LEMELSON
CAPITAL MANAGEMENT

July 10, 2017

Mr. Gary Owen
Chairman of the Board
Geospace Technologies Corporation
7007 Pinemont Drive
Houston, Texas 77040

Dear Gary,

For the last several years, Lemelson Capital has closely followed Geospace Technologies (Geospace) progress. As a result, we have, on behalf of our clients, accumulated roughly 1.3 million shares, or about 10 percent of the company's shares outstanding,[1] which is indicative of our firm conviction that the market continues to radically under-value the company and its prospects.

I want to commend you for your role in helping guide Geospace through an unprecedented downturn in the oil and gas industry which began in mid-2014 and which has proven to be a considerable challenge for many other firms in the industry. CEO Rick Wheeler and his team, under the board's oversight, have done an exceptional job leading the company both technologically and financially through recent challenges resulting from the unprecedented decline in spending on exploration that resulted from the collapse of energy prices. Lemelson Capital expects this determination to pay off, with the firm being exceptionally well positioned to capitalize on new opportunities in the recovery.

The firm's conservative accounting, reluctance to 'leverage up' during boom years and focus on R&D through the recent downturn, have contributed to the company's undisputed technological leadership,[2] enviable $78 million in liquidity, expected positive free cash flow in FY 2017 and flawless zero-debt balance sheet.

[1] Lemelson Capital increased the positional size of the stake by some 65 percent since YE 2015.

[2] As most recently evidenced by the significant industry-wide interest in the company's state of the art GCL and GSX product lines for which no competitive analogue exists.

Additionally, the senior management team deserve credit for cultivating a corporate culture that is customer-centric and diversifying product lines and industries served while key competitors either file for bankruptcy protection or are distracted by financial restructurings.[3]

As you know, cash, cash equivalents and short-term investments have ballooned approximately 88 percent since FYE 2016 (despite the industry downturn), while total liquidity now represents approximately 43 percent of the company's market capitalization. The inventory, including raw materials, real estate and intangibles remain significantly undervalued on the balance sheet.

The steady growth in the non-seismic businesses, the absence of the debt that was paid off in 2010, the reduction in operating expenses[4] through 2017 as well as the significantly understated value of inventories have worked to shield the company from the risks posed by industry cycles. These factors are also likely to minimize the correlation in the share price to market indexes while "juicing" both operating margins and cash flow in the future.

If exploration is necessary to discover more oil and gas reserves, then seismic equipment will be required.[5] The resources allocated to exploration since mid-2014 fell to historic and unsustainable lows, but are set for a significant recovery.[6] Accordingly the three-month and six-month periods ended March 31, 2017 saw revenue increases of 38 percent and 28 percent respectively when compared to the same periods last year.

Because of these changes, short interest in Geospace has fallen nearly 50 percent from 36.77 percent at the end of February 2016 to just 18.65 percent by mid-June 2017.

At the same time, the thin analyst coverage the firm has received has been either wrong in its appraisal of the firm's value or significantly under-estimated the impact the recovery will

[3] CGG filed for bankruptcy protection on June 15, 2017 while Ion Geophysical 's seemingly never-ending financial restructuring and legal woes pose significant existential threats to the company as a going concern.
[4] The company reduced operating expenses for the three-month and six-month periods ended March 31, 2017 by almost 10% and 7% respectively compared to last year.
[5] In the company's own words: "seismic imaging is the defining fundamental science necessary to find and optimally exploit oil and gas reserves."
[6] According to the International Energy Agency (IEA), world oil demand has consistently risen during each year of the years of the 2014-2016 downturn rising from 92.32 mb/d in Q214 to 97.89 mb/d by Q416, an increase of 5.57 mb/d. The IEA's outlook as whole is at 1.3 mb/d for 2017 with estimates of growth increases to 1.4 mb/d and record demand of 99.2 mb/d in 2018. The IEA has at the same time reported an implied market supply deficit in 1H17 between 0.5 mb/d and 0.7 mb/d - Link. Further the IEA reported that global conventional oil discoveries in 2016 amounted to only 2.4 billion barrels, roughly one-fourth of the last fifteen-year average. By some estimates the world will undersupplied by as much as 20 mb/d by 2022.

