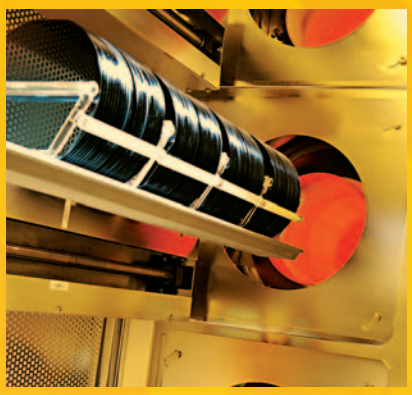
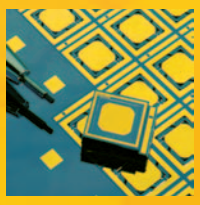
INPUT/OUTPUT

2003 ANNUAL REPORT

A NEW **REVOLUTION**


A NEW IMAGE
IN SEISMIC TECHNOLOGY





A NEW VISION

The year 2003 marked a turning point in the 35 year history of I/O. A new management team came on board, laser-focused in their goal to improve I/O's operating performance and align the company with the next era of seismic imaging – Digital Full-wave. The era of Digital Full-wave imaging technologies will address the most difficult geophysical challenges of the global oil and gas business, helping industry participants to find more hydrocarbons, quicker, and at ever lower costs.

I/O has, and is currently developing, the technology solutions that are vital to lead the E&P industry into the Digital Full-wave era. These include sensors for acquisition on land and on the seabed. Seismic acquisition platforms that provide step-change improvements in field operational efficiencies. Next-generation hardware and software for the global seismic vessel fleet. Processing solutions that enhance the quality and resolution of the final seismic image. And services across the seismic workflow that enable oil and gas companies and seismic contractors to better apply, and gain a competitive advantage from, our broad portfolio of technology solutions at all stages of the petroleum reservoir life-cycle.

I/O is a renewed company poised to tackle the challenges and capture the opportunities of a new era in seismic imaging. Our mission at I/O is clear – to give seismic a whole new image. The revolution has begun.

GIVING SEISMIC A WHOLE

MILESTONES

- Developed strategy and operational planning roadmaps
- Expanded efforts internationally
- Strengthened management team
- Realigned organization and built institutional skills
- Reduced quarter-on-quarter operating costs
- Improved margins and balance sheet
- Sold $20 million in VectorSeis-based systems

LETTER TO SHAREHOLDERS

A journey of a thousand miles begins with a single step. In reflecting on this ancient Chinese proverb during my recent visit in Beijing, I was struck by how this simple saying describes the journey we began in 2003. We hit several important milestones in our journey to remake I/O during the past year, and I want to share those with you.

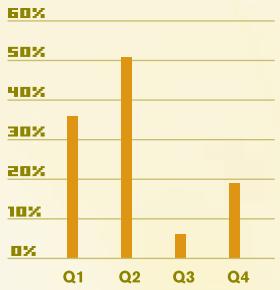
I also want you to better understand the journey we plan to undertake together in the years to come. I can't assure you exactly what our final destination will look like, but we have a clear vision of where we want to take the company. I am quite sure that those who join us along the way won't be disappointed as we are poised at the beginning of a new future for the seismic imaging business.

Over the next several pages, I'll describe both where we've been and where we're going as I/O begins to Give Seismic a Whole New Image.

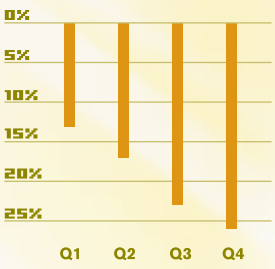
THE FIRST STEPS
IN OUR JOURNEY

The year 2003 represented a year of substantial progress across all areas of the company. While there are many highlights, our critical accomplishments can be grouped in four key areas in which we:

- **IMPROVED OUR FINANCIAL POSITION**
- **DEVELOPED OUR VISION FOR THE FUTURE**
- **CONTINUED OUR HISTORY OF INNOVATION AND EXPANSION**
- **MOBILIZED THE TALENT TO DELIVER**



2003/2002 QUARTERLY REVENUE GROWTH



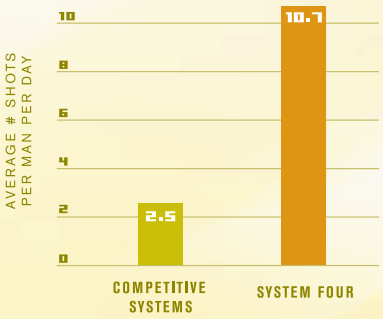
2003/2002 QUARTERLY **OPEX** (R&D, M&S AND G&A) **DECLINE**

IMPROVED OUR FINANCIAL POSITION

The shareholders of I/O weathered a few rough years as the seismic industry suffered a prolonged downturn that began in 1998.

I am pleased to report that, after seven quarters of being in the red, we delivered on our commitment to achieve breakeven or better financial performance by year's end. While our fourth quarter earnings of one cent per share are modest, it is a first step in our journey to deliver improved financial performance. Our gross margins have improved, reaching 26% in the fourth quarter. This is a step in the right direction toward our 2004 goal of achieving gross margins in the low 30's.

We worked to strengthen our balance sheet throughout the year. Our first order of business was to reduce our short term debt and increase our cash position to support strategic acquisitions and provide the working capital to support our growth plans. We undertook a significant capital-raising effort during the fourth quarter through the issuance of $60 million in convertible securities. The offering was very well received by the market, lifting the cloud of uncertainty and allowing us to make the acquisition of Concept Systems in early 2004. Our second focus area was to improve our working capital position. We embarked on an outsourcing production model that will improve inventory turns and overall fixed capital deployed. We are already seeing the benefits from these steps.



INCREASE PRODUCTIVITY WITH SYSTEM FOUR

DEVELOPED OUR VISION FOR THE FUTURE

The improved performance was the result of the I/O team executing against a plan that was developed mid-year. During the early summer, nearly fifty people from across the company undertook an in-depth examination of our business. We debated our future internally and interviewed nearly one hundred customers. We analyzed our competitors, and we reflected on what we had done well (and what we hadn't) as a company.

What resulted was a unified view of the future. We now have a five-year strategic plan that guides our thinking every day, and our objective is to change the way the seismic industry creates value for the oil and gas companies and our shareholders.

