FINAL TRANSCRIPT

CCBN StreetEvents

Event Transcript

IO - Q3 2003 Input/Output Inc. Earnings Conference Call

Event Date/Time: Oct. 30. 2003 / 5:00PM ET

FINAL TRANSCRIPT

IO - Q3 2003 Input/Output Inc. Earnings Conference Call

CORPORATE PARTICIPANTS

Jack Lascar
DRG&E - Investor Relations Representative

Bob Peebler
Input/Output - President & Chief Executive Officer

Brad Eastman
Input/Output - Chief Administrative Officer

CONFERENCE CALL PARTICIPANTS

Thiru Ramakrishnan
Simmons & Company - Analyst

John Morisani
ING - Analyst

Mary Safri
Carl Forstheimer (ph) - Analyst

PRESENTATION

Operator

Good afternoon ladies and gentlemen, and welcome to the Input/Output third-quarter earnings conference call. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded today, Thursday, October 30th, 2003. I would now like to turn the conference over to Mr. Jack Lascar. Please go ahead, sir.

Jack Lascar - *DRG&E - Investor Relations Representative*

Good afternoon, and welcome to Input/Output's third-quarter conference call. We appreciate your joining us to review our quarterly results. Your hosts today are Bob Peebler, President and Chief Executive Officer; Jorge Machnizh, Executive Vice President and Chief Operating Officer; and Brad Eastman, Chief Administrative Officer.

Before I turn the call over to management, I have a few items to go over. If you would like to be on our e-mail distribution or fax list to receive future news releases, or experience a technical problem and did not receive yours this afternoon, please call DRG&E and relay that information. That number is 713-529-6600. If you would like to listen to a replay of today's call, it is available via webcast by going to the Investor Relations section of the company's web site at www.I-O.com. Or via a recorded instant replay until November 6th, 2003. To use the replay feature, call area code 303-590-3000 and use the pass code 556335.

Information reported on this call speaks only as of today, October 30th, 2003, and therefore you are advised that time-sensitive information may no longer be accurate as of the time of any replay. Management is going to discuss today certain topics that will contain forward-looking information based on management's belief, as well as assumptions made by, and information currently available to, management. Forward-looking information includes statements regarding expected revenues, gross margins, and earnings per share for the fourth quarter of 2003. Although the company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Furthermore, as we start this call, please refer to the statement regarding forward-looking statements incorporated in our press release issued today, and please note that the contents of our conference call this afternoon are covered by this statement. Risks that the company faces are discussed in greater detail in the company's filings with the Securities and Exchange Commission, including the company's report on Form 10-K and Form 10-Q.

Please also note that you can find reconciliation to reported numbers for non-GAAP measures that we will discuss on this call in our press release. I would now like to turn the call over to Bob Peebler.

Bob Peebler - *Input/Output - President & Chief Executive Officer*

Good afternoon. The agenda this afternoon will include some quick industry perspectives, a review of the third quarter and year-to-date results, and update on the other significant events this quarter, guidance for the fourth quarter of this year, followed by a question and answer period.

While commodity prices remained relatively strong during the quarter, we have seen little indication, so far, that the market for our traditional seismic contractors is improving in the short-term. However, we are starting to see some positive signs in the industry with the increasing capital outlays of some of the MP (ph) and seismic contractor companies.

Commodity prices were mixed during the quarter, but remained high by historical standards. WTI (ph) averaged $30.90 this quarter, up from last quarter's $29.10. Natural gas prices declined seasonally during the quarter, with NYNEX (ph) spot gas prices averaging $4.71 MCF, compared to five dollars and a penny NCF last quarter. U.S. drilling activity averaged 1,084 rigs (ph) during the third quarter, up 5.4 percent from 1,028 in the second quarter, and up 27 percent from last year's third-quarter average of 853.

International activity increased 2 percent from last quarter to 782 active rigs this quarter. The international rig count was up 9 percent in the third quarter last year. Average rig count in Canada was 385 this quarter, which represents a 54 percent improvement, compared to the third quarter of 2002.

