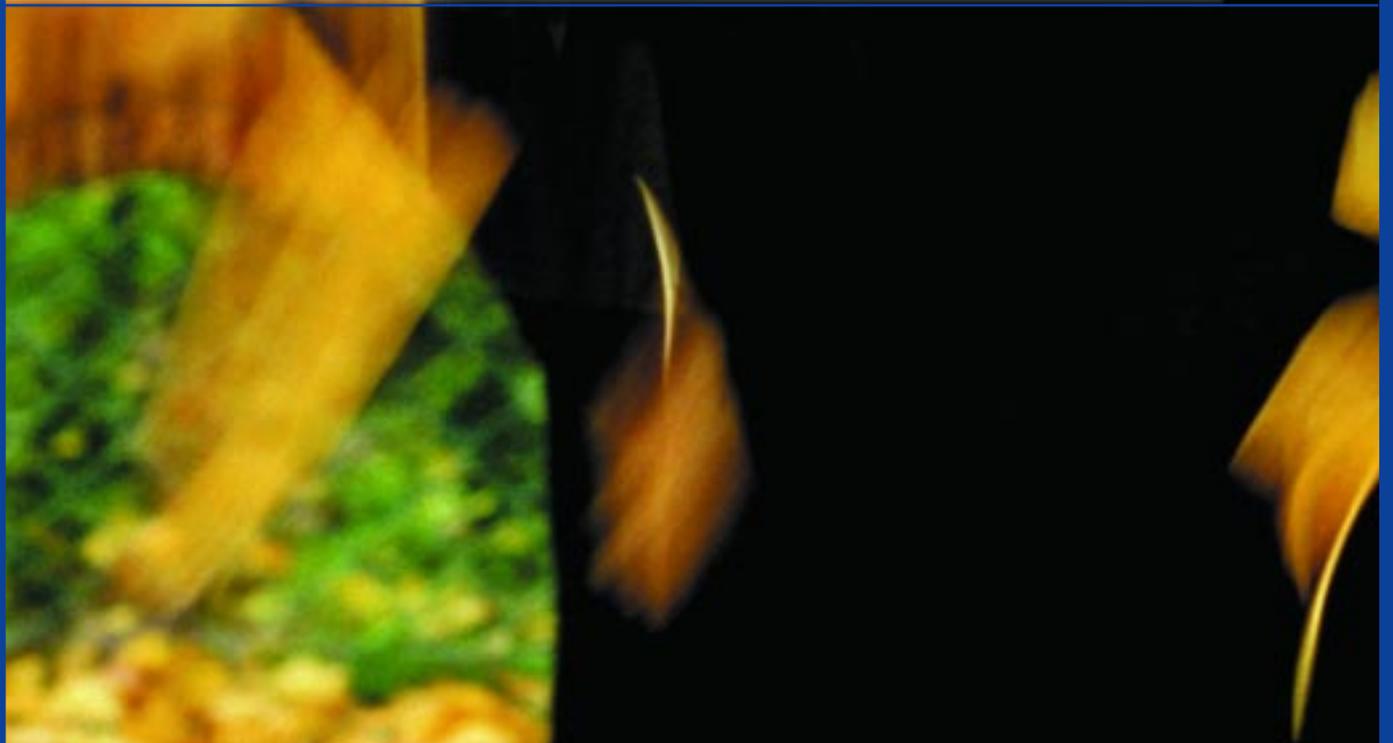




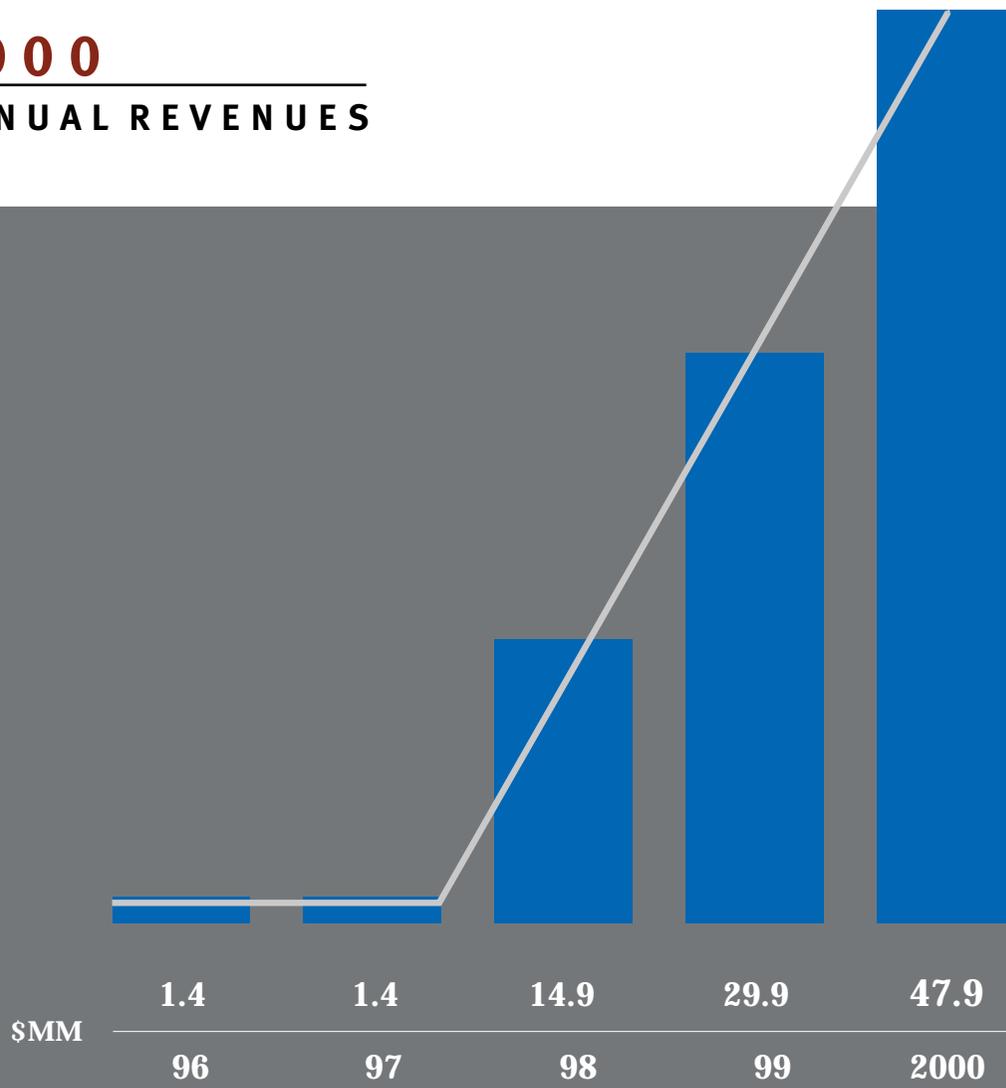
2000 ANNUAL REPORT | DEVICES FOR LIFE



CYBERONICS, INC.

2000

ANNUAL REVENUES



CYBERONICS, INC.



Directors

- 3 | ROBERT P. CUMMINS**
*President and Chief Executive Officer
Cyberonics, Inc.*
- 2 | REESE S. TERRY, JR.**
*Chairman of the Board
Cyberonics, Inc.*
- 1 | STANLEY H. APPEL, M.D.¹**
*Professor and Chairman
Departments of Neurology and Biochemistry
Baylor College of Medicine*
- 7 | TONY COELHO¹**
*Business Consultant
Former Majority Whip
U.S. House of Representatives*

- 6 | THOMAS A. DUERDEN, PH.D.²**
Business Consultant
- 4 | ALAN J. OLSEN²**
Business Consultant
- 5 | MICHAEL J. STRAUSS, M.D.²**
Health Policy Consultant

