market leases, the value of having leases in place ("as is" versus "as if vacant" and absorption costs), out-of-market assumed mortgages and tenant relationships. Depreciation and amortization is computed using the straight-line method, generally over estimated useful lives of 40 years for buildings and over the lease term which includes bargain renewal options for other identifiable intangible assets. Effective 2009, acquisition costs are expensed as incurred.

Property also includes costs incurred in the development of new operating properties and properties in our merchant development program. Merchant development is a program in which we develop a project with the objective of selling all or part of it, instead of retaining it in our portfolio on a long-term basis. Also, disposition of land parcels and non-operating properties are included in this program. These properties are carried at cost, and no depreciation is recorded on these assets until rent commences or no later than one year from the completion of major construction. These costs include preacquisition costs directly identifiable with the specific project, development and construction costs, interest and real estate taxes. Indirect development costs, including salaries and benefits, travel and other related costs that are directly attributable to the development of the property, are also capitalized. The capitalization of such costs ceases at the earlier of one year from the completion of major construction or when the property, or any completed portion, becomes available for occupancy.

Property also includes costs for tenant improvements paid by us, including reimbursements to tenants for improvements that are owned by us and will remain our property after the lease expires.

Some of our properties are held in single purpose entities. A single purpose entity is a legal entity typically established at the request of a lender solely for the purpose of owning a property or group of properties subject to a mortgage. There may be restrictions limiting the entity's ability to engage in an activity other than owning or operating the property, assuming or guaranteeing the debt of any other entity, or dissolving itself or declaring bankruptcy before the debt has been repaid. Most of our single purpose entities are 100% owned by us and are consolidated in our financial statements.

Impairment
Our property is reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property, including any capitalized costs and any identifiable intangible assets, may not be recoverable.

If such an event occurs, a comparison is made of the current and projected operating cash flows of each such property into the foreseeable future, with consideration of applicable holding periods, on an undiscounted basis to the carrying amount of such property. If we determine the carrying amount is not recoverable, our basis in the property is reduced to its estimated fair value to reflect impairment in the value of the asset. Fair values are determined by management utilizing cash flow models, market capitalization rates and market discount rates, or by obtaining third-party broker or appraisal estimates in accordance with our fair value measurements accounting policy.

57

We continuously review economic considerations at each reporting period, including the effects of tenant bankruptcies, the suspension of tenant expansion plans for new development projects, declines in real estate values, and any changes to plans related to our new development properties including land held for development, to identify properties where we believe market values may be deteriorating. Impairments, primarily related to land held for development, of $5.2 million, $38.8 million and $52.5 million were recognized for the year ended December 31, 2010, 2009 and 2008, respectively. Determining whether a property is impaired and, if impaired, the amount of write-down to fair value requires a significant amount of judgment by management and is based on the best information available to management at the time of evaluation. If market conditions continue to deteriorate or management's plans for certain properties change, additional write-downs could be required in the future.

Our investment in partially owned real estate joint ventures and partnerships is reviewed for impairment each reporting period. The ultimate realization is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment below its carrying amount is other than temporary. For the year ended December 31, 2010, an impairment loss of $15.8 million was recognized in connection with the revaluation of our 50% equity interest in a development project in Sheridan, Colorado, as a result of our assumption of control of the project as of April 1, 2010. See Note 4 for additional information. No impairment on these investments was recorded for the year ended December 31, 2009 and 2008. However, due to the current credit and real estate market conditions, there is no certainty that impairments would not occur in the future.

Our investments in tax increment revenue bonds, which were classified as held to maturity during 2010, are reviewed for impairment, if events or circumstances change indicating that the carrying amount of the investment may not be recoverable. Realization is dependent on a number of factors, including investment performance and market conditions. We will record an impairment charge if we determine that a decline in the value of the investment below its carrying amount is other than temporary, and it is uncertain if the investment will be held to maturity. For the year ended December, 31, 2010, we recorded an $11.7 million impairment associated with our investment in the subordinated tax increment revenue bonds (see Note 18 for further information). No such impairment was recorded for the year ended December 31, 2009 and 2008. On December 31, 2010, the tax increment revenue bonds have been classified as available for sale based on our anticipation that the bonds may be reissued during 2011.

Interest Capitalization
Interest is capitalized on land under development and buildings under construction based on rates applicable to borrowings outstanding during the period and the weighted average balance of qualified assets under development/construction during the period.

Fair Value Measurements
Certain financial instruments, estimates and transactions are required to be calculated, reported and/or recorded at fair value. The estimated fair values of such financial items, including debt instruments, impairments, acquisitions, investment securities and derivatives, have been determined using a market-based measurement. This measurement is determined based on the assumptions that management believes market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The fair value of such financial instruments estimates and transactions was determined using available market information and appropriate valuation methodologies as prescribed by GAAP.

Table of Contents

Notes Receivable from Real Estate Joint Ventures and Partnerships
Notes receivable from real estate joint ventures and partnerships in which we have an ownership interest, primarily represent mortgage construction notes. We consider applying a reserve to a note receivable when it becomes apparent that conditions exist that may lead to our inability to fully collect on outstanding amounts due. Such conditions include delinquent or late payments on notes, deterioration in the ongoing relationship with the borrower and other relevant factors. When such conditions leading to expected losses exist, we would estimate a reserve by reviewing the borrower's ability to meet scheduled debt service, our partner's ability to make contributions and the fair value of the collateral.

Deferred Charges
Debt financing costs are amortized primarily on a straight-line basis, which approximates the effective interest method, over the terms of the debt. Lease costs represent the initial direct costs incurred in origination, negotiation and processing of a lease agreement. Such costs include outside broker commissions and other independent third party costs, as well as salaries and benefits, travel and other internal costs directly related to completing a lease and are amortized over the life of the lease on a straight-line basis. Costs related to supervision, administration, unsuccessful origination efforts and other activities not directly related to completed lease agreements are charged to expense as incurred.

Sales of Real Estate
Sales of real estate include the sale of tracts of land within a shopping center development, property adjacent to shopping centers, shopping center properties, merchant development properties, investments in real estate joint ventures and partnerships and partial sales to real estate joint ventures and partnerships in which we participate.

Profits on sales of real estate, including merchant development sales are not recognized until (a) a sale is consummated; (b) the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay; (c) the seller's receivable is not subject to future subordination; and (d) we have transferred to the buyer the usual risks and rewards of ownership in the transaction, and we do not have a substantial continuing involvement with the property.

We recognize gains on the sale of real estate to joint ventures and partnerships in which we participate to the extent we receive cash from the joint venture or partnership, if it meets the sales criteria in accordance with GAAP and we do not have a commitment to support the operations of the real estate joint venture or partnership to an extent greater than our proportionate interest in the real estate joint venture or partnership.

Accrued Rent and Accounts Receivable, net
Receivable balances outstanding include base rents, tenant reimbursements and receivables attributable to the straight-lining of rental commitments. An allowance for the uncollectible portion of accrued rents and accounts receivable is determined based upon an analysis of balances outstanding, historical bad debt levels, tenant creditworthiness and current economic trends. Additionally, estimates of the expected recovery of pre-petition and post-petition claims with respect to tenants in bankruptcy are considered in assessing the collectibility of the related receivables. Management's estimate of the collectibility of accrued rents and accounts receivable is based on the best information available to management at the time of evaluation.

Restricted Deposits and Mortgage Escrows
Restricted deposits and mortgage escrows consist of escrow deposits held by lenders primarily for property taxes, insurance and replacement reserves and restricted cash that is held for a specific use or in a qualified escrow account for the purposes of completing like-kind exchange transactions. At December 31, 2010 and 2009, we had $1.8 million and $1.6 million of restricted cash, respectively, and $8.4 million and $11.1 million held in escrow related to our mortgages, respectively.

Table of Contents

Other Assets, net

Other assets include an asset related to the debt service guaranty (see Note 6 for further information), tax increment revenue bonds, investments held in grantor trusts, deferred tax assets, prepaid expenses, interest rate derivatives, the value of above-market leases and the related accumulated amortization and other miscellaneous receivables. Investments held in grantor trusts are adjusted to fair value at each period end with changes included in our Statements of Consolidated Income and Comprehensive Income. Above-market leases are amortized as adjustments to rental revenues over terms of the acquired leases. Other miscellaneous receivables have a reserve applied to the carrying amount when it becomes apparent that conditions exist that may lead to our inability to fully collect on outstanding amounts due. Such conditions include delinquent or late payments on receivables, deterioration in the ongoing relationship with the borrower and other relevant factors. We would apply a reserve when expected loss conditions exist by reviewing the borrower's ability to generate revenues to meet debt service requirements and the fair value of any collateral.

Per Share Data

Earnings per common share – basic is computed using net income attributable to common shareholders and the weighted average shares outstanding. Earnings per common share – diluted include the effect of potentially dilutive securities. Income from continuing operations attributable to common shareholders includes gain on sale of property in accordance with SEC guidelines. Earnings per common share – basic and diluted components for the periods indicated are as follows (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Numerator:			
Net income attributable to common shareholders – basic and diluted	$10,730	$135,626	$109,091
Denominator:			
Weighted average shares outstanding – basic	119,935	109,546	84,474
Effect of dilutive securities:			
Share options and awards	845	632	443
Weighted average shares outstanding – diluted	120,780	110,178	84,917

Options to purchase common shares of beneficial interest ("common shares") of 3.5 million, 3.1 million and 2.4 million for the year ended December 31, 2010, 2009 and 2008, respectively, were not included in the calculation of net income per common share - diluted as the exercise prices were greater than the average market price for the year. For the year ended December 31, 2010, 2009 and 2008, 1.7 million, 2.0 million and 2.4 million, respectively, of operating partnership units were not included in the calculation of net income per common share – diluted because these units had an anti-dilutive effect.

Income Taxes

We have elected to be treated as a REIT under the Internal Revenue Code of 1986, as amended. As a REIT, we generally will not be subject to corporate level federal income tax on taxable income we distribute to our shareholders. To be taxed as a REIT, we must meet a number of requirements including defined percentage tests concerning the amount of our assets and revenues that come from, or are attributable to, real estate operations. As long as we distribute at least 90% of the taxable income of the REIT (without regard to capital gains or the dividends paid deduction) to our shareholders as dividends, we will not be taxed on the portion of our income we distribute as dividends unless we have ineligible transactions.

60

Table of Contents

The Tax Relief Extension Act of 1999 gave REITs the ability to conduct activities which a REIT was previously precluded from doing as long as such activities are performed in entities which have elected to be treated as taxable REIT subsidiaries under the IRS code. These activities include buying or developing properties with the express purpose of selling them. We conduct certain of these activities in taxable REIT subsidiaries that we have created. We calculate and record income taxes in our consolidated financial statements based on the activities in those entities. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between our carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. These are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance for deferred tax assets is established for those assets we do not consider the realization of such assets to be more likely than not.

Additionally, GAAP prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the financial statements if it is more likely than not that the tax position will be sustained upon examination. We believe it is more likely than not that our tax positions will be sustained in any tax examinations.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered cash equivalents. Cash and cash equivalents are primarily held at major financial institutions in the United States. We had cash and cash equivalents in certain financial institutions in excess of federally insured levels. We have diversified our cash and cash equivalents amongst several banking institutions in an attempt to minimize exposure to any one of these entities. We believe we are not exposed to any significant credit risk and regularly monitor the financial stability of these financial institutions.

Cash Flow Information

We issued common shares valued at $.7 million, $14.3 million and $2.3 million during 2010, 2009 and 2008, respectively, in exchange for interests in real estate joint ventures and partnerships, which had been formed to acquire properties. We also accrued $6.9 million, $10.7 million and $25.8 million at December 31, 2010, 2009 and 2008, respectively, associated with the construction of property. Cash payments for interest on debt, net of amounts capitalized, of $140.3 million, $156.5 million and $154.8 million were made during 2010, 2009 and 2008, respectively. Cash payments of $2.1 million, $3.1 million and $5.1 million for income taxes were made during 2010, 2009 and 2008, respectively.

In connection with the sale of an 80% interest in two properties during 2010, we retained a 20% unconsolidated investment of $9.8 million. In addition, this transaction resulted in the unconsolidated joint venture assuming debt totaling $28.1 million.

Effective April 1, 2010, two previously unconsolidated joint ventures were consolidated within our consolidated financial statements. The resulting non-cash investing and financing activities were as follows (in thousands):

Increase in other assets	$148,255
Decrease in notes receivable from real estate joint ventures and partnerships	123,912
Increase in debt, net	101,741
Increase in property, net	32,940
Decrease in other liabilities, net	21,858
Decrease in noncontrolling interests	18,573

Also, in April 2010, we acquired a partner's noncontrolling interests in a consolidated real estate joint venture that reduced equity by $.9 million.

Table of Contents

In association with property acquisitions and investments in unconsolidated real estate joint ventures, the non-cash investing and financing activities were as follows (in thousands):

	Year Ended December 31, 2010	2009	2008
Increase in debt, net	$ 27,302		
Increase (decrease) in investment in property	18,376		$ (15,414)
Increase in real estate joint ventures and partnerships - investments			11,285
Increase in notes receivable from real estate joint ventures and partnerships and other receivables - advances			6,948
Increase in noncontrolling interests			634
Increase in restricted deposits and mortgage escrows	498		193
Increase in other, net	302		17

In connection with the sale of improved properties during 2009, we received notes receivable totaling $.2 million and a mortgage of $9.1 million was assumed by the purchaser. In connection with the sale of an 80% interest in four properties, we retained a 20% unconsolidated investment of $19.1 million. Also, our investment in real estate joint ventures and a non-cash contingent liability was reduced by $41 million as result of the cash settlement associated with a lawsuit in 2009.

In connection with the sale of improved properties during 2008, we received notes receivable totaling $6.0 million. Net assets and liabilities were reduced by $68.3 million during 2008 from the reorganization of four joint ventures, which were previously consolidated. In addition, we recorded a $41 million non-cash contingent liability as an increase to our investment in real estate joint ventures and partnerships and accrued $8.5 million for property damages associated with Hurricane Ike.

Accumulated Other Comprehensive Loss

As of December 31, 2010, the balance in accumulated other comprehensive loss relating to derivatives and our retirement liability was $11.7 million and $10.1 million, respectively. As of December 31, 2009, the balance in accumulated other comprehensive loss relating to derivatives and our retirement liability was $14.4 million and $9.6 million, respectively.

Reclassifications

The reclassification of prior years' operating results for certain properties to discontinued operations was made to conform to the current year presentation. This reclassification had no impact on previously reported net income, earnings per share, the consolidated balance sheet or cash flows.

Note 2. Newly Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2009-17 ("ASU 2009-17"), "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities." ASU 2009-17 updated Accounting Standards Codification ("ASC") 810, "Consolidations" and was intended to improve an organization's variable interest entity reporting. It required a change in the analysis used to determine whether an entity has a controlling financial interest in a variable interest entity, including the identification of the primary beneficiary of a variable interest entity. The holder of the variable interest is defined as the primary beneficiary if it has both the power to direct the entity's significant economic activities and the obligation to absorb potentially significant losses or receive potentially significant benefits. ASU 2009-17 also requires additional disclosures about an entity's variable interest entities. The update was effective for us on January 1, 2010. Implementation of ASU

2009-17 did not impact our previous determinations of primary beneficiary status, but it resulted in additional disclosures included on the face of the Consolidated Balance Sheets and in Note 3.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, "Improving Disclosures about Fair Value Measurements," which provides for new disclosures, as well as clarification of existing disclosures on fair value measurements including employers' disclosures about postretirement benefit plan assets. The update was effective for us beginning January 1, 2010, and its adoption did not materially impact our consolidated financial statements.

Table of Contents

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” which provides for additional disclosures about the credit quality of an entity’s financing receivables, including loans and trade accounts receivables with contractual maturities exceeding one year and any related allowance for losses. The provisions of this update were effective for us at December 31, 2010, with the exception of disclosures related to activity occurring during a reporting period, which is effective for us in the first quarter of 2011. The adoption did not materially impact our consolidated financial statements nor do we anticipate the future adoption to materially impact our consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update No. 2010-29, “Disclosures of Supplementary Pro Forma Information for Business Combinations,” which clarifies that an entity should disclose revenue and earnings of the combined entity as though the business combination occurred during the current year as of the beginning of the comparable prior annual reporting period only. The update also expands disclosures on the supplemental pro forma. The update is effective for us beginning January 1, 2011; however, early adoption is permitted. We adopted this update as of December 31, 2010, and its adoption resulted in the disclosures included in Note 4.

Note 3. Variable Interest Entities

Management determines whether an entity is a variable interest entity (“VIE”) and, if so, determines which party is the primary beneficiary by analyzing if we have both the power to direct the entity’s significant economic activities and the obligation to absorb potentially significant losses or receive potentially significant benefits. Significant judgments and assumptions inherent in this analysis include the design of the entity structure, the nature of the entity’s operations, future cash flow projections, the entity’s financing and capital structure, and contractual relationships and terms. We consolidate a VIE when we have determined that we are the primary beneficiary.

Risks associated with our involvement with our VIEs include primarily the potential of funding the VIE’s debt obligations or making additional contributions to fund the VIE’s operations.

Consolidated VIEs:
Two of our real estate joint ventures whose activities principally consist of owning and operating 30 neighborhood/community shopping centers, of which 22 are located in Texas, three in Georgia, two each in Tennessee and Florida and one in North Carolina, were determined to be VIEs. These VIEs have financing agreements that are guaranteed solely by us for tax planning purposes. We have determined that we are the primary beneficiary and have consolidated these joint ventures. Our maximum exposure to loss associated with these joint ventures is primarily limited to our guaranties of the debt, which were approximately $157.4 million at December 31, 2010.

Assets held by our consolidated VIEs approximate $280.3 million and $291.6 million at December 31, 2010 and 2009, respectively. Of these assets, $253.6 million and $260.3 million at December 31, 2010 and 2009, respectively, are collateral for debt.

Restrictions on the use of these assets are significant because they are collateral for the VIEs’ debt, and we would be required to obtain our partners’ approval in accordance with the joint venture agreements on any major transactions. The impact of these transactions on our consolidated financial statements has been limited to changes in noncontrolling interests and reductions in debt from our partners’ contributions. We and our partners are subject to the provisions of the joint venture agreements which include provisions for when additional contributions may be required including operating cash shortfalls and unplanned capital expenditures. We have not provided any additional support as of December 31, 2010.

Unconsolidated VIEs:

We also have unconsolidated real estate joint ventures which engage in operating or developing real estate that have been determined to be VIEs due to agreements entered into by the joint ventures. We were not determined to be the primary beneficiary of the VIEs.

Table of Contents

An unconsolidated real estate joint venture was determined to be a VIE through the issuance of a secured loan since the lender has the ability to make decisions that could have a significant impact on the success of the entity. In addition, we have another unconsolidated real estate joint venture with an interest in an entity which is deemed to be a VIE since the unconsolidated joint venture provided a guaranty on debt obtained from its investment in a joint venture. A summary of our unconsolidated VIEs is as follows (in thousands):

Period	Investment in Real Estate Joint Ventures and Partnerships, net (1)	Maximum Risk of Loss (2)
December 31, 2010	$ 11,581	$ 56,448
December 31, 2009	$ 7,088	$ 58,061

(1) The carrying amount of the investments represents our contributions to the real estate joint ventures net of any distributions made and our portion of the equity in earnings of the joint ventures.
(2) The maximum risk of loss has been determined to be limited to our debt exposure for each real estate joint venture.

We and our partners are subject to the provisions of the joint venture agreements that specify conditions, including operating shortfalls and unplanned capital expenditures, under which additional contributions may be required.

Note 4. Business Combinations

Effective April 1, 2010, we assumed control of two 50%-owned unconsolidated joint ventures ("Sheridan") related to a development project in Sheridan, Colorado, which resulted in the consolidation of these joint ventures within our shopping center segment that had previously been accounted for under the equity method. Control was assumed through a modification of the joint venture agreements in which we assumed all management, voting and approval rights without transferring consideration to our joint venture partner. Each partner's percentage interest in the joint ventures remained unchanged. Management has determined that these transactions qualified as business combinations to be accounted for under the acquisition method. Accordingly, the assets and liabilities of the joint ventures were recorded on our consolidated balance sheet at their estimated fair values as of April 1, 2010, with our partner's share of the resulting net deficit included in noncontrolling interests. Fair value of assets acquired, liabilities assumed and equity interests was estimated using market-based measurements, including cash flow and other valuation techniques. The fair value measurement is based on both significant inputs for similar assets and liabilities in active markets and significant inputs that are not observable in the markets in accordance with our fair value measurements accounting policy. Key assumptions include third-party broker valuation estimates, discount rates ranging from 8% to 17%, a terminal cap rate for similar properties, and factors that we believe market participants would consider in estimating fair value. The results of the joint ventures are included in our Statements of Consolidated Income and Comprehensive Income beginning April 1, 2010.

