

Sensors

QC software

Recording systems

Mixed mode acquisition

Survey design

Acoustic positioning

MEMS technology

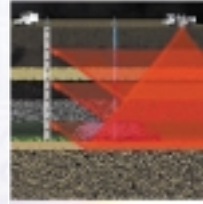


Image quality

Acquisition economics

Multi-component

Seismic energy sources

Sensors

QC software

Recording systems

Mixed mode acquisition

Survey design

Acoustic positioning

MEMS technology

Seismic data acquisition

Ocean bottom systems

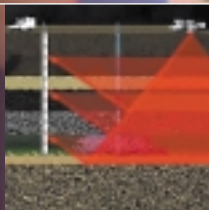
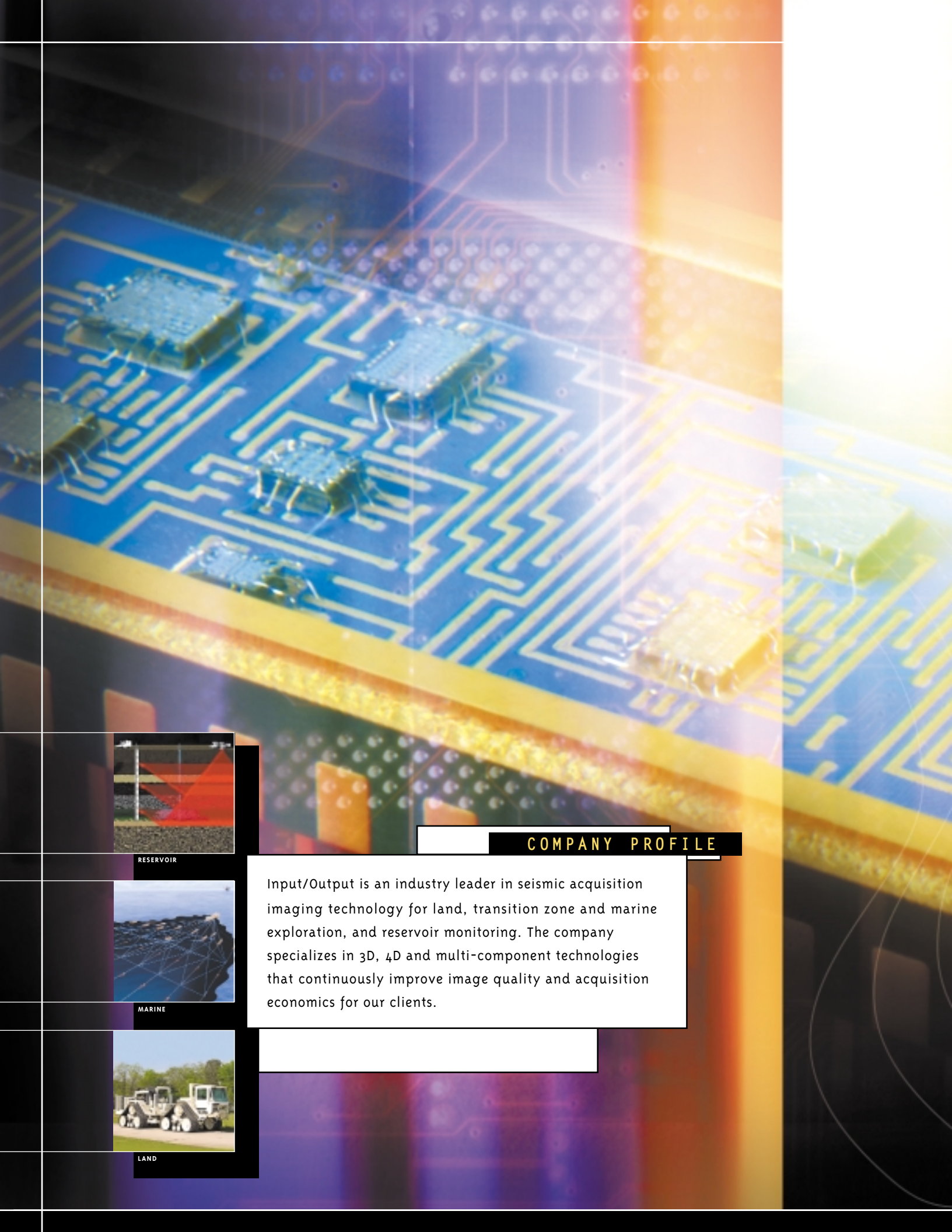
High channel count

Innovative technologies

Seismic imaging

INPUT/OUTPUT, INC.

