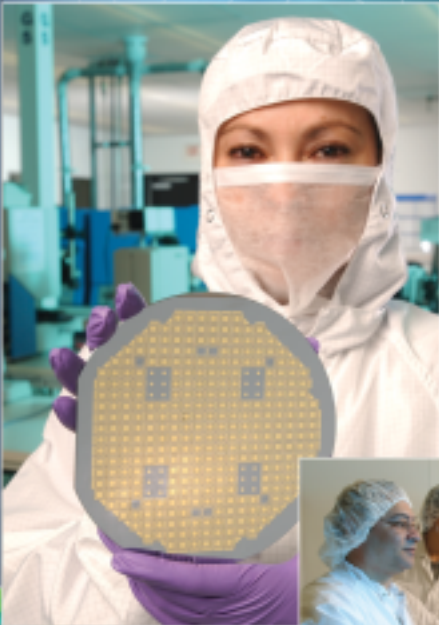




INPUT/OUTPUT



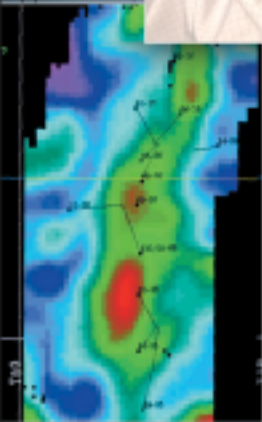
expertise



people

# THE NEXT LEVEL

Annual Report  
2002



technology



innovation

## SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below with respect to our consolidated statements of operations for the years ended December 31, 2002 and 2001, the seven months ended December 31, 2000 and the three fiscal years ended May 31, 2000, 1999 and 1998, and with respect to our consolidated balance sheets at December 31, 2002, 2001, and 2000 and May 31, 2000, 1999 and 1998 have been derived from our audited consolidated financial statements. Our results of operations and financial condition have been affected by acquisitions of businesses and significant charges during certain periods presented, which may affect the comparability of the financial information. For a discussion of significant charges, please see Note 18 of *Notes to Consolidated Financial Statements*. This information should be read in conjunction with Item 7. *Management's Discussion and Analysis of Results of Operations and Financial Condition* and the consolidated financial statements and the notes thereto included in our Form 10-K.

	Year Ended December 31,		Seven Months Ended December 31,	Years Ended May 31,		
	2002	2001	2000	2000	1999	1998
	(In thousands, except per share data)					
<b>Statement of Operations Data:</b>						
Net sales	\$ 118,583	\$ 212,050	\$ 78,317	\$ 121,454	\$ 197,415	\$ 385,861
Cost of sales	99,624	138,415	58,982	108,169	204,998	229,338
Gross profit (loss)	18,959	73,635	19,335	13,285	(7,583)	156,523
Operating expenses:						
Research and development	28,756	29,442	16,051	28,625	42,782	32,957
Marketing and sales	11,218	11,657	5,506	8,757	13,010	11,822
General and administrative	19,160	19,695	8,127	21,885	74,132	28,295
Amortization of intangibles and goodwill	1,394	4,936	2,757	7,892	9,947	6,008
Impairment of long-lived assets	6,874	—	—	—	14,500	—
Goodwill impairment	15,122	—	—	31,596	—	—
Total operating expenses	82,524	65,730	32,441	98,755	154,371	79,082
Earnings (loss) from operations	(63,565)	7,905	(13,106)	(85,470)	(161,954)	77,441
Interest expense	(3,124)	(695)	(627)	(826)	(897)	(1,081)
Interest income	2,280	4,685	4,583	4,930	7,981	7,517
Fair value adjustment of warrant obligation	3,252	—	—	—	—	—
Other income (expense)	(798)	574	176	1,306	(370)	(202)
Earnings (loss) before income taxes	(61,955)	12,469	(8,974)	(80,060)	(155,240)	83,675
Income tax expense (benefit)	57,919	3,128	1,332	(6,097)	(49,677)	26,776
Net earnings (loss)	(119,874)	9,341	(10,306)	(73,963)	(105,563)	56,899
Preferred dividend	947	5,632	3,051	4,557	—	—
Net earnings (loss) applicable to common shares	\$ (120,821)	\$ 3,709	\$ (13,357)	\$ (78,520)	\$ (105,563)	\$ 56,899
Basic earnings (loss) per common share	\$ (2.37)	\$ 0.07	\$ (0.26)	\$ (1.55)	\$ (2.17)	\$ 1.29
Weighted average number of common shares outstanding	51,015	51,166	50,840	50,716	48,540	43,962
Diluted earnings (loss) per common share	\$ (2.37)	\$ 0.07	\$ (0.26)	\$ (1.55)	\$ (2.17)	\$ 1.28
Weighted average number of diluted common shares outstanding	51,015	52,309	50,840	50,716	48,540	44,430
<b>Balance Sheet Data (end of year):</b>						
Working capital	\$ 114,940	\$ 204,600	\$ 181,366	\$ 183,412	\$ 213,612	\$ 245,870
Total assets	248,445	387,335	365,633	381,769	451,748	493,016
Short-term debt, including current maturities of long-term debt	2,142	2,312	1,207	1,154	1,067	986
Long-term debt, net of current maturities	51,430	20,088	7,077	7,886	8,947	10,011
Stockholders' equity	151,337	331,037	325,403	335,015	396,974	415,700
<b>Other Data:</b>						
Capital expenditures	\$ 8,230	\$ 9,202	\$ 2,837	\$ 3,077	\$ 9,326	\$ 6,960
Depreciation and amortization	13,237	17,535	11,448	22,835	20,776	16,816

