



INPUT/OUTPUT, INC.
2000 Annual Report

COMPANY PROFILE

Input/Output is the energy industry's leading provider of seismic products, solutions and services. For more than 30 years, the Company has created customer value by providing seismic technologies that facilitate more cost-effective exploration and field development decisions for worldwide energy producers.

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The Cover:
As depicted in this graphic design, Input/Output's new strategies focus on People (Organization and Alignment), Profits (Financial Performance) and Innovation (Technology). Related goals and progress are discussed throughout this report.

LETTER TO SHAREHOLDERS

Fiscal 2000 was another difficult year for the geophysical industry and for Input/Output. Our revenues for the year ended May 31, 2000 were \$121.5 million, down 38% from \$197.4 million last year. We also reported a net loss of \$1.55 per common share for the current year compared to a loss of \$2.17 per share in fiscal 1999. In particular, gross margins were negatively affected due to intense pricing pressure and under-utilization of manufacturing capacity in a number of the Company's product lines. This year's net loss included special charges totaling \$1.00 per common share.

Nevertheless, the end of the year brought several positive indications of improving future activity. Oil and natural gas prices rose dramatically during the year stimulating increased drilling activity. Historically, increased drilling activity has led to greater seismic activity. In this regard, we are beginning to see tangible signs that our customers' land business is improving. We also took a number of steps during the year to strengthen Input/Output and better position the Company for opportunities we expect will arise in the next phase of the industry cycle. Most importantly, our employees are now focused on a new Company mission with specific strategies and goals to promote our future success.

INDUSTRY

Steadily improving crude oil pricing created strong cash flows for the major oil companies. Led by North America, drilling activity advanced from historic lows in the latter half of 1999 and strengthened through the first half of calendar 2000. Growing exploration budgets suggest rig counts will continue to increase in the year ahead. Additional seismic data will be necessary to identify new prospects to sustain this increasing drilling activity. Unfortunately, a significant inventory of seismic prospects, particularly marine, was accumulated as drilling activity declined in 1998-1999. The recovery in seismic activity will lag improving rig counts as this inventory is eliminated. We are seeing indications that balance is returning to the land seismic market. However, the outlook for marine is still clouded by excess capacity.

OUR STRATEGIES

To best position the Company for the expected market recovery and take advantage of other technical and strategic opportunities, we have developed two sets of interdependent operating and financial strategies designed to optimize our performance. These strategies capitalize on our key strengths: technology, financial stability, and people.

OPERATING STRATEGIES: Our first priority is to ensure the Company's existing businesses operate in an efficient, responsive manner, consistently providing customers with superior service and technology. To accomplish this, we have reorganized our operating units into product-oriented profit centers so we have stronger external focus on customer needs and can better identify the value we bring them. We have also established a reservoir group, initially drawing from our land and marine resources, to begin exploiting opportunities in this promising sector. Finally, in fiscal 2001 we are committed to commercializing our VectorSeis™ digital sensor and related products along with our next generation land system.

FINANCIAL STRATEGIES: Last year, we made good progress reducing receivables and inventories. We will continue our aggressive efforts to monetize under-utilized assets to free liquidity for other uses. Cash applications may include: (1) pursuing alternate markets for our micro-machine manufacturing capabilities, (2) growing the business through strategic acquisitions and alliances, and (3) completing the share maintenance program announced in July 2000 to repurchase up to 1,000,000 shares of the Company's common stock during fiscal 2001.

FUTURE POSITIONING

As this report further details, we have taken the necessary steps to position the Company for the future. The organization is now focused on our new directions. We have the right people in the right places. Our technology path is clear and on track. We are financially sound. With one of the strongest balance sheets in the industry, we can respond nimbly and aggressively to opportunities that arise. We have processes in place to speed new product commercialization. Behind all this, there are tangible indications a broad industry recovery may be in sight.

Our goal in the future and mission as a Company is simple. Our talented people will continue to create profitable and innovative geophysical systems that continuously improve image quality and acquisition economics for our clients. This mission is supported by specific strategies in each core area. Thank you for your patience. We will get the job done.