Table of Contents

The following table summarizes the transactions related to the business combinations, including the assets acquired and liabilities assumed as of April 1, 2010 (in thousands):

Fair value of our equity interests before business combinations	$(21,858)
Amounts recognized for assets and liabilities assumed:	
Assets:	
Property	$32,940
Unamortized Debt and Lease Costs	5,182
Accrued Rent and Accounts Receivable	213
Cash and Cash Equivalents	1,522
Other, net (1)	151,464
Liabilities:	
Debt, net (2)	(101,741)
Accounts payable and accrued expenses	(647)
Other, net	(1,334)
Total Net Assets	$87,599
Noncontrolling interests of the real estate joint ventures	$(18,573)

(1) Includes primarily a $97.0 million debt service guaranty asset, tax increment revenue bonds of $51.3 million and intangible and other assets.

(2) Excludes the effect of $123.9 million in intercompany debt that is eliminated upon consolidation.

The fair value measurements are subject to change until our information is finalized, which will be no later than twelve months from the business combination date.

We recognized an impairment loss of $15.8 million as a result of revaluing our 50% equity interest held in the real estate joint ventures before the business combinations, which is reported as an impairment loss in the Statements of Consolidated Income and Comprehensive Income. For the year ended December 31, 2010, the impact of this consolidation increased revenues by $1.6 million and decreased net income attributable to common shareholders by $2.5 million.

The following table summarizes the pro forma impact of the real estate joint ventures as if Sheridan had been consolidated at January 1, 2009 as follows (in thousands, except per share amounts):

	Year Ended December 31,	
	Pro Forma 2010 (1)	Pro Forma 2009 (1)
Revenues	$555,089	$573,314
Net income	$50,715	$169,575
Net income attributable to common shareholders	$10,522	$135,249
Earnings per share - basic	$.09	$1.23
Earnings per share - diluted	$.09	$1.23

(1) There are no non-recurring pro forma adjustments included within or excluded from the amounts in the preceding table.

Note 5. Derivatives and Hedging

Our policy is to manage interest cost using a mixture of fixed-rate and variable-rate debt. To manage our interest rate risk, we occasionally hedge the future cash flows of our debt transactions, as well as changes in the fair value of our debt instruments, principally through interest rate contracts with major financial institutions. Interest rate contracts that meet specific criteria are accounted for as either assets or liabilities as a fair value or cash flow hedge.

Cash Flow Hedges of Interest Rate Risk:
Our objective in using interest rate contracts is to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate contracts as part of our interest rate risk management strategy. Interest rate contracts designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. At December 31, 2010, we had two active cash flow hedges as described below.

During 2010, two interest rate contracts were designated as cash flow hedges with an aggregate notional amount of $11.8 million, which have maturities through September 2017, and fix interest rates at 2.3% and 2.4%. We have determined that these contracts are highly effective in offsetting future variable interest cash flows. As of December 31, 2010, the fair value of these derivatives was $.09 million and $.1 million and is included in net other assets and net other liabilities, respectively.

As of December 31, 2010 and 2009, the balance in accumulated other comprehensive loss relating to cash flow interest rate contracts was $11.7 million and $14.4 million, respectively, and will be reclassified to net interest expense as interest payments are made on our fixed-rate debt. Amounts reclassified from accumulated other comprehensive loss to net interest expense were $2.6 million in 2010, $2.5 million in 2009 and $2.1 million in 2008. Within the next 12 months, approximately $2.8 million of the balance in accumulated other comprehensive loss is expected to be amortized to net interest expense related to settled interest rate contracts.

Fair Value Hedges of Interest Rate Risk:
We are exposed to changes in the fair value of certain of our fixed-rate obligations due to changes in benchmark interest rates, such as LIBOR. We use interest rate contracts to manage our exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. Interest rate contracts designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for us making variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. Changes in the fair value of interest rate contracts designated as fair value hedges, as well as changes in the fair value of the related debt being hedged, are recorded in earnings each reporting period.

In April 2010, we entered into two interest rate contracts with a total notional amount of $71.3 million that mature in October 2017, which convert fixed interest payments at rates of 7.5% to variable interest payments. These contracts were designated as fair value hedges, and we have determined that they are highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in variable interest rates.

In December 2009, we entered into 11 interest rate contracts with a total notional amount of $302.6 million, which had various maturities through February 2014. In February 2010, we settled $7.0 million of these interest rate contracts in conjunction with the repurchase of the related unsecured fixed-rate medium term notes, and a $.02 million gain was realized. In November 2010, the remaining $295.6 million of these interest rate contracts was settled for $8.9 million including accrued interest whereby net debt was increased by $8.2 million, and a gain of $.1 million was realized. The increase in net debt is being amortized to net interest expense over the remaining life of the original underlying debt instruments.

As of December 31, 2010, we had four interest rate contracts with an aggregate notional amount of $120.4 million that were designated as fair value hedges and convert fixed interest payments at rates from 4.2% to 7.5% to variable interest payments ranging from .3% to 4.4%. As of December 31, 2009, we had 13 interest rate contracts with an aggregate notional amount of $352.6 million, of which $352.6 million is designated as fair value hedges that convert fixed interest payments at rates ranging from 4.2% to 7.5% to variable interest payments ranging from .3% to 6.1%. We have determined that our fair value hedges are highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in interest rates.

Table of Contents

For the year ended December 31, 2010, 2009 and 2008, we recognized a net reduction in interest expense of $6.7 million, $2.1 million and $.8 million, respectively, related to our fair value hedges, which includes net settlements and any amortization adjustment of the basis in the hedged item. Also, for the year ended December 31, 2010, we recognized a gain of $1.0 million associated with hedge ineffectiveness with no such activity present in 2009 or 2008.

A summary of the changes in fair value of our interest rate contracts is as follows (in thousands):

	Gain (Loss) on Contracts	Gain (Loss) on Borrowings	Gain (Loss) Recognized in Income
Year Ended December 31, 2010:			
Interest expense, net	$ 17,511	$ (16,547)	$ 964
Year Ended December 31, 2009:			
Interest expense, net	$ (6,659)	$ 6,659	
Year Ended December 31, 2008:			
Interest expense, net	$ 4,987	$ (4,987)	

Non-designated Hedges:
Derivatives not designated as hedges are not speculative and are used to manage our exposure to interest rate movements and other identified risks, but do not meet hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of December 31, 2010 and 2009, we did not have any derivatives that were designated as hedges.

During the first quarter of 2010, the initial hedging relationship was terminated on three of our interest rate contracts with a total notional amount of $97.6 million. We simultaneously re-designated $90.0 million as fair value hedges. These hedges were terminated in November 2010 (see Fair Value Hedges of Interest Rate Risk above for additional details). The changes in the fair value of the undesignated portion of the interest rate contract was recorded directly to earnings and increased net interest expense by $.05 million during 2010.

Effective April 1, 2010, we assumed control of a previously unconsolidated real estate joint venture that had an interest rate contract, which sets interest rates at 2.45% on an aggregate notional amount of $5.2 million and expires in December 2015. Prior to consolidation, the interest rate contract was designated as a cash flow hedge; however, upon consolidation, the original hedging relationship could not continue, thus in June 2010 we recognized a loss of $.2 million associated with hedge ineffectiveness. In July 2010, we re-designated this interest rate contract as a cash flow hedge (see Cash Flow Hedges of Interest Rate Risk above).

On March 20, 2008, a cash flow hedge was terminated through the issuance of $154.3 million of fixed-rate long-term debt issued by a consolidated joint venture. A loss of $12.8 million was recorded in accumulated other comprehensive loss based on the fair value of the interest rate swap contracts on that date. On March 27, 2008, the interest rate swap contracts were settled resulting in a loss of $10.0 million. For the period between the termination of the cash flow hedge and the settlement of the swap contracts, a gain of $2.8 million was recognized as a reduction of net interest expense.

Table of Contents

The interest rate contracts at December 31, 2010 and 2009 were reported at their fair values as follows (in thousands):

	Assets		Liabilities	
Period	Balance Sheet Location	Amount	Balance Sheet Location	Amount
Designated Hedges:				
December 31, 2010	Other Assets, net	$ 7,192	Other Liabilities, net	$ 108
December 31, 2009	Other Assets, net	$ 2,601	Other Liabilities, net	$ 4,634

A summary of our derivatives is as follows (in thousands):

Derivatives Hedging Relationships	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Year Ended December 31, 2010:							
Cash Flow Interest Rate Contracts	$ (96)	Interest expense, net	$ (2,566)			Interest expense, net	$ (27)
Fair Value Interest Rate Contracts				Interest expense, net	$ 24,483	Interest expense, net	$ 964
Year Ended December 31, 2009:							
Cash Flow Interest Rate Contracts		Interest expense, net	$ (2,481)				
Fair Value Interest Rate Contracts				Interest expense, net	$ (4,528)		

Year Ended December 31, 2008:			
Cash Flow Interest Rate Contracts	Interest expense, net	$ (2,095)	
Fair Value Interest Rate Contracts		Interest expense, net	$ 5,819

Note 6. Debt

Our debt consists of the following (in thousands):

	December 31, 2010	December 31, 2009
Debt payable to 2038 at 2.9% to 8.8%	$2,389,532	$2,506,069
Debt service guaranty liability	97,000	
Unsecured notes payable under revolving credit facilities	80,000	
Obligations under capital leases	21,000	23,115
Industrial revenue bonds payable to 2015 at 2.4%	1,916	2,663
Total	$2,589,448	$2,531,847

Table of Contents

The grouping of total debt between fixed and variable-rate as well as between secured and unsecured is summarized below (in thousands):

	December 31, 2010	December 31, 2009
As to interest rate (including the effects of interest rate contracts):		
Fixed-rate debt	$2,349,802	$2,146,133
Variable-rate debt	239,646	385,714
Total	$2,589,448	$2,531,847
As to collateralization:		
Unsecured debt	$1,450,148	$1,306,802
Secured debt	1,139,300	1,225,045
Total	$2,589,448	$2,531,847

Effective February 11, 2010, we entered into an amended and restated $500 million unsecured revolving credit facility. The facility expires in February 2013 and provides borrowing rates that float at a margin over LIBOR plus a facility fee. The borrowing margin and facility fee are priced off a grid that is tied to our senior unsecured credit ratings, which are currently 275.0 and 50.0 basis points, respectively. The facility also contains a competitive bid feature that will allow us to request bids for up to $250 million. Additionally, an accordion feature allows us to increase the new facility amount up to $700 million.

Effective May 2010, we entered into an agreement with a bank for an unsecured and uncommitted overnight facility totaling $99 million that we intend to maintain for cash management purposes. The facility provides for fixed interest rate loans at a 30 day LIBOR rate plus a borrowing margin based on market liquidity. Any amounts outstanding under this facility reduce the availability of our revolving credit facility.

At December 31, 2010 and 2009, no amounts under our revolving credit facility were outstanding. Letters of credit totaling $52.4 million and $7.2 million were outstanding under the revolving credit facility at December 31, 2010 and 2009, respectively. The balance outstanding under our unsecured and uncommitted overnight facility was $80.0 million at a variable interest rate of 1.8% at December 31, 2010. The available balance under our revolving credit facility was $447.6 million and $567.8 million at December 31, 2010 and 2009, respectively. During 2010, the maximum balance and weighted average balance outstanding under both facilities combined were $80.0 million and $12.2 million, respectively, at a weighted average interest rate of 1.8%. During 2009, the maximum balance and weighted average balance outstanding under the facility was $423.0 million and $168.7 million, respectively, at a weighted average interest rate of 1.5%.

We had a $575 million unsecured revolving credit facility held by a syndicate of banks, which was amended and restated in February 2010 as discussed above. Borrowing rates floated at a margin over LIBOR, plus a facility fee. The borrowing margin and facility fee were priced off a grid that was tied to our senior unsecured credit ratings, which were 50.0 and 15.0 basis points.

Effective April 1, 2010, we consolidated a real estate joint venture which includes our investment in a development project in Sheridan, Colorado. We, our joint venture partner and the joint venture have each provided a guaranty for the payment of any debt service shortfalls until a coverage rate of 1.4 is met on tax increment revenue bonds issued in connection with the project. The bonds are to be repaid with incremental sales and property taxes and a public improvement fee ("PIF") to be assessed on current and future retail sales and, to the extent necessary, any amounts we may have to provide under a guaranty. The incremental taxes and PIF are to remain intact until the earlier of the bond liability has been paid in full or 2030 (unless such date is otherwise extended by the Sheridan Redevelopment Agency). Therefore, a debt service guaranty liability of $97.0 million was recorded by the joint venture equal to the fair value of the amounts funded under the bonds.

At December 31, 2010 and 2009, respectively, we had $129.9 million and $135.2 million face value of 3.95% convertible senior unsecured notes outstanding due 2026. These bonds are recorded at a discount of $1.3 million and $3.4 million as of December 31, 2010 and 2009, respectively, which will be amortized through 2011 resulting in an effective interest rate for both periods of 5.75%. Interest is payable semi-annually in arrears on February 1 and August 1 of each year. The debentures are convertible under certain circumstances for our common shares at an initial conversion rate of 20.3770 common shares per $1,000 of principal amount of debentures (an initial conversion price of $49.075). In addition, the conversion rate may be adjusted if certain change in control transactions or other specified events occur on or prior to August 4, 2011. Upon the conversion of debentures, we will deliver cash for the principal return, as defined, and cash or common shares, at our option, for the excess of the conversion value, as defined, over the principal return. The debentures are redeemable for cash at our option beginning in 2011 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require us to repurchase their debentures for cash equal to the principal of the debentures plus accrued and unpaid interest in 2011, 2016 and 2021 and in the event of a change in control. Net interest expense associated with this debt for the year ended December 31, 2010, 2009 and 2008, totaled $8.0 million, $19.5 million and $33.3 million, respectively, which includes the amortization of the discount totaling $2.2 million, $5.0 million and $8.5 million, respectively. The carrying value of the equity component as of both December 31, 2010 and 2009 was $23.4 million.

In October 2009, we entered into a $26.6 million secured loan from a bank. The loan is for a four year term with a one year extension option at a floating interest rate of 375 basis points over LIBOR with a 1.50% LIBOR floor. This loan is collateralized by two properties.

In August 2009, we sold $100 million of unsecured senior notes with a coupon of 8.1% which will mature September 15, 2019. We may redeem the notes, in whole or in part, on or after September 15, 2014, at our option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest. The net proceeds of $97.5 million were used to reduce amounts outstanding under our revolving credit facility.

In July 2009, we entered into a $70.8 million secured loan from a life insurance company. The loan is for seven years at a fixed interest rate of 7.4% and is collateralized by five properties. In September 2009, we entered into a $57.5 million secured loan from a life insurance company. The loan is for 10 years at a fixed interest rate of 7.0% and is collateralized by 10 properties. The net proceeds received from both transactions were used to reduce amounts outstanding under our revolving credit facility.

In May 2009, we entered into a $103 million secured loan from a life insurance company. The loan is for approximately 8.5 years at a fixed interest rate of 7.49% and is collateralized by four properties. The net proceeds received were invested in short-term investments and subsequently used to settle the June tender offer discussed below.

In the second quarter of 2009, we repurchased and retired $82.3 million face value of our 3.95% convertible senior unsecured notes for $70.4 million, including accrued interest. Also in 2009, we completed a cash tender offer for $422.6 million face value on a series of unsecured notes and our convertible senior unsecured notes. We purchased at par $20.6 million of unsecured fixed-rate medium term notes, with a weighted average interest rate of 7.54% and a weighted average maturity of 1.6 years, and $82.3 million of 7% senior unsecured notes due in 2011. In addition, we purchased $319.7 million face value of our 3.95% convertible senior unsecured notes for $311.1 million, including accrued interest and expenses. During the year ended December 31, 2009, the repurchases of our 3.95% convertible senior unsecured notes resulted in gains of $25.3 million.

Various leases and properties, and current and future rentals from those lease and properties, collateralize certain debt. At December 31, 2010 and 2009, the carrying value of such property aggregated $1.8 billion and $2.0 billion, respectively.

70

Scheduled principal payments on our debt (excluding $80.0 million due under our revolving credit facilities, $21.0 million of certain capital leases, $7.1 million fair value of interest rate contracts, $3.9 million net premium/(discount) on debt, $12.3 million of non-cash debt-related items, and $97.0 million debt service guaranty liability) are due during the following years (in thousands):

2011	$212,264
2012	307,598
2013	440,829
2014	387,547
2015	248,404
2016	209,209
2017	142,088
2018	64,411
2019	153,747
2020	3,772
Thereafter (1)	198,177
Total	$2,368,046

(1) Includes $131.3 million of our 3.95% convertible senior unsecured notes outstanding due 2026; which have a call/put option feature beginning in 2011.

Our various debt agreements contain restrictive covenants, including minimum interest and fixed charge coverage ratios, minimum unencumbered interest coverage ratios, minimum net worth requirements and maximum total debt levels. We believe we were in compliance with all restrictive covenants as of December 31, 2010.

Note 7. Preferred Shares

We issued $150 million and $200 million of depositary shares on June 6, 2008 and January 30, 2007, respectively. Each depositary share represents one-hundredth of a Series F Cumulative Redeemable Preferred Share. The depositary shares are redeemable, in whole or in part, on or after January 30, 2012 at our option, at a redemption price of $25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our other property or securities. The Series F Preferred Shares pay a 6.5% annual dividend and have a liquidation value of $2,500 per share. Series F Preferred Shares issued in June 2008 were issued at a discount, resulting in an effective rate of 8.25%.

In July 2004, we issued $72.5 million of depositary shares with each share representing one-hundredth of a Series E Cumulative Redeemable Preferred Share. The depositary shares are redeemable at our option, in whole or in part, for cash at a redemption price of $25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our other property or securities. The Series E preferred shares pay a 6.95% annual dividend and have a liquidation value of $2,500 per share.

In April 2003, we issued $75 million of depositary shares with each share representing one-thirtieth of a Series D Cumulative Redeemable Preferred Share. The depositary shares are currently redeemable at our option, in whole or in part, for cash at a redemption price of $25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our property or securities. The Series D preferred shares pay a 6.75% annual dividend and have a liquidation value of $750 per share.

Currently, we do not anticipate redeeming either the Series E or Series D preferred shares due to current market conditions; however, no assurance can be given if conditions change.

Note 8. Common Shares of Beneficial Interest

In May 2010, our shareholders approved an amendment to our declaration of trust increasing the number of our authorized common shares, $0.03 par value per share, from 150.0 million to 275.0 million.

71

Table of Contents

The dividend rate for our common shares for each quarter of 2010 was $.26. The quarterly dividend rate for our common shares was $.525 for the first quarter of 2009 and $.25 from the remaining quarters of 2009. Subsequent to December 31, 2010, our Board of Trust Managers approved an increase to our quarterly dividend rate to $.275 per share.

In April 2009, we issued 32.2 million common shares at $14.25 per share. Net proceeds from this offering were $439.1 million and were used to repay indebtedness outstanding under our revolving credit facilities and for other general corporate purposes.

Note 9. Property

Our property consisted of the following (in thousands):

	December 31, 2010	December 31, 2009
Land	$925,497	$896,010
Land held for development	170,213	182,586
Land under development	22,967	32,709
Buildings and improvements	3,610,889	3,437,578
Construction in-progress	48,228	109,513
Total	$4,777,794	$4,658,396

The following carrying charges were capitalized (in thousands):

	Year Ended December 31, 2010	2009	2008
Interest	$3,405	$8,716	$20,290
Real estate taxes	344	1,428	2,730
Total	$3,749	$10,144	$23,020

Effective April 1, 2010, we assumed control of two 50%-owned unconsolidated joint ventures related to a development project in Sheridan, Colorado that we had previously accounted for under the equity method. This transaction resulted in the consolidation of the joint ventures, increasing property by $32.9 million.