Results for each of the years ended December 31, 2002 and 2001, the seven months ended December 31, 2000 and the year ended May 31, 2000 include specific charges (if applicable) as discussed in Note 18 of *Notes to Consolidated Financial Statements*. For the year ended May 31, 1999, charges of \$77.0 million were included in cost of sales relating to inventory write-downs of \$57.0 million and warranty reserves and other product related contingencies of \$20.0 million. In addition, charges of \$1.1 million primarily related to prototype development costs were included in research and development, along with charges of \$46.4 million included in general and administrative expenses related to accounts and notes receivable allowances of \$39.9 million, the early termination of a facility lease and other restructuring costs of \$2.6 million and employee severances and other expense totaling \$3.9 million. Charges of \$14.5 million were included in impairment of long-lived assets for the year ended May 31, 1999.

## COMPANY PROFILE

Input/Output is a major provider of seismic equipment and acquisition imaging technology for land, marine, transition zone exploration, production and reservoir monitoring. The company specializes in technology that creates value for the energy industry in the areas of 2D, 3D, 4D and multicomponent seismic data.

## LETTER TO SHAREHOLDERS

2002 was a difficult year for the seismic industry and for I/O. However, we took decisive steps to both reduce our cost structure to better match current industry conditions, and to position I/O for growth. We followed a three-part strategy: (1) reduce costs in order to provide products and services at prices our customers are willing to pay, (2) move our VectorSeis® technology into the mainstream, and (3) broaden the Company's product and service offerings to address reservoir segment opportunities, especially those that will accelerate the market penetration of VectorSeis. We believe that I/O is positioned to deliver solid financial results from our existing core products and from our VectorSeis product line as industry activity improves.

Before discussing I/O's strategy in depth, I must mention I/O's biggest achievement of 2002. In November, we negotiated the sale of the first VectorSeis digital acquisition system to BGP, a subsidiary of the China National Petroleum Company. Our VectorSeis platform allows recording of shear waves, as well as traditionally recorded p-waves. Oil companies can use multicomponent data recorded by VectorSeis to infer physical properties of reservoirs such as fracture density and orientation, rock porosity, and hydrocarbon saturation. The VectorSeis sensor's ability to operate in any orientation results in numerous operational efficiencies for geophysical contractors. Other advantages include reduced weight, power consumption, and deployment time.