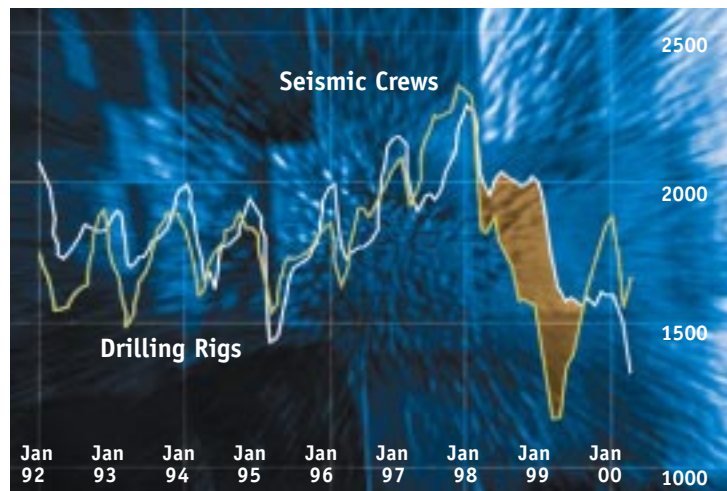


James M. Lapeyre, Jr.
Chairman of the Board



Timothy J. Probert
President and
Chief Executive Officer

ACTIVITY. Traditionally, worldwide seismic activity and drilling activity have been closely linked. The interpretation of seismic data allows geoscientists to identify prospects that may contain accumulations of hydrocarbons suitable for drilling. In response to declining energy prices and shrinking oil company cash flows, global drilling rig counts started to decline in early 1998. By April 1999, they reached historic lows. Fueled largely by a continued expansion of seismic contractors' data libraries, or "spec" data, seismic crew counts during this time remained at levels close to historic highs. This break in the historic correlation between seismic crew counts and drilling rig counts created what some industry experts have termed a "data bubble", a surplus inventory of seismic data over that required to accommodate current drilling activity. This phenomenon was particularly evident in the marine sector. However, by early 1999,



reduced contractor operating cash flows finally caused a decline in seismic activity. By mid-1999, seismic crew counts had also dropped to levels close to historic lows.

IMPACT

The decline in demand for seismic data severely affected the seismic contractor community. Three major publicly-traded customers – Western Geophysical, Schlumberger and PGS – each announced substantial write-offs totaling almost \$290 million. These charges each included costs associated with the substantial surplus of marine seismic data acquisition capacity, principally vessels. Analysts estimate that about 20% of the marine seismic vessel fleet has been de-rigged and stacked. Also, on May 31, 2000, Schlumberger

Sustained seismic crew activity following rig count decline caused a seismic "data bubble."

and Baker Hughes announced the prospective merger of their respective seismic operations, Western Geophysical and Geco-Prakla. This consolidation, if consummated, may be indicative of further consolidation within the sector.

The land acquisition sector also experienced significant numbers of idled crews. As a result, Input/Output's sales of new acquisition equipment, both land and marine, slowed sharply. We have responded to the current realities of the marketplace. By aggressively reducing costs while maintaining our key technology initiatives as planned, we believe Input/Output will fully participate in, and benefit from, the expected industry recovery.



By aggressively reducing costs while maintaining our technology initiatives, we ensure that Input/Output will benefit from the anticipated industry upswing.



People are key to an organization's success and ability to serve the market.

Input/Output's People strategy

is to:

IMPROVE OUR WORK PROCESSES AND GET THE RIGHT PEOPLE IN THE RIGHT PLACES TO "TURNAROUND" THE COMPANY AND REACH OBJECTIVES.

THE ORGANIZATION. This year, Input/Output reorganized its operations along product groups, each headed by a business unit manager with full profit and loss responsibility to generate additional external focus on customers and competitors. Our Land Operations now consist of three business units: Acquisition Systems, Sensors, and Energy Sources and Vehicles. Marine Operations consist of four business units: Acquisition Systems, Streamers and Ocean Bottom Systems, Positioning, and Energy Sources. A third group, Reservoir Operations, was also created this year.

This product group organization helps accomplish three important Company goals.

First, by focusing on products instead of functions, we help ensure that we are looking outward, not inward.

Second, we have taken this opportunity to review the talented people in our organization to ensure we have the right person in the right position to make the greatest positive impact.



Third, the profit and loss focus on product groups greatly aids our ability to improve profitability. Our managers understand that each business unit must achieve a reasonable return on capital employed.