During 2010, we invested $92.1 million in the acquisitions of operating properties and $19.6 million in new development projects. We sold two land parcels, a shopping center, and two retail buildings, with gross sales proceeds from these dispositions totaling $13.5 million. Also, we contributed the final two properties to an unconsolidated joint venture for $47.3 million, which included loan assumptions of $28.1 million.

Impairment charges, as described in Note 1, of $5.2 million, $38.8 million and $52.5 million were recognized for the year ended December 31, 2010, 2009 and 2008, respectively.

Note 10. Discontinued Operations

During 2010, we sold one shopping center located in Texas. During 2009, we sold 12 shopping centers and five industrial properties, of which 11 were located in Texas and two each in Arizona, New Mexico and North Carolina. The operating results of these properties, as well as any gains on the respective disposition, have been reclassified and reported as discontinued operations in the Statements of Consolidated Income and Comprehensive Income. Revenues recorded in operating income from discontinued operations totaled $.03 million in 2010, $17.0 million in 2009 and $30.1 million in 2008. Included in the Consolidated Balance Sheet at December 31, 2009 were $.3 million of property and $.2 million of accumulated depreciation related to the property sold during 2010.

In 2009, one sold property had outstanding debt of $9.1 million, which was assumed by the purchaser.

Table of Contents

We do not allocate other consolidated interest to discontinued operations because the interest savings to be realized from the proceeds of the sale of these operations was not material.

No impairment associated with discontinued operations was recognized for the year ended December 31, 2010 and 2008. For the year ended December 31, 2009, an impairment loss of $3.8 million was reported in discontinued operations.

Note 11. Notes Receivable from Real Estate Joint Ventures and Partnerships

We have ownership interests in a number of real estate joint ventures and partnerships. Notes receivable from these entities bear interest ranging from 2.0% to 12.0% at December 31, 2010 and 2.1% to 12.0% at December 31, 2009. These notes are due at various dates through 2012 and are generally secured by real estate assets. We believe these notes are fully collectible, and no allowance has been recorded. We recognized interest income on these notes as follows, in millions: $4.3 in 2010, $4.8 in 2009 and $4.0 in 2008.

In December 2010, we issued a letter of default on a matured note receivable of $24.9 million. At year end, we were in negotiations to extend this note. Subsequent to year end, the default was remedied by an extension of the note.

Effective April 1, 2010, we assumed control of two 50%-owned unconsolidated joint ventures related to a development project in Sheridan, Colorado that we had previously accounted for under the equity method. This transaction resulted in the consolidation of the joint ventures, reducing notes receivable from real estate joint ventures and partnerships by $123.9 million.

Note 12. Related Parties

Through our management activities and transactions with our real estate joint venture and partnerships, we had accounts receivable of $2.7 million and $4.3 million outstanding as of December 31, 2010 and 2009, respectively. We also had accounts payable and accrued expenses of $9.6 million and $10.5 million outstanding as of December 31, 2010 and 2009, respectively. For the year ended December 31, 2010, 2009 and 2008, we recorded joint venture fee income of $5.8 million, $5.7 million and $5.9 million, respectively.

During 2010, we sold an unconsolidated real estate joint venture interest in a Texas property to our partner with gross sales proceeds totaling $1.4 million, which generated a gain of $1.3 million.

In October 2009, we entered into an agreement to contribute six retail properties located in Florida and Georgia, valued at approximately $160.8 million, to an unconsolidated real estate joint venture in which we will retain a 20% ownership interest. We closed on four properties with a total value of $114.3 million and received net proceeds of approximately $85.9 million. During the first quarter of 2010, we contributed the final two properties to this unconsolidated real estate joint venture for $47.3 million, which included loan assumptions of $28.1 million and the receipt of net proceeds totaling $14.0 million.

In April 2009, we sold an unconsolidated joint venture interest in a property located in Colorado to our partner with gross sales proceeds of approximately $15.0 million, which were reduced by the release of a debt obligation of $11.7 million and generated a gain of $4.0 million.

Table of Contents

Note 13. Investment in Real Estate Joint Ventures and Partnerships

We own interests in real estate joint ventures or limited partnerships and have tenancy-in-common interests in which we exercise significant influence, but do not have financial and operating control. We account for these investments using the equity method, and our interests range from 7.8% to 75%. Combined condensed financial information of these ventures (at 100%) is summarized as follows (in thousands):

	December 31, 2010	December 31, 2009
Combined Condensed Balance Sheets		
Property	$2,142,524	$2,082,316
Accumulated depreciation	(247,996)	(191,478)
Property, net	1,894,528	1,890,838
Other assets, net	168,091	240,387
Total	$2,062,619	$2,131,225
Debt, net (primarily mortgages payable)	$552,552	$505,462
Amounts payable to Weingarten Realty Investors	202,092	335,622
Other liabilities, net	45,331	88,913
Total	799,975	929,997
Accumulated equity	1,262,644	1,201,228
Total	$2,062,619	$2,131,225

	Year Ended December 31, 2010	2009	2008
Combined Condensed Statements of Income			
Revenues, net	$193,649	$174,595	$162,737
Expenses:			
Depreciation and amortization	61,726	56,018	41,146
Interest, net	36,270	31,017	20,424
Operating	34,026	33,385	37,592
Real estate taxes, net	24,288	21,213	18,739
General and administrative	3,927	5,187	5,648
Provision for income taxes	237	170	407
Impairment loss	231	6,923	5,151
Total	160,705	153,913	129,107
Gain on land and merchant development sales	372		933

(Loss) gain on sale of property	(3)	11	13
Net income	$33,313	$20,693	$34,576

74

Our investment in real estate joint ventures and partnerships, as reported on our Consolidated Balance Sheets, differs from our proportionate share of the entities' underlying net assets due to basis differentials, which arose upon the transfer of assets to the joint ventures. The net basis differentials, which totaled $8.8 million and $11.8 million at December 31, 2010 and 2009, respectively, are generally amortized over the useful lives of the related assets.

Our real estate joint ventures and partnerships determined that the carrying amount of certain properties was not recoverable and that the properties should be written down to fair value. For the year ended December 31, 2010, 2009 and 2008, our unconsolidated real estate joint ventures and partnerships recorded an impairment charge of $.2 million, $6.9 million and $5.2 million, respectively, related primarily to undeveloped land at new development properties.

Fees earned by us for the management of these real estate joint ventures and partnerships totaled $5.8 million in 2010, $5.7 million in 2009 and $5.9 million in 2008.

In November 2010, we sold an unconsolidated real estate joint venture interest in a property located in Houston, Texas to our partner with gross sales proceeds of approximately $1.4 million, which generated a gain of $1.3 million.

Effective April 1, 2010, we assumed control of two 50%-owned real estate unconsolidated joint ventures related to a development project in Sheridan, Colorado that we had previously accounted for under the equity method. This transaction resulted in the consolidation of the joint ventures in our consolidated financial statements.

During 2010, two unconsolidated joint ventures each sold a retail building located in California with aggregate gross sales proceeds totaling $4.4 million. Also, two unconsolidated real estate joint ventures each sold a land parcel located in Florida with gross sales proceeds of approximately $2.5 million.

Also, in 2010, we acquired a 67%-owned real estate unconsolidated joint venture interest in a retail shopping center located in Moreno Valley, California and we acquired a 58%-owned unconsolidated real estate joint venture interest in a retail shopping center located in Houston, Texas for approximately $35.8 million.

In October 2009, we entered into an agreement to contribute six retail properties located in Florida and Georgia, valued at approximately $160.8 million, to an unconsolidated joint venture in which we will retain a 20% ownership interest. In 2009, we closed on four properties with a total value of $114.3 million, and in December 2009, this joint venture entered into a $68.7 million secured loan. During the first quarter of 2010, we contributed the final two properties to this unconsolidated joint venture for $47.3 million, which included loan assumptions of $28.1 million.

In April 2009, we sold an unconsolidated joint venture interest in a property located in Colorado to our partner with gross sales proceeds of approximately $15.0 million, which were reduced by the release of a debt obligation of $11.7 million.

Note 14. Federal Income Tax Considerations

We qualify as a REIT under the provisions of the Internal Revenue Code, and therefore, no tax is imposed on our taxable income distributed to shareholders. To maintain our REIT status, we must distribute at least 90% of our ordinary taxable income to our shareholders and meet certain income source and investment restriction requirements. Our shareholders must report their share of income distributed in the form of dividends.

Taxable income differs from net income for financial reporting purposes principally because of differences in the timing of recognition of depreciation, rental revenue, compensation expense, impairment losses and gain from sales of property. As a result of these differences, the book value of our net fixed assets exceeds the tax basis by $38 million at December 31, 2010 and $119 million at December 31, 2009.

75

Table of Contents

The following table reconciles net income to REIT taxable income for the year ended December 31, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Net income adjusted for noncontrolling interests	$46,206	$171,102	$145,652
Net loss of taxable REIT subsidiaries included above	22,450	8,966	34,803
Net income from REIT operations	68,656	180,068	180,455
Book depreciation and amortization including discontinued operations	151,108	151,888	157,893
Tax depreciation and amortization	(95,848)	(133,537)	(144,816)
Book/tax difference on gains/losses from capital transactions	1,233	(6,137)	35,891
Deferred/prepaid/above and below market rents, net	(5,076)	(12,489)	(20,113)
Impairment loss from REIT operations	28,376	21,862	31,461
Other book/tax differences, net	(22,785)	28,097	(25,238)
REIT taxable income	125,664	229,752	215,533
Dividends paid deduction	(125,664)	(229,752)	(215,533)
Dividends paid in excess of taxable income	$-	$-	$-

The dividends paid deduction in 2010, 2009 and 2008 includes designated dividends of $3.8 million from 2011, $61.2 million from 2010 and $4.7 million from 2009, respectively.

For federal income tax purposes, the cash dividends distributed to common shareholders are characterized as follows:

	2010	2009	2008
Ordinary income	79.1 %	68.1 %	45.5 %
Capital gain distributions	20.9 %	31.9 %	54.5 %
Total	100.0 %	100.0 %	100.0 %

Our taxable REIT subsidiary is subject to federal, state and local income taxes. We have recorded a federal income tax (benefit) provision of $(1.2) million, $4.4 million and $(12.1) million for the year ended December 31, 2010, 2009 and 2008, respectively. We did not have a current tax obligation as of December 31, 2010 and 2009 in association with this tax; however, we had a current tax receivable of $2.8 million as of December 31, 2009.

Table of Contents

Our deferred tax assets and liabilities, including a valuation allowance, consisted of the following (in thousands):

	December 31, 2010	December 31, 2009
Deferred tax assets:		
Impairment loss	$13,584	$13,945
Allowance on other assets	1,423	1,428
Interest expense	7,256	3,643
Net operating loss carryforward	4,684	1,509
Other	672	447
Total deferred tax assets	27,619	20,972
Valuation allowance	(15,818)	(9,605)
Total deferred tax assets, net of allowance	$11,801	$11,367
Deferred tax liabilities:		
Straight-line rentals	$1,290	$506
Book-tax basis differential	4,708	6,346
Total deferred tax liabilities	$5,998	$6,852

At December 31, 2010 and 2009, we have recorded a net deferred tax asset of $11.8 million and $11.4 million, respectively; including the benefit of $13.6 million and $13.9 million, respectively, of impairment losses, which will not be recognized until the related properties are sold. Realization is dependent on generating sufficient taxable income in the year the property is sold. Management believes it is more likely than not that a portion of these deferred tax assets, which primarily consists of impairment losses, will not be realized and established a valuation allowance totaling $15.8 million and $9.6 million as of December 31, 2010 and 2009, respectively. However, the amount of the deferred tax asset considered realizable could be reduced if estimates of future taxable income are reduced.

In addition, we are subject to the State of Texas business tax (“Texas Franchise Tax”), which is determined by applying a tax rate to a base that considers both revenues and expenses. Therefore, the Texas Franchise Tax is considered an income tax and is accounted for accordingly.

For the year ended December 31, 2010, 2009 and 2008, we recorded a provision for the Texas Franchise Tax of $1.4 million, $1.9 million and $2.2 million, respectively. The deferred tax assets associated with this tax each totaled $.1 million as of December 31, 2010 and 2009, and the deferred tax liabilities totaled $.2 million and $.1 million as of December 31, 2010 and 2009, respectively. Also, a current tax obligation of $1.6 million and $2.1 million has been recorded at December 31, 2010 and 2009, respectively, in association with this tax.

Note 15. Leasing Operations

The terms of our leases range from less than one year for smaller tenant spaces to over 25 years for larger tenant spaces. In addition to minimum lease payments, most of the leases provide for contingent rentals (payments for real estate taxes, maintenance and insurance by lessees and an amount based on a percentage of the tenants' sales). Future minimum rental income from non-cancelable tenant leases at December 31, 2010, in millions, is: $404.3 in 2011; $349.3 in 2012; $286.3 in 2013; $224.6 in 2014; $168.1 in 2015; and $572.7 thereafter. The future minimum rental amounts do not include estimates for contingent rentals. Such contingent rentals, in millions, aggregated $115.5 in 2010, $119.5 in 2009 and $131.7 in 2008.

Note 16. Commitments and Contingencies

We are engaged in the operation of shopping centers, which are either owned or, with respect to certain shopping centers, operated under long-term ground leases. These ground leases expire at various dates through 2069, with renewal options. Space in our shopping centers is leased to tenants pursuant to agreements that provide for terms ranging generally from one month to 25 years and, in some cases, for annual rentals subject to upward adjustments based on operating expense levels, sales volume, or contractual increases as defined in the lease agreements.

Table of Contents

Scheduled minimum rental payments under the terms of all non-cancelable operating leases in which we are the lessee, principally for shopping center ground leases, for the subsequent five years and thereafter ending December 31, are as follows (in thousands):

2011	$3,570
2012	3,382
2013	3,352
2014	3,118
2015	2,891
Thereafter	123,870
Total	$140,183

Rental expense for operating leases was, in millions: $5.3 in 2010; $5.0 in 2009 and $4.0 in 2008.

The scheduled future minimum revenues under subleases, applicable to the ground lease rentals above, under the terms of all non-cancelable tenant leases, assuming no new or renegotiated leases or option extensions for the subsequent five years and thereafter ending December 31, are as follows (in thousands):

2011	$36,882
2012	33,538
2013	29,579
2014	23,836
2015	18,677
Thereafter	86,066
Total	$228,578

Property under capital leases that is included in buildings and improvements consisted of two shopping centers totaling $16.8 million at December 31, 2010 and three shopping centers totaling $19.1 million at December 31, 2009. Amortization of property under capital leases is included in depreciation and amortization expense, and the balance of accumulated depreciation associated with these capital leases at December 31, 2010 and 2009 was $9.8 million and $11.0 million, respectively. Future minimum lease payments under these capital leases total $35.5 million, with annual payments due, in millions, $1.7 in 2011, $1.8 in each of 2012, 2013, 2014 and 2015; and $26.6 thereafter. The amount of these total payments representing interest is $14.5 million. Accordingly, the present value of the net minimum lease payments was $21.0 million at December 31, 2010.

As of December 31, 2010, we participate in five real estate ventures structured as DownREIT partnerships that have properties in Arkansas, California, Georgia, North Carolina, Texas and Utah. As a general partner, we have operating and financial control over these ventures and consolidate them in our consolidated financial statements. These ventures allow the outside limited partners to put their interest to the partnership for our common shares or an equivalent amount in cash. We may acquire any limited partnership interests that are put to the partnership, and we have the option to redeem the interest in cash or a fixed number of our common shares, at our discretion. We also participate in a real estate venture that has a property in Texas that allows its outside partner to put operating partnership units to us. We have the option to redeem these units in cash or a fixed number of our common shares, at our discretion. In 2010 and 2009, we issued common shares valued at $.7 million and $14.3 million, respectively, in exchange for certain of these interests. The aggregate redemption value of these interests was approximately $39 million and $33 million as of December 31, 2010 and 2009, respectively.

In January 2007, we acquired two retail properties in Arizona. This purchase transaction includes an earnout provision of approximately $29 million that is contingent upon the subsequent development of space by the property seller. This contingency agreement expired in July 2010 and was settled for $6.4 million in January 2011. As of December 31, 2010 and 2009, the estimated obligation was $6.4 million and $4.7 million, respectively. Since inception of this obligation, $12.5 million had been paid through December 31, 2010. Amounts paid or accrued under such earnouts are treated as additional purchase price and capitalized to the related property.

Table of Contents

We are subject to numerous federal, state and local environmental laws, ordinances and regulations in the areas where we own or operate properties. We are not aware of any material contamination which may have been caused by us or any of our tenants that would have a material adverse effect on our consolidated financial statements.

As part of our risk management activities, we have applied and been accepted into state sponsored environmental programs which will limit our expenses if contaminants need to be remediated. We also have an environmental insurance policy that covers us against third party liabilities and remediation costs.

While we believe that we do not have any material exposure to environmental remediation costs, we cannot give absolute assurance that changes in the law or new discoveries of contamination will not result in increased liabilities to us.

Related to our investment in a development project in Sheridan, Colorado that prior to April 1, 2010 was held in an unconsolidated real estate joint venture, we, our joint venture partner and the joint venture have each provided a guaranty for the payment of any debt service shortfalls on tax increment revenue bonds issued in connection with the project. The Sheridan Redevelopment Agency ("Agency") issued $97 million of Series A bonds used for an urban renewal project. The bonds are to be repaid with incremental sales and property taxes and a PIF to be assessed on current and future retail sales, and, to the extent necessary, any amounts we may have to provide under a guaranty. The incremental taxes and PIF are to remain intact until the earlier of the bond liability has been paid in full or 2030 (unless such date is otherwise extended by the Agency).

In July 2009, we settled a lawsuit in connection with the above project. Among the obligations performed or to be performed by us under the terms of the settlement agreement was to cause the joint venture to purchase a portion of the bonds in the amount of $51.3 million at par, plus accrued and unpaid interest to the date of such purchase. We established a restricted cash collateral account of $47.6 million in lieu of a back-to-back letter of credit previously supporting additional bonds totaling $45.7 million. We replaced the restricted cash collateral account with a $46.3 million letter of credit in November 2010.

Also, in connection with the Sheridan, Colorado joint venture and the issuance of the related Series A bonds, we, our joint venture partner and the joint venture have also provided a performance guaranty on behalf of the Agency for the satisfaction of all obligations arising from two interest rate contracts for the combined notional amount of $97 million that matures in December 2029. We evaluated and determined that the fair value of the guaranty both at inception and December 31, 2010 was nominal.

We have evaluated the remaining outstanding guaranties and have determined that the fair value of these guaranties is nominal.

We are also involved in various matters of litigation arising in the normal course of business. While we are unable to predict with certainty the amounts involved, our management and counsel are of the opinion that, when such litigation is resolved, any additional liability, if any, will not have a material adverse effect on our consolidated financial statements.

Table of Contents

Note 17. Identified Intangible Assets and Liabilities

Identified intangible assets and liabilities associated with our property acquisitions are as follows (in thousands):

	December 31, 2010	December 31, 2009
Identified Intangible Assets:		
Above-Market Leases (included in Other Assets, net)	$16,825	$17,278
Above-Market Leases – Accumulated Amortization	(10,507)	(11,471)
Below-Market Assumed Mortgages (included in Debt, net)	5,722	2,072
Below-Market Assumed Mortgages – Accumulated Amortization	(1,157)	(805)
Valuation of In Place Leases (included in Unamortized Debt and Lease Cost, net)	71,272	57,610
Valuation of In Place Leases – Accumulated Amortization	(35,984)	(32,361)
	$46,171	$32,323
Identified Intangible Liabilities:		
Below-Market Leases (included in Other Liabilities, net)	$37,668	$36,951
Below-Market Leases – Accumulated Amortization	(23,585)	(21,794)
Above-Market Assumed Mortgages (included in Debt, net)	48,149	52,171
Above-Market Assumed Mortgages – Accumulated Amortization	(31,288)	(31,329)
	$30,944	$35,999

These identified intangible assets and liabilities are amortized over the applicable lease terms or the remaining lives of the assumed mortgages, as applicable.