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have on EPS.[7] All of this has contributed to the shares remaining unappreciated for an extended period.

However, the purpose of this letter is not only to recognize the successes of the board and management team but also to express to you directly (with the expectation that you will in turn share this letter with the company's other directors) Lemelson Capital's unwavering belief that the time for the company to authorize a substantial share buy-back while exploring strategic options is overdue.

Lemelson Capital considers Geospace to be one of its most important commitments, and to be clear is very much supportive of company leadership and strategy. The sole concern outlined in this letter stems from the conspicuous absence of a significant buyback program despite the company's continued emergence from a cyclical downturn, swelling cash and liquidity and radically undervalued stock price. The clear recovery at both the company and industry level are significant enough to act now to better align the interests of management with that of the owners of the company. Further, the company could easily use debt to finance such a repurchase at what continues to be favorable interest rates. In the alternate, a special dividend or taking the company private would also unlock substantial shareholder value.

Current share price is dramatically below intrinsic value

Glaringly obvious price/value dislocations, such as that occurring now in the shares of Geospace typically remain for a short time. Once the market recognizes the value of the company's largely understated assets in relation to the recovery in E&P spending that is inevitable and arguably already underway[8] and Geospace's unusually high average historical growth in EPS (net income has averaged a remarkable 29.9% over the last sixteen years inclusive of the unprecedented recent down-turn[9]), the price of the stock will likely reset dramatically higher.

Management has indicated in the past that they wish to preserve the company's abnormally large and growing liquidity position to shield the company from potential future industry weakness. However, quarter after quarter[10] the company has booked year-over-year growth and is set to conclude FY 2017 with a significantly larger cash position than it had at the beginning of the year. Second, the future of the company rests in large part on developing

[7] This is especially true in the case of adjusted non-GAAP earnings.
[8] There can be no question that 2017 has seen a material improvement in sentiment and performance over 2016. Further, there is little disagreement that 2018 will see further improvement.
[9] Average historical growth in net income is calculated between 2001-2016 in twelve 5-year cycles (e.g. 2001-2005, 2002-2006, etc.) to assess, from a long-term view, the company's true earnings power.
[10] The company has experienced YoY growth in the last 3 quarters despite the nascent recovery in E&P spending.

technology that adds greater cost and operational efficiency to exploration. The persistent R&D spend the company has maintained through the down-turn that began in mid-2014 has already manifested this bright future in the launch of next generation solutions, for which there are no competitive threats, a fact evidenced in the widespread interest in these new products amongst Geospace's customers. Meanwhile the non-seismic product lines have become a steady source of revenue and cash flow that is easily projected many years into the future.

Geospace currently has roughly $78 million in liquidity. In 2017 cash flow is almost certain to be positive, despite being in the early stages of a recovery. Normalized future EBITDA is likely to approximate at least $65 million (or $4.80 per share) over the next 5-7 years with next generation solutions already to market.

Geospace's cash, cash equivalents and marketable securities have mushroomed to $48 million, roughly 2.3 times the average amount the company had between 2005 and 2014, a period when the stock price averaged $35.50 per share,[11] yet the stock now trades at 62 percent discount to the average share price during that period.[12]

In such situations, excess cash and liquidity can become an inoculation against capital allocations that are in the owner's interests and lead to complacency.

The forward PE ratio of the S&P 500 is about 21.[13] After backing out cash, cash equivalents and short-term investments, Geospace trades at just 5.7 times conservative forward earnings estimates,[14] this does not account for the favorable future tax rate that will result from tax-loss carryforwards (which is expected to be significantly lower than that used by analysts in such calculations) or the almost certain margin expansion that will result from the overly-aggressive write down of inventories, including raw materials that are likely to be used at a later date.

