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Event Transcript

IO - Input/Output Inc. Conference Call to Discuss Appointment of CEO

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IO - Input/Output Inc. Conference Call to Discuss Appointment of CEO

CORPORATE PARTICIPANTS

Jay LaPeyre

Input/Output Inc. - Chairman

Robert Peebler

Input/Output Inc. - CEO

CONFERENCE CALL PARTICIPANTS

Joe Agular

Johnson Rice

Howard Flinker

Flinker and Company

PRESENTATION

Operator

Good afternoon and thank you for standing by. All participants will be in listen-only mode until the question and answer session of the conference. This conference is being recorded. If you have any objections please disconnect at this time.

I'd like to introduce your host for today's conference, Mr. Jay LaPeyre. Sir, you may begin.

Jay LaPeyre - Input/Output Inc. - Chairman

Thank you. Good afternoon and thank you for joining us on the conference call. I'm Jay LaPeyre, chairman of IO. With me are Brad Eastman, chief administrative officer, and Bob Peebler, who I'm pleased to introduce as IO's new CEO.

Our purpose today is to have you meet Bob, hear his early thoughts on IO and discuss a strategic investment we've made in EVP. This is an early stage company that Bob is leaving as CEO but keeping his relationship as he'll be assuming the board chair position.

In searching for a CEO, we were looking for the broad breadth of experience and background coming from the oil sector. But in particular we were looking to try to find someone who had experience managing new technology development and commercializing new technology with the oil and gas companies. We're delighted that Bob has chosen to join us and excited about the experience and capabilities he brings. Bob has a 30-year career in the oil and gas industry. He began as a field engineer, 16 years with Schlumberger. While he was there he held a number of different positions, ranging from the technical, marketing and management positions in both staff and

operations, including a five-year period as vice president of North American wire line operations and two years as global vice president of strategic marketing for oil and gas services.

He's probably most known for the time he spent with Landmark Graphics -- he joined Landmark as vice president of marketing in 1989, was later appointed CEO and stayed with Landmark after they were acquired by Halliburton in '96 and then left Halliburton to begin his work on EVP in 2002.

In a related transaction, we want to announce that we're making a three million dollar investment in Energy Virtual Partners. This will give us approximately 20% of the company. While the board believes the investment is a good one, the greater driver in this is strategic. We believe that we are investing in a company that has a direct channel to the E&P companies that will help us accelerate and demonstrate the value of Vectorseis (ph), particularly in the exploitation and reservoir development markets.

Bob will speak further on our relationship with -- the relationship between IO and EVP later.

Before I turn this over to Bob I'd like to make a few comments about the IO management, about Bob Bunch in particular. Transitions are always difficult and risky. Through Bob's leadership and relentless efforts, we've not only avoided taking a step back, I believe we've taken -- continued to accelerate our progress during this market. So I want to thank the management team and all the IO employees for their confidence and hard work during this period.

Bob, would you like to make a few comments?

Robert Peebler - Input/Output Inc. - CEO

Sure, thanks, Jay.

First I'd like to congratulate the IO team for navigating through a very difficult year for the seismic industry. The company has reacted aggressively to the industry turn down by rapidly cutting costs and looking for more efficient ways to engineer and manufacture IO products. Even though it's painful to go through these times, it does create opportunities for the company to learn to run its business more efficiently. I will continue the short-term emphasis on returning to profitability within the context of making the company more flexible and efficient to support future long-term profitable growth.

FINAL TRANSCRIPT

IO - Input/Output Inc. Conference Call to Discuss Appointment of CEO

And speaking of future growth, the main reason I originally joined the IO board and now have taken the CEO role is my belief that IO has what it takes to participate in the next major wave of seismic technology based on digital multi-component geophysics. IO has a strong position with its mainstream products and services to generate strong earnings and cash flows that can be used to fuel our technology position to take advantage of this next wave.

I believe that multi-component seismic is about where 3-D was in the early 1980s, moving from the early technology to the early adopter phase. I admire that the original IO engineers back in the mid '80s were already imagining this next wave and launched the next generation sensor now called Vectorseis. Even though they were ahead of the market, we're now in a position to start capitalizing on that original work.

I have observed that technology visionaries almost always overestimate how soon a new technology will take hold. But the good news is they also often underestimate how big the market ultimately will become. And I believe this is the case with this next wave, no different than before.

I plan on spending considerable time working with the IO team on how to refine our marketing understanding on how Vectorseis can be used both on land and ocean-bottom applications both in finding new reserves for drilling and also in production optimization. Ways to accelerate the (inaudible) technology will be an important near-term focus.

As Jay mentioned, I believe IO's investment in Energy Virtual Partners or EVP will be the basis of a strong strategic relationship that will allow EVP to deploy state of the art multi-component technology on appropriate properties under its management. IO and EVP will work together to identify opportunities where having access to Vectorseis has a potential to substantially increase the field's value both for new drill and re-completion opportunities, but also production optimization leveraging permanent sensors.