We saw mixed levels of seismic activity during the third quarter. International land seismic crew counts averaged 121 for the quarter -- (indiscernible) percent greater from 111 the same quarter a year ago, and down sequentially from 150 in the last quarter. The United States activity remains anemic, with active land crews averaging 30, up from 27 last quarter, but down from the 37 reported in last year's third quarter. Canadian land activity averaged 15 crews, up from 12 crew average in the third quarter of last year.

Marine seismic activity is down when compared to last quarter or last year. U.S. marine activity decreased slightly, with 10 active vessels, compared to 12 last quarter, and declined from 16 a year ago.

The international marine fleet averaged approximately 56 active vessels for the quarter, down slightly from 59 last quarter and down from 65 active vessels in the third quarter last year.

Continuing the trend we have reported on the last several quarters, we are seeing Chinese, Eastern European, and former Soviet Union contractors more active than North American seismic contractors. We believe that the industry fundamentals should improve in the future, as Varatops (ph) recently announced increased capital expenditure plans, when compared to last year. PGS should emerge from bankruptcies soon, and then Western GECO (ph) announced that its backlog has increased 14 percent.

I am a strong believer that oil companies will embrace these seismic technologies to unravel geological and reservoir problems, to unlock future reserves, and I/O will be well-positioned when that happens.

Our announcement last week with Apache is a clear indication of that trend. I spent the first part of this week in Dallas attending the Society of Exploration Geophysicist, or called the SEG, and was encouraged by the many presentations by oil company geoscientists that highlighted the need for high-resolution 3-D through new processing and acquisition techniques, and a growing interest in various applications of multi-component seismic technology. There were also executive presentations that outlined the future of seismic imaging, and, in every case, it was recognized that another generation of seismic technology is needed to resolve the complexity of future reservoirs.

In addition, there was sufficient support to our belief that 4-D is a growing market that is quickly moving into industry mainstream applications. I/O is clearly positioned to take advantage of these trends.

As far as the third quarter is concerned, we were disappointed with our revenue, but believe that we will deliver a significant increase in the fourth quarter. Brad will now discuss the quarter in more detail. Brad?

Brad Eastman - *Input/Output - Chief Administrative Officer*

Thanks, Bob. Third quarter sales were up 6.2 percent to 30.3 million, compared to $28.5 million during last year's third quarter. Despite the improvement, we fell short of our objective of 35 to $40 million for the quarter, that we outlined during the second-quarter conference call. We expected a $7 million marine equipment sale during the quarter, which did not materialize. Based on our discussions with the customer, we were highly confident that this sale would occur in the third quarter. However, the customer was unexpectedly not awarded a survey, and therefore, did not finalize negotiations with I/O for purchase of the equipment. With that sale, we would have been comfortably within our earnings guidance range. The improvement over last year is attributable to a major increase in land seismic activity with our non-Western contractors. Our land sales for the quarter were $22.7 million, an increase of $6.3 million, or about 38 percent from last year's third quarter. Marine sales of $7.6 million declined $4.5 million, or about 37 percent, compared to last year's third quarter.

Our reported gross margin this quarter was 18.1 percent, compared to 13.2 percent in last year's third quarter. Had we closed the marine sale I just discussed, we believe that we would have reported a gross margin in the low to mid-20s. In addition to lower-than-anticipated marine sales, which are typically higher margins, our gross margin was also impacted by lower-than-anticipated geophone sales, and greater-than-anticipated vibrator sales and Legacy Analog acquisition systems sales, which tend to be lower margins.

We expect gross margin to improve in the fourth quarter, through increased sales and lower unit costs, as certain design improvements are implemented, primarily in our analog land acquisition systems products.

The improvement in gross margin, when compared to the third quarter of last year, has been driven, in part, by our move out of our Alvin (ph) manufacturing facility earlier this year, with the resulting declines in depreciation and facilities charges from our fixed cost structure, as well as additional savings from headcount reductions. We are continuing to review the utilization of our existing facilities to find further ways to reduce our fixed cost structure.