The net amortization of above-market and below-market leases increased rental revenues by $1.7 million, $2.5 million and $3.5 million in 2010, 2009 and 2008, respectively. The estimated net amortization of these intangible assets and liabilities will increase rental revenues for each of the next five years as follows (in thousands):

2011	$1,331
2012	801
2013	714
2014	694
2015	676

The amortization of the in place lease intangible assets recorded in depreciation and amortization, was $5.9 million, $8.2 million and $8.5 million in 2010, 2009 and 2008, respectively. The estimated amortization of this intangible asset will increase depreciation and amortization for each of the next five years as follows (in thousands):

2011	$4,775
2012	3,977
2013	3,150
2014	2,639
2015	2,084

Table of Contents

The amortization of above-market and below-market assumed mortgages decreased net interest expense by $3.1 million, $4.4 million and $8.0 million in 2010, 2009 and 2008, respectively. The estimated amortization of these intangible assets and liabilities will decrease net interest expense for each of the next five years as follows (in thousands):

2011	$1,949
2012	916
2013	472
2014	500
2015	513

Note 18. Fair Value Measurements

Recurring Fair Value Measurements:
Investments held in grantor trusts
These assets are valued based on publicly quoted market prices for identical assets.

Tax Increment Revenue Bonds
These assets represent tax increment revenue bonds which were issued by the Agency in connection with our investment in a redevelopment project in Sheridan, Colorado. The senior tax increment revenue bonds are valued based on quoted prices for similar assets in an active market. As a result, we have determined that the senior tax increment revenue bonds are classified within Level 2 of the fair value hierarchy. The valuation of our subordinated tax increment revenue bonds is determined based on assumptions that management believes market participants would use in pricing using widely accepted valuation techniques including discounted cash flow analysis based on the expected future sales tax revenues of the redevelopment project. This analysis reflects the contractual terms of the bonds, including the period to maturity, and uses observable market-based inputs, such as market discount rates and unobservable market-based inputs, such as future growth and inflation rates. Since the majority of our inputs are unobservable, we have determined that the subordinate tax increment revenue bonds fall within the Level 3 classification of the fair value hierarchy. At December 31, 2010, the carrying value of these bonds is equal to its fair value.

Derivative instruments
We use interest rate contracts with major financial institutions to manage our interest rate risk. The valuation of these instruments is determined based on assumptions that management believes market participants would use in pricing, using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of our interest rate contracts have been determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counter-party’s nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral, thresholds and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counter-parties. However, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that the derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Table of Contents

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009, aggregated by the level in the fair value hierarchy in which those measurements fall, are as follows (in thousands):

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2010
Assets:				
Investments in grantor trusts	$15,055			$15,055
Tax increment revenue bonds		$51,255	$ 10,700	61,955
Derivative instruments:				
Interest rate contracts		7,192		7,192
Total	$15,055	$58,447	$ 10,700	$84,202
Liabilities:				
Derivative instruments:				
Interest rate contracts		$108		$108
Deferred compensation plan obligations	$15,055			15,055
Total	$15,055	$108		$15,163

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2009
Assets:				
Investments in grantor trusts	$ 13,894			$ 13,894
Derivative instruments:				
Interest rate contracts		$ 2,601		2,601
Total	$ 13,894	$ 2,601		$ 16,495
Liabilities:				
Derivative instruments:				
Interest rate contracts		$ 4,634		$ 4,634
Deferred compensation plan obligations	$ 13,894			13,894
Total	$ 13,894	$ 4,634		$ 18,528

A reconciliation of the outstanding balance of the subordinate tax increment revenue bonds using significant unobservable inputs (Level 3) is as follows:

	Fair Value Measurements

		Using Significant Unobservable Inputs (Level 3)
Outstanding, January 1, 2010	$	-
Additions (1)		22,417
Loss included in earnings (2)		(11,717)
Outstanding, December 31, 2010	$	10,700

(1) Additions represent an investment including accrued interest in a subordinate tax increment revenue bond that was classified as available for sale on December 31, 2010.

(2) Represents the change in unrealized losses recognized in impairment loss in the Statement of Consolidated Income and Comprehensive Income for the year ended December 31, 2010.

Table of Contents

Nonrecurring Fair Value Measurements:
Property Impairments
Property is reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the property, including any identifiable intangible assets, site costs and capitalized interest, may not be recoverable. In such an event, a comparison is made of the current and projected operating cash flows of each such property into the foreseeable future on an undiscounted basis to the carrying amount of such property. If we conclude that an impairment may have occurred, fair values are determined by management utilizing cash flow models, market capitalization rates and market discount rates, or by obtaining third-party broker valuation estimates, appraisals, bona fide purchase offers or the expected sales price of an executed sales agreement in accordance with our fair value measurements accounting policy.

Subordinate Tax Increment Revenue Bonds and Subordinate Tax Increment Revenue Note Impairments
Investments in tax increment revenue bonds and tax increment revenue notes are reviewed for impairment if changes in circumstances or forecasts indicate that the carrying amount may not be recoverable and in the case of the bonds, if it is uncertain if the investment will be held to maturity. In such an event, a comparison is made of the projected recoverability of cash flows from the tax increment revenue bonds and note to the carrying amount of each investment. If we conclude that an impairment may have occurred, fair values are determined by management utilizing third-party sales revenue projections until the maturity of the bonds and notes and discounted cash flow models.

Assets measured at fair value on a nonrecurring basis during 2010, aggregated by the level in the fair value hierarchy in which those measurements fall, are as follows (in thousands):

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Total Gains (Losses)
Property			$ 2,325	$ 2,325	$ (2,827)
Subordinate tax increment revenue bonds			10,700	10,700	(11,717)
Subordinate tax increment revenue note					(598)
Total			$ 13,025	$ 13,025	$ (15,142)

In accordance with our policy of evaluating and recording impairments on the disposal of long-lived assets, a property with a total carrying amount of $5.1 million was written down to its fair value of $2.3 million, resulting in a loss of $2.8 million, which was included in earnings for the period. Management's estimate of the fair value of this property was determined using third party broker valuations for the Level 3 inputs.

In addition, our subordinate tax increment revenue investments, the bonds issued by the Agency with a carrying value of $22.4 million, were written down to their fair value of $10.7 million as they are no longer classified as held to maturity. Also, our note with a carrying value of $.6 million was written down to its fair value of zero. Management's estimates of the fair value of these investments were determined using third-party sales revenue projections and future growth and inflations rates for the Level 3 inputs.

Fair Value Disclosures:

Unless otherwise described below, short-term financial instruments and receivables are carried at amounts which approximate their fair values based on their highly-liquid nature, short-term maturities and/or expected interest rates for similar instruments.

Notes Receivable from Real Estate Joint Ventures and Partnerships

We estimated the fair value of our notes receivables from real estate joint ventures and partnerships based on quoted market prices for publicly-traded notes and on the discounted estimated future cash receipts. The discount rates used approximate current lending rates for a note or groups of notes with similar maturities and credit quality, assumes the note is outstanding through maturity and considers the note's collateral (if applicable). We have utilized market information as available or present value techniques to estimate the amounts required to be disclosed. Since such amounts are estimates that are based on limited available market information for similar transactions, there can be no assurance that the disclosed value of any financial instrument could be realized by immediate settlement of the instrument. Notes with a carrying value of $184.8 million and $317.8 million at December 31, 2010 and 2009, respectively, have a fair value of approximately $188.0 million and $317.8 million, respectively.

Table of Contents

Debt

We estimated the fair value of our debt based on quoted market prices for publicly-traded debt and on the discounted estimated future cash payments to be made for other debt. The discount rates used approximate current lending rates for loans or groups of loans with similar maturities and credit quality, assumes the debt is outstanding through maturity and considers the debt's collateral (if applicable). We have utilized market information as available or present value techniques to estimate the amounts required to be disclosed. Since such amounts are estimates that are based on limited available market information for similar transactions, there can be no assurance that the disclosed value of any financial instrument could be realized by immediate settlement of the instrument. Fixed-rate debt with a carrying value of $2.3 billion and $2.1 billion at December 31, 2010 and 2009, respectively has a fair value of approximately $2.4 billion and $2.0 billion, respectively. Variable-rate debt with carrying values of $239.6 million and $385.7 million as of December 31, 2010 and 2009, respectively, has fair values of approximately $252.2 million and $373.4 million, respectively.

Note 19. Share Options and Awards

We have a Long-Term Incentive Plan for the issuance of options and share awards, of which .01 million is available for the future grant of options or awards at December 31, 2010. This plan expires in April 2011. The share options granted to non-officers vest over a three-year period beginning after the grant date, and share options and restricted shares for officers vest over a five-year period after the grant date. Restricted shares granted to trust managers and share options or awards granted to retirement eligible employees are expensed immediately.

In May 2010, our shareholders approved the adoption of the Amended and Restated 2010 Long-Term Incentive Plan, under which 3.0 million of our common shares were reserved for issuance, and 2.8 million is available for the future grant of options or awards at December 31, 2010. This plan expires in May 2020. Currently, these share options granted to non-officers vest ratably over a three-year period beginning after the grant date, and share options and restricted shares for officers vest ratably over a five-year period after the grant date. Restricted shares granted to trust managers and share options or awards granted to retirement eligible employees are expensed immediately. Restricted shares have the same rights of a shareholder, including the right to vote and receive dividends, except as otherwise provided by our Management Development and Executive Compensation Committee.

The grant price for both the Long-Term Incentive Plan and the Amended and Restated 2010 Long-Term Incentive Plan (collectively, the "Plans") is calculated as an average of the high and low of the quoted fair value of our common shares on the date of grant. In the Plans, these options expire upon the earlier of termination of employment or 10 years from the date of grant, and restricted shares for officers and trust managers are granted at no purchase price. Our policy is to recognize compensation expense for equity awards ratably over the vesting period, except for retirement eligible amounts. Compensation expense, net of forfeitures, associated with share options and restricted shares totaled $4.9 million in 2010, $4.2 million in 2009 and $4.9 million in 2008, of which $1.2 million in both 2010 and 2009 and $1.3 million in 2008, was capitalized.

The fair value of share options and restricted shares is estimated on the date of grant using the Black-Scholes option pricing method based on the expected weighted average assumptions in the following table. The dividend yield is an average of the historical yields at each record date over the estimated expected life. We estimate volatility using our historical volatility data for a period of 10 years, and the expected life is based on historical data from an option valuation model of employee exercises and terminations. The risk-free rate is based on the U.S. Treasury yield curve. The fair value and weighted average assumptions are as follows:

	Year Ended December 31,		
	2010	2009	2008
Fair value per share option	$5.42	$1.99	$3.07
Dividend yield	5.3 %	5.2 %	5.1 %
Expected volatility	38.8 %	31.3 %	18.8 %
Expected life (in years)	6.2	6.2	6.2
Risk-free interest rate	2.9 %	1.7 %	2.8 %

Following is a summary of the option activity for the three years ended December 31, 2010:

	Shares Under Option	Weighted Average Exercise Price
Outstanding, January 1, 2008	2,840,290	$32.66
Granted	832,106	32.22
Forfeited or expired	(174,376)	35.85
Exercised	(180,365)	21.99
Outstanding, December 31, 2008	3,317,655	32.96
Granted	1,182,252	11.85
Forfeited or expired	(54,364)	26.90
Exercised	(9,400)	18.05
Outstanding, December 31, 2009	4,436,143	27.44
Granted	504,781	22.68
Forfeited or expired	(22,973)	21.29
Exercised	(303,679)	17.32
Outstanding, December 31, 2010	4,614,272	$27.62

The total intrinsic value of options exercised was $1.8 million in 2010, $0.02 million in 2009 and $2.2 million in 2008. As of December 31, 2010 and 2009, there was approximately $3.8 million and $3.2 million, respectively, of total unrecognized compensation cost related to unvested share options, which is expected to be amortized over a weighted average of 2.5 years for both periods.

Table of Contents

The following table summarizes information about share options outstanding and exercisable at December 31, 2010:

	Outstanding				Exercisable			
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value (000's)	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (000's)
11.85 - $$17.78	1,076,520	8.2 years	$11.85		243,529	$11.85	8.2 years	
17.79 - $$26.69	1,143,273	5.0 years	$23.03		640,585	$23.31	1.5 years	
26.70 - $$40.05	1,914,766	5.3 years	$34.25		1,486,801	$34.83	4.7 years	
40.06 - $$49.62	479,713	5.9 years	$47.46		395,837	$47.46	5.9 years	
Total	4,614,272	5.9 years	$27.62	$-	2,766,752	$31.95	4.4 years	$-

A summary of the status of unvested restricted shares for the year ended December 31, 2010 is as follows:

	Unvested Restricted Share Awards	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2010	363,236	$19.40
Granted	160,353	22.93
Vested	(126,387)	24.14
Forfeited	(405)	11.85
Outstanding, December 31, 2010	396,797	$19.32

As of December 31, 2010 and 2009, there was approximately $5.1 million and $4.6 million, respectively, of total unrecognized compensation cost related to unvested restricted shares, which is expected to be amortized over a weighted average of 2.8 years and 2.7 years, respectively.

Note 20. Employee Benefit Plans

Effective April 1, 2002, we converted a noncontributory pension plan to a noncontributory cash balance retirement plan ("Retirement Plan") under which each participant received an actuarially determined opening balance. Annual additions to each participant's account include a service credit ranging from 3-5% of compensation, depending on years of service, and an interest credit based on the ten-year US Treasury Bill rate not to be less than 2.05%. Vesting generally occurs after three years of service. Certain participants were grandfathered under the prior pension plan formula. In addition to the plan described above, effective September 1, 2002, we established two separate and independent nonqualified supplemental retirement plans ("SRP") for certain employees. These unfunded plans provide benefits in excess of the statutory limits of our noncontributory cash balance retirement plan. Annual additions to each participant's account include a service credit ranging from 3-5% of compensation, depending on years of service, and an interest credit of 7.5%. Vesting generally occurs after three years of service. We have elected to use the actuarial present value of the vested benefits to which the participant is entitled if the participant separates immediately from the SRP, as permitted by GAAP.

The estimated net loss, prior service cost, and transition obligation that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $720,000, ($117,000) and zero, respectively.

Table of Contents

The following tables summarize changes in the benefit obligation, the plan assets and the funded status of our pension plans as well as the components of net periodic benefit costs, including key assumptions. The measurement dates for plan assets and obligations were December 31, 2010 and 2009.

	Fiscal Year End	
	2010	2009
Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year	$51,333	$46,148
Service cost	3,325	3,571
Interest cost	3,212	2,931
Actuarial loss	1,769	422
Benefit payments	(1,764)	(1,739)
Benefit obligation at end of year	$57,875	$51,333
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$23,509	$15,472
Actual return on plan assets	2,600	4,219
Employer contributions	2,681	5,557
Benefit payments	(1,764)	(1,739)
Fair value of plan assets at end of year	$27,026	$23,509
Unfunded Status at End of Year:	$30,849	$27,824
Accumulated benefit obligation	$57,418	$50,732
Amounts recognized in accumulated other comprehensive loss consist of:		
Net loss	$10,296	$9,908
Prior service credit	(235)	(352)
Total amount recognized	$10,061	$9,556

The following is the required information for other changes in plan assets and benefit obligations recognized in other comprehensive income:

	2010	2009	2008
Net loss (gain)	$1,132	$(2,407)	$9,231
Amortization of net gain	(744)	(947)	(256)
Amortization of prior service cost	117	117	117
Total recognized in other comprehensive income	$505	$(3,237)	$9,092
Total recognized in net periodic benefit costs and other comprehensive income	$5,704	$2,705	$12,093

The following is the required information for plans with an accumulated benefit obligation in excess of plan assets at each year end:

	2010	2009

Projected benefit obligation	$57,875	$51,333
Accumulated benefit obligation	57,418	50,732
Fair value of plan assets	27,026	23,509

87

Table of Contents

At December 31, 2010 and 2009, the Retirement Plan was underfunded by $4.5 million and $4.6 million, respectively, and is included in accounts payable and accrued expenses. The SRP was underfunded by $26.3 million and $23.2 million, respectively, and is included in other net liabilities.

The components of net periodic benefit cost for both plans are as follows (in thousands):

	2010	2009	2008
Service cost	$3,325	$3,571	$2,414
Interest cost	3,212	2,931	2,639
Expected return on plan assets	(1,965)	(1,391)	(1,832)
Prior service cost	(117)	(117)	(117)
Recognized loss (gain)	744	947	(104)
Total	$5,199	$5,941	$3,000

The assumptions used to develop periodic expense for both plans are shown below:

	2010	2009	2008
Discount rate – Retirement Plan and SRP	5.82%	6.00%	6.25%
Salary scale increases – Retirement Plan	4.00%	4.00%	4.00%
Salary scale increases – SRP	5.00%	5.00%	5.00%
Long-term rate of return on assets – Retirement Plan	8.00%	8.00%	8.50%

The selection of the discount rate is made annually after comparison to yields based on high quality fixed-income investments. The salary scale is the composite rate which reflects anticipated inflation, merit increases, and promotions for the group of covered participants. The long-term rate of return is a composite rate for the trust. It is derived as the sum of the percentages invested in each principal asset class included in the portfolio multiplied by their respective expected rates of return. We considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This analysis resulted in the selection of 8.00% as the long-term rate of return assumption for 2010.

The assumptions used to develop the actuarial present value of the benefit obligations at year-end for both plans are shown below:

	2010	2009	2008
Discount rate – Retirement Plan and SRP	5.30%	5.82%	6.00%
Salary scale increases – Retirement Plan	4.00%	4.00%	4.00%
Salary scale increases – SRP	5.00%	5.00%	5.00%

The expected contribution to be paid for the Retirement Plan by us during 2011 is approximately $2.3 million. The expected benefit payments for the next ten years for both plans are as follows, in millions: $1.9 in 2011, $4.6 in 2012; $2.1 in 2013; $2.8 in 2014, $4.8 in 2015 and $27.0 in 2016 through 2020.

The participant data used in determining the liabilities and costs for the Retirement Plan was collected as of January 1, 2010, and no significant changes have occurred through December 31, 2010. The participant data used in determining the liabilities and costs for the SRP was collected as of December 31, 2010.

Our investment policy for our plan assets has been to set forth to determine the objectives for structuring a retirement savings program suitable to the long-term needs and risk tolerances of participants, to select appropriate investments to be offered by the plan and to establish procedures for monitoring and evaluating the performance of the investments of the plan. Our overall plan objectives for selecting and monitoring investment options are to promote and optimize retirement wealth accumulation; to provide a full range of asset classes and investment options that are intended to help diversify the portfolio to maximize return within reasonable and prudent levels of risk; to control costs of administering the plan; and to manage the investments held by the plan.

Table of Contents

The selection of investment options is determined using criteria based on the following characteristics: fund history, relative performance, investment style, portfolio structure, manager tenure, minimum assets, expenses and operation considerations. Investment options selected for use in the plan are reviewed on at least a semi-annual basis in order to evaluate material changes from the selection criteria. Asset allocation is used to determine how the investment portfolio should be split between stocks, bonds and cash. The asset allocation decision is influenced by time horizon; risk tolerance and investment return objectives. The primary factor for consideration of asset allocation is demographics of the plan, including, attained age and future service. The allocation is based on a broad market diversification model and the percentage allocation to each investment category will vary depending upon market conditions. Rebalancing of the allocation of plan assets occurs semi-annually.

At December 31, 2010, our investment asset allocation compared to our benchmarking allocation model was as follows:

	Portfolio %		Benchmark %	
Cash	7	%	4	%
US Stocks	40	%	54	%
Non-US Stocks	20	%	9	%
Bonds	32	%	33	%
Other	1	%		
Total	100	%	100	%

The fair value of plan assets was determined based on publicly quoted market prices for identical assets which are classified as Level 1 observable inputs. The allocation of the fair value of plan assets was as follows (in thousands):

	December 31,			
	2010		2009	
Cash and short-term investments	3	%	3	%
Mutual funds – equity	63	%	61	%
Mutual funds – fixed income	34	%	36	%
Total	100	%	100	%

Concentrations of risk within our equity portfolio are investments classified within the financial services sector, the industrial materials sector, the healthcare sector and the consumer goods sector representing approximately 16%, 13%, 13% and 11%, of total equity investments, respectively.

We also have a deferred compensation plan for eligible employees allowing them to defer portions of their current cash salary or share-based compensation. Deferred amounts are deposited in a grantor trust, which are included in other net assets, and are reported as compensation expense in the year service is rendered. Cash deferrals are invested based on the employee's investment selections from a mix of assets based on a broad market diversification model. Deferred share-based compensation cannot be diversified, and distributions from this plan are made in the same form as the original deferral. See Note 18 for the disclosures associated with the fair value of the deferred compensation plan.