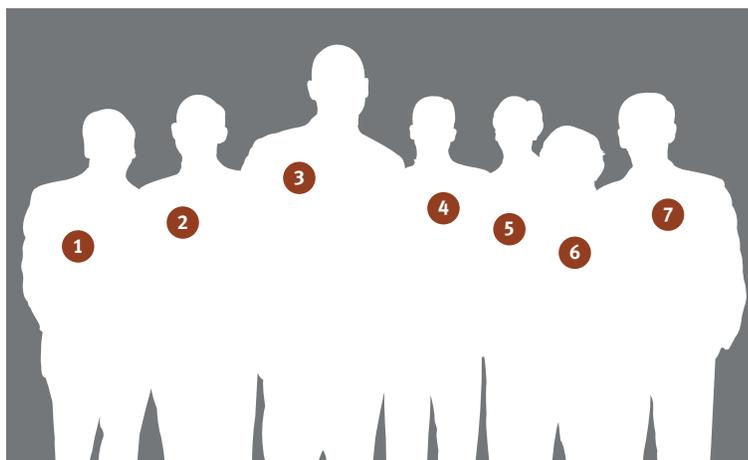
¹ Denotes member of the
Compensation Committee

² Denotes member of the
Audit Committee

MISSION

STATEMENT

The Cyberonics corporate mission is to improve the lives of people touched by epilepsy and other disorders treatable with our patented therapy, vagus nerve stimulation (VNS™).

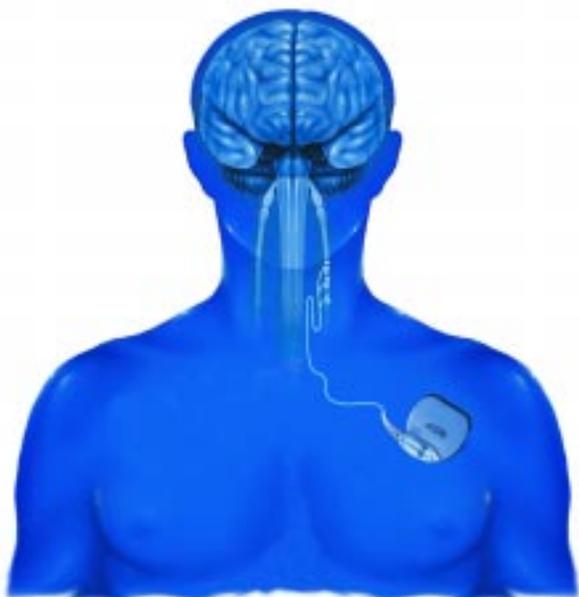


LETTER

TO SHAREHOLDERS

The Cyberonics corporate mission is to improve the lives of people touched by epilepsy and other disorders treatable with our patented therapy, vagus nerve stimulation (VNS).

That mission translates into two long-term objectives: **1** | convert VNS from a revolutionary new approach into a primary adjunctive standard of care in epilepsy, and **2** | develop other indications for VNS use. In Fiscal 2000 we made significant progress towards the achievement of those two primary long-term objectives.



METHOD PATENTS |

THE FOUNDATION OF OUR FRANCHISE

Cyberonics holds the rights to method patents which give Cyberonics the exclusive right to manufacture or sell in the United States a product which applies a pulsed electrical signal to the vagus nerve and two other cranial nerves for the treatment of a number of disorders including epilepsy, depression, obesity, Alzheimer's Disease, pain, migraine headaches, cardiac arrhythmias, etc. We believe that this method patent portfolio creates a unique, less invasive neuro-stimulation franchise for Cyberonics and its shareholders.



PEOPLE |

OUR MOST IMPORTANT RESOURCE

People are our most important resource. During fiscal 2000, we continued to build and strengthen our management team and organization. The total number of Cyberonics employees increased approximately 33% to 303 on June 30, 2000. Not only did the number of Cyberonics employees increase during the year, but we also saw a significant improvement in productivity. The 33% increase in headcount supported a 60% annual increase in worldwide sales.