One of the most exciting activities during the operational planning process was the review of our R&D portfolio. I was pleasantly surprised to see that I/O's history of excellence in technological innovation is alive and well. We have a series of next-generation products under development that will truly delight our customers, including both seismic contractors and oil and gas companies. Better yet, by getting focused on truly value-added products, we're going to bring these products to market with an R&D budget that was 35% less at year end 2003 than at the end of 2002. Going forward, we plan to spend around 10% of our revenues for R&D, aiming every dollar at new innovations that will help oil and gas companies find and produce oil and gas more effectively.

CONTINUED OUR HISTORY OF INNOVATION AND EXPANSION

I am pleased to report that our history of innovation continued during 2003.

In the second quarter, we brought to market a cable-based version of our System Four land acquisition platform, the "electronic brain" that interconnects our VectorSeis digital, full-wave sensors. System Four is based on a next-generation architecture that is easier for operators to use and provides more reliability in the field. Ease of use and reliability equal productivity. More productivity reduces seismic acquisition costs, improving customer margins in an industry where profits have been recently elusive. The early results of System Four have been even better than we anticipated. For example, we had a crew operating a System Four platform in Western Canada in temperatures approaching minus 40°C. Despite these harsh conditions, they recorded at substantially higher rates compared to other crews operating in this area.

LAND ACQUISITION IN CANADA

Despite having been available for less than a year, System Four enabled us to achieve our target of selling $20 million in VectorSeis-based land acquisition platforms. We sense that oil and gas companies are beginning to better appreciate the digital, full-wave images that result from using our VectorSeis sensor and that contractors are recognizing the operational benefits that come from System Four.

During our customer interviews, many contractors told us that not every oil company was yet prepared to undertake a survey based exclusively on digital sensor technology. We heard them, mobilized our engineers to act upon their feedback and will be delivering a hybrid, digital-analog compatible version of System Four in the second quarter of 2004. So whether our customers are excited by the potential of VectorSeis digital full-wave acquisition or still prefer analog geophones, we'll be able to meet their needs. This System Four extension provides a low risk pathway to the digital future by allowing contractors to seamlessly upgrade from an all-analog platform to an all-digital platform as market acceptance of next-generation, digital full-wave sensor technology accelerates.

The Western Canadian crew I mentioned earlier was acquiring data on behalf of Apache, our strategic partner for accelerating the adoption of next-generation seismic acquisition and processing technologies. The Apache relationship demonstrates the value of interacting more closely with the final beneficiaries of our technologies – the oil and gas companies. We have additional conversations underway with a variety of oil and gas companies to help them address their most pressing imaging challenges. These include subsalt imaging in the Gulf of Mexico, permanent reservoir monitoring applications in EOR (enhanced oil recovery) projects around West Texas, and imaging through gas clouds in Bohai Bay, China.

SYSTEM FOUR DIGITAL AND ANALOG

DIGITAL: VECTORSEIS

ANALOG: GEOPHONE


THE GREAT WALL OF CHINA


THE KREMLIN IN MOSCOW

China is continuing to be a key focus area for I/O with Chinese companies collectively representing our largest customer segment. Last year, more than 30% of our sales came from customers based in China, though they often were buying our technology for use on the international stage. China's economy has been growing steadily at nearly 10% per year for more than a decade. Energy consumption has been rising to support this economic growth and China is now the second largest importer of petroleum in the world, after only the United States. Chinese contractors, operating closely with China's national oil and gas companies, are rapidly changing the dynamics in the global seismic acquisition industry. We are delighted that they are working closely with I/O and expect our record of collaboration to continue.

China, however, isn't the only market in which we are seeing significant activity. We sold our System Four platforms during the year to Geofizyka Torun in Poland and to both PetroAlliance and Bashneft in the Former Soviet Union. Contractors in Eastern Europe, Russia, and Central Asia are very progressive in their adoption of next-generation, full-wave imaging technologies and we intend to redouble our efforts in these important markets moving forward. Late in 2003, we deployed one of our managers to Moscow to reinforce the activities that were already underway in Russia and Central Asia. During 2004, we expect to expand our business development efforts in Southeast Asia, West Africa, the Middle East, and Latin America.

MOBILIZED THE TALENT TO DELIVER

One hallmark of a company moving in the right direction is that it can attract world-class talent to the team. During 2003, we added new talent in a variety of critical areas. Jorge Machnizh, our Chief Operating Officer, joined the company in May. Jorge brings a wealth of geophysical and operating experience to the company, acquired with companies including Geco-Prakla and Landmark Graphics. Mike Kirksey, our Chief Financial Officer, joined the company in January 2004. Mike is a true finance professional with an infusion of operating perspective. Mike has an excellent following in the financial community and will help us put in place the capital structures and financial controls to support our growth.

I/O MANAGEMENT TEAM

We added additional talent at the Vice President level. Chris Friedemann, a former partner at McKinsey & Company, joined as our VP, Commercial Development. Jim Hollis joined us from Landmark Graphics and was appointed VP, Land Imaging Systems Division. We are securing world-class professionals at all levels – we have a new Director of Global Sales, a new Director of Marketing, and a new Business Unit Manager in our GMG/AXIS group. Our inboxes continue to fill up with the resumes of individuals looking to join the team. This is a great feeling for I/O and another sign that we are taking the right steps.

At the Board level, we attracted two new Directors. Bruce Appelbaum, formerly the President of Global Exploration for Texaco, and John Seitz, formerly the Chief Executive Officer at Anadarko Petroleum, joined our Board mid-year. They bring a wealth of insights on the global energy industry and have already begun to help us secure valuable contacts with the oil and gas companies.

We also formed a Technical Advisory Board (TAB) to ensure our technology development programs are aligned with customer requirements and emerging trends in the industry. TAB members include senior geoscience executives from Apache, BP, and Shell, as well as a renowned geophysicist from Stanford University.

In support of our strategic objectives, we undertook several organizational restructuring actions during the year. Laura Guthrie, Vice President of Human Resources, was instrumental in implementing these critical changes. We combined our TesCorp cables and connectors business unit and our Pelton source, source control and vehicles business unit with our land surface systems business unit. This new Land Imaging Division now encompasses nearly all of our land technologies (the exception being our Sensor analog geophone business). While helping us to capture some modest cost savings, the consolidation will accelerate the integration of our core technologies in the land imaging area.