MANAGEMENT TEAM

One of the most significant events in fiscal 2000 was the successful recruiting of a new management team for the Company. Effective March 1, 2000, Tim Probert joined Input/Output as President and Chief Executive Officer. Tim worked many successful years at Baker Hughes, most recently as President of the INTEQ Division. In November 1999, Bob Bunch also joined the

I/O Executive Team (left to right): Tom Connolly, Bud Pope, Tim Probert, Rex Reavis, Bob Bunch

Company as Vice President and Chief Administrative Officer. Bob is an attorney and CPA with a broad mixture of operating and administrative experience in the oil service industry. Effective June 1, 2000, Bud Pope became Vice President – Land Operations and Rex Reavis became Vice President – Marine Operations. Tom Connolly continues to serve as Vice President – Manufacturing. This talented executive team should lead the Company's turnaround to what promises to be increasing success in the coming years.

A number of important strides were taken in the past year toward positioning our Company for future success.

First, an aggressive cost-cutting effort produced significant tangible results. General and administrative expenses were reduced by \$13.0 million, or about 47%, after adjusting for unusual items. Marketing and sales expenses declined \$3.9 million, or about 28%, compared to the previous year. On an operating basis, management's aggressive efforts to reduce costs restored the Company to approximately break-even operating cash flow after adjustments for special

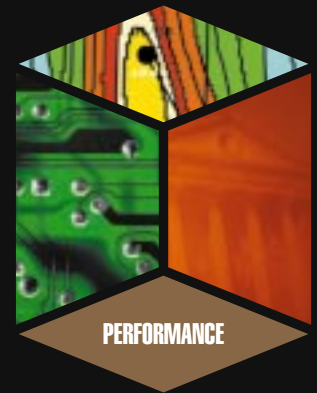
charges in the fourth quarter ended May 31, 2000. Although more can and will be done, these results demonstrate management's commitment to align the Company's cost structure with the current operating environment.

Second, the Company ended the year with about \$100 million in cash and roughly \$9 million in debt, giving it one of the strongest balance sheets in the industry. Notes receivable were reduced by about \$21 million and inventories declined by over \$27 million, contributing to the approximately \$25 million increase in cash since May 1999.

Third, the company continued to invest in the future during fiscal 2000. Research and development spending exceeded \$28 million, evidencing our commitment to remain a technological leader in the seismic equipment industry.

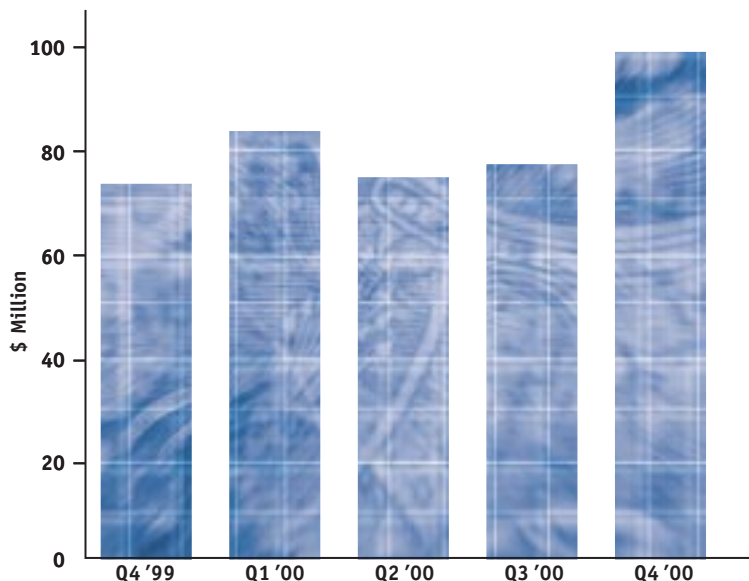
With our strong balance sheet, reduced cost structure and technological commitment, I/O has the resources to aggressively promote new technology offerings planned for fiscal 2001 and beyond, and to quickly capitalize on other new opportunities.

On another positive note, we see signs of improving volume and pricing in some of our land products. We will continue to concentrate on reducing costs, improving revenues and margins and providing the highest quality products and services to our customers.



In difficult market conditions and with an eye to the future, a company must plan accordingly. Input/Output's Profit strategy is to: FOCUS ON OPPORTUNITIES WHERE WE CAN EXECUTE BETTER AND FASTER TO "TURN AROUND" THE COMPANY AND RESTORE PROFITS.