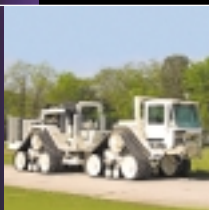
2000 REPORT TO SHAREHOLDERS



RESERVOIR



MARINE



LAND

## COMPANY PROFILE

Input/Output is an industry leader in seismic acquisition imaging technology for land, transition zone and marine exploration, and reservoir monitoring. The company specializes in 3D, 4D and multi-component technologies that continuously improve image quality and acquisition economics for our clients.



## LETTER TO SHAREHOLDERS

Effective December 31, 2000 we changed our fiscal year-end from May 31 to December 31. We took this step to better align our financial reporting periods with both the industry sector and the Company's business strategy. Consequently, we are pleased to provide you with this report covering the seven months ended December 31, 2000.

For the seven months ended December 31, 2000 the Company reported a net loss of \$(13.4) million, or \$(0.26) per share, on revenues of \$78.3 million, compared to a net loss of \$(78.5) million, or \$(1.55) per share, on revenues of \$121.5 million for the fiscal year ending May 31, 2000.

While this reporting period continued to be a difficult time in I/O's history, it was also one of positive change for the Company. Strengthening industry fundamentals and focused execution of the Company's operational and financial strategies have allowed us to make tangible progress towards restoration of acceptable levels of financial performance, and better position the Company for growth.

### Industry

During the second half of calendar year 2000, strong oil and gas prices produced outstanding cash flows for state-owned, major and independent oil and gas companies, spurring an energy industry recovery. Despite

reinvestment ratios substantially below historical norms, drilling activity, particularly in North America, continues to flourish. Additional seismic data is becoming necessary to sustain these higher levels of drilling activity on land. Although showing signs of strengthening, marine towed array activity continues to experience excess acquisition capacity.

### Execution of Strategy

#### Operational

The people of Input/Output have been focused on the execution of the Company's operational and financial strategies. Our priority is to ensure that our existing businesses operate in an efficient and responsive manner. The formation of a series of autonomous business units as individual profit centers in response to this priority has had a favorable impact on our performance. For the seven months ended December 31, 2000 gross margins improved by about 13 points compared to our last full fiscal year. We are also confident that these units have started to deliver improved value to our customers, which is a basic cornerstone of future growth of our core business lines. The Company continues to

invest substantially in innovative technologies to strengthen our current product offering and meet the future needs of our customers. A new land recording system, the I/O IMAGE™ System, was launched in December 2000. IMAGE is unique in its ability to fully integrate both cable and radio-based seismic recording under a single control interface. Supporting deployment of over 10,000 channels, IMAGE offers a number of innovative features which favorably impact both our customers' productivity and image quality, and is a solid platform for additional ground electronics enhancements under development for deployment later in 2001. The VectorSeis™ digital multi-component sensor program successfully completed field testing during calendar 2000. Based on the success of the field test phase, in January 2001 the Company entered into a strategic marketing alliance with a geophysical contractor to commercialize multi-component land seismic solutions in North America using VectorSeis technology. The initial pilot commercial phase was undertaken in Canada during our first quarter 2001.

#### Financial

We continued our efforts to monetize under-utilized assets to free

liquidity for other uses. Solid progress was made in reducing inventory and notes receivable, in addition to the sale of certain assets no longer strategic to our performance. The Company had cash of \$92.4 million at December 31, 2000, and \$8.3 million of debt. Applications of cash have been consistent with our objectives of completing our share maintenance program, pursuing alternative markets for our micromachine manufacturing operation and growing our business through acquisition.

We were very pleased to complete the acquisition of Pelton Company in January 2001. Pelton has a long-standing reputation as the industry leader in advanced vibrator control and positioning products. They are strongly complementary to I/O's position in the design and supply of energy source vibrators and seismic data acquisition systems.