Note 21. Segment Information

The reportable segments presented are the segments for which separate financial information is available, and for which operating performance is evaluated regularly by senior management in deciding how to allocate resources and in assessing performance. We evaluate the performance of the reportable segments based on net operating income, defined as total revenues less operating expenses and real estate taxes. Management does not consider the effect of gains or losses from the sale of property in evaluating segment operating performance.

Table of Contents

The shopping center segment is engaged in the acquisition, development and management of real estate, primarily anchored neighborhood and community shopping centers located in Arizona, Arkansas, California, Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, Louisiana, Maine, Missouri, Nevada, New Mexico, North Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah and Washington. The customer base includes supermarkets, discount retailers, drugstores and other retailers who generally sell basic necessity-type commodities. The industrial segment is engaged in the acquisition, development and management of bulk warehouses and office/service centers. Its properties are located in California, Florida, Georgia, Tennessee, Texas and Virginia, and the customer base is diverse. Included in "Other" are corporate-related items, insignificant operations and costs that are not allocated to the reportable segments.

Information concerning our reportable segments is as follows (in thousands):

	Shopping Center	Industrial	Other	Total
Year Ended December 31, 2010:				
Revenues	$493,890	$51,961	$8,816	$554,667
Net Operating Income	347,838	35,544	619	384,001
Equity in Earnings (Loss) of Real Estate Joint Ventures and Partnerships, net	12,222	1,053	(386)	12,889
Capital Expenditures	144,196	23,892	27,411	195,499
Year Ended December 31, 2009:				
Revenues	$511,421	$53,070	$7,497	$571,988
Net Operating Income (Loss)	362,065	36,917	(598)	398,384
Equity in Earnings (Loss) of Real Estate Joint Ventures and Partnerships, net	4,949	967	(368)	5,548
Capital Expenditures	84,252	9,388	3,917	97,557
Year Ended December 31, 2008:				
Revenues	$529,527	$54,314	$8,806	$592,647
Net Operating Income (Loss)	370,099	38,611	(143)	408,567
Equity in Earnings (Loss) of Real Estate Joint Ventures and Partnerships, net	15,012	1,428	(4,244)	12,196
Capital Expenditures	247,723	22,315	29,052	299,090
As of December 31, 2010:				
Investment in Real Estate Joint Ventures and Partnerships, net	$309,171	$38,355	$-	$347,526
Total Assets	3,469,694	363,153	975,008	4,807,855
As of December 31, 2009:				
Investment in Real Estate Joint Ventures and Partnerships, net	$277,130	$38,118	$-	$315,248
Total Assets	3,335,198	353,736	1,201,451	4,890,385

Table of Contents

Segment net operating income reconciles to income from continuing operations as shown on the Statements of Consolidated Income and Comprehensive Income as follows (in thousands):

	2010	2009	2008
Total Segment Net Operating Income	$ 384,001	$ 398,384	$ 408,567
Depreciation and Amortization	(151,101)	(147,877)	(149,795)
Impairment Loss	(33,317)	(34,983)	(52,539)
General and Administrative	(25,000)	(25,930)	(25,761)
Interest Expense, net	(148,794)	(153,207)	(156,318)
Interest and Other Income, net	9,825	11,427	4,333
(Loss) Gain on Redemption of Convertible Senior Unsecured Notes	(135)	25,311	12,961
Equity in Earnings of Real Estate Joint Ventures and Partnerships, net	12,889	5,548	12,196
Gain on Land and Merchant Development Sales		18,688	8,342
(Provision) Benefit for Income Taxes	(240)	(6,337)	10,220
Income from Continuing Operations	$ 48,128	$ 91,024	$ 72,206

Note 22. Noncontrolling Interests

The following table summarizes the effect of changes in our ownership interest in subsidiaries on the equity attributable to us as follows (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Net income adjusted for noncontrolling interests	$46,206	$171,102	$145,652
Transfers from the noncontrolling interests:			
Increase in equity for operating partnership units	746	14,251	1,094
Decrease in equity for the acquisition of noncontrolling interests	(879)		
Change from net income adjusted for noncontrolling interests and transfers from the noncontrolling interests	$46,073	$185,353	$146,746

Note 23. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data is as follows (in thousands):

	First	Second	Third	Fourth
2010:				
Revenues (1)	$ 137,136	$ 138,761	$ 139,039	$ 139,731
Net income (loss) attributable to common shareholders	10,239	(5,566)(2)	8,660	(2,603)(2)
Earnings per common share – basic	0.09	(0.05)(2)	0.07	(0.02)(2)
Earnings per common share – diluted	0.08	(0.05)(2)	0.07	(0.02)(2)
2009:				
Revenues (1)	$ 144,334	$ 142,415	$ 143,073	$ 142,166

Net income (loss) attributable to common shareholders	33,146	39,238	(9,384)(2)	72,626 (3)
Earnings per common share – basic	0.38	0.35	(0.08)(2)	0.61 (3)
Earnings per common share – diluted	0.38	0.35	(0.08)(2)	0.60 (3)

(1) Revenues from the sale of operating properties have been reclassified and reported in discontinued operations for all periods presented.

(2) The quarter results include significant impairment charges.

(3) The quarter results include significant gains on the sale of properties.

* * * * *

91

Table of Contents

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

ITEM 9A. Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of December 31, 2010. Based on that evaluation, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2010.

There has been no change to our internal control over financial reporting during the quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Weingarten Realty Investors and its subsidiaries ("WRI") maintain a system of internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act, which is a process designed under the supervision of WRI's principal executive officer and principal financial officer and effected by WRI's Board of Trust Managers, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

WRI's internal control over financial reporting includes those policies and procedures that:

§ Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of WRI's assets;

§ Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of WRI are being made only in accordance with authorizations of management and trust managers of WRI; and

§ Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of WRI's assets that could have a material effect on the financial statements.

WRI's management has responsibility for establishing and maintaining adequate internal control over financial reporting for WRI. Management, with the participation of WRI's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of WRI's internal control over financial reporting as of December 31, 2010 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on their evaluation of WRI's internal control over financial reporting, WRI's management along with the Chief Executive and Chief Financial Officers believe that WRI's internal control over financial reporting is effective as of December 31, 2010.

Deloitte & Touche LLP, WRI's independent registered public accounting firm that audited the consolidated financial statements and financial statement schedules included in this Form 10-K, has issued an attestation report on the effectiveness of WRI's internal control over financial reporting.

March 1, 2011

92

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trust Managers and Shareholders of
Weingarten Realty Investors
Houston, Texas

We have audited the internal control over financial reporting of Weingarten Realty Investors and subsidiaries (the "Company") as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of trust managers, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and trust managers of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2010, of the Company and our report dated March 1, 2011, expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/Deloitte & Touche LLP

Houston, Texas
March 1, 2011

93

Table of Contents

ITEM 9B. Other Information

Not applicable.

PART III

ITEM 10. Trust Managers, Executive Officers and Corporate Governance

Information with respect to our trust managers and executive officers is incorporated herein by reference to the "Proposal One - Election of Trust Managers - Nominees," "Executive Officers" and “Share Ownership of Certain Beneficial Owners and Management—Section 16(a) Beneficial Ownership Reporting Compliance” sections of our definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011.

Code of Conduct and Ethics

We have adopted a code of business and ethics for trust managers, officers and employees, known as the Code of Conduct and Ethics. The Code of Conduct and Ethics is available on our website at www.weingarten.com. Shareholders may request a free copy of the Code of Conduct and Ethics from:

Weingarten Realty Investors
Attention: Investor Relations
2600 Citadel Plaza Drive, Suite 125
Houston, Texas 77008
(713) 866-6000
www.weingarten.com

We have also adopted a Code of Conduct for Officers and Senior Financial Associates setting forth a code of ethics applicable to our principal executive officer, principal financial officer, chief accounting officer and financial associates, which is available on our website at www.weingarten.com. Shareholders may request a free copy of the Code of Conduct for Officers and Senior Financial Associates from the address and phone number set forth above.

Governance Guidelines

We have adopted Governance Guidelines, which are available on our website at www.weingarten.com. Shareholders may request a free copy of the Governance Guidelines from the address and phone number set forth above under "Code of Conduct and Ethics."

ITEM 11. Executive Compensation

Information with respect to executive compensation is incorporated herein by reference to the “Executive Compensation,” “Proposal One - Election of Trust Managers,” “Compensation Committee Report,” “Summary Compensation Table” and “Trust Manager Compensation Table” sections of our definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011.

Table of Contents

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The "Share Ownership of Certain Beneficial Owners and Management" section of our definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011 is incorporated herein by reference.

The following table summarizes the equity compensation plans under which our common shares of beneficial interest may be issued as of December 31, 2010:

Plan category	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of shares remaining available for future issuance
Equity compensation plans approved by shareholders	4,614,272	$ 27.62	2,766,273
Equity compensation plans not approved by shareholders			
Total	4,614,272	$ 27.62	2,766,273

ITEM 13. Certain Relationships and Related Transactions, and Trust Manager Independence

The “Governance of Our Company,” “Compensation Committee Interlocks and Insider Participation" and “Certain Transactions” sections of our definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011 are incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services

The "Independent Registered Public Accounting Firm Fees" section within “Proposal Two – Ratification of Independent Registered Public Accounting Firm” of our definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011 is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is included in the consolidated financial statements and notes thereto.

(b) Exhibits:

3.1	—	Restated Declaration of Trust (filed as Exhibit 3.1 to WRI's Form 8-A dated January 19, 1999 and incorporated herein by reference).
3.2	—	Amendment of the Restated Declaration of Trust (filed as Exhibit 3.2 to WRI's Form 8-A dated January 19, 1999 and incorporated herein by reference).
3.3	—	Second Amendment of the Restated Declaration of Trust (filed as Exhibit 3.3 to WRI's Form 8-A dated January 19, 1999 and incorporated herein by reference).
3.4	—	Third Amendment of the Restated Declaration of Trust (filed as Exhibit 3.4 to WRI's Form 8-A dated January 19, 1999 and incorporated herein by reference).
3.5	—	Fourth Amendment of the Restated Declaration of Trust dated April 28, 1999 (filed as Exhibit 3.5 to WRI's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
3.6	—	Fifth Amendment of the Restated Declaration of Trust dated April 20, 2001 (filed as Exhibit 3.6 to WRI's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
3.7	—	Amended and Restated Bylaws of WRI (filed as Exhibit 99.2 to WRI's Form 8-A dated February 23, 1998 and incorporated herein by reference).
3.8	—	Amendment of Bylaws-Direct Registration System, Section 7.2(a) dated May 3, 2007 (filed as Exhibit 3.8 to WRI’s Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference).
3.9	—	Second Amended and Restated Bylaws of Weingarten Realty Investors (filed as Exhibit 3.1 to WRI’s Form 8-K on February 26, 2010 and incorporated herein by reference).

3.10 — Sixth Amendment of the Restated Declaration of Trust dated April 20, 2001 (filed as Exhibit 3.1 to WRI's Form 8-K dated May 6, 2010 and incorporated herein by reference).

4.1	—	Form of Indenture between Weingarten Realty Investors and The Bank of New York Mellon Trust Company, N.A. (successor in interest to JPMorgan Chase Bank, National Association, formerly and Texas Commerce Bank National Association) (filed as Exhibit 4(a) to WRI's Registration Statement on Form S-3 (No. 33-57659) dated February 10, 1995 and incorporated herein by reference).
4.2	—	Form of Indenture between Weingarten Realty Investors and The Bank of New York Mellon Trust Company, N.A. (successor in interest to JPMorgan Chase Bank, National Association, formerly and Texas Commerce Bank National Association) (filed as Exhibit 4(b) to WRI's Registration Statement on Form S-3 (No. 33-57659) and incorporated herein by reference).
4.3	—	Form of Fixed Rate Senior Medium Term Note (filed as Exhibit 4.19 to WRI’s Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference).
4.4	—	Form of Floating Rate Senior Medium Term Note (filed as Exhibit 4.20 to WRI’s Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference).
4.5	—	Form of Fixed Rate Subordinated Medium Term Note (filed as Exhibit 4.21 to WRI’s Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference).
4.6	—	Form of Floating Rate Subordinated Medium Term Note (filed as Exhibit 4.22 to WRI’s Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference).
4.7	—	Statement of Designation of 6.75% Series D Cumulative Redeemable Preferred Shares (filed as Exhibit 3.1 to WRI’s Form 8-A dated April 17, 2003 and incorporated herein by reference).
4.8	—	Statement of Designation of 6.95% Series E Cumulative Redeemable Preferred Shares (filed as Exhibit 3.1 to WRI’s Form 8-A dated July 8, 2004 and incorporated herein by reference).
4.9	—	Statement of Designation of 6.50% Series F Cumulative Redeemable Preferred Shares (filed as Exhibit 3.1 to WRI’s Form 8-A dated January 29, 2007 and incorporated herein by reference).
4.10	—	6.75% Series D Cumulative Redeemable Preferred Share Certificate (filed as Exhibit 4.2 to WRI’s Form 8-A dated April 17, 2003 and incorporated herein by reference).
4.11	—	6.95% Series E Cumulative Redeemable Preferred Share Certificate (filed as Exhibit 4.2 to WRI’s Form 8-A dated July 8, 2004 and incorporated herein by reference).
4.12	—	6.50% Series F Cumulative Redeemable Preferred Share Certificate (filed as Exhibit 4.2 to WRI’s Form 8-A dated January 29, 2007 and incorporated herein by reference).
4.13	—	Form of Receipt for Depositary Shares, each representing 1/30 of a share of 6.75% Series D Cumulative Redeemable Preferred Shares, par value $.03 per share (filed as Exhibit 4.3 to WRI’s Form 8-A dated April 17, 2003 and incorporated herein by reference).
4.14	—	Form of Receipt for Depositary Shares, each representing 1/100 of a share of 6.95% Series E Cumulative Redeemable Preferred Shares, par value $.03 per share (filed as Exhibit 4.3 to WRI’s Form 8-A dated July 8, 2004 and incorporated herein by reference).
4.15	—	Form of Receipt for Depositary Shares, each representing 1/100 of a share of 6.50% Series F Cumulative Redeemable Preferred Shares, par value $.03 per share (filed as Exhibit 4.3 to WRI’s Form 8-A dated January 29, 2007 and incorporated herein by reference).
4.16	—	Form of 7% Notes due 2011 (filed as Exhibit 4.17 to WRI’s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
4.17	—	Form of 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.2 to WRI’s Form 8-K on August 2, 2006 and incorporated herein by reference).
4.18	—	Form of 8.10% Note due 2019 (filed as Exhibit 4.1 to WRI’s Current Report on Form 8-K dated August 14, 2009 and incorporated herein by reference).
10.1†	—	The 1993 Incentive Share Plan of WRI (filed as Exhibit 4.1 to WRI’s Registration Statement on Form S-8 (No. 33-52473) and incorporated herein by reference).
10.2†	—	2001 Long Term Incentive Plan (filed as Exhibit 10.7 to WRI’s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
10.3†	—	

		Weingarten Realty Retirement Plan restated effective April 1, 2002 (filed as Exhibit 10.29 on WRI's Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
10.4†	—	First Amendment to the Weingarten Realty Retirement Plan, dated December 31, 2003 (filed as Exhibit 10.33 on WRI's Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
10.5†	—	First Amendment to the Weingarten Realty Pension Plan, dated August 1, 2005 (filed as Exhibit 10.27 on WRI's Form 10-Q for the quarter ended September 30, 2005 and incorporated herein by reference).

97

10.6†	—	Mandatory Distribution Amendment for the Weingarten Realty Retirement Plan dated August 1, 2005 (filed as Exhibit 10.28 on WRI's Form 10-Q for the quarter ended September 30, 2005 and incorporated herein by reference).
10.7†	—	Weingarten Realty Investors Supplemental Executive Retirement Plan amended and restated effective September 1, 2002 (filed as Exhibit 10.10 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.8†	—	First Amendment to the Weingarten Realty Investors Supplemental Executive Retirement Plan amended on November 3, 2003 (filed as Exhibit 10.11 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.9†	—	Second Amendment to the Weingarten Realty Investors Supplemental Executive Retirement Plan amended October 22, 2004 (filed as Exhibit 10.12 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.10†	—	Third Amendment to the Weingarten Realty Investors Supplemental Executive Retirement Plan amended October 22, 2004 (filed as Exhibit 10.13 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.11†	—	Weingarten Realty Investors Retirement Benefit Restoration Plan adopted effective September 1, 2002 (filed as Exhibit 10.14 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.12†	—	First Amendment to the Weingarten Realty Investors Retirement Benefit Restoration Plan amended on November 3, 2003 (filed as Exhibit 10.15 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.13†	—	Second Amendment to the Weingarten Realty Investors Retirement Benefit Restoration Plan amended October 22, 2004 (filed as Exhibit 10.16 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.14†	—	Third Amendment to the Weingarten Realty Pension Plan dated December 23, 2005 (filed as Exhibit 10.30 on WRI's Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
10.15†	—	Weingarten Realty Investors Deferred Compensation Plan amended and restated as a separate and independent plan effective September 1, 2002 (filed as Exhibit 10.17 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.16†	—	Supplement to the Weingarten Realty Investors Deferred Compensation Plan amended on April 25, 2003 (filed as Exhibit 10.18 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.17†	—	First Amendment to the Weingarten Realty Investors Deferred Compensation Plan amended on November 3, 2003 (filed as Exhibit 10.19 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.18†	—	Second Amendment to the Weingarten Realty Investors Deferred Compensation Plan, as amended, dated October 13, 2005 (filed as Exhibit 10.29 on WRI's Form 10-Q for the quarter ended September 30, 2005 and incorporated herein by reference).
10.19†	—	Trust Under the Weingarten Realty Investors Deferred Compensation Plan amended and restated effective October 21, 2003 (filed as Exhibit 10.21 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.20†	—	Fourth Amendment to the Weingarten Realty Investors Deferred Compensation Plan, dated December 23, 2005 (filed as Exhibit 10.31 on WRI's Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
10.21†	—	Trust Under the Weingarten Realty Investors Retirement Benefit Restoration Plan amended and restated effective October 21, 2003 (filed as Exhibit 10.22 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).

10.22†	—	Trust Under the Weingarten Realty Investors Supplemental Executive Retirement Plan amended and restated effective October 21, 2003 (filed as Exhibit 10.23 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).
10.23†	—	First Amendment to the Trust Under the Weingarten Realty Investors Deferred Compensation Plan, Supplemental Executive Retirement Plan, and Retirement Benefit Restoration Plan amended on March 16, 2004 (filed as Exhibit 10.24 on WRI's Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference).

98

10.24† —Third Amendment to the Weingarten Realty Investors Deferred Compensation Plan dated August 1, 2005 (filed as Exhibit 10.30 on WRI's Form 10-Q for the quarter ended September 30, 2005 and incorporated herein by reference).

10.25 —Amended and Restated Credit Agreement dated February 22, 2006 among Weingarten Realty Investors, the Lenders Party Thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.32 on WRI's Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).

10.26 —Amendment Agreement dated November 7, 2007 to the Amended and Restated Credit Agreement (filed as Exhibit 10.34 on WRI's Form 10-Q for the quarter ended September 30, 2007 and incorporated herein by reference).

10.27† —Fifth Amendment to the Weingarten Realty Investors Deferred Compensation Plan (filed as Exhibit 10.34 to WRI's Form 10-Q for quarter ended June 30, 2006 and incorporated herein by reference).

10.28† —Restatement of the Weingarten Realty Investors Supplemental Executive Retirement Plan dated August 4, 2006 (filed as Exhibit 10.35 to WRI's Form 10-Q for the quarter ended September 30, 2006 and incorporated herein by reference).

10.29† —Restatement of the Weingarten Realty Investors Deferred Compensation Plan dated August 4, 2006 (filed as Exhibit 10.36 to WRI's Form 10-Q for the quarter ended September 30, 2006 and incorporated herein by reference).

10.30† —Restatement of the Weingarten Realty Investors Retirement Benefit Restoration Plan dated August 4, 2006 (filed as Exhibit 10.37 to WRI's Form 10-Q for the quarter ended September 30, 2006 and incorporated herein by reference).