Strengthening Cash Position





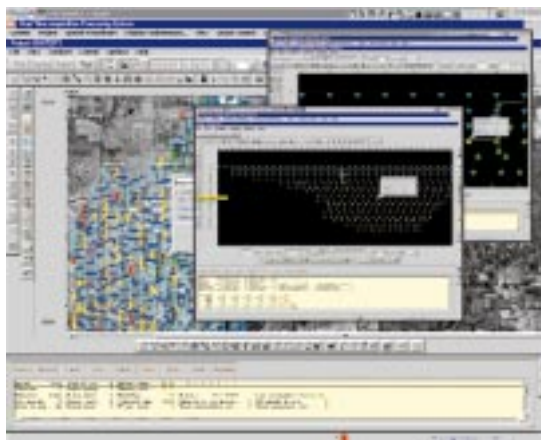
Continuous technology development is critical to future success. Input/Output's Innovation strategy is to: INNOVATE FASTER AND MORE AGGRESSIVELY TO DEMONSTRATE A "TURNAROUND" IN THE GENERATION OF CLIENT VALUE AND CONFIDENCE.

BUILDING ON THE PAST. As an established leader in land and marine seismic data acquisition systems, Input/Output has built a strong industry reputation for providing innovative products that add

significant customer value. The Company was instrumental in developing the enabling technology that made possible the acquisition of 3-D seismic, perhaps the most significant tool of the last decade for enhancing exploration effectiveness.

SERVING CUSTOMERS TODAY

Despite the negative impacts of industry conditions on the seismic sector, Input/Output continued to devote substantial resources to research and engineering. In fiscal 2000, we invested in an array of land, marine and reservoir



The latest I/O SYSTEM 2000™ software integrates radio and cable into one system which increases the efficiency of a land acquisition crew.

projects that accounted for more than 15 significant product introductions during the year.

On land, we successfully introduced the I/O SYSTEM 2000. This new central electronic recording system offers significant enhancements to aid the efficiency of seismic data acquisition. It incorporates embedded workflow design, planning, quality control and pre-processing tools from the Company's established GMG knowledgeware toolkit.

To enhance our significant capabilities with radio-based telemetry acquisition in

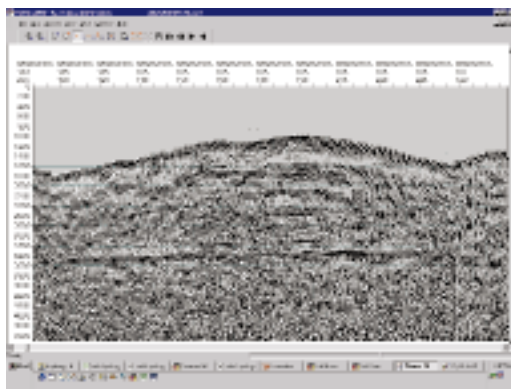
difficult terrain, we also introduced the unique Transcriber 2. This system offers transcription capabilities up to four times faster than its predecessor, decreasing acquisition time and reducing crew requirements.

In marine applications, we introduced the Pro2000™ line of positioning equipment that uses an elegant inductive coupling device, obviating the need for lithium batteries, long considered an HS&E hazard in the marine environment.

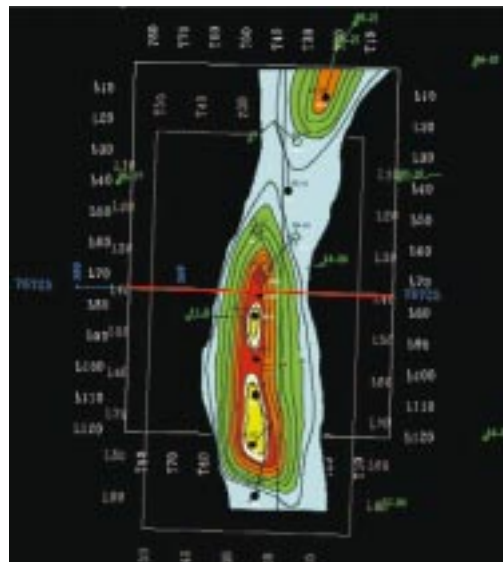
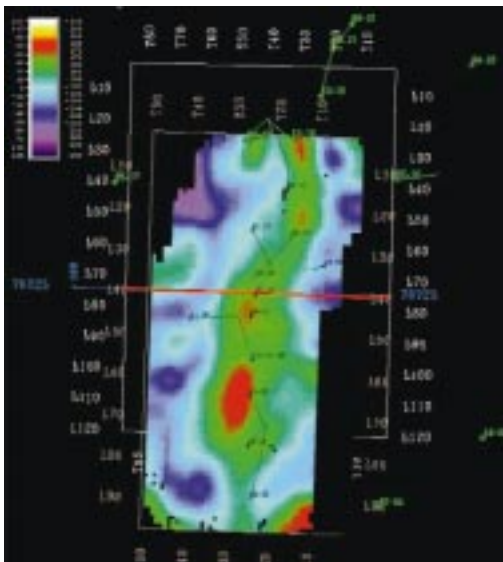
DESIGNING THE FUTURE