#### **The Future**

The organization is focused on our new direction and the execution of our strategy, in the context of a market sector which is beginning to show signs of recovery. We have talented people in the right place. We have made tangible

progress in the introduction of innovative technology. We have made meaningful steps on the journey to sound financial performance, and by working to preserve a strong balance sheet, we can respond quickly to opportunities that arise to grow our Company.

We hope to continue to demonstrate to you, our shareholders, that we are focused on the execution of our operational and financial strategies which are key to building the long-term strength and growth of your Company. Our mission is to create profitable and innovative geophysical systems that continuously improve image quality and acquisition economics for our clients. We are making steady progress towards our goal of returning to profitability in the second half of this year. We appreciate your continued support.



Timothy J. Probert  
President and Chief  
Executive Officer

## **SHAREHOLDER INFORMATION**

### **DIRECTORS**

James M. Lapeyre, Jr.  
Chairman of the Board  
President, The Laitram  
Corporation

David C. Baldwin  
Managing Director, SCF Partners

Ernest E. Cook  
Chairman, CBM Energy Ltd.

Theodore H. Elliott, Jr.  
Chairman, Prime Capital  
Management Company

Robert P. Peebler  
Consultant

Timothy J. Probert  
President and Chief Executive  
Officer, Input/Output, Inc.

Sam K. Smith  
Consultant, Private Investments

William F. Wallace  
Consultant, The Beacon Group

### **EXECUTIVE MANAGEMENT**

Timothy J. Probert  
President and Chief Executive  
Officer

C. Robert Bunch  
Vice President and Chief  
Administrative Officer

Larry Denver  
Vice President, Reservoir  
Operations

Kenneth W. Pope  
Vice President, Land Operations

Rex K. Reavis  
Vice President, Marine  
Operations

## SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below with respect to our consolidated statements of operations for the three months ended March 31, June 30, September 30 and December 31, 2000 and with respect to our consolidated balance sheets at March 31, June 30, September 30 and December 31, 2000 will be included for comparative purposes in our quarterly reports on Form 10-Q filed hereafter. Our results of operations and financial condition have been affected by significant charges during certain periods presented, which may affect the comparability of the financial information. This information should be read in conjunction with ITEM 7, *Management's Discussion and Analysis of Results of Operations and Financial Condition* and our consolidated financial statements and the notes thereto included elsewhere in our Form 10-K included herewith and incorporated herein by reference.

### Input/Output, Inc.

#### Selected Consolidated Financial Data For Calendar Year Ended December 31, 2000

	Quarter Ended				Year Ended
	March 31	June 30	Sept 30	Dec 31	Dec 31
<b>Statement of Operations Data:</b>					
Net sales	\$ 40,041	\$ 26,624	\$ 30,355	\$ 40,364	\$ 137,384
Cost of sales (1)	<u>41,602</u>	<u>22,874</u>	<u>23,129</u>	<u>29,888</u>	<u>117,493</u>
Gross profit (loss)	<u>(1,561)</u>	<u>3,750</u>	<u>7,226</u>	<u>10,476</u>	<u>19,891</u>
Operating expenses:					
Research and development	7,260	7,072	6,246	7,506	28,084
Marketing and sales	2,684	2,656	2,413	2,751	10,504
General and administrative (2)	(2,737)	13,411	3,293	3,665	17,632
Amortization and impairment of intangibles (3)	<u>2,058</u>	<u>33,598</u>	<u>910</u>	<u>1,192</u>	<u>37,758</u>
Total operating expenses	<u>9,265</u>	<u>56,737</u>	<u>12,862</u>	<u>15,114</u>	<u>93,978</u>
Loss from operations	(10,826)	(52,987)	(5,636)	(4,638)	(74,087)
Interest expense	(195)	(212)	(288)	(278)	(973)
Interest income	1,916	549	1,587	2,376	6,428
Other income (expense)	<u>(60)</u>	<u>1,553</u>	<u>141</u>	<u>161</u>	<u>1,795</u>
Loss before income taxes	(9,165)	(51,097)	(4,196)	(2,379)	(66,837)
Income tax expense	<u>124</u>	<u>2,032</u>	<u>2,970</u>	<u>246</u>	<u>5,372</u>
Net loss	(9,289)	(53,129)	(7,166)	(2,625)	(72,209)
Preferred dividend	<u>1,158</u>	<u>1,180</u>	<u>1,279</u>	<u>1,383</u>	<u>5,000</u>
Net loss applicable to common stock	<u>\$ (10,447)</u>	<u>\$ (54,309)</u>	<u>\$ (8,445)</u>	<u>\$ (4,008)</u>	<u>\$ (77,209)</u>
Basic loss per common share	<u>\$ (0.21)</u>	<u>\$ (1.07)</u>	<u>\$ (0.17)</u>	<u>\$ (0.08)</u>	<u>(1.52)</u>
Weighted average number of common shares outstanding	<u>50,785</u>	<u>50,766</u>	<u>50,919</u>	<u>50,936</u>	<u>50,936</u>
Diluted loss per common share	<u>\$ (0.21)</u>	<u>\$ (1.07)</u>	<u>\$ (0.17)</u>	<u>\$ (0.08)</u>	<u>\$ (1.52)</u>
Weighted average number of diluted common shares outstanding	<u>50,785</u>	<u>50,766</u>	<u>50,919</u>	<u>50,936</u>	<u>50,936</u>
<b>Balance Sheet Data (end of period):</b>					
Working capital	\$ 199,960	\$ 182,692	\$ 179,927	\$ 181,366	
Total assets	423,297	373,295	368,127	365,633	
Short-term debt, including current installments of long-term debt	1,131	1,154	1,177	1,207	
Long-term debt	8,000	7,701	7,396	7,077	
Stockholders' equity	386,646	332,355	327,043	325,403	
<b>Other Data:</b>					
Capital expenditures	\$ 771	\$ 1,386	\$ 464	\$ 1,773	\$ 4,394
Depreciation and amortization	5,973	6,287	4,558	4,819	21,637