The first part of our strategy, optimizing our core businesses, led us to restructure our manufacturing operations to reduce both the unit cost of our products and our fixed cost structure. We announced our intention to vacate the Alvin, Texas manufacturing facility, and I anticipate that we will complete that process by the end of the first half of 2003. We also announced that we would

vacate our Norwich, U.K. manufacturing facility, and we completed that process at the end of the first quarter of 2003. Finally, we combined our software development group in Boulder, Colorado with our seismic processing group in Denver. These efforts will result in the elimination of approximately 270,000 square feet of space.

We have been able to exit these facilities through outsourcing our non-core manufacturing processes. Stewart & Stevenson now manufactures our land energy sources. We outsourced our cable manufacturing operations to Mexico and transferred much of our geophone stringing operations to a new facility in Jebel Ali, Dubai.

We expect to see improvement in our gross margins as our sales become less burdened by under-absorption of fixed and semi-fixed costs. In addition, we expect that commercialization of the cable-based VectorSeis System Four™ land acquisition system will bring dramatic reductions in our research and development expenses.

While reducing costs makes sense, our shareholders also expect growth. We believe that growth will come primarily from VectorSeis systems for land and ocean-bottom applications. VectorSeis has proven its efficiency and effectiveness in land acquisition. Our alliance partner, Veritas DGC, operated a fully-booked VectorSeis crew in Canada during the winter acquisition season with both repeat and new customers. One of the most useful applications of VectorSeis has been enhanced imaging of heavy oil reservoirs. Multicomponent data provide additional information over p-wave data for imaging these reservoirs. Veritas also reported that crew productivity with our new VectorSeis System Four is even better than anticipated, as they set new records for the number of shots acquired in a day.

## EXPERTISE

## OUR STRATEGY IS SHAPING THE FUTURE OF OUR COMPANY

# INNOVATION

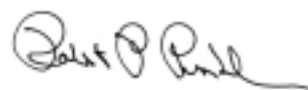
In 2002, we also conducted a test of our ocean-bottom VectorSeis imaging technology in the North Sea. The data are still in processing, but preliminary results indicate that the data quality is superb and much better than that acquired with conventional ocean-bottom technology. Based on this success, we are now negotiating with a number of companies for the purchase of both retrievable and permanent VectorSeis ocean-bottom systems.

In March 2003, we announced an alliance with ABB Offshore Systems to jointly market ocean-bottom permanent monitoring systems based on VectorSeis technology. We believe that combining ABB's proven subsea infrastructure expertise with our VectorSeis imaging technology will reduce historically high costs of OBC acquisition while improving data quality and reliability.

The final part of our strategy is to accelerate our reservoir strategy and our product and service offerings. We have had success with VectorSeis-based retrievable ocean-bottom systems in the North Sea, and with microseismic acquisition in permanent downhole and ocean-bottom environments. In July 2002, we acquired AXIS Geophysics to provide VectorSeis data processing support, especially for our customers outside North America. In addition, AXIS provides processing that addresses reservoir issues such as fracturing and fluid saturation using techniques such as anisotropy and AVO analysis. We envision that AXIS will serve as a platform to expand our product and service offerings to the less cyclical reservoir and production E&P market segments. Finally, our alliance with ABB should accelerate our penetration of the emerging permanent reservoir monitoring market.

Lately, I have been asked several times why the seismic industry had such a poor year in 2002 despite higher commodity prices. While oil prices began the year at \$21 per barrel and ended the year at \$32 per barrel, and natural gas prices began at \$2.35 per MCF and ended at \$4 per MCF, the number of active seismic crews worldwide declined 17% throughout the year. I believe that 3D seismic has become a mature technology especially in the United States, and targets that remain to be imaged with it are few and relatively small. The E&P industry requires new seismic imaging technology to generate a new wave of attractive investment opportunities. I believe that the ability of multicomponent technology to better image reservoirs and to measure reservoir properties such as lithology and fluids will generate many such opportunities.