In the fourth quarter, we put the plans in place to consolidate our towed streamer and seabed imaging business units and appointed Bjarte Fageraas as the Vice President of the new Marine Imaging Systems Division. Now integrated in a single Marine Imaging Division, our team is better prepared to offer a portfolio of marine acquisition technologies to both contractors and oil and gas companies. With our acquisition of Concept Systems in February 2004, we now have a rich set of core technologies to offer our customers. Our steps to integrate these technologies into mission critical solutions, comprised of both hardware and software, have already begun.

THE ROAD THAT LIES BEFORE US

The seismic industry has undergone a massive restructuring over the last several years. Following the bursting of the bubble for speculative data and facing a consolidating customer base as the major oil and gas companies merged in the late 1990's, incumbent seismic acquisition contractors faced a number of critical challenges – industry overcapacity; 3D entering the mature stage of the technology life-cycle; reduced demand for seismic services; and an influx of new competitors as formerly state-owned contractors expanded their operations from an in-country to global stage.

The financial fallout was not unexpected. Assets were mothballed. Billions of dollars were written off the balance sheets. And several contractors declared bankruptcy. Not surprisingly, I/O suffered as well.

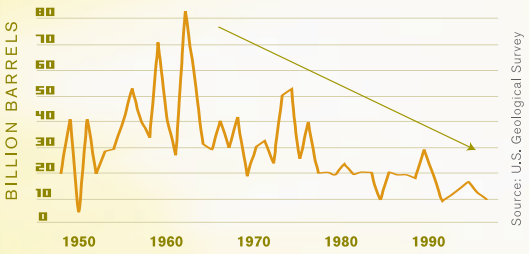
FAVORABLE INDUSTRY SUPPLY-DEMAND TRENDS

Looking ahead, I see several indicators of renewed growth. The first deals with the basic supply-demand balance in hydrocarbons. Demand continues its march upward. Whether in the developed economies or emerging markets, demand for hydrocarbons as the fuel for global economic growth continues unabated. We've seen 2-3% annual demand increases for decades and nothing suggests that trend will change anytime soon.

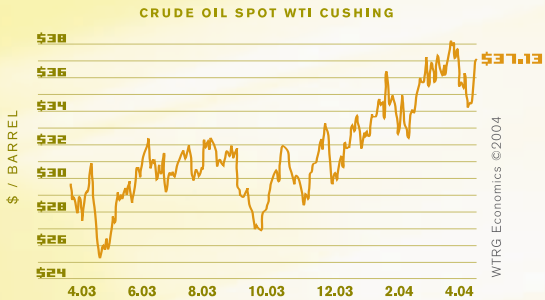
Demand for hydrocarbons is growing so fast, in fact, that the world's thirst for oil is outstripping our industry's ability to add to the global supply bank. Since the 1980's, we've effectively been drawing down our hydrocarbon account – demand withdrawals have outpaced supply additions. Across the world, reservoirs are getting smaller. And, their decline rates are more extreme than in the past.

The net effect of these trends should result in a fairly favorable environment for our seismic exploration technologies. We expect that the oil and gas companies will have to explore more and use more sophisticated technologies to unlock the hydrocarbons they need to deliver growth in their businesses and meet the expectations of their shareholders.

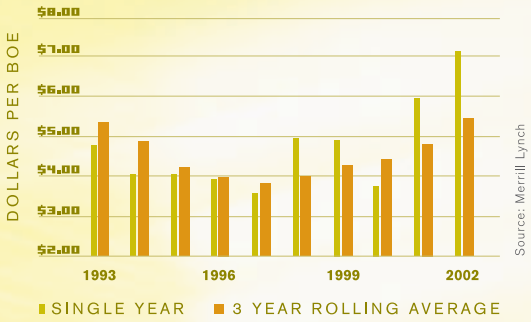
We've also seen a number of areas open up to foreign oil and gas companies over the last 5-10 years and we expect that trend to continue. The Former Soviet Union remains a fertile exploration environment both for Russian oil and gas companies and the international oil majors. In the Middle East, the U.S. has lifted sanctions on Libya, allowing Western oil and gas companies to return and affording I/O and other oil field service companies the opportunity to support their exploration and development efforts. As political stability returns to Iraq, we expect a significant wave of new investment in a region that is relatively underexplored.