10.31† —Amendment No. 1 to the Weingarten Realty Investors Supplemental Executive Retirement Plan dated December 15, 2006 (filed as Exhibit 10.38 on WRI's Form 10-K for the year ended December 31, 2006 and incorporated herein by reference).

10.32† —Amendment No. 1 to the Weingarten Realty Investors Retirement Benefit Restoration Plan dated December 15, 2006 (filed as Exhibit 10.39 on WRI's Form 10-K for the year ended December 31, 2006 and incorporated herein by reference).

10.33† —Amendment No. 1 to the Weingarten Realty Investors Deferred Compensation Plan dated December 15, 2006 (filed as Exhibit 10.40 on WRI's Form 10-K for the year ended December 31, 2006 and incorporated herein by reference).

10.34† —Amendment No. 2 to the Weingarten Realty Investors Retirement Benefit Restoration Plan dated November 9, 2007 (filed as Exhibit 10.43 on WRI's Form 10-K for the year ended December 31, 2007 and incorporated herein by reference).

10.35† —Amendment No. 2 to the Weingarten Realty Investors Deferred Compensation Plan dated November 9, 2007 (filed as Exhibit 10.44 on WRI's Form 10-K for the year ended December 31, 2007 and incorporated herein by reference).

10.36† —Amendment No. 2 to the Weingarten Realty Investors Supplemental Executive Retirement Plan dated November 9, 2007 (filed as Exhibit 10.45 on WRI's Form 10-K for the year ended December 31, 2007 and incorporated herein by reference).

10.37† —Fifth Amendment to the Weingarten Realty Retirement Plan, dated August 1, 2008 (filed as Exhibit 10.48 on WRI's Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).

10.38† —Amendment No. 3 to the Weingarten Realty Investors Retirement Benefit Restoration Plan dated November 17, 2008 (filed as Exhibit 10.1 on WRI's Form 8-K on December 4, 2008 and incorporated herein by reference).

10.39† —Amendment No. 3 to the Weingarten Realty Investors Deferred Compensation Plan dated November 17, 2008 (filed as Exhibit 10.2 on

		WRI's Form 8-K on December 4, 2008 and incorporated herein by reference).
10.40†	—	Amendment No. 3 to the Weingarten Realty Investors Supplemental Executive Retirement Plan dated November 17, 2008 (filed as Exhibit 10.3 on WRI's Form 8-K on December 4, 2008 and incorporated herein by reference).
10.41†	—	Amendment No. 1 to the Weingarten Realty Investors 2001 Long Term Incentive Plan dated November 17, 2008 (filed as Exhibit 10.4 on WRI's Form 8-K on December 4, 2008 and incorporated herein by reference).
10.42†	—	Severance and Change to Control Agreement for Johnny Hendrix dated November 11, 1998 (filed as Exhibit 10.54 on WRI's Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).

Table of Contents

10.43†	—	Severance and Change to Control Agreement for Stephen C. Richter dated November 11, 1998 (filed as Exhibit 10.54 on WRI's Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
10.44†	—	Amendment No. 1 to Severance and Change to Control Agreement for Johnny Hendrix dated December 20, 2008 (filed as Exhibit 10.54 on WRI's Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
10.45†	—	Amendment No. 1 to Severance and Change to Control Agreement for Stephen Richter dated December 31, 2008 (filed as Exhibit 10.54 on WRI's Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
10.46	—	Promissory Note with Reliance Trust Company, Trustee of the Trust under the Weingarten Realty Investors Deferred Compensation Plan, Supplemental Executive Retirement Plan and Retirement Benefit Restoration Plan dated March 12, 2009 (filed as Exhibit 10.57 on WRI's Form 10-Q for the quarter ended March 31, 2009 and incorporated herein by reference).
10.47†	—	First Amendment to the Weingarten Realty Retirement Plan, amended and restated, dated December 2, 2009 (filed as Exhibit 10.51 on WRI's Annual Report on Form 10-K for the year ended December 31, 2009 and incorporated herein by reference).
10.48	—	Amended and Restated Credit Agreement dated February 11, 2010 among Weingarten Realty Investors, the Lenders Party Thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.1 on WRI's Form 8-K on February 16, 2010 and incorporated herein by reference).
10.49†	—	First Amendment to the Master Nonqualified Plan Trust Agreement dated March 12, 2009 (filed as Exhibit 10.53 on WRI's Annual Report on Form 10-K for the year ended December 31, 2009 and incorporated herein by reference).
10.50†	—	Second Amendment to the Master Nonqualified Plan Trust Agreement dated August 4, 2009 (filed as Exhibit 10.54 on WRI's Annual Report on Form 10-K for the year ended December 31, 2009 and incorporated herein by reference).
10.51†	—	Non-Qualified Plan Trust Agreement for Recordkept Plans dated September 1, 2009 (filed as Exhibit 10.55 on WRI's Annual Report on Form 10-K for the year ended December 31, 2009 and incorporated herein by reference).
10.52†	—	Amended and Restated 2010 Long-Term Incentive Plan (filed as Exhibit 99.1 to WRI's Form 8-K dated April 26, 2010 and incorporated herein by reference).
10.53†	—	Amendment No. 4 to the Weingarten Realty Investors Deferred Compensation Plan dated February 26, 2010 (filed as Exhibit 10.57 on WRI's Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference).
10.54†	—	Amendment No. 4 to the Weingarten Realty Investors Supplemental Executive Retirement Plan dated May 6, 2010 (filed as Exhibit 10.58 on WRI's Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference).
10.55†	—	First Amendment to Promissory Note with Reliance Trust Company, Trustee of the Trust under the Weingarten Realty Investors Deferred Compensation Plan, Supplemental Executive Retirement Plan and Retirement Benefit Restoration Plan dated March 11, 2010 (filed as Exhibit 10.59 on WRI's Form 10-Q for the quarter ended June 30, 2010 and incorporated herein by reference).
10.56†	—	2002 WRI Employee Share Purchase Plan dated May 6, 2003 (filed as Exhibit 10.60 on WRI's Form 10-Q for the quarter ended June 30, 2010 and incorporated herein by reference).
10.57†	—	Amended and Restated 2002 WRI Employee Share Purchase Plan dated May 10, 2010 (filed as Exhibit 10.61 on WRI's Form 10-Q for the quarter ended June 30, 2010 and incorporated herein by reference).
10.58	—	Fixed Rate Promissory Note with JPMorgan Chase Bank, National Association dated May 11, 2010 (filed as Exhibit 10.62 on WRI's Form 10-Q for the quarter ended June 30, 2010 and incorporated herein by reference).
10.59†*	—	Weingarten Realty Investors Executive Medical Reimbursement Plan and Summary Plan Description.

12.1*	—	Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Dividends.
14.1	—	Code of Conduct and Ethics for Employees, Officers and Trust Managers (http://www.weingarten.com).
14.2	—	Code of Ethical Conduct for Officers and Senior Financial Associates (http://www.weingarten.com).
21.1*	—	Listing of Subsidiaries of the Registrant.
23.1*	—	Consent of Deloitte & Touche LLP.
31.1*	—	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).
31.2*	—	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).

100

Table of Contents

32.1**	—	Certification pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).
32.2**	—	Certification pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).
101.INS**	—	XBRL Instance Document
101.SCH**	—	XBRL Taxonomy Extension Schema Document
101.CAL**	—	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	—	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	—	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE**	—	XBRL Taxonomy Extension Presentation Linkbase Document

---

* Filed with this report.

** Furnished with this report.

† Management contract or compensation plan or arrangement.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WEINGARTEN REALTY INVESTORS

By: /s/ Andrew M. Alexander
Andrew M. Alexander
Chief Executive Officer

Date: March 1, 2011

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each of Weingarten Realty Investors, a real estate investment trust organized under the Texas Business Organizations Code, and the undersigned trust managers and officers of Weingarten Realty Investors hereby constitute and appoint Andrew M. Alexander, Stanford Alexander, Stephen C. Richter and Joe D. Shafer or any one of them, its or his true and lawful attorney-in-fact and agent, for it or him and in its or his name, place and stead, in any and all capacities, with full power to act alone, to sign any and all amendments to this Report, and to file each such amendment to the Report, with all exhibits thereto, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises as fully to all intents and purposes as it or he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirement of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
By: /s/ Stanford Alexander Stanford Alexander	Chairman and Trust Manager	March 1, 2011
By: /s/ Andrew M. Alexander Andrew M. Alexander	Chief Executive Officer, President and Trust Manager	March 1, 2011
By: /s/ James W. Crownover James W. Crownover	Trust Manager	March 1, 2011
By: /s/ Robert J. Cruikshank Robert J. Cruikshank	Trust Manager	March 1, 2011
By: /s/ Melvin Dow	Trust Manager	March 1, 2011

	Melvin Dow		
By:	/s/ Stephen A. Lasher Stephen A. Lasher	Trust Manager	March 1, 2011
By:	/s/ Stephen C. Richter Stephen C. Richter	Executive Vice President and Chief Financial Officer	March 1, 2011

102

Table of Contents

By:	/s/ Douglas W. Schnitzer Douglas W. Schnitzer	Trust Manager	March 1, 2011
By:	/s/ Joe D. Shafer Joe D. Shafer	Senior Vice President/Chief Accounting Officer (Principal Accounting Officer)	March 1, 2011
By:	C. Park Shaper	Trust Manager	
By:	/s/ Marc J. Shapiro Marc J. Shapiro	Trust Manager	March 1, 2011

Table of Contents

Schedule II

WEINGARTEN REALTY INVESTORS
VALUATION AND QUALIFYING ACCOUNTS
December 31, 2010, 2009, and 2008

(Amounts in thousands)

Description	Balance at beginning of period	Charged to costs and expenses	Deductions (A)	Balance at end of period
2010				
Allowance for Doubtful Accounts	$10,380	$6,105	$6,348	$10,137
Tax Valuation Allowance	$9,605	$8,570	$2,357	$15,818
2009				
Allowance for Doubtful Accounts	$12,412	$8,553	$10,585	$10,380
Tax Valuation Allowance		$9,605		$9,605
2008				
Allowance for Doubtful Accounts	$8,721	$11,441	$7,750	$12,412

Note A - Write-offs of accounts receivable previously reserved.

Table of Contents

Schedule III

WEINGARTEN REALTY INVESTORS
REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2010

(Amounts in thousands)

	Initial Cost to Company			Gross Amounts at Close of Period						
Description	Land	Building and Improvements	Cost Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total (B)	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation	Encumbrances (A)	Date of Acquisition / Construction
Shopping Center:										
10-Federal Shopping Center	$1,791	$7,470	$351	$1,791	$7,821	$9,612	$(5,651)	$3,961	$(8,153)	03/20/2008
580 Market Place	3,892	15,570	1,704	3,889	17,277	21,166	(4,116)	17,050	-	04/02/2001
Academy Place	1,537	6,168	1,176	1,532	7,349	8,881	(2,847)	6,034	-	10/22/1997
Alabama Shepherd Shopping Ctr	637	2,026	5,888	1,062	7,489	8,551	(3,183)	5,368	-	04/30/2004
Angelina Village	200	1,777	9,912	1,127	10,762	11,889	(5,687)	6,202	-	04/30/1991
Arcade Square	1,497	5,986	1,132	1,495	7,120	8,615	(1,841)	6,774	-	04/02/2001
Argyle Village Shopping Center	4,524	18,103	1,619	4,526	19,720	24,246	(4,922)	19,324	-	11/30/2001
Arrowhead Festival S/C	1,294	154	2,874	1,366	2,956	4,322	(1,089)	3,233	-	12/31/2000
Avent Ferry Shopping Center	1,952	7,814	1,062	1,952	8,876	10,828	(2,379)	8,449	(747)	04/04/2002
	2,988	12,039	2,227	3,017	14,237	17,254	(4,338)	12,916	-	10/01/1999

Ballwin Plaza										
Bartlett Towne Center	3,479	14,210	908	3,443	15,154	18,597	(4,179)	14,418	(5,231)	05/15/2001
Bashas Valley Plaza	1,414	5,818	3,855	1,422	9,665	11,087	(2,950)	8,137	-	12/31/1997
Bayshore Plaza	728	1,452	1,110	728	2,562	3,290	(2,009)	1,281	-	08/21/1981
Bell Plaza	1,322	7,151	150	1,322	7,301	8,623	(2,796)	5,827	(7,503)	03/20/2008
Bellaire Blvd Shopping Center	124	37	-	124	37	161	(37)	124	(1,984)	11/13/2008
Best in the West	13,191	77,159	3,528	13,194	80,684	93,878	(11,953)	81,925	(34,984)	04/28/2005
Boca Lyons Plaza	3,676	14,706	529	3,651	15,260	18,911	(3,665)	15,246	-	08/17/2001
Boswell Towne Center	1,488	-	1,775	615	2,648	3,263	(1,202)	2,061	-	12/31/2003
Boulevard Market Place	340	1,430	465	340	1,895	2,235	(1,043)	1,192	-	09/01/1990
Braeswood Square Shopping Ctr.	-	1,421	1,162	-	2,583	2,583	(2,133)	450	-	05/28/1969
Broadway & Ellsworth	152	-	1,149	356	945	1,301	(395)	906	-	12/31/2002
Broadway Marketplace	898	3,637	859	906	4,488	5,394	(2,108)	3,286	-	12/16/1993
Broadway Shopping Center	234	3,166	232	235	3,397	3,632	(2,317)	1,315	(2,942)	03/20/2008
Brookwood Marketplace	7,050	15,134	6,839	7,511	21,512	29,023	(2,186)	26,837	(19,225)	08/22/2006
Brookwood Square Shopping Ctr	4,008	19,753	986	4,008	20,739	24,747	(3,823)	20,924	-	12/16/2003
Brownsville Commons	1,333	5,536	14	1,333	5,550	6,883	(658)	6,225	-	05/22/2006
Buena Vista Marketplace	1,958	7,832	609	1,956	8,443	10,399	(2,246)	8,153	-	04/02/2001
Bull City Market	930	6,651	44	930	6,695	7,625	(929)	6,696	-	06/10/2005
Burbank Station	20,366	28,832	669	20,378	29,489	49,867	(2,550)	47,317	-	07/03/2007
Calder Shopping Center	134	278	367	134	645	779	(573)	206	-	03/31/1965

Camelback Village Square	-	8,720	525	-	9,245	9,245	(3,883)	5,362	-	09/30/1994
Camp Creek Mktpl II	6,169	32,036	1,240	4,697	34,748	39,445	(3,888)	35,557	(21,977)	08/22/2006
Capital Square	1,852	7,406	1,086	1,852	8,492	10,344	(2,123)	8,221	-	04/04/2002
Cedar Bayou Shopping Center	63	307	79	63	386	449	(360)	89	-	09/20/1977
Centerwood Plaza	915	3,659	1,911	914	5,571	6,485	(1,185)	5,300	-	04/02/2001
Central Plaza	1,710	6,900	2,349	1,710	9,249	10,959	(3,625)	7,334	(9,443)	03/03/1998
Centre at Post Oak	13,731	115	22,901	17,874	18,873	36,747	(10,738)	26,009	-	12/31/1996
Champions Village	7,205	36,579	23	7,205	36,602	43,807	(12,431)	31,376	(33,391)	11/13/2008
Charleston Commons SC	23,230	36,877	1,295	23,210	38,192	61,402	(4,020)	57,382	(30,452)	12/20/2006
Cherokee Plaza	22,219	9,718	7	22,219	9,725	31,944	(1,144)	30,800	(15,071)	11/13/2008
Chino Hills Marketplace	7,218	28,872	9,410	7,234	38,266	45,500	(9,898)	35,602	(22,569)	08/20/2002
College Park Shopping Center	2,201	8,845	5,028	2,641	13,433	16,074	(6,781)	9,293	(11,004)	11/16/1998
Colonial Landing	-	16,390	12,097	-	28,487	28,487	(4,995)	23,492	-	09/30/2008
Colonial Plaza	10,806	43,234	9,656	10,813	52,883	63,696	(13,361)	50,335	-	02/21/2001

Schedule III
(Continued)

Description	Initial Cost to Company: Land	Initial Cost to Company: Building and Improvements	Cost Capitalized Subsequent to Acquisition	Gross Amounts at Close of Period: Land	Gross Amounts at Close of Period: Building and Improvements	Total (B)	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation	Encumbrances (C)	Date of Acquisition / Construction
Commons at Dexter Lake I	$2,923	$12,007	$25	$2,923	$12,032	$14,955	$(3,045)	$11,910	$(9,743)	11/13/2008
Commons at Dexter Lake II	2,023	6,940	67	2,023	7,007	9,030	(927)	8,103	(3,591)	11/13/2008
Coronado Shopping Center	246	1,009	650	246	1,659	1,905	(1,063)	842	-	01/03/1992
Countryside Centre	13,908	26,387	633	13,943	26,985	40,928	(2,402)	38,526	(26,166)	07/06/2007
Countryside Centre-Albertson's	1,616	3,432	-	1,616	3,432	5,048	(300)	4,748	-	07/06/2007
Creekside Center	1,732	6,929	1,317	1,730	8,248	9,978	(2,081)	7,897	(8,110)	04/02/2001
Crossroads Shopping Center	-	2,083	1,428	-	3,511	3,511	(3,256)	255	-	05/11/1972
Cullen Place	-	-	264	-	264	264	(182)	82	-	02/17/1966
Cullen Plaza Shopping Center	106	2,841	272	106	3,113	3,219	(2,502)	717	(6,749)	03/20/2008
Custer Park Shopping Center	503	2,005	8,199	2,017	8,690	10,707	(3,804)	6,903	-	03/31/2000
Cypress Pointe	3,468	8,700	1,279	3,468	9,979	13,447	(5,095)	8,352	-	04/04/2002
Cypress Station Square	3,736	8,374	630	2,389	10,351	12,740	(8,476)	4,264	-	12/06/1972
Dallas Commons Shopping Center	1,582	4,969	38	1,582	5,007	6,589	(554)	6,035	-	09/14/2006
Danville Plaza Shopping Center	-	3,360	1,800	-	5,160	5,160	(4,837)	323	-	09/30/1960
Desert Village Shopping Center	3,362	14,969	6	3,362	14,975	18,337	(64)	18,273	(10,970)	10/28/2010
Discovery Plaza	2,193	8,772	334	2,191	9,108	11,299	(2,274)	9,025	-	04/02/2001
Eastdale Shopping Center	1,423	5,809	1,728	1,417	7,543	8,960	(2,949)	6,011	-	12/31/1997
Eastern Horizon	10,282	16	(473)	1,569	8,256	9,825	(3,608)	6,217	-	12/31/2002
Eastpark Shopping Center	634	3,392	(3,979)	47	-	47	-	47	-	12/31/1970
Edgebrook Shopping Center	183	1,914	119	183	2,033	2,216	(1,656)	560	(6,572)	03/20/2008
Edgewater Marketplace	4,821	11,225	11	4,821	11,236	16,057	(25)	16,032	(17,600)	11/19/2010