Land division gross profit rate was 14.0 percent this quarter, compared to a negative 2.7 percent in last year's third quarter. The marine division gross profit rate was 30.2 percent this quarter, compared to 34.8 percent in last year's third quarter. The decline in marine gross margin primarily reflects decreased activity in the quarter.

Selling, general and administrative expenses were $7.4 million this quarter, compared to $8 million in the third quarter of last year. As a percentage of revenues, selling, general and administrative expenses decreased to about 24.3 percent this quarter, compared to 28.0 percent in the third quarter of last year. We expect SG&A, as a percentage of revenues, to decline further in the fourth quarter, as revenues recover from the third quarter level.

Full-time employees declined to 472 at September 30, 2003, an 11.6 percent reduction from 534 at the end of the second quarter, and a 27.3 percent reduction from 649 at the end of last year's third quarter. We expect to end the year with approximately the same number of people as at the end of September.

Research and development expenses were about $4.5 million, an approximate $2.3 million reduction from the third quarter of last year. This quarter's research and development expenses included $361,000 of severance expense. These decreases from the third quarter of last year primarily reflect reduced staffing levels, the cancellation of our marine solid streamer project, and the entrance into the commercial phase of our VectorSeis System 4 land acquisition system.

Our loss from operations this quarter was $6.6 million, compared to a loss from operations in the third quarter of 2002 of $32.3 million, which included charges of $24.9 million. Adjusted EBITDA this quarter was a negative $3.8 million, compared to a negative $29.4 million for the third quarter of last year. You can find a reconciliation of adjusted EBITDA to our reported earnings in our press release issued this afternoon.

Depreciation and amortization this quarter was to $2.5 million, compared to $3.0 million last quarter. Capital expenditures during the third quarter were about $590,000.

The company reported an income tax benefit of $133,000 this quarter, compared to an expense of $157,000 during last year's third quarter. We continue to maintain a full valuation allowance on our net deferred tax assets, and reflect no benefit from current net operating losses.

Our net loss attributable to common shareholders this quarter was $4.8 million, or 9 cents per fully-diluted share, compared to a loss of $29.4 million, or 58 cents per fully-diluted share for last year's third quarter.

Our net loss during the third quarter includes a $1.8 million pretax income related to the required quarterly adjustment of our warrant (ph) obligation. In last year's third quarter, our net loss included $2.3 million of pretax income from warrant revaluations.

Moving on to the results for the first 9 months of 2003. Year-to-date sales increased 30 percent to 106.0 million, from $81.6 million during the same period last year. Land sales so far this year were $78.9 million, an increase of 76 percent, compared to $44.9 million in 2002. Marine activity decreased about 26 percent, with sales of $27.1 million this year, compared to $36.7 million last year.

Year-to-date gross margin was 16.5 percent, compared to 16.2 percent last year. Our gross margin this year includes special charges totaling $3.2 million, related to severance costs and an older VectorSeis system held for short-term rental.

The gross profit rate for land was 12.8 percent this year, compared to a negative 4.5 percent last year. For marine, the gross margin was 27.2 percent of revenues, compared to 41.5 percent last year.

Year-to-date, selling general and administrative expenses were $22.6 million, including $1.1 million of severance, and moving costs associated with the closing of the Alvin facility, compared to $22.6 million in the same period last year.

Year-to-date, research and development expense decreased about $7.5 million to $14.9 million, compared to last year's $22.4 million.

Our loss from operations, so far this year, was $22.0 million, compared to a loss from operations last year of $53.9 million.

The company reported an income tax expense of about $158,000 so far this year. We reserve net deferred tax assets, and report income tax expense from foreign operations.

Our net loss to common shareholders for the first 9 months of 2003 was $23.8 million, or 46 cents per share, compared to a net loss to common shareholders of $114.3 million, or $2.24 per share in 2002.

Turning to our balance sheet, now. Our balance sheet remains solid, with $29 million in our unrestricted cash balances at the end of September. This decrease in cash during the quarter was primarily due to the $4.8 million net loss from operations and by an increase in inventory and accounts and notes receivables in the third quarter of for $4.5 million from the second quarter. In addition, we paid $1.3 million in additional consideration to the shareholders of Axis (ph) to settle all contingent consideration obligations, and mad scheduled debt payments of $846,000.