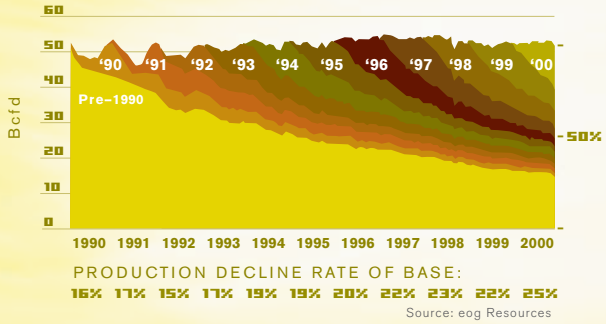
AVERAGE SIZE OF GLOBAL DISCOVERIES



RISING PRICE OF OIL



RISING F&D COSTS



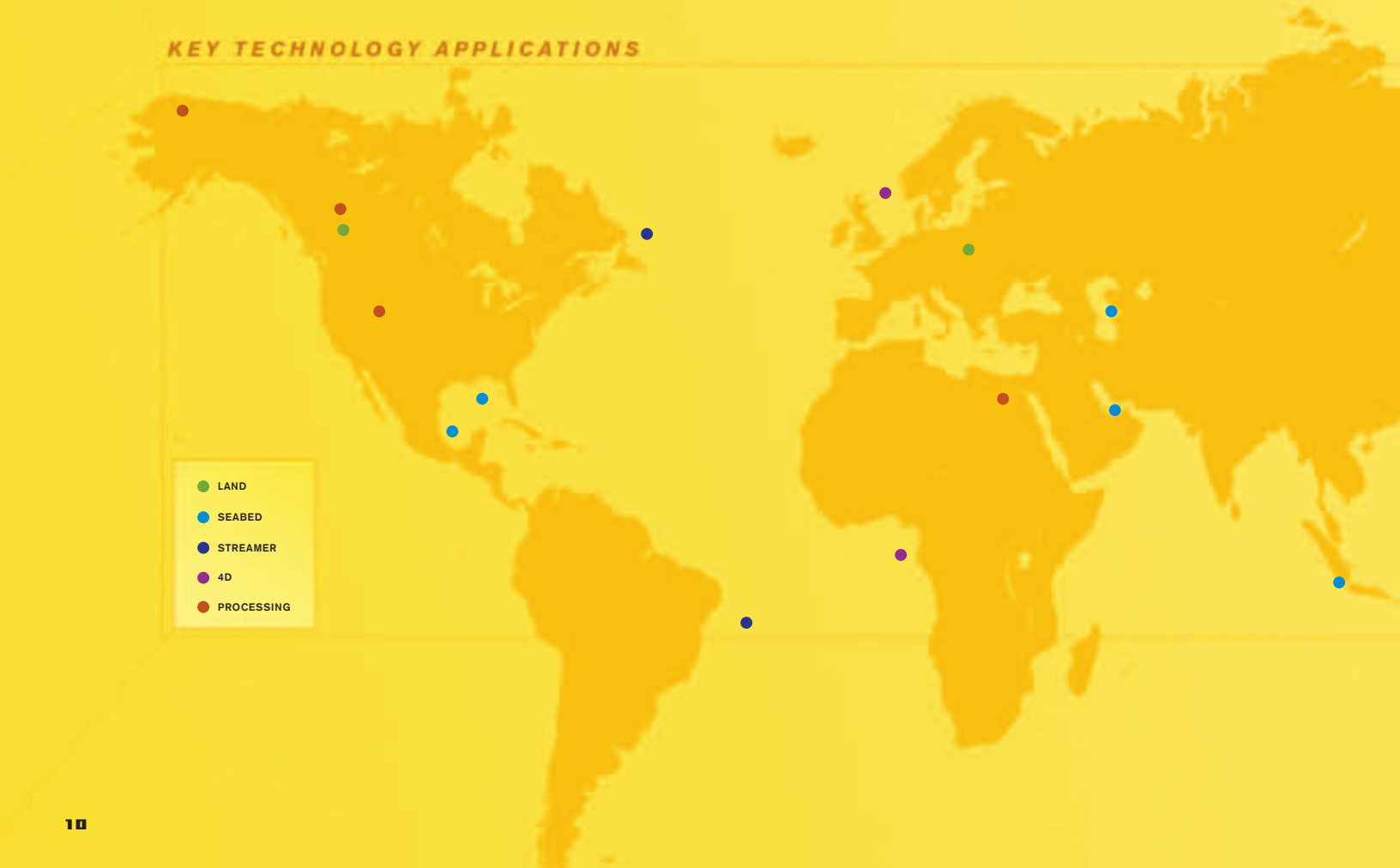
DECLINE RATE OF U.S. NATURAL GAS PRODUCTION

THE CHANGING FACE OF OUR CUSTOMERS

Since its inception, I/O has focused nearly exclusively on one customer segment – the incumbent Western seismic acquisition contractor. We've begun to expand our customer base to include the emerging contractors and oil and gas companies, while continuing to provide outstanding products and services to the Western seismic acquisition contractors.

In many countries – China, Russia, India to name a few – seismic contracting services were typically provided by a handful of firms that were wholly-owned, captive subsidiaries of the national oil and gas companies that had the exclusive production rights in these areas. Over the last decade, these emerging market contractors have become well capitalized and able to secure the best technology for their operations. We find them to be progressive in their thinking and often willing to embrace the latest technologies to secure a competitive advantage against the more established incumbents. As a result, we will work closely with these companies as they equip themselves with next-generation seismic imaging technology and ensure we participate in the global expansion of the seismic acquisition business.

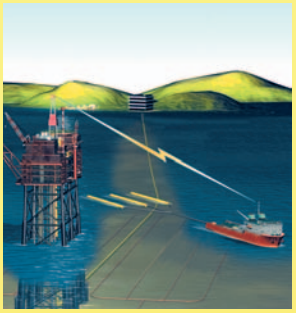
The ultimate beneficiaries of our technologies are the oil and gas companies. They use our technologies to find oil and gas and, during the production cycle, to monitor fluid movements within them. For years, I/O relied upon the seismic contractors to explain the applications and benefits of our technologies to our end-user customers. Moving forward, we will interact more closely with the oil and gas companies so that we can better understand their geophysical challenges and propose solutions in a timely, cost-effective way.



ROBERT PEEBLER, PRESIDENT & CEO OF I/O AND STEVE FARRIS, PRESIDENT, CEO & COO OF APACHE

"The quality of our initial I/O VectorSeis data is excellent. Apache has invested a great deal in this seismic shoot, and I believe the data will help us significantly. VectorSeis has tremendous potential."

– Steve Farris, President, CEO & COO of Apache



BP VALHALL LIFE OF FIELD SEISMIC (LoFS) PROJECT

We have already identified and secured several important oil and gas company opportunities. Our partnership with Apache is targeted at addressing some of the most intractable imaging challenges in their global portfolio. We have helped another oil and gas company revitalize a mature field in Alaska by identifying the fracture patterns in their reservoir, helping to optimize the placement of horizontal wells and maximize production. In the Rocky Mountains, we helped an independent producer identify the reservoir zone with much higher resolution, allowing them to secure a dominant lease position in the area.

I believe we've only begun to scratch the surface with the oil and gas companies. I/O isn't a household name in every exploration department or asset team, but our early discussions are indicating a thirst for new solutions to old problems. I'm convinced that, as we ramp up our business development activities with the oil and gas companies, we'll begin to identify a host of opportunities that will generate profitable growth for both I/O and the contractors that choose to work with us in delivering these cutting-edge solutions.

THE EMERGENCE OF TIME-LAPSE (4D) SEISMIC

Historically, seismic technologies were applied early on in a potential oil and gas field's life. It was analogous to someone taking a picture of a baby and then putting the camera away forever. More recently, we have seen the emergence of time-lapse (4D) seismic in which multiple surveys are conducted on a petroleum reservoir. Rather than a single picture, we now have the analog of a movie across a lifetime, which can be 30-40 years in the case of many producing fields. For the first time, engineers can better plan development and production activities with the goal of substantially increasing the total amount recovered from oil and gas reservoirs. One could argue that, with declining exploration opportunities, increasing production from known assets is the best bet for oil and gas companies to close the looming global supply-demand gap.