These targeted properties will aid IO in putting the spotlight on actual applications for its technology and even share in the value created when it makes business sense for IO. Our current customer base of traditional seismic contractors remains important to IO, but what is also becoming clear is the demographic shift where many of the new opportunities are coming from emerging international service companies in places like China, Poland and Russia.

I have significant experience both from my early days at Schlumberger and later as CEO of Landmark in building global operations as needed to efficiently serve those markets and will take a particular interest in how we can accelerate our plans to expand internationally for both our mainstream products and new technologies such as Vectorseis.

In the short-term I intend to spend the next few weeks getting more familiar with the IO team, technology, current potential customers and the details of the current business plan and supporting operations. I look forward to working with all of our IO's employees, customers and suppliers to assure IO's leadership going forward, both in our traditional analog seismic technology as well as the digital multi-component technology wave. I would like to also comment to all the IO employees who are likely listening into this call that I look forward to meeting them and working with them to assure IO's further market leadership.

And with that, now we're ready to open the line for questions.

Jay LaPeyre - *Input/Output Inc. - Chairman*

Thank you, Bob.

Jamie (ph), can you please open the line?

QUESTIONS AND ANSWERS

Operator

Thank you. At this time, we're ready to begin the question and answer session. If you would like to ask a question, please press star 1. You'll be announced prior to asking the question. To withdraw, press star 2. Once again, to ask a question press star 1. One moment. At this time we have no questions. Actually, one just came up.

I have a question from Joe Agular. You may ask your question.

Joe Agular - *Johnson Rice*

Good afternoon, Jay and Bob.

I guess I was wondering if you could maybe give us a little bit more detail on, I'm not real familiar with what exactly Energy Virtual Partners does with E&P companies. If you could give

FINAL TRANSCRIPT

IO - Input/Output Inc. Conference Call to Discuss Appointment of CEO

us a little more of the nuts and bolts of how you exactly help in the role that -- what roles you do play?

Unidentified

Joe, EVP or Energy Virtual Partners, the concept, the business model is fairly simple that if you look at an oil company's portfolio, they have properties that are sort of core that they are continuing to invest in. They have properties that are their tail properties they tend to sale. And then they have ones that are sort of in the middle which we call under-resource. They're the ones for various reasons they want to continue to hold but they really don't want to invest.

And what -- the whole concept of EVP through our partners and our own internal technical staff, effectively our value proposition is for the oil companies to outsource the management of those properties to Energy Virtual Partners. EVP brings not only the technology that's appropriate for the property, but also capital to invest in the further exploitation of product optimization of the property. So these are really held by production properties. It's very much in the late mature stage, development stage. It is very much about increasing new value through applying what we would say top tier technology on these under-resourced properties.

EVP was originally funded by Trans Ocean and by Michael Baker Energy, and then also the founder capital and some individuals. And so the strategic partners that are funding are also people we bring in on projects. For example, Michael Baker who is one of the largest, if not the largest production operations group, if we have production operations, EVP doesn't try to do that with internal staff -- it's basically done through an aligned business contract with Michael Baker.

Now, from an IO perspective, not all of EVP's properties have the opportunity, but when we look at the properties through various technology lenses to see what's possible, it's quite clear that some of these held by production properties could very well have -- for example, in the offshore we may have a gas cloud that really has skewed the image. You really can't get a good enough understanding to the subsurface. And if you shoot multi-component, or use multi-component technology, sheer seismic, you can clarify the image and actually quite dramatically reduce the risk. So that will be just one example where combined with IO and perhaps one of IO's partners we can bring them into actually apply the technology on one of our projects.

I think of it as sort of two advantages. One is that when you're in the early adopter stage it's quite difficult sometimes to get your customers to help publicize case studies and -- in fact, that's always the dilemma of technology companies is that they tend to want to hold that proprietary because they see that as an advantage and with the working relationship with EVP, on the properties as appropriate we could actually create some of our own case studies where it would make sense to participate. The other advantage is that because EVP's main customers are large clients, the BPs, the Unocals, sort of that side of the client, is you're also exposing the technology to them through the project. So it's a nice synergy, both ways. It gives another arrow in EVP's quiver for another technology that they can potentially apply and obviously it will help IO.

Does that help, Joe?

Joe Agular - Johnson Rice

Yeah. And how many properties or how many, I don't know how you exactly define it, have you all been involved in over the last couple of years? Are we still in the early stages there?

Unidentified

We're very in the early stages. In fact, the company was just opened for business a year ago in May. And we're just within weeks, maybe even days, assigning the first contract with -- I can't really say who it is yet. But it's a large company and it will be a second one following. So we're coming out of the box in 2003 with actual properties to manage. It's actually been quite a well received concept by these oil and gas companies.