Input/Output's strategies focus on innovation. They are driven by an uncompromising desire to meet the evolving needs of the industry with leading edge seismic technology.

We are dedicated to doing this with talented engineers, geoscientists and support staff who are



The Transcriber 2™ complements the I/O SYSTEM 2000 by merging the radio and cable data seamlessly. The transcription capabilities are up to four times faster than its predecessor.



In fiscal 2000, I/O continued its extensive testing program of the VectorSeis™ sensor. This example compares a rock properties map (V_p/V_s) derived from VectorSeis data with a net sand map derived from actual well log data. There is a high degree of correlation between the two maps. I/O is conducting additional collaborative surveys to further demonstrate the benefits of 3C.

committed to industry leadership in seismic acquisition. They will drive our steady flow of product innovations and with improved product development processes now in place, we will be able to do this faster and more efficiently in the future.

SERVING CUSTOMERS TOMORROW

We continue to be very excited about the opportunities afforded by our VectorSeis™ 3-component program. During the last year, we achieved a number of important milestones. These have culminated in a micro-machined digital sensor module that has a broad dynamic range, outstanding low frequency response and high vector fidelity. This digital technology has now

entered pre-commercial testing. It has outstanding potential to markedly improve the subsurface image and the inference of key reservoir attributes including porosity, saturation and fracture density. Digital systems offer high levels of acquisition and processing efficiency compared to analog systems.

In addition, I/O continues to develop a multiple energy source vehicle called the Sidewinder™. This vehicle-mounted vibrator sequentially generates both vertical and two horizontal seismic wave signatures without repositioning. Sidewinder represents another important element in the development of a complete 3-component platform for

our land customers.

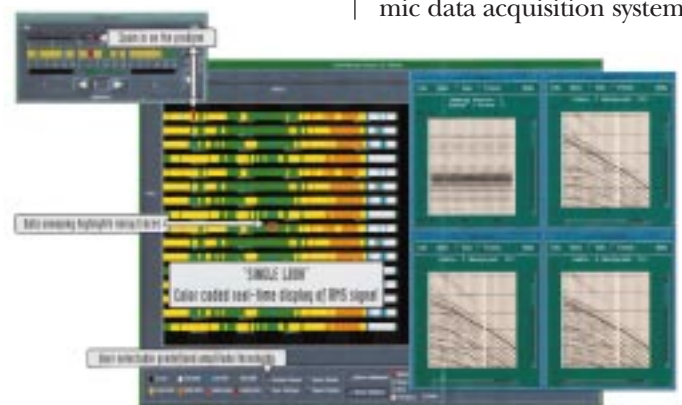
An enhancement of the I/O SYSTEM 2000™ that allows seamless integration of the Company's cable and radio-based telemetry products is also undergoing field tests. In order to further improve acquisition economics for our customers, we continue to work towards the commercial introduction of lighter and faster systems that meet their stated needs.

This new architecture will incorporate both 1-C and new 3-C technology.

To improve overall field productivity, Input/Output will continue to extend seismic acquisition from solely an exploration tool to reservoir exploitation applications. Our permanently installed vertical array system affords the opportunity to perform

reservoir monitoring along with time lapse/4D in new or existing wellbores. Additionally, the Company has actively participated in developing and supplying technology to advance the industry's ocean bottom acquisition capabilities.

In the future, I/O will continue to devote the resources necessary to remain a technological and market leader in land, marine, and reservoir seismic data acquisition systems.