Our third-quarter working capital, which is current assets less current liabilities, decreased to $74.1 million, from $79.2 million at the end of June, 2003. We are very focused on managing our liquidity and capital resources, and are currently forecasting that we will rebuild our cash position by the end of the first quarter of 2004. Our debt-to-capital ratio increased slightly from 28 percent at the end of the second quarter to 29.5 percent at the end of the September 2003.

I will now turn you back to Bob for an update on recent developments.

Bob Peebler - *Input/Output - President & Chief Executive Officer*

Thanks, Brad. During our last quarter conference call, we spoke of our strategy to establish close relationships with EMP companies. I am pleased that I/O had assigned a memorandum of understanding with the intentions of forming a multi-year strategic technology alliance with the Apache Corporation, the leading independent oil and gas producer. This multi-year alliance is designed to hasten the adoption of advanced seismic imaging technologies that will be used by Apache to more-efficiently explore for developed and produced hydrocarbons from its global portfolio.

Although the alliance covers additional I/O technologies, Apache and I/O plan to focus their initial efforts on the System 4 land acquisition platform, utilizing additional full wave VectorSeis sensors and the Azeem (ph) processing technique for anasotropic (ph) subsurface imaging from Axis. Our alliance with Apache will enable I/O to work shoulder-to-shoulder with a leading upstream company to gain a better sense of their seismic challenges and opportunities, and to use that knowledge to make recommendations regarding technology development.

We're having similar discussions with other EMP companies in areas not covered by the Apache alliance. We think this alliance is a sign of things to come, as oil companies align themselves with those who can deliver discernible bottom-line value, via the appropriate development of technology. Our alliance with Apache and our relationships with EMP companies have been facilitated by the acquisition we made last summer of Axis Geophysics, now part of GMG Access Division. We have been able to combine Axis' close relationships with oil and gas companies with the Axis interpretation rate of processing services, with our VectorSeis technology to create new solutions for EMP companies' toughest image problems. I am pleased to announce that Axis has surpassed our initial expectations in both revenue and operating income.

We continue to see growing interest and acceptance of our System 4 land acquisition system, incorporating VectorSeis sensors. We are currently in negotiations for additional VectorSeis systems that should close this quarter. Assuming that is the case, our total VectorSeis systems revenues are now forecasted to be approximately 20 million this year, in its first year of commercialization. Based on our current 2004 planning, our goal is to more than double sales for the VectorSeis next year. We expect the bulk of that growth to continue to come from Asia and the former Soviet Union. This quarter, we also delivered an ocean bottom cable to Conoco Philips, incorporating our VectorSeis technology. As you may recall, Conoco Philips tested a similar cable at the end of last year. Conoco Philips has hooked this cable up to its Ecofish (ph) platform, as further tests of permanent seabed monitoring with our VectorSeis sensors.

Also, Michael Bahoris (ph), past President of SEG and currently Executive (indiscernible) of Technology for Apache, has agreed to chair our recently-formed technology advisory board. We expect to be adding 3 to 4 additional industry (indiscernible) leaders to help guide I/O's future technology development. The addition of our previously-announced board members, Dr. Applebaum (ph) and Mr. Sites (ph), who bring in-depth understanding to VMP (ph) technology and how it is purchased and utilized by oil companies -- another indication of our intention to strengthen our ties with oil companies.

Based on our current backlog, and our improved cost structure, we continue to expect a substantial improvement in fourth quarter revenues, compared to the third quarter, in the 40 to $50 million range, with improving gross margins in the mid-twenties. Our objective for the fourth quarter, is still to break even, with an expected range of a loss of 4 cents per share to earnings of 4 cents per fully-diluted share. We are expecting an increase in gross margin in the fourth quarter, as we realize further cost savings in the closing of the Alvin facility. We more fully benefit from the additional headcount reductions that were implemented earlier in the year, and we realized better sales margins on our new products in both our land in marine divisions. Also, Jim Hollis, our new manager of our land acquisition systems business, is focused on reducing unit costs through redesigning of Legacy Products, and we should see the results of these efforts in the fourth quarter. Jim is also leading the process to further reduce fixed costs at our Stafford manufacturing facility.