Joe Agular - Johnson Rice

And EVP, I assume, just shares in the production upside?

Unidentified

That's correct. And basically through the line contracts, the oil company keeps the current production and EVP gets the lion's share, company gets its capital back and then shares in the future production.

FINAL TRANSCRIPT

IO - Input/Output Inc. Conference Call to Discuss Appointment of CEO

Joe Agular - *Johnson Rice*

Now, is there any formal arrangement between IO and EVP, you know, from a business standpoint? Obviously you have the investment now, but with respect to the Vectorseis?

Robert Peebler - *Input/Output Inc. - CEO*

Not yet. One of the early things we'll be doing -- obviously I've got to get established over here and we've just named a replacement for myself at EVP. And so probably in the next couple of months we'll be sitting down and sort of working out sort of the business arrangement at the project level, how that would work, how we can most efficiently spot the opportunity and what parties we need to pull in to take advantage of the opportunity.

Joe Agular - *Johnson Rice*

And I guess I have one other question, kind of in a different, on a different subject here. Can you draw any parallel between your days at Landmark and where maybe Input/Output is today with respect to new developing technology that, is there any kind of parallel there between -

Robert Peebler - *Input/Output Inc. - CEO*

Let me give you a couple of stories. I'll give you a story, Joe, that reminds me.

I can remember the early days at Landmark, when we were wondering how large the market might become, and we actually had a president with Shell that told us in his wildest imagination he couldn't imagine Shell oil shooting more than three to four 3-D surveys a year, and of course, probably today Shell shoots that many a day. What you find in the early stages when the customers aren't educated, most of them just don't really envision how the market will expand and grow. In fact, most of them will give you all the reasons why they're not going to -- it's too expensive, we don't have the data. It's too much data. So I see lots of parallels.

I'm very comfortable in saying that I think that multi-component seismic is about where 3-D was in the early '80s, which is really just at the beginning of the early adopter phase. If you remember in about 1980, 1981, 98% of the data being shot was 2 D. And so we've seen, as you remember, we have seen a lot of growth in the last 20 years. So I think we're in those early stages. I've seen all kinds of symptoms that would suggest that, all the way

from the numbers of articles being written, the number of forms that's being created. People are actually now starting to get their hands on the data and start figuring out how to use it.

Joe Agular - *Johnson Rice*

Great. Thank you and good luck.

Operator

Our next question comes from Howard Flinker (ph). You may ask your question.

Howard Flinker - *Flinker and Company*

I have two questions. First is, am I clear to understand that you don't get a certain percentage of -- yet, a certain defined percentage of the upside from finding additional reserves in EVP?

Unidentified

EVP -- if you look at the EVP model, EVP puts capital into the projects and then EVP gets typically either working interest or net profits interest and the -- if you want to think of it as a wedge, which would be the new value that's created.

What we also do -- and each depends on the partner, how they want to participate, but the partner can either participate just strictly on a time and material basis and just get value through the participation from a usability point of view, or they can put, for example, technology at risk or a portion of technology at risk and share in the value creation around the new production that's created.

One of the frustrations that I see in the industry, not just unique to IO, is that there's so much great technology sitting on the shelf that's not being utilized by a lot of these companies. Our industry has become a little bit risk-averse and so -- and to a certain way this is a way for technology companies to have the capability of extracting some value by using their technology in the actual act of finding gas and oil production. Different than taking working interests or where you would actually be getting -- booking reserves. It's not like that. It's really more or less just sharing in some of the upside through some kind of an interest, typically a net profits interests in the project.

FINAL TRANSCRIPT

IO - Input/Output Inc. Conference Call to Discuss Appointment of CEO

Unidentified

Howard, who are you with?

Operator

Actually, Howard disconnected. If you have any further questions, please press star 1. One moment, sir.

Mr. Flinker, your line is open.

Howard Flinker - Flinker and Company

Sorry, we got cut off. The cell must have lost the power. I had a second question for you.

Unidentified

Howard, can you tell us who you are with?

Howard Flinker - Flinker and Company

Flinker and Company. You have a note coming due for -- whose interest rate rises substantially next month. What are you going to do with that?

Jay LaPeyre - Input/Output Inc. - Chairman

This is Jay. We haven't decided, but it's unlikely that we would allow that to continue at the higher rate.

Howard Flinker - Flinker and Company

In the marketplace, is it relatively easy to refinance or will you use your large cash more likely?

Jay LaPeyre - Input/Output Inc. - Chairman

We have not decided this yet.

Howard Flinker - Flinker and Company

Okay. That's it. Thank you.

Operator

At this time, we have no further questions.

Jay LaPeyre - Input/Output Inc. - Chairman

Okay. Thanks to everyone for joining in. That concludes the call. Thank you.

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