I/O's MSX™ Marine Acquisition System incorporates the latest technology architecture to ensure capacity expansion and support as our customers' needs grow.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below with respect to our consolidated statements of operations for the five fiscal years ended May 31, 2000, 1999, 1998, 1997 and 1996 and with respect to our consolidated balance sheets at May 31, 2000, 1999, 1998, 1997 and 1996 have been derived from our audited 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 our consolidated financial statements and the notes thereto included in our Form 10-K. Our results of operations and financial condition have been affected by acquisitions of businesses and special charges during certain of the periods presented which may affect the comparability of the financial information contained below. See notes 8 and 15 of Notes to the Consolidated Financial Statements.

Year Ended May 31, (IN THOUSANDS, EXCEPT PER SHARE DATA)	2000	1999	1998	1997	1996
STATEMENT OF OPERATIONS DATA:					
Net sales	\$ 121,454	\$ 197,415	\$ 385,861	\$ 281,845	\$ 278,283
Cost of sales	106,642	205,215	226,514	183,438	163,811
Gross profit (loss) ⁽¹⁾	14,812	(7,800)	159,347	98,407	114,472
Operating expenses:					
Research and development ⁽²⁾	28,625	42,782	32,957	22,967	23,243
Marketing and sales	10,284	14,193	14,646	13,288	12,027
General and administrative ⁽³⁾	21,885	80,932	28,295	36,186	19,096
Amortization and impairment of intangibles ⁽⁴⁾	39,488	16,247	6,008	4,551	4,305
Total operating expenses	100,282	154,154	81,906	76,992	58,671
Earnings (loss) from operations	(85,470)	(161,954)	77,441	21,415	55,801
Interest expense	(826)	(897)	(1,081)	(793)	(2,515)
Interest income	4,930	7,981	7,517	3,942	3,124
Other income (expense)	1,306	(370)	(202)	(267)	(33)
Earnings (loss) before income taxes	(80,060)	(155,240)	83,675	24,297	56,377
Income tax (benefit) expense	(6,097)	(49,677)	26,776	7,700	17,700
Net earnings (loss)	(73,963)	(105,563)	56,899	16,597	38,677
Preferred dividend	4,557	—	—	—	—
Net earnings (loss) applicable to common stock	\$ (78,520)	\$ (105,563)	\$ 56,899	\$ 16,597	\$ 38,677
Basic earnings (loss) per common share	\$ (1.55)	\$ (2.17)	\$ 1.29	\$ 0.38	\$ 0.98
Weighted average number of common shares outstanding	50,716	48,540	43,962	43,181	39,631
Diluted earnings (loss) per common share	\$ (1.55)	\$ (2.17)	\$ 1.28	\$ 0.38	\$ 0.95
Weighted average number of diluted common shares outstanding	50,716	48,540	44,430	43,820	40,609
BALANCE SHEET DATA (END OF YEAR):					
Working capital	\$ 183,412	\$ 213,612	\$ 245,870	\$ 170,427	\$ 165,225
Total assets	381,769	451,748	493,016	384,658	355,465
Short-term debt, including current installments of long-term debt ⁽⁵⁾	1,154	1,067	986	912	—
Long-term debt ⁽⁵⁾	7,886	8,947	10,011	11,000	—
Stockholders' equity ⁽⁶⁾	335,015	396,974	415,700	338,614	317,204
OTHER DATA:					
Capital expenditures	\$ 3,077	\$ 9,326	\$ 6,960	\$ 26,966	\$ 10,240
Depreciation and amortization	22,835	20,776	16,816	12,558	10,152

1. Fiscal year 2000 includes charges of \$12.0 million and fiscal year 1999 includes charges of \$77.0 million. See Note 15 of Notes to Consolidated Financial Statements for further information with respect to these charges.

2. Fiscal year 1999 includes charges of \$1.1 million. See Note 15 of Notes to Consolidated Financial Statements for information with respect to these charges.

3. Fiscal year 2000 includes charges of \$7.2 million, fiscal year 1999 includes charges of \$53.2 million and fiscal year 1997 includes charges of \$15.6 million. See Note 15 of Notes to Consolidated Financial Statements for information with respect to these charges in 2000 and 1999.

4. Fiscal year 2000 includes charges for \$31.6 million and fiscal year 1999 includes charges of \$7.7 million. See Note 15 of Notes to Consolidated Financial Statements for information with respect to these charges.

5. See Notes 6 and 16 of Notes to Consolidated Financial Statements for information with respect to this indebtedness and certain contingent obligations.

6. See Note 7 of Notes to Consolidated Financial Statements for information with respect to changes in capital structure.