This is good news for I/O as it provides an opportunity to apply our technologies over the life of a field versus just in the early exploration phase. In addition, the imaging requirements for 4D surveys are extensive since oil and gas companies are attempting to monitor the subtle movement of fluids within the reservoir. This increases their technology challenge, and aligns well with many of I/O's core technologies that are designed to improve image quality of both sub-surface strata and the fluids contained within them.

THE ROADMAP
FOR OUR FUTURE

Coming out of our strategy work last summer, we crystallized a plan for growth and value creation that is based on three fundamental principles:

- **REPOSITION I/O AS A SEISMIC IMAGING SOLUTIONS COMPANY**
- **LEAD THE INDUSTRY IN DIGITAL FULL-WAVE IMAGING TECHNOLOGIES**
- **ATTACK SEISMIC IMAGING COSTS AND CYCLE TIMES**

REPOSITION I/O AS A SEISMIC IMAGING SOLUTIONS COMPANY

The legacy of I/O has been that of a seismic equipment company. While we were successful in introducing new products, we often found it challenging to secure high and consistent margins. This was especially true during downturns in the exploration and seismic businesses. Demand for our products could fall off precipitously in a short period, wreaking havoc with our supply chain and fixed cost infrastructure.

Moving forward, we intend to move beyond equipment and to complement our hardware with offerings in software and services. By doing so, we'll be able to put together more compelling packages of integrated technology solutions that combine hardware, software, and services in value-added ways for our customers. Our acquisition of AXIS, a Denver-based company that joined the I/O family in 2002, was one step in this regard. Our acquisition of Concept Systems, a Scotland-based company that joined in February 2004, was another.

Concept Systems is the leading supplier of vital navigation software to the global towed streamer fleet. In addition, Concept provides the software that acts as the data integration and management platform for seismic surveys being conducted offshore. Whether using towed streamer vessels or seabed systems, their software pulls together data feeds from multiple, disparate sub-systems including source and source control, navigation and positioning, and recording. By using Concept Systems as the "glue," we intend to more tightly integrate the hardware technologies we provide for streamer vessels and seabed systems and, in the process, ensure they can deliver better images in a more timely way and at a lower cost to our customers.

Software and processing service businesses like GMG/AXIS and Concept Systems are more consistent revenue generators. They tend to suffer less in downturns and deliver annuity cash flows that should make our business less cyclical. More importantly, they provide a high degree of intimacy with the customers, especially the end users in the oil and gas companies. As a consequence, they can serve as valuable vehicles through which to build ongoing customer relationships and pull-through a wide variety of products and services from within the I/O family of companies.

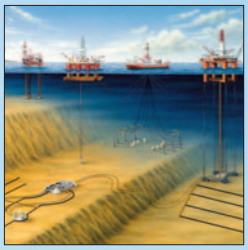
LEAD THE INDUSTRY IN DIGITAL FULL-WAVE IMAGING TECHNOLOGIES

The 3D era in seismic had a good run extending over 20-plus years, adding to our industry's ability to unlock significant resources on a global basis at ever more competitive costs. But, the challenge of exploration has become even more intense. Today, oil and gas is becoming harder to find. As a result, finding and development costs are beginning to increase significantly. Given these pressures, the industry needs a new breakthrough. We believe that breakthrough is digital full-wave technology. I/O intends to lead the oil and gas industry into this next era of seismic.

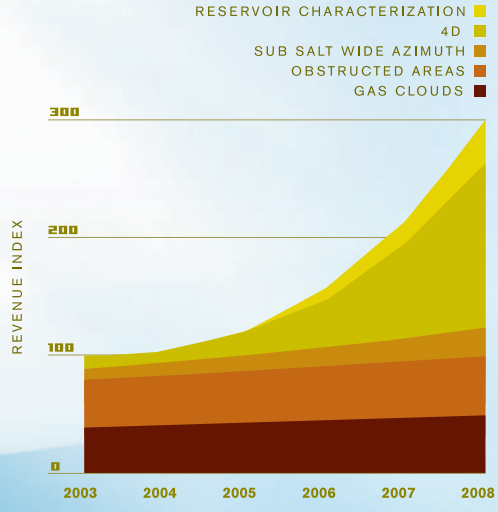
Since the geophysical industry first began, the vast majority of seismic surveys relied on incomplete information. Seismic waves traveling through the Earth's subsurface are of two types – pressure (or p-waves) and shear (or s-waves). More than 95% of the surveys that are done today rely on p-wave data only. The shear waves, which are more difficult to acquire and process, have generally been left out of the analysis. If geoscientists are able to acquire, process and interpret shear wave data, they will capture valuable additional information to better define subtle subsurface features including rock type and fluid content.

Over the last decade, I/O has invested resources to develop a next generation sensor that is capable of capturing the full seismic wave field, including the shear waves. This digital sensor, called VectorSeis, delivers a step-change improvement in image quality by improving the resolution of subsurface features.

VectorSeis also facilitates what we call "single point recording." Conventional seismic acquisition relies on numerous geophones to remove the noise associated with the acquisition process, which increases the amount of equipment that must be deployed in the field. By applying a special vector-filtering technique developed by our scientists, oil company geophysicists can get an improved image with a single VectorSeis sensor. This reduces the amount of sensors, cables, and associated ground electronics that are required while simultaneously improving image quality.



SEABED IMAGING —
A GROWING BUSINESS



GLOBAL REDEPLOYABLE SEABED MARKET
GROWTH (FORECASTED)

VectorSeis is also uniquely suited for seismic acquisition on the seabed, a rapidly growing area that we think could account for 30% or more of offshore acquisition by the end of the decade. In recent customer surveys, we heard an almost universal opinion that, if cost were no object, almost all marine data acquisition would be done on the seabed rather than the ocean's surface using towed streamers. This is because the seabed provides an environment that has less inherent noise (resulting in a better seismic signal) and because the full seismic wavefield can only be captured from the ocean bottom (shear waves cannot propagate through water and therefore cannot be acquired). We intend to lead the industry and help drive the migration of marine acquisition to the seabed. VectorSeis, and a series of other technology systems that we have developed to support seabed acquisition, should enable us to capture this leadership position.