In summary, I remain encouraged in seeing topline revenue growth, year-over-year, and by the fact that the company has made significant strides in getting its cost more in-balance with the current level of revenues. We are seeing the confirmation of market acceptance with our VectorSeis business line, and we expect that trend to continue. We're also very encouraged by our new alliance with Apache that reflects our NP (ph) strategy, and we are making tactical progress on strengthening our company.

We will now take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Thiru Ramakrishnan, Simmons & Company.

Thiru Ramakrishnan - *Simmons & Company - Analyst*

First, I had a quick clarifying question. The $7 million marine revenue deal -- is that being postponed? Or is that completely called off?

Unidentified Speaker

It called off at this point, Thoru.

Thiru Ramakrishnan - *Simmons & Company - Analyst*

Okay. Okay, and then, with VectorSeis sales looking to double in '04, what kind of margin should we expect to get from that? Is that introductory? Are we still in introductory prices or --?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

No, rather than -- the margins should be better. And, of course, the mix helps us. We also have some additional products in our marine group that are higher margins. So, we would say -- I think just our goal and our current plan would reflect margins, on average, in the 2004 in probably the low 30s -- (multiple speakers)

Thiru Ramakrishnan - *Simmons & Company - Analyst*

Low 30s?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

Yes.

Thiru Ramakrishnan - *Simmons & Company - Analyst*

Last question -- with regard to your deal with Apache -- when would you expect a multi-year deal to close with that?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

We were all at the SCG (ph) this last -- really up until yesterday. And so, I am actually sitting with Steve Farris (ph) and his team next week, and we will be mapping that out. Our goal, as we stated in the press release, was to have the thing consummated by the end of this quarter.

Thiru Ramakrishnan - *Simmons & Company - Analyst*

Okay. And kind of speaking more to the (indiscernible) processing technique, in general -- first, could you just kind of go over the value that adds, combined with VectorSeis, or just solo? And then, the margins you get on it? And then lastly, how big you think that this market is?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

First, what we are fortunate with (indiscernible) is that -- right at the heart of their technology is dealing (ph) with what is called anasotropic formations. I'm going to tell you what that means in layman terms. If you look at a tabletop, and you look at the grain in a tabletop -- as you know, most wood has grain running in one direction or the other. And actually, if you think about it, because of that, sound would travel through that tabletop at different velocities, depending whether you are going with the grain or against the grain. Formations are the same way; reservoirs are the same way. And those differences, historically, have caused very significant problems, varying from basin to basin, in processing. Because people have not figured out how to deal with that, they have, effectively, assumed that it is homogeneous, when it is not. And so, the Azeem (ph) technique, actually, is quite beneficial to solving that problem, which really resolves a lot of issues -- general issues -- in processing.

What strengthens that even further is when you have higher-resolution and higher-definition data. And then, also, once you know you have that problem, you can better design the survey to accommodate the Azeem processing. And so, we call that fusion of those two technologies. And so, right at the heart of at least our initial work with Apache is looking at their portfolio, where the combination of the VectorSeis technology -- both from a better resolution imaging quality -- combined with the Azeem, will solve some of their problems. And in addition to that, if you throw in the multi-component, which we're also looking at -- converted wave -- that even helps further solve some of their problems in their specific portfolio.

I hate to -- you know, that's probably about as general as I can get without getting into even more detail. Hopefully, that helps you understand the base set (ph) technology. The reason it is exciting with Apache, is that they are very familiar with other people that have techniques in that same area of need. And they feel like we are clearly the leaders in that area. Did that help?

Thiru Ramakrishnan - *Simmons & Company - Analyst*

Yes, that did. But, what about the margins and the size of the market?

Unidentified Speaker

In our interpretation division, overall, which includes both the processing and software sales of our GMG products, were looking for gross margins of about 60 percent.