During fiscal 2000, we significantly strengthened our management team by adding three new Vice Presidents and eight new director level managers. The three new Vice Presidents included Richard Kuntz, Vice President of Operations, Leonard Milke, Vice President of Marketing, and Shawn Lunney, Vice President of Sales. Richard Kuntz joined us from Space Labs Medical where he was Vice President of Operations. Richard has over 20 years of manufacturing and operations management experience including his medical products experience at Space Labs and Johnson and Johnson's Codman Division. Leonard Milke joined Cyberonics with over 25 years of pharmaceutical sales and marketing experience, including some 20 years at Parke-Davis, the market leader in antiepileptic drugs. Shawn Lunney has been with Cyberonics for the past nine years in a variety of sales and marketing positions. Prior to being named Vice President of Sales, Shawn was Vice President of Marketing and Acting Regional Sales Director. At the director level of management we added Directors of Information Technology, Advanced Manufacturing, Materials, Quality Control, Quality Systems, Sales Training, Regional Sales and Regional Marketing.

PRODUCT |

A NEW, SMALLER, LONGER-LIVED GENERATOR

The Model 101 Generator was released to the market on January 31, 2000. The Model 101 offers significant advantages to physicians, patients and payers when compared to its predecessor, the Model 100. The Model 101 is approximately 22% thinner, 31% lighter and offers up to a 91% longer battery life. The Model 101 NCP System,



consisting of a generator and a nerve stimulation electrode is priced at \$11,450 in the United States. The price of the Model 101 System in the United States is approximately \$2,250 or 24% higher than the Model 100 System. When the cost of the Model 101 amortized over its 8 to 12 year expected battery life at normal stimulation parameters is compared to the cost of the Model 100 amortized over its 4 to 6 year expected life, the Model 101 System is clearly a more cost effective product. Physicians, patients and payers quickly recognized the advantages of the Model 101. Within 6 months of launch, the Model 101 represented over 90% of shipments to customers in the United States and over 70% of shipments to international customers. The Model 101 was largely responsible for the 20% annual

increase in the worldwide average selling price we experienced in the fourth quarter of fiscal 2000.

INDICATION BUSINESS UNITS |

THE WAY WE MANAGE AND NOW REPORT OUR BUSINESS

Fiscal 2000 represented a major turning point in Cyberonics' progress towards the achievement of our long-term, multiple indications objective. Our epilepsy business achieved its first quarter of profitability in the second quarter. Cyberonics was profitable on a consolidated basis for the first time in the third quarter. Simultaneous with the announcement of the first profitable quarter in Company history, we also announced that promising depression pilot study results and encouraging pre-clinical study results in obesity justified significantly higher investments in these new, very large, patent-protected market opportunities. We have always managed our commercial activities in epilepsy differently than we manage our new indications development activities. Considering that **a** | epilepsy, depression and obesity are at different stages of development, **b** | the depression and obesity market opportunities are much larger than epilepsy, and **c** | the investments required to develop depression and obesity and their impact on our consolidated results are significant, we decided in the fourth quarter to begin reporting results consistent with the way we manage Cyberonics, and that is as the Epilepsy Business Unit, the Depression Business Unit and the Obesity and Other New Indications Business Unit.

EPILEPSY

BUSINESS UNIT

Fiscal 2000 was an excellent year of profitable growth for the Epilepsy Business Unit. Profitable growth in epilepsy is no easy task. Not only do we continue to have the challenges of creating awareness, acceptance and demand for VNS amongst neurologists with little or no device experience, nurses, surgeons, hospital administrators, payers and patients and their families, but we also have to make VNS as easy to prescribe and use as drugs. Sales increased 60% and net bottom-line performance improved by 93% in fiscal 2000. Net income from epilepsy operations improved from an \$11 million loss in fiscal 1999 to a loss of \$815,000 for fiscal 2000. The Epilepsy Business Unit was profitable for two of the four quarters in fiscal 2000. The significant improvement in bottom line performance was largely the result of improvements in U.S. sales and marketing productivity. Domestic sales and marketing expenses declined from 81% of U.S. sales in fiscal 1999 to 53% of sales in fiscal 2000. Results in epilepsy suggest that in fiscal 2000 we made significant progress in the development of our formula for profitably penetrating drug markets with Cyberonics' patented, device-based therapy.