(1) Results for the three months ended March 31, 2000 include significant charges of \$10.6 million. See Note 15 of Notes to Consolidated Financial Statements in our Form 10-K for further information with respect to these charges.

(2) Results for the three months ended March 31, 2000 include significant charges of \$(6.1) million. Results for the three months ended June 30, 2000 include significant charges of \$10.0 million. See Note 15 of Notes to Consolidated Financial Statements in our Form 10-K for information with respect to these charges.

(3) Results for the three months ended June 30, 2000 include significant charges of \$31.9 million. See Note 15 of Notes to Consolidated Financial Statements in our Form 10-K for information with respect to these charges.

### Statement for Purposes of Forward-Looking Statements

Forward-looking statements contained in this Report to Shareholders concerning expected results and increases in value from new technologies and improved industry conditions, results of acquisitions, future benefits for shareholders, customers and employees resulting from the Company's strategic and technological initiatives underway and future technological advances are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risk and uncertainties which may cause actual results to differ materially from anticipated results. These risks and uncertainties include the risk that the processes and procedures implemented may not produce the desired results due to lack of commercial acceptance, commercial feasibility issues, failures of the technology to perform as expected, industry or market conditions or competitive pressures, and the other risks detailed in Item 7. - "Management's Discussion and Analysis of Results of Operations and Financial Condition - Cautionary Statement for Purposes of Forward-Looking Statements" of the Company's Transition Report on Form 10-K for the seven months ended December 31, 2000, which accompanies and constitutes an integral part of this Report to Shareholders. The accompanying Form 10-K of Input/Output, Inc. for the seven months ended December 31, 2000 as filed with the Securities and Exchange Commission, is incorporated by reference into and constitutes an integral part of this Report to Shareholders.

### Transition Report on Form 10-K

Input/Output's Transition Report on Form 10-K for the seven months ended December 31, 2000, although furnished as an integral part of this Report to Shareholders, is also available upon request without charge. Please direct your request to Input/Output, Inc., Attn: Investor Relations, 12300 Charles E. Selecman Drive, Stafford, Texas 77477.

### Stock Transfer Agent

Computershare Investor Service L.L.C.  
2 North LaSalle St.  
Chicago, Illinois 60602-3705  
Telephone: (312) 360-5286

### Independent Auditors

KPMG LLP  
700 Louisiana, 30th Floor  
Houston, Texas 77002  
Telephone: (713) 319-2000

### Investor Relations

Telephone: (281) 933-3339  
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[www.i-o.com](http://www.i-o.com)



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