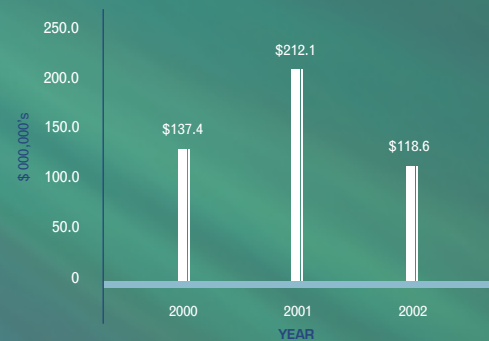
I am excited that my first year as Chief Executive Officer of I/O comes at this critical moment in the company's history. Just as Input/Output was instrumental in introducing cost-effective 3D seismic technology, I believe that the Company will play a similarly pivotal role in commercializing multicomponent technology. I am proud of our employees' dedication and hard work in restructuring our business. Their efforts have made I/O stronger and better able to generate long-term, profitable growth. I look forward to reaping the benefits of that hard work with all of our customers and shareholders.



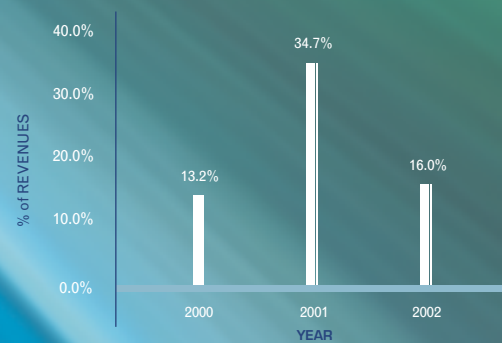
Robert P. Peebler  
President and Chief Executive Officer



#### NET SALES



#### GROSS PROFIT PERCENTAGE



#### EARNINGS (LOSS) PER COMMON SHARE



#### CASH



## EXECUTIVE MANAGEMENT

Robert P. Peebler

President and Chief Executive Officer

Larry Denver

Vice President,

Marketing and Business Development

Brad Eastman

Vice President,

Chief Administrative Officer and Secretary

Bjarte Fageraas

Vice President and

Chief Technology Officer

Laura Guthrie

Vice President, Human Resources

## DIRECTORS

James M. Lapeyre, Jr.

President and Chairman of the Board

The Laitram Corporation

Theodore H. Elliott, Jr.

Chairman

Prime Capital Management Company

Franklin Myers

Senior Vice President of Finance

and Chief Financial Officer

Cooper Cameron Industries

Robert P. Peebler

President and Chief Executive Officer

Input/Output, Inc.

Timothy J. Probert

Senior Vice President,

Drilling and Evaluation

Halliburton

Sam K. Smith

Consultant, Private Investments

## INVESTOR RELATIONS

### BY TELEPHONE, E-MAIL OR WEBSITE

Shareholders, securities analysts, portfolio managers or brokers seeking information

about the company are welcome to call

Investor Relations at (281) 933-3339. If

you prefer, you may send your requests

to the Investor Relations' e-mail address:

ir@i-o.com. Recent news releases,

financial information and SEC filings

can be downloaded from the company's

web site.

### ANNUAL REPORT ON FORM 10-K

Input/Output's Annual Report on Form 10-K

for the fiscal year ended December 31, 2002,

although furnished as an integral part of

this Annual Report to Shareholders, is

also available upon request without charge

from Input/Output, Inc., Attn: Investor

Relations, 12300 Parc Crest Drive,

Stafford, Texas 77477.

### ANNUAL MEETING

The Annual Meeting of Shareholders of

Input/Output, Inc. will be held at 12200

Parc Crest Drive, Stafford, Texas 77477 at

9:00 AM. CST on Wednesday, June 11, 2003.

### STOCK TRANSFER AGENT

Computershare Investor Service L.L.C.

2 North LaSalle St.

Chicago, Illinois 60602-3705

Telephone: (312) 360-5286

## INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP

1201 Louisiana, Suite 2900

Houston, Texas 77002-5678

Telephone: (713) 356-4000

## STATEMENT FOR PURPOSES OF FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements as defined by the

Private Securities Litigation Reform Act of

1995. Forward-looking statements should

be read in conjunction with the cautionary

statements and other important factors

included 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 Report on Form 10-K for its

fiscal year ended December 31, 2002, which

accompanies and constitutes an integral

part of this Annual report to Shareholders.



INPUT/OUTPUT

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