El Camino Shopping Center	4,431	20,557	4,013	4,429	24,572	29,001	(3,837)	25,164	(11,407)	05/21/2004
Embassy Lakes Shopping Center	2,803	11,268	242	2,803	11,510	14,313	(2,376)	11,937	-	12/18/2002
Entrada de Oro Plaza SC	6,041	10,511	1,231	6,115	11,668	17,783	(1,209)	16,574	-	01/22/2007
Epic Village St. Augustine	283	1,171	4,023	314	5,163	5,477	(412)	5,065	-	09/30/2009
Falls Pointe Shopping Center	3,535	14,289	123	3,522	14,425	17,947	(3,103)	14,844	(10,610)	12/17/2002
Festival on Jefferson Court	5,041	13,983	2,339	5,022	16,341	21,363	(2,755)	18,608	-	12/22/2004
Fiesta Center	-	4,730	1,906	-	6,636	6,636	(3,366)	3,270	-	12/31/1990
Fiesta Market Place	137	429	8	137	437	574	(429)	145	(1,718)	03/20/2008
Fiesta Trails	8,825	32,790	2,204	8,825	34,994	43,819	(7,034)	36,785	(23,119)	09/30/2003
Flamingo Pines Shopping Center	10,403	35,014	(18,514)	5,335	21,568	26,903	(3,259)	23,644	-	01/28/2005
Food King Place	140	212	481	115	718	833	(450)	383	-	06/01/1967
Fountain Plaza	1,319	5,276	632	1,095	6,132	7,227	(2,722)	4,505	-	03/10/1994
Francisco Center	1,999	7,997	3,913	2,403	11,506	13,909	(5,901)	8,008	(9,996)	11/16/1998
Freedom Centre	2,929	15,302	4,774	6,944	16,061	23,005	(2,058)	20,947	(1,782)	06/23/2006
Galleria Shopping Center	10,795	10,339	8,181	10,805	18,510	29,315	(1,897)	27,418	(19,814)	12/11/2006
Galveston Place	2,713	5,522	5,804	3,279	10,760	14,039	(7,365)	6,674	(1,916)	11/30/1983
Gateway Plaza	4,812	19,249	2,053	4,808	21,306	26,114	(5,267)	20,847	(23,512)	04/02/2001
Gateway Station	1,622	3	8,860	1,921	8,564	10,485	(821)	9,664	-	09/30/2009
Gillham Circle	36	201	236	36	437	473	(358)	115	-	05/04/1948
Glenbrook Square Shopping Ctr	632	3,576	54	632	3,630	4,262	(1,672)	2,590	(5,698)	03/20/2008
Grayson Commons	3,180	9,023	81	3,163	9,121	12,284	(1,417)	10,867	(6,562)	11/09/2004
Greenhouse Marketplace	992	4,901	160	992	5,061	6,053	(958)	5,095	-	01/28/2004
Greenhouse Marketplace	3,615	17,870	1,006	3,693	18,798	22,491	(3,453)	19,038	-	01/28/2004
Griggs Road Shopping Center	257	2,303	84	257	2,387	2,644	(2,151)	493	(4,378)	03/20/2008
Hallmark Town Center	1,368	5,472	914	1,367	6,387	7,754	(1,730)	6,024	-	04/02/2001

Table of Contents

Schedule III
(Continued)

	Initial Cost to Company			Gross Amounts at Close of Period						
Description	Land	Building and Improvements	Cost Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total (B)	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation	Encumbrances (A)	Date of Acquisition / Construction
Harrisburg Plaza	$1,278	$3,924	$681	$1,278	$4,605	$5,883	$(3,745)	$2,138	$(11,742)	03/20/2008
Harrison Pointe Center	8,230	13,493	1,091	8,210	14,604	22,814	(2,882)	19,932	-	01/30/2004
Heights Plaza Shopping Center	58	699	1,861	612	2,006	2,618	(1,122)	1,496	-	06/30/1995
Heritage Station	6,253	3,989	(290)	6,139	3,813	9,952	(727)	9,225	(5,893)	12/15/2006
High House Crossing	2,576	10,305	401	2,576	10,706	13,282	(2,450)	10,832	-	04/04/2002
Highland Square	-	-	1,887	-	1,887	1,887	(287)	1,600	-	10/06/1959
Hope Valley Commons	2,439	8,487	95	2,439	8,582	11,021	(76)	10,945	-	08/31/2010
Horne Street Market	4,239	37	7,350	4,446	7,180	11,626	(652)	10,974	-	06/30/2009
Humblewood Shopping Center	2,215	4,724	2,894	1,166	8,667	9,833	(7,825)	2,008	(13,333)	03/09/1977
I45/Telephone Rd.	678	11,182	593	678	11,775	12,453	(4,344)	8,109	(14,380)	03/20/2008
Independence Plaza	2,006	8,318	3,539	1,995	11,868	13,863	(4,001)	9,862	-	12/31/1997
Johnston Road Plaza	3,671	11,829	149	3,673	11,976	15,649	(1,673)	13,976	(9,591)	06/10/2005
Killeen Marketplace	2,262	9,048	443	2,275	9,478	11,753	(2,465)	9,288	-	12/21/2000
Kohl's Shopping Center	2,298	9,193	550	2,298	9,743	12,041	(2,523)	9,518	(5,600)	04/24/2000
Kroger/Fondren Square	1,383	2,810	728	1,387	3,534	4,921	(3,167)	1,754	-	09/30/1985
Lake Pointe Market	1,404	-	4,134	1,960	3,578	5,538	(1,862)	3,676	-	12/31/2004
	1,232	4,928	834	1,235	5,759	6,994	(1,282)	5,712	-	06/28/2002

Lake Washington Square										
Lakeside Marketplace	6,064	22,989	2,466	6,150	25,369	31,519	(2,890)	28,629	(18,159)	08/22/2006
Largo Mall	10,817	40,906	1,928	10,810	42,841	53,651	(7,505)	46,146	-	03/01/2004
Laveen Village Marketplace	1,190	-	4,705	1,006	4,889	5,895	(1,775)	4,120	-	08/15/2003
Lawndale Shopping Center	82	927	447	82	1,374	1,456	(997)	459	(4,098)	03/20/2008
League City Plaza	1,918	7,592	800	1,918	8,392	10,310	(3,564)	6,746	(11,367)	03/20/2008
Leesville Towne Centre	7,183	17,162	787	7,183	17,949	25,132	(3,126)	22,006	(9,718)	01/30/2004
Little Brier Creek	942	3,393	339	1,433	3,241	4,674	(452)	4,222	-	07/10/2006
Little York Plaza Shopping Ctr	342	5,170	1,078	342	6,248	6,590	(4,444)	2,146	(4,956)	03/20/2008
Lone Star Pavilion	2,186	10,341	151	2,221	10,457	12,678	(2,934)	9,744	-	04/30/2004
Lyons Avenue Shopping Center	249	1,183	34	249	1,217	1,466	(1,015)	451	(2,981)	03/20/2008
Madera Village Shopping Center	3,788	13,507	900	3,816	14,379	18,195	(1,484)	16,711	(9,495)	03/13/2007
Manhattan Plaza	4,645	-	18,143	4,009	18,779	22,788	(6,665)	16,123	-	12/31/2004
Market at Southside	953	3,813	912	958	4,720	5,678	(1,519)	4,159	-	08/28/2000
Market at Town Center-Sgrlnd	8,600	26,627	18,148	8,600	44,775	53,375	(15,146)	38,229	-	12/23/1996
Market at Westchase SC	1,199	5,821	2,493	1,415	8,098	9,513	(4,842)	4,671	-	02/15/1991
Market Street Shopping Center	424	1,271	1,327	424	2,598	3,022	(1,545)	1,477	-	04/26/1978
Marketplace at Seminole Towne	15,067	53,743	2,914	21,734	49,990	71,724	(5,355)	66,369	(43,192)	08/21/2006
Markham Square Shopping Center	1,236	3,075	2,101	1,139	5,273	6,412	(4,314)	2,098	-	06/18/1974
Markham West Shopping Center	2,694	10,777	3,887	2,696	14,662	17,358	(5,223)	12,135	-	09/18/1998
Marshall's Plaza	1,802	12,315	496	1,804	12,809	14,613	(1,904)	12,709	(6,344)	06/01/2005

Mendenhall Commons	2,655	9,165	359	2,655	9,524	12,179	(1,137)	11,042	(5,797)	11/13/2008
Menifee Town Center	1,827	7,307	4,447	1,824	11,757	13,581	(2,717)	10,864	-	04/02/2001
Millpond Center	3,155	9,706	1,458	3,161	11,158	14,319	(1,768)	12,551	-	07/28/2005
Mineral Springs Village	794	3,175	209	794	3,384	4,178	(839)	3,339	-	04/04/2002
Mission Center	1,237	4,949	6,141	2,120	10,207	12,327	(4,267)	8,060	-	12/18/1995
Mktplace at Seminole Outparcel	1,000	-	51	1,046	5	1,051	-	1,051	-	08/21/2006
Mohave Crossroads	3,953	63	35,505	3,128	36,393	39,521	(4,918)	34,603	-	12/31/2009
Monte Vista Village Center	1,485	58	4,900	755	5,688	6,443	(2,372)	4,071	-	12/31/2004
Montgomery Plaza Shopping Ctr.	2,500	9,961	9,765	2,884	19,342	22,226	(8,981)	13,245	-	06/09/1993

107

Table of Contents

Schedule III
(Continued)

Description	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amounts at Close of Period							
	Land	Building and Improvements		Land	Building and Improvements	Total (B)	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation	Encumbrances (A)	Date of Acquisition Constructio
Moore Plaza	$6,445	$26,140	$8,994	$6,487	$35,092	$41,579	$(12,271)	$29,308	$-	03/20/199
North Creek Plaza	6,915	25,625	1,748	6,954	27,334	34,288	(4,464)	29,824	-	08/19/200
North Main Place	68	53	522	68	575	643	(323)	320	-	06/29/197
North Oaks Shopping Center	3,644	22,040	2,875	3,644	24,915	28,559	(17,213)	11,346	(34,874)	03/20/200
North Towne Plaza	960	3,928	6,003	879	10,012	10,891	(6,016)	4,875	(10,442)	02/15/199
North Triangle Shops	-	431	261	15	677	692	(418)	274	-	01/15/197
Northbrook Shopping Center	1,629	4,489	3,011	1,713	7,416	9,129	(6,481)	2,648	(9,530)	11/06/196
Northwoods Shopping Center	1,768	7,071	190	1,772	7,257	9,029	(1,662)	7,367	-	04/04/200
Oak Forest Shopping Center	760	2,726	4,805	748	7,543	8,291	(4,484)	3,807	-	12/30/197
Oak Grove Market Center	5,758	10,508	(172)	5,861	10,233	16,094	(1,010)	15,084	(7,358)	06/15/200
Oak Park Village	678	3,332	25	678	3,357	4,035	(1,500)	2,535	(4,544)	11/13/200
Oracle Crossings	4,614	18,274	26,698	10,582	39,004	49,586	(3,223)	46,363	-	01/22/200
Oracle Wetmore Shopping Center	24,686	26,878	3,839	13,813	41,590	55,403	(3,619)	51,784	-	01/22/200
Orchard Green Shopping Center	777	1,477	1,968	786	3,436	4,222	(2,181)	2,041	-	10/11/197
Orleans Station	165	-	(9)	93	63	156	(37)	119	-	06/29/197
Overton Park Plaza	9,266	37,789	2,693	9,264	40,484	49,748	(7,169)	42,579	(21,000)	10/24/200
Palmer Plaza	765	3,081	2,374	827	5,393	6,220	(3,325)	2,895	-	07/31/198
Palmilla Center	1,258	-	12,817	3,280	10,795	14,075	(5,366)	8,709	-	12/31/200
Palms of Carrollwood	3,995	16,390	-	3,995	16,390	20,385	-	20,385	-	12/23/201
Paradise Marketplace	2,153	8,612	(2,138)	1,298	7,329	8,627	(3,126)	5,501	-	07/20/199
Park Plaza Shopping Center	257	7,815	1,092	314	8,850	9,164	(8,150)	1,014	-	01/24/197
Parkway Pointe	1,252	5,010	605	1,260	5,607	6,867	(1,532)	5,335	(1,088)	06/29/200
Parliament Square II	2	10	1,175	3	1,184	1,187	(347)	840	-	06/24/200
Parliament Square Shopping Ctr	443	1,959	1,067	443	3,026	3,469	(1,850)	1,619	-	03/18/199

Pavilions at San Mateo	3,272	26,215	2,020	5,181	26,326	31,507	(6,783)	24,724	-	04/30/200
Perimeter Village	29,701	42,337	(1,577)	34,404	36,057	70,461	(3,479)	66,982	(27,345)	07/03/200
Phelan West Shopping Center	401	-	1,216	414	1,203	1,617	(589)	1,028	-	06/03/199
Phillips Crossing	-	1	27,353	872	26,482	27,354	(3,025)	24,329	-	09/30/200
Phillips Landing	1,521	1,625	10,331	1,819	11,658	13,477	(1,720)	11,757	-	09/30/200
Pinecrest Plaza Shopping Ctr	5,837	19,166	962	5,837	20,128	25,965	(3,119)	22,846	(10,562)	04/06/200
Pitman Corners	2,686	10,745	1,986	2,693	12,724	15,417	(3,320)	12,097	-	04/08/200
Plantation Centre	3,463	14,821	382	3,471	15,195	18,666	(2,468)	16,198	(3,160)	08/19/200
Prien Lake Plaza	63	960	159	41	1,141	1,182	(176)	1,006	-	07/26/200
Promenade Shopping Center	1,058	4,248	652	941	5,017	5,958	(1,387)	4,571	(3,580)	03/18/200
Prospector's Plaza	3,746	14,985	962	3,716	15,977	19,693	(4,001)	15,692	-	04/02/200
Publix at Laguna Isles	2,913	9,554	107	2,914	9,660	12,574	(1,788)	10,786	(7,530)	10/31/200
Pueblo Anozira Shopping Center	2,750	11,000	4,136	2,768	15,118	17,886	(6,386)	11,500	(11,573)	06/16/199
Rainbow Plaza	6,059	24,234	1,485	6,081	25,697	31,778	(8,994)	22,784	-	10/22/199
Rainbow Plaza I	3,883	15,540	531	3,896	16,058	19,954	(4,200)	15,754	-	12/28/200
Raintree Ranch Center	11,442	595	16,827	10,983	17,881	28,864	(3,524)	25,340	-	03/31/200
Rancho Encanto	957	3,829	4,848	962	8,672	9,634	(2,543)	7,091	-	04/28/199
Rancho San Marcos Village	3,533	14,138	3,754	3,887	17,538	21,425	(3,799)	17,626	-	02/26/200
Rancho Towne & Country	1,161	4,647	364	1,166	5,006	6,172	(2,061)	4,111	-	10/16/199
Randalls Center/Kings Crossing	3,570	8,147	91	3,570	8,238	11,808	(4,329)	7,479	(12,058)	11/13/200
Randall's/Norchester Village	1,852	4,510	1,416	1,904	5,874	7,778	(4,090)	3,688	-	09/30/199
Ravenstone Commons	2,616	7,986	(174)	2,580	7,848	10,428	(1,157)	9,271	(5,832)	03/22/200

108

Table of Contents

Schedule III
(Continued)

Description	Initial Cost to Company: Land	Initial Cost to Company: Building and Improvements	Cost Capitalized Subsequent to Acquisition	Gross Amounts at Close of Period: Land	Gross Amounts at Close of Period: Building and Improvements	Total (B)	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation	Encumbrances (A)	Date of Acquisition / Construction
Red Mountain Gateway	$2,166	$89	$9,399	$2,737	$8,917	$11,654	$(3,379)	$8,275	$-	12/31/2003
Regency Centre	3,791	15,390	839	2,180	17,840	20,020	(2,214)	17,806	-	07/28/2006
Regency Panera Tract	1,825	3,126	65	1,400	3,616	5,016	(399)	4,617	-	07/28/2006
Reynolds Crossing	4,276	9,186	71	4,276	9,257	13,533	(1,038)	12,495	-	09/14/2006
Richmond Square	1,993	953	1,776	2,966	1,756	4,722	(1,029)	3,693	-	12/31/1996
River Oaks Shopping Center	1,354	1,946	378	1,363	2,315	3,678	(1,924)	1,754	-	12/04/1992
River Oaks Shopping Center	3,534	17,741	31,476	4,207	48,544	52,751	(16,077)	36,674	-	12/04/1992
Rockwall Market Center	5,344	22,700	1,282	5,341	23,985	29,326	(5,959)	23,367	-	04/30/2004
Rose-Rich Shopping Center	502	2,738	2,851	486	5,605	6,091	(4,956)	1,135	-	03/01/1982
Roswell Corners	5,835	20,465	928	5,835	21,393	27,228	(3,771)	23,457	(9,534)	06/24/2004
Roswell Corners	301	982	-	301	982	1,283	(167)	1,116	-	06/24/2004
San Marcos Plaza	1,360	5,439	242	1,358	5,683	7,041	(1,449)	5,592	-	04/02/2001
Sandy Plains Exchange	2,468	7,549	247	2,469	7,795	10,264	(1,514)	8,750	(5,705)	10/17/2003
Scottsdale Horizon	-	3,241	268	1	3,508	3,509	(322)	3,187	-	01/22/2007
Shasta Crossroads	2,844	11,377	624	2,842	12,003	14,845	(2,940)	11,905	-	04/02/2001
	1,470	5,881	1,827	1,247	7,931	9,178	(3,226)	5,952	-	04/19/1996

Shawnee Village S/C										
Sheldon Forest Shopping Center	374	635	330	354	985	1,339	(777)	562	-	05/14/1970
Sheldon Forest Shopping Center	629	1,955	851	629	2,806	3,435	(2,622)	813	-	05/14/1970
Shoppes at Bears Path	3,252	5,503	753	3,290	6,218	9,508	(633)	8,875	(3,265)	03/13/2007
Shoppes of Parkland	5,413	16,726	935	9,506	13,568	23,074	(1,714)	21,360	(15,183)	05/31/2006
Shoppes of South Semoran	4,283	9,785	109	5,508	8,669	14,177	(797)	13,380	(9,563)	08/31/2007
Shops at Kirby Drive	1,201	945	185	1,202	1,129	2,331	(79)	2,252	-	05/27/2008
Shops at Three Corners	6,215	9,303	5,349	6,224	14,643	20,867	(7,708)	13,159	-	12/31/1989
Silver Creek Plaza	3,231	12,924	2,914	3,228	15,841	19,069	(4,317)	14,752	-	04/02/2001
Six Forks Shopping Center	6,678	26,759	3,260	6,728	29,969	36,697	(7,224)	29,473	-	04/04/2002
South Semoran - Pad	1,056	-	21	1,077	-	1,077	-	1,077	-	09/06/2007
Southampton Center	4,337	17,349	1,921	4,333	19,274	23,607	(4,728)	18,879	(21,102)	04/02/2001
Southgate Shopping Center	571	3,402	5,208	852	8,329	9,181	(6,381)	2,800	-	03/26/1958
Southgate Shopping Center	232	8,389	330	232	8,719	8,951	(5,061)	3,890	(7,668)	03/20/2008
Spring Plaza Shopping Center	863	2,288	502	863	2,790	3,653	(2,176)	1,477	(3,114)	03/20/2008
Squaw Peak Plaza	816	3,266	1,201	818	4,465	5,283	(1,669)	3,614	-	12/20/1994
Steele Creek Crossing	310	11,774	3,245	3,281	12,048	15,329	(1,840)	13,489	(7,467)	06/10/2005
Stella Link Shopping Center	227	423	1,501	294	1,857	2,151	(1,550)	601	-	07/10/1970
Stella Link Shopping Center	2,602	1,418	(101)	2,602	1,317	3,919	(1,226)	2,693	-	08/21/2007

Stonehenge Market	4,740	19,001	1,130	4,740	20,131	24,871	(4,913)	19,958	(6,407)	04/04/2002
Stony Point Plaza	3,489	13,957	1,504	3,453	15,497	18,950	(3,783)	15,167	-	04/02/2001
Studewood Shopping Center	261	552	-	261	552	813	(552)	261	-	05/25/1984
Summer Center	2,379	8,343	3,780	2,396	12,106	14,502	(3,411)	11,091	-	05/15/2001
Summerhill Plaza	1,945	7,781	1,755	1,943	9,538	11,481	(2,809)	8,672	-	04/02/2001
Sunset 19 Shopping Center	5,519	22,076	1,190	5,547	23,238	28,785	(5,285)	23,500	-	10/29/2001
Sunset Shopping Center	1,121	4,484	1,170	1,120	5,655	6,775	(1,581)	5,194	-	04/02/2001
Tates Creek Centre	4,802	25,366	315	5,766	24,717	30,483	(4,433)	26,050	-	03/01/2004
Taylorsville Town Center	2,179	9,718	652	2,180	10,369	12,549	(2,062)	10,487	-	12/19/2003
Texas City Plaza	143	117	(115)	143	2	145	-	145	-	05/04/1948
The Shoppes at Parkwood Ranch	4,369	52	9,705	2,347	11,779	14,126	(1,475)	12,651	-	12/31/2009
The Village Arcade	-	6,657	600	-	7,257	7,257	(4,463)	2,794	-	12/31/1992

Table of Contents

Schedule III
(Continued)