Bob Peebler - *Input/Output - President & Chief Executive Officer*

They give gross margins because they are -- you know, it's not a, sort of, the sausage (ph) factory type processing. It's a very unique and focused processing. And you end up getting higher margins -- you can think of it as designer processing, starting with the image.

As far as the size of the market, I will tell you that most basins in the world have anasotropic issues. And so, in my own opinion, access in, sort of, the Azeem line is more constrained by our ability to grow. I mean, it takes quality people and infrastructure. And so relative to their current size, relative to the problems that can be solved, it is really more how fast we can grow that business and still maintain the quality that we need to maintain.

Thiru Ramakrishnan - *Simmons & Company - Analyst*

Okay. Great. Last question, and then I will turn it over. It appears that you guys have really put in a much-tighter cost structure than was in place before. And my question is -- with this kind of reduced cost structure, what type of revenue base do you have to get to for the company to break even?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

The answer to that, now, is really more around the needed gross margin. In my opinion, particularly with our plans to grow, we have a few more places we can tune up, and we're still looking for those opportunities. But mainly, the play, I think, going forward, is not even so much trying to cut so much out of our current infrastructure, as it is improving gross margins.

If you sort of back into it, I think you can see that we started out saying that if we were in the 30-plus gross margins, we ought to be in the breakeven around 150,160 million in revenue for that time frame. And we would be there -- I mean, right now, the missing link to that goal is gross product margins. So, what we are doing now, over the last year, as you know, we have been focused on getting our infrastructure down, outsourcing manufacturing, working through all those things. Now we're taking that same level of focus and shifting the center of gravity to looking at that gross margin all the way from product mix to value selling to stronger marketing and sales to manufacturing and continuing to look for ways to get our manufacturing costs down, even in some of our generic products. We're still looking at some lower-cost manufacturing options.

So, we're going to be -- I guess, what I would sort of say is that this last year -- couple of years -- have been, sort of, the year to basically shrinking the company down. 2004 is going to be the year of getting our gross product margins up.

Operator

John Morisani, ING.

John Morisani - *ING - Analyst*

I guess I'm still on the Apache deal, when you call it a collaboration. I'm still trying to figure out what -- (multiple speakers)

Bob Peebler - *Input/Output - President & Chief Executive Officer*

What it means?

John Morisani - *ING - Analyst*

Yeah, what you get from them that you would not get from them if they were just a straight -- you know, what would you call it? Commercial relationship?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

Yeah, I'm going to give you broad headlines, John. And mainly because we are actually -- negotiation is almost too strong a term, in a way, because it isn't a classical negotiation. But, we're still trying to work through with them, physically and financially, how this thing is going to work. But, the goal is for Apache to work with us, both financially and collaboratively for our technical people to get the technology into their portfolios.

As you know, because VectorSeis is not nearly in the mainstream, there is no way we can deliver that through normal commercial channels. And so, they are clearly willing to support us in different ways to make sure that we can drop that technology, whether it's in Canada or Egypt or wherever they want us to put it. So, it is going to be more than just a feel good -- we're going to work together. It's going to have elements of financial support; it is going to elements of joint cooperation, probably in our R&D areas at some level; and it is going to have, clearly, collaboration on getting -- helping us look at their portfolio. And it is going to be -- there will be, in different forms -- there will be money flowing to, is all I can say. So, it is much beyond just a standard commercial deal.

John Morisani - *ING - Analyst*

Okay. And Bob, one other thing that -- it has been said to me before -- is that one of the problems that seismic companies have is that -- or particularly, the problem that you have had -- is that some of the kind of pioneer work that you have done in the multi-component area is -- belongs to the clients for whom you have done it. And you were then not able to turn around and kind of show it off to other people to say "look, this is what we could do for you!" Are you going to have that ability to do that, or --?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

Yes, in fact -- with Apache, for example, they very much understand the importance -- in their mind, over time, it's good to get the technology proliferated, because ultimately, over time, that brings the cost down. And so, they are very willing to help us, almost into the marketing point of view.