Other fiscal 2000 accomplishments in the Epilepsy Business Unit were as follows:

- 1| As of June 30, over 9,000 patients had accumulated a total of some 14,000 patient years of experience with VNS;
- 2| The number of physicians and surgeons with VNS experience increased to over 700;
- 3| Leading clinicians from around the world authored approximately 100 VNS peer-reviewed journal articles and abstracts;
- 4| The VNS Epilepsy Patient Outcome Registry as of June 30, 2000 included 595 MDs and over 2,900 patients. Seizure frequency, quality of life and treatment data as of June 30, 2000 was available on 1,600 patients at three months and almost 600 patients with one year of VNS treatment. The VNS Registry continues to be the only registry of its kind in epilepsy. Thanks to the Registry, there is now more post-approval effectiveness data on VNS than any other FDA approved epilepsy therapy;
- 5| The number of U.S. hospitals implanting the NCP System increased from 295 in fiscal 1999 to 464 in fiscal 2000; and
- 6| During fiscal 2000, our epilepsy sales and marketing team increased from approximately 50 to over 100 sales, clinical support, reimbursement and marketing personnel. These new personnel, deployed primarily in the United States, represent the additional capacity to support our planned growth in fiscal 2001.



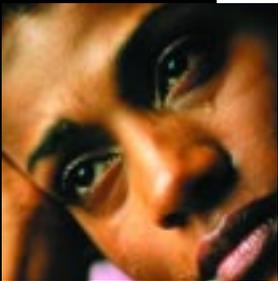
VNS has so far not only survived, but has thrived in the post-approval real world of everyday clinical use in epilepsy. VNS continues to be one of, if not the most, successful device of its kind in history. The rapidly building body of clinical evidence found in the VNS Patient Outcome Registry, and in journal articles and society abstracts suggests that VNS not only effectively treats seizures long-term, but also treats seizures, not at the expense of, but in combination with improvements in overall quality of life. Our achievement of epilepsy profitability for two quarters in fiscal 2000 indicates that we are making great progress in developing the business model to profitably penetrate drug markets with Cyberonics' unique, patented, device-based therapy.

DEPRESSION

BUSINESS UNIT

Our fiscal 2000 accomplishments in the depression pilot study and mechanism of action research clarified the significance of the depression opportunity for Cyberonics and its shareholders. By the end of the year, the depression pivotal study was underway and the Depression Business Unit had been created. Over the next three years, we anticipate spending almost \$30 million on pilot and pivotal studies, long-term follow-up, mechanism of action research and health economics and cost-effectiveness studies to convince FDA, psychiatrists, payers, and patients and their families that VNS should be approved and used as a treatment for some 1.2 million Americans suffering from treatment-resistant depression.

According to the United States Surgeon General's Report on Mental Health released in 1999, depression is a major worldwide health problem. Depression is the second leading cause of disability in developed countries, second only to heart disease. The annual incidence of depression in the United States is between 4% and 11% of the population. There are an estimated 18.5 million Americans with depression, 6.5 million of which are receiving treatment. The annual U.S. market for antidepressants is estimated to exceed \$6.5 billion. Five antidepressants in the United States have annual sales in excess of \$1 billion. Of the patients receiving treatment, 1.2 million are estimated to suffer from chronic treatment-resistant depression and some 80,000 receive Electroconvulsive Therapy (ECT) each year for the first time. Thus, the depression market opportunity for Cyberonics is significantly larger than our epilepsy opportunity. There are 5 times as many Americans with treatment-resistant depression as there are with medically refractory epilepsy and there is 40 times as much awareness, acceptance and use of device-like therapies in depression, namely ECT, as there are epilepsy surgeries each year.



In fiscal 2000, almost \$2 million was invested in the Depression Business Unit to achieve the following objectives:

- 1| Completion of a four center, 60 patient pilot study of left cervical VNS (same device and implantation method as used in epilepsy) as a treatment for depression and bipolar disorder;
- 2| Publication of pilot study results and an article on VNS mechanism of action in *Biological Psychiatry*;
- 3| Multiple FDA approvals including Expedited Review Status for VNS in depression, an extension of the pilot study to 30 patients and the original and modified pivotal study protocols;
- 4| Initiation of fMRI neuro-imaging and sleep mechanism of action studies;
- 5| Hiring of a Depression Medical Director and Product Director;
- 6| Investigators receiving four grants totaling \$550,000 from the Stanley and Dana Foundations to study VNS in special populations and to evaluate VNS' impact on quality of life and cost of care; and
- 7| Commencement of a 20 center, 210 patient, double-blind, randomized, placebo-controlled pivotal study.