The era of Digital Full-wave is about more than just the data acquired by the sensor. It is also about how the seismic survey is designed and the data is processed. For example, the geophysical industry has long assumed that the Earth is homogeneous during processing. However, in almost every area we have studied, this is not the case. The Earth is a heterogeneous entity, which causes seismic waves propagating through it to travel at different velocities in different directions. If these differences are not properly accounted for, the image that results will be distorted.

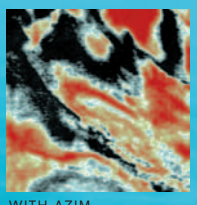
Our AZIM processing technique (representing the variation of velocities in the subsurface as a function of their direction or azimuth) accounts for these velocity differences using a very precise methodology. When AZIM is applied, the images that result are often better. Better images mean more oil and gas and lower finding and development costs. That means satisfied customers for I/O and an increasing demand for our products and services.

"GMG/AXIS delivered a final processed data volume, giving us confidence to successfully target the well and we are making oil! I got what I needed, when I needed it and then some. GMG/AXIS maintains high standards and they sweat the details."

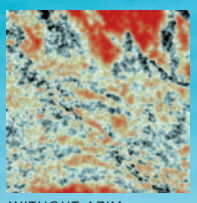
– BP Geophysicist

bp

AZIM PROCESSING TECHNIQUE



WITH AZIM



WITHOUT AZIM

ATTACK SEISMIC IMAGING COSTS AND CYCLE TIMES

The CEO of a leading oil and gas company told me that he has only a few simple rules for seismic. He needs an accurate image of the subsurface, delivered in a timely manner, and at a fair cost. His rules have become our obsession – better image, shorter cycle times, lower costs.

We feel the best way to attack all three simultaneously is through the introduction and application of new technologies which are better integrated across all elements of the seismic workflow, from survey planning through field acquisition and on into processing. In the seismic industry today, there is a significant amount of fragmentation across this workflow. There are many different products and services provided by a number of different vendors. The level of integration among the various technology sub-systems is fairly low. And a disproportionate amount of the expenditure (75-85%) is not associated with technology, but instead with logistical expenditures associated with mobilizing crews and equipment and their support in the field.

We intend to provide a higher degree of integration across the seismic workflow using a combination of software, equipment, and services that are more tightly coupled into value-added solutions for our customers. Additionally, we plan to introduce breakthrough technologies that allow contractors to reduce the logistical costs of acquisition operations in the field. In doing so, the mix of expenditures in the workflow will shift towards value-added spending from technology providers, including I/O.

A great example of our plans in this regard includes our VectorSeis Ocean solution for seismic data acquisition on the seabed. VectorSeis Ocean is an assemblage of several core technologies from I/O, including our VectorSeis digital full-wave sensor designed to improve image quality. VectorSeis Ocean also includes several purpose-designed pieces of hardware that are highly innovative, including a spoolable, noise-reducing cable and a buoyed recording unit. The cable and recorder help minimize the amount of equipment and vessels that must be deployed in the field (reducing costs significantly) and also help to speed up the data acquisition process.

We are now integrating Concept Systems' Gator software product with our VectorSeis Ocean system which will allow us to capture additional costs and cycle time reduction benefits that can then be passed along to our customers.

Similar opportunities to reduce costs and cycle times through the introduction and integration of new technologies exist across all of our business lines, including marine acquisition using towed streamers and land acquisition. Our R&D programs are now very focused on identifying and developing these high value, integrated solutions on behalf of our customers, which we think will provide a distinctive advantage for I/O in the marketplace.

THE BREAKOUT YEAR

2004

I hope that you're now beginning to share our excitement for the opportunities that lie ahead for the seismic industry in general and for I/O in particular. Before closing, I wanted to share a few highlights that we see in each of our businesses in the year ahead.

LAND IMAGING SYSTEMS

The year 2004 should be a breakout year for our Land Imaging Systems Division. We are seeing continued interest in our VectorSeis digital full-wave sensor and are working diligently to demonstrate the imaging benefits that it can provide to the oil and gas companies and the operating benefits that it can deliver to the seismic contractors. We have set a goal to double the sales of VectorSeis-based land acquisition platforms during 2004. With the launch of our hybrid, digital-analog compatible System Four platform in mid-2004, we believe that I/O will be able to capture an increasing share of the land systems sold in the market by providing a low risk platform for the contractors who may be primarily acquiring analog seismic data using geophones today, but who wish to have a seamless upgrade path to digital full-wave acquisition in the future.

The flexibility and scalability of the System Four platform should allow us to increase the sales of both digital VectorSeis sensors as well as the analog geophones produced by our Sensor business unit. With the excitement we have about VectorSeis within I/O, we sometimes neglect to give Sensor its fair share of accolades. Sensor, in fact, is the world's largest producer of geophones and is globally recognized for quality leadership and innovation. With an approximate 40% share of the global geophone market and unique geophones tailored for many different acquisition environments, Sensor is truly a prized asset within the I/O land imaging portfolio.

SYSTEM FOUR WORKSTATION

During 2004, we'll also be hard at work on new product development within our land imaging group. We are already executing against a product roadmap that includes next-generation land acquisition platforms that target the main cost drivers in a land survey today – cable weight and field logistics. Our acquisition of Concept Systems provided us with an alpha software product called Scorpion for data management during land-based operations. Our development teams are beginning the process to incorporate Scorpion's functionality into many of our products to increase their level of integration and improve the functionality of our total land imaging system offering.

ACOUSTIC "BIRD"

MARINE IMAGING SYSTEMS

I/O's DigiCOURSE group is the market leader in streamer control and positioning equipment for towed streamer vessels. We continue to invest in this area to maintain our leadership position and expect sales of our next generation DigiRANGE II acoustic positioning product to accelerate during the year. Positioning is a critical element in marine seismic surveys as it determines the location of the hydrophones on multiple streamers that can be 8 km or more in length. In the past, positioning gear was placed selectively along the streamer's length, which introduced errors that can compromise image quality and become unacceptable in 4D surveys when repeatability is critical. DigiRANGE II allows hydrophone positions to be determined with greater accuracy, which will become increasingly important as the number of 4D surveys increases.