Description	Initial Cost to Company: Land	Initial Cost to Company: Building and Improvements	Cost Capitalized Subsequent to Acquisition	Gross Amounts at Close of Period: Land	Gross Amounts at Close of Period: Building and Improvements	Total (B)	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation	Encumbrance
Thompson Bridge Commons	$3,650	$9,264	$4,185	$3,541	$13,558	$17,099	$(1,793)	$15,306	$(6,142
Thousand Oaks Shopping Center	2,973	13,142	71	2,973	13,213	16,186	(2,760)	13,426	(15,409
TJ Maxx Plaza	3,400	19,283	1,286	3,430	20,539	23,969	(3,637)	20,332	-
Town & Country Shopping Center	-	3,891	4,889	-	8,780	8,780	(4,482)	4,298	-
Town and Country - Hammond, LA	1,030	7,404	945	1,029	8,350	9,379	(4,175)	5,204	-
Tropicana Beltway Center	13,947	42,186	101	13,949	42,285	56,234	(7,170)	49,064	(33,943
Tropicana Marketplace	2,118	8,477	(2,063)	1,266	7,266	8,532	(3,102)	5,430	-
Tyler Shopping Center	5	21	3,663	300	3,389	3,689	(1,933)	1,756	-
Uintah Gardens	2,209	13,051	2,169	2,205	15,224	17,429	(2,378)	15,051	-
University Palms Shopping Ctr	2,765	10,181	136	2,765	10,317	13,082	(1,959)	11,123	(8,116
University Place	500	85	789	500	874	1,374	(142)	1,232	-
Valley Shopping Center	4,293	13,736	690	8,170	10,549	18,719	(1,308)	17,411	-
Valley View Shopping	1,006	3,980	2,373	1,006	6,353	7,359	(2,614)	4,745	-

Center									
Venice Pines Shopping Center	1,432	5,730	(52)	1,077	6,033	7,110	(1,565)	5,545	-
Village Arcade II Phase III	-	16	15,407	-	15,423	15,423	(7,721)	7,702	-
Village Arcade-Phase II	-	787	244	-	1,031	1,031	(591)	440	-
Vizcaya Square Shopping Center	3,044	12,226	252	3,044	12,478	15,522	(2,601)	12,921	-
West Jordan Town Center	4,306	17,776	1,726	4,308	19,500	23,808	(3,477)	20,331	(13,700
Westchase Shopping Center	3,085	7,920	6,216	3,189	14,032	17,221	(11,270)	5,951	(10,384
Westgate Shopping Center	245	1,425	409	245	1,834	2,079	(1,630)	449	-
Westhill Village Shopping Ctr.	408	3,002	4,482	437	7,455	7,892	(4,829)	3,063	-
Westland Fair	6,715	10,506	438	4,357	13,302	17,659	(4,353)	13,306	-
Westland Fair	20,847	-	(10,578)	7,863	2,406	10,269	(1,375)	8,894	-
Westland Terrace Plaza	1,649	6,768	2,597	2,322	8,692	11,014	(1,323)	9,691	-
Westminster Center	11,215	44,871	5,460	11,204	50,342	61,546	(12,859)	48,687	(45,580
Westminster Plaza	1,759	7,036	445	1,759	7,481	9,240	(1,633)	7,607	(6,646
Westwood Village Shopping Ctr.	-	6,968	2,522	-	9,490	9,490	(7,172)	2,318	-
Whitehall Commons	2,529	6,901	177	2,522	7,085	9,607	(988)	8,619	(4,597
Winter Park Corners	2,159	8,636	389	2,159	9,025	11,184	(2,201)	8,983	-
Wyoming Mall	1,919	7,678	2,481	598	11,480	12,078	(1,726)	10,352	-
	827,564	2,451,670	636,385	828,164	3,087,455	3,915,619	(833,223)	3,082,396	(1,015,33
Industrial:									
1625 Diplomat Drive	506	3,107	122	508	3,227	3,735	(426)	3,309	-
1801 Massaro	865	3,461	(55)	671	3,600	4,271	(698)	3,573	-
	770	795	286	770	1,081	1,851	(137)	1,714	-

3500 Atlanta Industrial Pkwy									
3550 Southside Industrial Pkwy	449	1,666	-	449	1,666	2,115	(285)	1,830	-
Atlanta Industrial Park	1,946	7,785	1,940	2,078	9,593	11,671	(2,150)	9,521	-
Atlanta Industrial Park	657	2,626	230	479	3,034	3,513	(724)	2,789	-
Beltway 8 at West Bellfort	674	-	8,748	784	8,638	9,422	(4,613)	4,809	-
Blankenship Distribution Cntr.	271	1,097	636	273	1,731	2,004	(767)	1,237	-
Braker 2 Business Center	394	1,574	465	394	2,039	2,433	(678)	1,755	-
Brookhollow Business Center	734	2,938	2,555	736	5,491	6,227	(2,682)	3,545	-
Central Plano Business Park	1,343	5,578	885	1,344	6,462	7,806	(1,106)	6,700	-
ClayPoint Distribution Park	2,413	3,117	13,605	1,433	17,702	19,135	(3,295)	15,840	-

110

Table of Contents

Schedule III
(Continued)

	Initial Cost to Company			Gross Amounts at Close of Period						
Description	Land	Building and Improvements	Cost Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total (B)	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation	Encumbrances (A)	Date of Acquisition / Construction
Corporate Center Park	$1,027	$4,114	$2,901	$1,027	$7,015	$8,042	$(3,123)	$4,919	$-	05/23/1997
Crestview	7,424	555	(7,132)	206	641	847	(549)	298	-	11/10/1980
Crosspoint Warehouse	441	1,762	195	441	1,957	2,398	(615)	1,783	-	12/23/1998
Crosswinds C&D	650	5,980	86	650	6,066	6,716	(106)	6,610	-	05/26/2010
Enterchange at Northlake A	4,051	7,804	99	1,624	10,330	11,954	(1,001)	10,953	(5,449)	04/20/2007
Enterchange at Walthall D	3,190	7,618	7,330	2,374	15,764	18,138	(1,883)	16,255	(6,670)	04/20/2007
Freeport Business Center	3,196	10,032	1,425	3,203	11,450	14,653	(1,700)	12,953	(7,119)	07/22/2005
Freeport Commerce Center	598	2,918	698	1,536	2,678	4,214	(517)	3,697	-	11/29/2006
Hopewell Industrial Center	926	8,074	331	2,740	6,591	9,331	(677)	8,654	(3,845)	11/03/2006
Houston Cold Storage Warehouse	1,087	4,347	1,974	1,072	6,336	7,408	(2,243)	5,165	-	06/12/1998
Interwest Business Park	1,449	5,795	1,556	1,461	7,339	8,800	(2,420)	6,380	-	12/22/2000
ISOM Business Center	2,661	6,699	746	2,662	7,444	10,106	(1,185)	8,921	-	10/24/2005
Jupiter Business Center	588	2,353	934	588	3,287	3,875	(1,403)	2,472	-	07/27/1999
	2,684	6,097	89	2,684	6,186	8,870	(71)	8,799	-	08/10/2010

Jupiter Business Park										
Kempwood Industrial Park	734	3,044	67	129	3,716	3,845	(1,380)	2,465	(2,510)	08/27/1996
Kennesaw 75	3,012	7,659	451	3,007	8,115	11,122	(1,293)	9,829	(5,286)	02/23/2005
Lakeland Industrial Center	3,265	13,059	1,831	3,266	14,889	18,155	(4,446)	13,709	(12,534)	12/06/2001
Lakeland Interstate Bus. Park	1,526	9,077	(271)	547	9,785	10,332	(1,051)	9,281	(5,047)	01/11/2007
Manana / 35 Business Center	1,323	5,293	2,802	1,315	8,103	9,418	(2,912)	6,506	-	07/27/1999
McGraw Hill Distribution Ctr	3,155	18,906	2	3,157	18,906	22,063	(2,324)	19,739	-	02/14/2006
Midpoint I-20 Distrib. Center	1,254	7,070	5,219	2,820	10,723	13,543	(1,295)	12,248	-	10/13/2006
Midway Business Center	1,078	4,313	1,995	1,078	6,308	7,386	(2,624)	4,762	-	07/27/1999
Newkirk Business Center	686	2,745	865	686	3,610	4,296	(1,363)	2,933	-	07/27/1999
Northeast Crossing	392	1,568	1,268	350	2,878	3,228	(1,288)	1,940	-	07/27/1999
Oak Hill Business Park	1,294	5,279	1,172	1,299	6,446	7,745	(2,160)	5,585	-	10/18/2001
O'Connor Road Business Park	1,028	4,110	1,218	1,029	5,327	6,356	(1,657)	4,699	-	12/22/2000
Railwood	7,072	7,965	(1,382)	2,870	10,785	13,655	(4,540)	9,115	(6,373)	12/31/1975
Randol Mill Place	371	1,513	717	372	2,229	2,601	(1,030)	1,571	-	12/31/1998
Red Bird	406	1,622	232	406	1,854	2,260	(697)	1,563	-	09/29/1998
Regal Distribution Center	801	3,208	1,491	806	4,694	5,500	(1,527)	3,973	-	04/17/1998
Riverview Distribution Center	1,518	9,613	257	1,521	9,867	11,388	(935)	10,453	(3,271)	08/10/2007
Rutland 10 Business	738	2,951	551	739	3,501	4,240	(1,083)	3,157	-	09/28/2000

Center										
Sherman Plaza Business Park	705	2,829	2,145	710	4,969	5,679	(2,466)	3,213	-	04/01/1999
Southpark 3075	1,251	8,385	(31)	1,213	8,392	9,605	(704)	8,901	-	10/03/2007
Southpark A, B, C	1,079	4,375	797	1,080	5,171	6,251	(1,610)	4,641	-	09/28/2000
Southpoint	4,167	10,967	1,353	4,168	12,319	16,487	(1,625)	14,862	-	12/29/2005
Southpoint Business Center	597	2,392	1,070	600	3,459	4,059	(1,307)	2,752	-	05/20/1999
Southport Business Park 5	562	2,172	1,402	562	3,574	4,136	(1,284)	2,852	(2,613)	12/23/1998
Space Center Industrial Park	1,036	4,143	1,487	1,025	5,641	6,666	(2,067)	4,599	-	05/29/1998
Stonecrest Business Center	601	2,439	1,807	601	4,246	4,847	(1,987)	2,860	-	06/03/1997
Tampa East Ind. Portfolio	5,424	18,155	1,313	5,409	19,483	24,892	(2,739)	22,153	-	11/21/2005
Town and Country Commerce Ctr	4,188	9,628	(539)	4,311	8,966	13,277	(763)	12,514	(4,990)	06/29/2007
West Loop Bus Park - Freezer	253	3,593	(793)	76	2,977	3,053	(2,044)	1,009	-	09/13/1974
West Loop Commerce Center	2,203	1,672	(821)	536	2,518	3,054	(2,415)	639	-	12/14/1981
West-10 Business Center	-	3,125	2,174	-	5,299	5,299	(4,098)	1,201	-	08/28/1992
West-10 Business Center II	414	1,662	731	389	2,418	2,807	(1,295)	1,512	-	08/20/1997

111

Table of Contents

Schedule III
(Continued)

	Initial Cost to Company			Gross Amounts at Close of Period						
Description	Land	Building and Improvements	Cost Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total (B)	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation	Encumbrances (A)	Date of Acquisition Constructio
Westgate Business Center	$1,472	$3,471	$2,121	$1,470	$5,594	$7,064	$(1,793)	$5,271	$-	12/12/200
Westlake 125	1,174	6,630	219	1,066	6,957	8,023	(617)	7,406	-	10/03/200
Wirt Road & I10	1,003	-	45	1,048	-	1,048	-	1,048	-	05/24/200
	96,776	302,525	73,614	81,848	391,067	472,915	(97,473)	375,442	(65,707)	
Other:										
1919 North Loop West	1,334	8,451	10,785	1,337	19,233	20,570	(3,504)	17,066	-	12/05/200
Citadel Building	3,236	6,168	7,327	534	16,197	16,731	(12,442)	4,289	-	12/30/197
Phoenix Office Building	1,696	3,255	963	1,773	4,141	5,914	(547)	5,367	-	01/31/200
	6,266	17,874	19,075	3,644	39,571	43,215	(16,493)	26,722	-	
Land Held/Under Development:										
Ambassador Parcel D	98	-	-	98	-	98	-	98	-	10/26/200
Citadel Drive at Loop 610	3,747	-	(239)	3,508	-	3,508	-	3,508	-	12/30/197
Crabtree Towne Center	18,810	54	(8,783)	10,072	9	10,081	-	10,081	-	01/31/200
Cullen Blvd. at East Orem	172	-	3	175	-	175	-	175	-	02/24/197
Curry Ford Road	1,878	7	(14)	1,870	1	1,871	-	1,871	-	10/05/200
Decatur 215	32,525	8,200	(21,414)	17,526	1,785	19,311	-	19,311	-	12/26/200
Epic Village St. Augustine	1,980	-	1,128	2,963	145	3,108	-	3,108	-	04/09/200

Festival Plaza	751	6	130	886	1	887	-	887	-	12/08/200
Gladden Farms	1,619	4	357	1,869	111	1,980	-	1,980	-	08/21/200
Mainland Mall-Tracts 1 & 2	321	-	69	390	-	390	-	390	-	11/29/196
Mohave Crossroads	1,080	-	1,246	2,136	190	2,326	-	2,326	-	06/12/200
North Towne Plaza	6,646	99	7,895	9,925	4,715	14,640	(84)	14,556	-	12/27/200
NW Freeway at Gessner	5,052	-	(3,809)	1,243	-	1,243	-	1,243	-	11/16/197
Palm Coast Landing Outparcels	1,302	149	(251)	811	389	1,200	-	1,200	-	04/30/200
Ridgeway Trace	26,629	544	13,357	16,389	24,141	40,530	(674)	39,856	-	11/09/200
River Point at Sheridan	28,898	4,042	799	15,664	18,075	33,739	(641)	33,098	(6,720)	04/01/201
River Pointe Venture	2,874	-	(2,063)	811	-	811	-	811	-	08/04/200
Rock Prairie Marketplace	2,364	-	(976)	1,388	-	1,388	-	1,388	-	05/15/200
Shreveport	356	-	130	486	-	486	-	486	-	05/22/197
South Fulton Crossing	14,373	154	(7,380)	6,226	921	7,147	(1)	7,146	-	01/10/200
Southern Pines Place	8,046	73	(1,873)	6,229	17	6,246	-	6,246	-	02/09/200
Stanford Court	693	-	21	714	-	714	-	714	-	04/20/198
Stevens Ranch	36,939	46	873	37,853	5	37,858	-	37,858	-	05/16/200
Surf City Crossing	3,220	52	7,152	7,170	3,254	10,424	-	10,424	-	12/06/200
The Shoppes @ Wilderness Oaks	11,081	50	1,456	12,581	6	12,587	-	12,587	-	06/19/200
The Shoppes at Caveness Farms	7,235	135	1,235	8,373	232	8,605	-	8,605	-	01/17/200
The Shoppes at Parkwood Ranch	1,236	-	196	1,401	31	1,432	-	1,432	-	01/02/200
Tomball Marketplace	9,616	262	15,124	11,820	13,182	25,002	(946)	24,056	-	04/12/200
Village Shopping Center	64	714	(689)	89	-	89	-	89	-	12/31/200
West 11th @ Loop 610	1,667	-	8	1,675	-	1,675	-	1,675	-	12/14/198
Westover Square	4,435	20	(648)	3,807	-	3,807	-	3,807	-	08/01/200
	10,497	36	6,345	5,919	10,959	16,878	(550)	16,328	-	01/26/200

Westwood
Center

112

Table of Contents

Schedule III
(Continued)

	Initial Cost to Company			Gross Amounts at Close of Period				
Description	Land	Building and Improvements	Cost Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total (B)	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation
Wilcrest/Bissonnet-Alief Tr1-4	$7,228	$-	$(6,771)	$457	$-	$457	$-	$457
Waterford Village	5,830	-	9,906	6,207	9,529	15,736	(1,328)	14,408
York Plaza	162	-	(45)	117	-	117	-	117
	259,424	14,647	12,475	198,848	87,698	286,546	(4,224)	282,322
Balance of Portfolio (not to exceed 5% of total)	320	10	59,169	6,173	53,326	59,499	(19,836)	39,663
Total of Portfolio	$1,190,350	$2,786,726	$800,718	$1,118,677	$3,659,117	$4,777,794	$(971,249)	$3,806,54

Depreciation is computed using the straight-line method, generally over estimated useful lives of 18-40 years for buildings and 10-20 years for parking lot surfacing and equipment. Tenant and leasehold improvements are depreciated over the remaining life of the lease or the useful life whichever is shorter.

Note A - Encumbrances do not include $39.2 million outstanding under fixed-rate mortgage debt associated with five properties each held in a tenancy-in-common arrangement and $12.3 million of non-cash debt related items.

Note B - The book value of our net fixed asset exceeds the tax basis by approximately $38 million at December 31, 2010.

The changes in total cost of the properties for the year ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Balance at beginning of year	$4,658,396	$4,915,472	$4,972,344
Additions at cost	195,499	97,557	299,090
Retirements or sales	(70,924)	(316,910)	(303,423)
Impairment loss	(5,177)	(37,723)	(52,539)
Balance at end of year	$4,777,794	$4,658,396	$4,915,472

The changes in accumulated depreciation for the year ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Balance at beginning of year	$856,281	$812,323	$774,321

Additions at cost	127,238	123,062	118,160
Retirements or sales	(12,270)	(79,104)	(80,158)
Balance at end of year	$971,249	$856,281	$812,323

Table of Contents

Schedule IV

WEINGARTEN REALTY INVESTORS
MORTGAGE LOANS ON REAL ESTATE
DECEMBER 31, 2010

(Amounts in thousands)

	State	Interest Rate		Final Maturity Date	Periodic Payment Terms	Face Amount of Mortgages	Carrying Amount of Mortgages (1)	Principal Amount of Loans Subject to Delinquent Principal or Interest
SHOPPING CENTERS:								
FIRST MORTGAGES:								
363-410 Burma, LLC	TN	6.50	%	06-01-11	$213 Annual P&I	$ 2,393	$ 2,393	
WRI-SRP Cole Park Plaza, LLC	NC	5.66	%	02-01-12	At Maturity	6,200	6,200	
College Park Realty Company	NV	7.00	%	10-31-53	At Maturity	3,410	3,410	
American National Insurance Company	TX	5.95	%	01-01-14	$136 Annual P&I	1,502	1,502	
SHOPPING CENTERS:								
CONSTRUCTION LOANS:								
Palm Coast Center, LLC	FL	2.01	%	04-13-11	At Maturity	22,449	22,449	
WRI Alliance Riley Venture-Tranche A	CA	10.50	%	11-20-10	At Maturity	24,606	24,606	$ 24,606
WRI Alliance Riley Venture-Tranche B	CA	12.00	%	11-20-10	At Maturity	259	259	259
WRI Alliance Riley Venture III	CA	2.55	%	05-20-11	At Maturity	32,898	32,898	
Weingarten I-4 Clermont Landing, LLC	FL	2.75	%	06-14-11	At Maturity	21,941	21,941	
Weingarten Miller Buckingham, LLC	CO	2.75	%	07-09-11	At Maturity	17,327	17,327	
Weingarten Miller Equiwest Salt Lake, LLC	UT	2.75	%	03-24-12	At Maturity	15,849	15,849	
	CO	2.75	%	07-09-11		43,258	43,258	

Weingarten Miller MDH Buckingham, LLC	At Maturity			
TOTAL MORTGAGE LOANS ON REAL ESTATE		$ 192,092	$ 192,092	$ 24,865

(1) The aggregate cost at December 31, 2010 for federal income tax purposes is $192,092, and there are no prior liens to be disclosed.

Changes in mortgage loans for the year ended December 31, 2010, 2009 and 2008 are summarized below:

	2010	2009	2008
Balance, Beginning of Year	$267,222	$236,743	$79,898
New Loans	4,912		
Additions to Existing Loans (1)	11,961	54,007	201,803
Collections/Reductions of Principal	(20,124)	(23,528)	(44,958)
Reduction of Principal due to Business Combination (2)	(71,879)		
Balance, End of Year	$192,092	$267,222	$236,743

(1) The caption above, "Additions to Existing Loans" also includes accrued interest.

(2) Effective April 1, 2010, we assumed control of two 50%-owned unconsolidated real estate joint ventures related to a development project in Sheridan, Colorado, which had previously been accounted for under the equity method. This transaction resulted in the consolidation of the real estate joint ventures and is reported as a reduction in the preceding table for the year ended December 31, 2010.

114