The depression pilot study results and early mechanism of action research are very encouraging. Preliminary results from the depression mechanism studies indicate that VNS may be responsible for modulating activity in the four areas of the brain believed to be responsible for depression. The patients involved in the VNS pilot study were severely afflicted by chronic treatment-resistant depression. Most would not have been

eligible for any antidepressant drug study. According to the investigators, less than 10% of the patients in the VNS pilot study would typically show and sustain at least a 50% improvement in their depression. Not only did the VNS patients show a greater than anticipated response, but the response was in general maintained over time. Forty-three of the 60 pilot study patients would otherwise meet the final pivotal study inclusion/exclusion criteria. After a median treatment

period of nine months, 42% were showing at least a 50% improvement in their depression and 26% were essentially free from depressive symptoms. These depression pilot results are superior to the epilepsy pilot and pivotal study results when percent improvement in depression is compared to percent reductions in seizure frequency, the primary efficacy endpoint in the epilepsy studies.

OBESITY AND OTHER NEW INDICATIONS

BUSINESS UNIT

This business unit is essentially our new indications “skunk works.” All indications not yet in a pivotal study are part of this group. In fiscal 2000, approximately \$350,000 was invested in pre-clinical studies and research to prioritize by indication our other new indications activities. A significant portion of the fiscal 2000 spending funded a pre-clinical study of bilateral, diaphragmatic VNS as a potential treatment for obesity. The encouraging results helped convince FDA to approve a 30 patient, two-phase pilot study of bilateral, diaphragmatic VNS in morbidly obese humans. The obesity pilot study is currently underway. We hope to have adequate pilot study results to make a pivotal study recommendation to FDA within the next year. Like depression, obesity is a major and very expensive health problem. There are an estimated 14 million morbidly obese Americans.

The obesity pilot study is not the only VNS study underway. Shortly before the end of fiscal 2000, a 10 patient pilot study of left cervical VNS as a treatment for Alzheimer’s Disease was commenced in Sweden. We hope to have pilot study results within the next year. There are over 4 million Americans who suffer from Alzheimer’s Disease, a disorder for which there are no effective treatments.

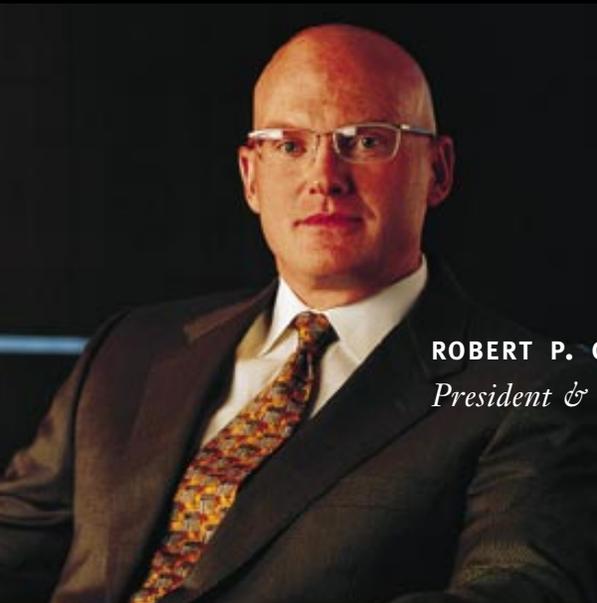
In summary, fiscal 2000 was a year of tremendous accomplishment for Cyberonics. We made great progress towards the achievement of our corporate mission and long-term objectives. Our plan for fiscal 2001 and beyond is to continue to profitably grow our epilepsy business, develop new indications and to ultimately apply our formula for profitably developing drug markets for our patented device-based therapy to much larger opportunities such as those we have identified in depression, obesity and Alzheimer’s Disease. There are, of course, no guarantees when it comes to the future. However, Cyberonics is better positioned today than ever before to help our shareholders realize a significant return on their Cyberonics investment. We remain committed to achieving our mission of improving the lives of people touched by epilepsy and other disorders treatable with VNS. We also remain committed to providing all shareholders with the appropriate information to facilitate well-informed investment decisions. On behalf of all the Cyberonics employees and their families, thank you for your continued support.