This (cash adjusted) discount becomes even more significant when viewed in terms of projected EBITDA. If future EBITDA approximates the average of the five years prior to the recent downturn, then the cash-adjusted price to EBITDA ratio is just 3.1.[15] That is to say as the recovery progresses, the company arguably may generate enough EBITDA earnings in

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[11] In the ten years leading up to the mid-2014 downturn the company's average Cash, Cash Equivalents, Marketable Securities averaged $21.3 million.

[12] On July 7, 2017, shares closed at $13.48 per share.

[13] Forward 12 months from Birinyi Associates as of July 7, 2017 - Link

[14] Normalized forward earnings are estimated at approximately $23.1 million based on average earnings in the ten years prior to the current downturn (2005-2014).

[15] The company had average EBITDA earnings of $42 million per year between 2005 and 2014, the ten years prior to the current downturn (2005-2014).

the next 3 years to cover roughly its entire market capitalization net of cash, cash equivalents and short-term investments.

With such a massive valuation dislocation and an inordinate amount of liquidity, the board should act to aggressively repurchase its own assets at a significant discount to overly-depleted tangible book value, by announcing a tender offer of at least $35 million (financed with either debt or a mix of debt and cash). Geospace, historically, has generated more than enough cash flow to finance this, and is certainly poised to generate as much--if not more--as the nascent recovery progresses,[16] to be able to service such an amount.

For example, if the company decided to borrow the full $35 million to commence a buyback at $13.48 per share (the price as of July 10, 2017), the result would be a reduction of 2.68 million or approximately 19% of the shares outstanding. This in turn would result in a ~24 percent increase (gross of interest expense) to conservative future earnings estimates per share,[17] and potentially a 4 time increase in the value of the shares based on historical PE ratios.[18] This math assumes no multiple expansion of the forward PE or the ridiculously low cash-adjusted price to EBITDA ratio outlined above.

If such a tender were to be executed, today's forward near-term (and conservative) EPS estimates of $1.47 per share would grow to $1.83 based on a reduced 10.8 million share count.   It is reasonable to expect that with these enlarged figures the share price would appreciate to $38 per share if the market prices the shares at approximately the same forward multiple as the S&P 500 (a multiple at any rate substantially lower than the company's PE ratio of approximately 30 between 2005 and 2014).

Management's compensation should not dilute long-term owners

Management teams that hold large amounts of cash typically do so out of a fear that they will not be able to effectively compete in the future. This widely understood premise, when taken with stock awards and grants to management, can send a message to owners both existing and prospective that management's interests are not well aligned with owners.

Share issuance as part of management compensation has steadily diluted long-term shareholders. This pattern of share issuance at the expense of ongoing owners (which has no offset in a buyback), indicates that while management's operational ability may be

[16] According to the IEA, after a 44% plunge between 2014 and 2016, upstream oil and gas investment has begun to rebound in 2017. A 53% upswing in US shale investment and resilient spending in large producing regions like the Middle East and Russia has driven upstream investment to bounce back by 6% in 2017 - Link.
[17] Based on average net income between 2005 and 2014.
[18] The shares traded at an average PE ratio of 30.27 between 2005 and 2014.

excellent, it may have overlooked or perhaps not properly understood the interests of long-term owners.

Management must keep its financial interests aligned with that of long-term owners. If the company continues to issue shares as part of executive compensation, then at a minimum the board must act to mitigate the resultant dilution.

A significant component of the board's responsibilities is to be aware of occasions to increase owner earnings.[19] There is nothing more effective the board could do right now than to implement a large and well-timed tender offer while exploring other strategic options to unlock value. Waiting for excessive confirmation of a full-swing recovery in E&P spending will only result in a missed opportunity.

Commencing the proposed buyback (while other strategic options are explored) will likely result in considerable stock appreciation for owners who choose not to sell into the proposed offer.

Lemelson Capital can be counted as first amongst those committed to long-term ownership.

I look forward to meeting with you and the management team in person to discuss these options further.

Sincerely,

+ Emmanuel Lemelson

Rev. Fr. Emmanuel Lemelson

Chief Investment Officer
Lemelson Capital Management, LLC

[19] This is especially true in cases where stock grants continuously dilute existing and ongoing owners.