Another critical factor in 4D surveys is source control. On a modern marine vessel, there can be upwards of 50 air-guns located directly behind the boat. When fired, these air-guns provide the energy that propagates through the water column and subsurface. If these air-guns do not fire in near-perfect synchronization, seismic energy can be lost and the propagating energy waves can interfere with each other. Our DigiSHOT source control product is designed to improve the synchronization of these air-guns, improving image quality for the oil and gas companies.

We are also working on a next-generation streamer control product that we call APS. Most streamer control products, including those from I/O, only control the vertical position of the streamer in the water column. APS is designed to extend the streamer control to the horizontal dimension, allowing one to "steer" the streamers behind the boat. This allows streamers to be placed closer together (which improves image quality) and speeds up vessel operations. We expect to begin several pilot tests of APS later in the year in anticipation of an early 2005 commercial launch of the product.

In the seabed segment, we continue extensive business development discussions with oil and gas companies and contractors about both our VectorSeis Ocean redeployable seabed system and our VectorSeis Subsea Network permanent monitoring seabed system. This market segment is still in its emerging stages, but we are engaged in substantive conversations across the globe. We have responded to tenders for permanent monitoring systems in the Gulf of Mexico and Caspian area, and expect to see additional tenders come out during the year in these areas and the North Sea. We believe that, by working closely with ABB – our strategic partner for VectorSeis Subsea Network, we have one of the leading solutions for permanent seabed monitoring.

Lastly, as of February 2004, Concept Systems became part of the I/O family. We have already drawn up plans to imbed the functionality of Concept Systems software into products across our marine line-up, allowing us to provide an even more compelling total solution for towed streamer operations and for seabed acquisition.

"By combining I/O's strengths in equipment and technology systems with Concept's strengths in software and services, we will be able to deliver a unique, value added solution that will change the way seismic data is acquired, managed, and processed including 4D life-of-field seismic, imaging on the seabed and tighter integration of land acquisition operations."

– **Alastair Hay**, Managing Director of Concept Systems

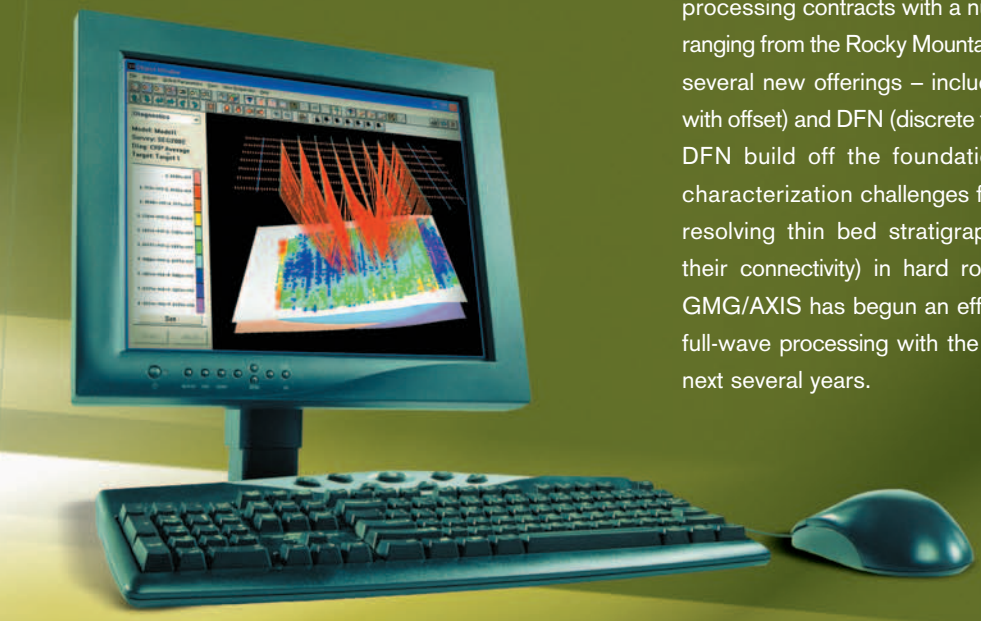
CONCEPT SYSTEMS

EDWARD JENNER
DIRECTOR OF RESEARCH &
DEVELOPMENT OF GMG/AXIS

PROCESSING & SOFTWARE

GMG/AXIS continues to achieve success and accolades in the marketplace. Our AZIM anisotropic processing solution won the Hart's E&P Meritorious Award for Engineering Innovation. This is the second year in a row I/O received this Hart's distinction – in 2003, we were honored for VectorSeis. Products are not possible without people. To prove that, Edward Jenner, a geophysicist with GMG/AXIS in Denver and the pioneer of the AZIM processing technique, was honored with the J. Clarence Karcher Award, given out annually by the Society of Exploration Geophysicists (SEG) to the most promising young geophysicist in our industry.

Although our GMG/AXIS group is still relatively small, they are beginning to make waves across the seismic industry. We have secured repeat processing contracts with a number of large oil and gas companies in areas ranging from the Rocky Mountains to the Middle East. And we have introduced several new offerings – including our WAVO (wavelet amplitude variation with offset) and DFN (discrete fracture network) processing tools. WAVO and DFN build off the foundation of AZIM and target specific reservoir characterization challenges faced by the oil and gas companies including resolving thin bed stratigraphy and identifying fracture networks (and their connectivity) in hard rock reservoirs. Building on these strengths, GMG/AXIS has begun an effort to develop algorithms and techniques for full-wave processing with the goal of seizing market leadership within the next several years.



GMG/AXIS WORKSTATION

2004 – AZIM PROCESSING TECHNOLOGY
2003 – VECTORSEIS SYSTEM FOUR

ROBERT (BOB) PEEBLER
PRESIDENT & CEO

SUMMARY

I've now told you a bit more about what we've been up to over the last year at I/O and where we are heading as a company. I think we've managed to accomplish a lot in a relatively short period. But there remains much for us to do.

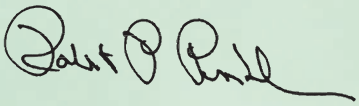
My team and I are committed to executing against the plans we have drawn up and to delivering against the promises we have made to you, our shareholders. As with any worthy endeavor, there will be some challenges along the way. I can assure you that we will do everything to anticipate them and address them in an effective manner.