SHAREHOLDER INFORMATION

EXECUTIVE MANAGEMENT

Timothy J. Probert
President and Chief Executive Officer

C. Robert Bunch
Vice President and
Chief Administrative Officer

Thomas C. Connolly
Vice President, Manufacturing

Kenneth Pope
Vice President, Land Division Operations

Rex Reavis
Vice President, Marine Division Operations

DIRECTORS

James M. Lapeyre, Jr.
President, The Laitram Corporation

David C. Baldwin
Managing Director, SCF Partners

Robert P. Brindley
Chairman and CEO, Blue Water Ventures

Ernest E. Cook
Chairman, CBN Energy Ltd.

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

Robert P. Peebler
Vice President of e-Business Strategy and
Ventures, Halliburton Company

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

Sam K. Smith
Consultant, Private Investments

William F. Wallace
Consultant, The Beacon Group

INVESTOR RELATIONS

BY TELEPHONE, E-MAIL OR WEBSITE

Shareholders, securities analysts, portfolio managers or brokers seeking information about the company are welcome to call the Investor Relations Department at (281) 933-3339. If you prefer, you may send your inquiries over the internet to Investor Relations' e-mail address: ir@i-o.com. Input/Output's home page is located at: <http://www.i-o.com>. Recent news releases, financial information and SEC filings can be downloaded from the company's web site.

COMMON STOCK

The company's common stock trades on the New York Stock Exchange (NYSE) under the symbol "IO". Prior to November 14, 1994, the company's common stock was traded on the National Association of Securities Dealers Automated Quotation System (NASDAQ) under the symbol "IPOP". The following table sets forth the high and low last reported sales prices of the common stock for the periods indicated, as reported on the NYSE composite tape.

Period	Price Range	
	High	Low
Fiscal 2000		
Fourth Quarter	\$ 8 ¼	\$ 5 ½
Third Quarter	6 ⅛	4 ¼
Second Quarter	8 ¾	4 ⅞
First Quarter	8 ⅝	7
Fiscal 1999		
Fourth Quarter	\$ 8 ¾	\$ 5 ¾
Third Quarter	7 ⅞	5 ⅞
Second Quarter	11	6 ¾
First Quarter	21 ⅞	9 ¾

Input/Output historically has not paid, and does not intend to pay in the foreseeable future, cash dividends on its common stock. The company presently intends to retain earnings for use in its business, with any future decision to pay cash dividends on common stock dependent upon its growth, profitability, financial condition and other factors the Board of Directors may deem relevant.

ANNUAL REPORT ON FORM 10-K

Input/Output's Annual Report on Form 10-K for the fiscal year ended May 31, 2000, although furnished as an integral part of this Annual Report to Shareholders, is also available upon request without charge. Please direct your request to: Input/Output, Inc., Attn: Investor Relations Department, 12300 Charles E. Selecman Drive, Stafford, Texas 77477-3626.

ANNUAL MEETING

The Annual Meeting of Stockholders of Input/Output, Inc., will be held at the Stafford Civic Center, 1415 Constitution Avenue, Stafford, Texas, 77477 at 3:00 p.m. CDT on Monday, September 25, 2000.

CORPORATE HEADQUARTERS

Input/Output, Inc.
12300 Charles E. Selecman Drive
Stafford, Texas 77477-3626
Telephone: (281) 933-3339

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

STATEMENT FOR PURPOSES OF FORWARD LOOKING STATEMENTS

Forward-looking statements contained in this Annual Report to Shareholders concerning expected results and increases in value from new technologies, future benefits for shareholders, customers and employees resulting from the company's initiatives underway and future technological leadership in the company's industry are made under the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risks and uncertainties which may cause actual results to differ materially from anticipated results. These risks and uncertainties include the chance that the processes and procedures implemented do not produce the desired results due to lack of commercial acceptance, commercial feasibility issues, failures of the technology to perform as expected, management issues or competitive pressures, and the other risks detailed from 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 May 31, 2000, which accompanies and constitutes an integral part of this Annual Report to Shareholders. The accompanying Form 10-K of Input/Output, Inc. for its fiscal year ended May 31, 2000, as filed with the Securities and Exchange Commission, is incorporated by reference into and constitutes an integral part of this Annual Report.





12300 CHARLES E. SELECMAN DRIVE
STAFFORD, TEXAS 77477-3016
TEL: (281)933-3339
FAX: (281)879-3632
WWW.I-O.COM
E-MAIL: IR@I-O.COM