Sincerely yours,



Robert P. Cummins
President & Chief Executive Officer

CYBERONICS DEVICES FOR LIFE TEAM



ROBERT P. CUMMINS
President & Chief Executive Officer



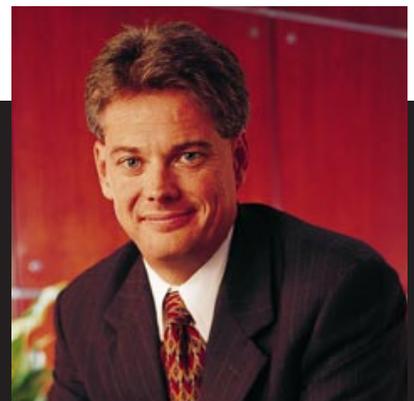
PAMELA B. WESTBROOK
*Vice President, Finance and Administration
& Chief Financial Officer*



RICHARD P. KUNTZ
Vice President, Operations



LEONARD G. MILKE
Vice President, Marketing



SHAWN P. LUNNEY
Vice President, Sales

INVESTOR INFORMATION

Investor Relations Contact | Shareholders, securities analysts, and prospective investors are welcome to call, write, or telefax Cyberonics with questions or requests for additional information. Inquiries should be directed to:

Cyberonics, Inc.
Investor Relations
16511 Space Center Boulevard, Suite 600
Houston, Texas 77058
Tel 800.332.1375, Ext. 262
Fax 281.218.9332

In addition, Cyberonics encourages interested investors to visit the Company's web site at www.cyberonics.com for direct access to company news and investment information.

Transfer Agent and Registrar | Communications concerning stock holdings, lost certificates, transfers of shares, duplicate mailings, or changes of address should be directed to:

Cyberonics, Inc.
c/o EquiServe, L.P.
P.O. Box 43010
Providence, RI 02940
Tel 781.575.3400

Financial Results and Quarterly Reports | Quarterly results are generally released in October, January, April, and August (year-end). The Company's Quarterly Reports on Form 10-Q are mailed to all shareholders who have requested to be included on our mailing list in November, February, and May.

Cash Dividends | Cyberonics has never paid a cash dividend on its Common Stock and does not anticipate a change in this policy in the foreseeable future. The Company currently intends to retain any future earnings to fund the development and growth of its business.

Stock Prices and Trading Data | The Company's Common Stock trades on the National Association of Securities Dealers Automated Quotation (NASDAQ) National Market System under the symbol "CYBX." Stock price quotations are printed daily in major newspapers including *The Wall Street Journal*.

As of August 31, 2000, there were 18,645,694 shares of Common Stock outstanding, of which approximately 10.5% were owned by the Company's officers and directors.

The ranges of high and low prices per share for the Company's Common Stock for Fiscal 2000 and 1999 reflect actual transactions. In all cases, prices shown are inter-dealer and do not reflect mark-ups, markdowns, or commissions.

STOCK PRICE RANGE 1999-2000

2000	High	Low
First Quarter	20 ⁷ / ₈	11 ¹ / ₄
Second Quarter	19 ¹ / ₂	12 ¹ / ₂
Third Quarter	28 ¹ / ₄	14 ¹ / ₂
Fourth Quarter	25 ³ / ₈	11 ⁷ / ₈

1999	High	Low
First Quarter	17	5 ⁵ / ₈
Second Quarter	14 ³ / ₈	4 ¹ / ₂
Third Quarter	13 ³ / ₈	7 ¹ / ₈
Fourth Quarter	14 ¹⁵ / ₁₆	7 ⁵ / ₁₆

Trademarks

Cyberonics®, NeuroCybernetic Prosthesis®, and NCP® are registered trademarks of Cyberonics, Inc. VNS™ is a trademark of Cyberonics, Inc.

Equal Opportunity Employer

Cyberonics is an equal opportunity employer.



CYBERONICS, INC.

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