Now, they may have, in a very specific area -- they may have some unique twist that they want to keep to themselves. But, generally speaking, they are going to help us, whether it's through joint papers or our marketing efforts, to help get the word out when it is working. They're mainly just wanting to find more oil and gas, using the technology and being an early adopter of it and taking advantage of it. And, they know -- on our side, our need is to help speed up the adoption technology by others. And there's a clear understanding of those two needs, and it does not feel all that conflicted. In fact, I think this helps us, because they acknowledge that need.

I can give you one example. We had some really good results with Azeem. And they have already allowed us to -- they allowed us to show it at the SCG, which just sort of shows that willingness to help us.

John Morisani - *ING - Analyst*

Okay. Last question -- I know that you had one of your -- I think it was like a 1500 channel count multi-vector, multi-size system. Do you -- is your guess that what you will be doing with Apache will be sort of a stand-alone, multi-thousand channel count system?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

Yes.

John Morisani - *ING - Analyst*

And that has yet to be built?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

We will have a system -- one way or another, there's going to be a system made available to Apache. And, obviously, our goal is not to have I/O in that system.

John Morisani - *ING - Analyst*

Okay. Thank you.

Operator

Mary Safri (ph), Carl Forstheimer (ph).

Mary Safri - *Carl Forstheimer (ph) - Analyst*

I guess we are all on to Apache. It sounds very exciting. And, in your comments, you mentioned that you were looking to do this with other companies if it did not conflict with your agreement with Apache. What kinds of restrictions would you be --?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

I don't think there's going to be many restrictions. In fact, it's really more of a matter of focus than our commercial restrictions. We have talent in certain areas. And, what I've just learned is that, if you get yourselves spread too thin, then you don't do anything very well. So, the temptations is to go out there and try to do this with 15 companies, but then you lose focus. And, so it is really more of a resource constraint. We've got precious resources that really understand the technology, as they do. And I think we will get more mileage in collaborating. But, there are other areas. You know, Apache, right now, is mainly, for example, interested in land acquisition. And we have other areas that we have different sets of people that are involved. For example, we're interested in places like permanent monitoring or C-bed (ph) retriever (indiscernible). So, we're just going to be trying to find people that we can marry-up our people in those other areas with. But there is really -- it is not going to be -- sort of an exclusive that we cannot talk (indiscernible) companies, our anything like it. It's really more just trying to manage it properly.

Mary Safri - *Carl Forstheimer (ph) - Analyst*

So, it will be land-oriented? And will there be some sort of quota? Like you will put so many hours into it or --?

Bob Peebler - *Input/Output - President & Chief Executive Officer*

You mean with Apache?

Mary Safri - *Carl Forstheimer (ph) - Analyst*

, Yes.

Bob Peebler - *Input/Output - President & Chief Executive Officer*

All of that is to be decided. We have agreed with them of what the -- sort of the requirements of both companies from a strategic point of view, and the things we're trying to accomplish through the agreement. And now we are working with them, tactically, how to (indiscernible) implement that. And over the next few weeks, we will be able to discuss it -- probably in a lot more (multiple speakers)

Mary Safri - *Carl Forstheimer (ph) - Analyst*

(multiple speakers)

Bob Peebler - *Input/Output - President & Chief Executive Officer*

I can tell you, the one thing we are doing right now is that we are looking at their whole portfolio of properties. And, we are doing some modeling in conjunction with them -- some funded modeling, actually -- to better decide where it's best to place the technology. Because we want to make sure that we start out in the right -- the places that have the best promise for them.

Mary Safri - *Carl Forstheimer (ph) - Analyst*

Okay. Great. That is helpful. Thank you.

Operator

(OPERATOR INSTRUCTIONS). Gentlemen, there are no further questions at this time. Please continue.

Bob Peebler - *Input/Output - President & Chief Executive Officer*

Okay. Well, thanks for joining the conference call. And with that, we will end the call. Thank you.

Operator Ladies and gentlemen, this concludes the Input/Output third-quarter earnings conference call. If you would like to listen to a replay of today's conference, you may dial 303-590-3000 and enter the excess number of 556335. (operator repeats numbers) Thank you for participating. You may now disconnect.