While I am excited about where we are heading, I am also cautious about what it will take to get us there. We still are faced with an environment in which our traditional customers are under financial pressure. Despite a healthy hydrocarbon price environment and the supply / demand pressures in the global E&P market, we are only now beginning to see indications that major oil and gas companies are ramping-up capital spending. We proceed with caution, realizing that our industry can be slow to adapt new technologies and that we are emerging from a prolonged depression in the seismic sector. We have cautiously positioned ourselves to weather any short term issues as the market builds momentum towards the Digital Full-wave era.

Despite these uncertainties, we at I/O have much we can do to grow. Even during the downturn, the global seismic industry remained a $6 billion business. With only $150 million in revenues in 2003, we remain a small player in this very large industry. That provides us with lots of areas in which to profitably expand.

We also have a significant opportunity to grow as the era of Digital Full-wave seismic begins to more fully emerge. We are doing everything possible to demonstrate the promise we see in (digital full-wave) seismic and to cement I/O as the leader. When the industry accelerates its transition from the 3D era to the Digital Full-wave era – which it inevitably will – I/O will be poised to benefit.

Thank you for your perseverance during the difficult times of the last several years and for your support of my team and their efforts.



Robert P. Peebler

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, 2003, 2002 and 2001, and the two fiscal years ended May 31, 2000 and 1999, and with respect to our consolidated balance sheets at December 31, 2003, 2002, 2001, and May 31, 2000 and 1999, 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 tabular presentation of significant charges, see Note 2 and 21 of Notes to Consolidated Financial Statements. This information should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the notes thereto included elsewhere in our Form 10-K.

	Years Ended December 31,			Years Ended May 31,	
	2003	2002	2001	2000	1999
	(In thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Net sales	$ 150,033	$ 118,583	$ 212,050	$ 121,454	$ 197,415
Cost of sales	121,133	99,624	138,415	108,169	204,998
Amortization of intangibles	1,059	1,394	1,063	1,160	1,418
Gross profit (loss)	27,841	17,565	72,572	12,125	(9,001)
Operating expenses:					
Research and development	18,696	28,756	29,442	28,625	42,782
Marketing and sales	12,566	11,218	11,657	8,757	13,010
General and administrative	16,753	19,760	19,695	21,885	74,132
Amortization of goodwill	—	—	3,873	6,732	8,529
Impairment of long-lived assets	1,120	6,274	—	—	14,500
Goodwill impairment	—	15,122	—	31,596	—
Total operating expenses	49,135	81,130	64,667	97,595	152,953
Earnings (loss) from operations	(21,294)	(63,565)	7,905	(85,470)	(161,954)
Interest expense	(4,087)	(3,124)	(695)	(826)	(897)
Interest income	1,903	2,280	4,685	4,930	7,981
Fair value adjustment and exchange of warrant obligation	1,757	3,252	—	—	—
Impairment of investment	(2,059)	—	—	—	—
Other income (expense)	976	(798)	574	1,306	(370)
Earnings (loss) before income & taxes	(22,804)	(61,955)	12,469	(80,060)	(155,240)
Income tax expense (benefit)	348	57,919	3,128	(6,097)	(49,677)
Net earnings (loss)	(23,152)	(119,874)	9,341	(73,963)	(105,563)
Preferred dividend	—	947	5,632	4,557	—
Net earnings (loss) applicable to common shares	$ (23,152)	$ (120,821)	$ 3,709	$ (78,520)	$ (105,563)
Basic earnings (loss) per common share	$ (0.45)	$ (2.37)	$ 0.07	$ (1.55)	$ (2.17)
Weighted average number of common shares outstanding	51,237	51,015	51,166	50,716	48,540
Diluted earnings (loss) per common share	$ (0.45)	$ (2.37)	$ 0.07	$ (1.55)	$ (2.17)
Weighted average number of diluted common shares outstanding	51,237	51,015	52,309	50,716	48,540
BALANCE SHEET DATA (END OF YEAR):					
Working capital	$ 133,467	$ 114,940	$ 204,600	$ 183,412	$ 213,612
Total assets	248,055	248,445	387,335	381,769	451,748
Notes payable and current maturities of long-term debt	2,687	2,142	2,312	1,154	1,067
Long-term debt, net of current maturities	78,516	51,430	20,088	7,886	8,947
Stockholders' equity	132,615	151,337	331,037	335,015	396,974
OTHER DATA:					
Capital expenditures	$ 4,587	$ 8,230	$ 9,202	$ 3,077	$ 9,326
Depreciation and amortization	11,444	13,237	17,535	22,835	20,776

CORPORATE INFORMATION

EXECUTIVE MANAGEMENT

ROBERT P. PEEBLER
President and Chief Executive Officer

JORGE MACHNIZH
Executive Vice President &
Chief Operating Officer

J. MICHAEL KIRKSEY
Executive Vice President &
Chief Financial Officer

BJARTE FAGERAAS
Vice President,
Marine Imaging Systems Division

CHRIS FRIEDEMANN
Vice President,
Commercial Development

LAURA GUTHRIE
Vice President, Human Resources

JAMES HOLLIS
Vice President,
Land Imaging Systems Division

DAVID L. ROLAND
Vice President,
General Counsel & Corporate Secretary

BOARD OF DIRECTORS

JAMES M. (JAY) LAPEYRE, JR.
Chairman of the Board
President, The Laitram Corporation

BRUCE S. APPELBAUM
Chairman, Mosaic Resources

THEODORE H. ELLIOTT, JR.
Chairman,
Prime Capital Management Company

FRANKLIN MYERS
Senior Vice President,
Cooper Cameron Corporation

ROBERT P. PEEBLER
President and CEO, Input/Output

JOHN SEITZ
co-CEO, Endeavour International Corp.

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 +1 281 933 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, 2003, 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 the Holiday Inn Southwest, 11160 Southwest Freeway, Houston, TX 77031-3698, on June 22, 2004 at 10:30 am CST.

STOCK TRANSFER AGENT

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Chicago, Illinois 60602-3705
Tel: +1 312 588 4991

INDEPENDENT AUDITORS

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1201 Louisiana, Suite 2900
Houston, Texas 77002-5678
Tel: +1 713 356 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 Financial Condition and Results of Operations – Risk factors of the Company's Report on Form 10-K for its fiscal year ended December 31, 2003, which accompanies and constitutes an integral part of this Annual Report to Shareholders.

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