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Conference Call Transcript

IO - Q1 2005 Input/Output Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Input/Output First Quarter Earnings Conference Call.

As a reminder, this conference is being recorded Thursday, April 28, 2005. I would now like to turn the conference over to Mr. Jack Lascar. Please go ahead, sir.

Jack Lascar -DRG&E,, - Partner

Thank you, Jeff. Good morning, and welcome to the Input/Output conference call. We appreciate you joining us today. Your hosts today are Bob Peebler, President and Chief Executive Officer, and Mike Kirksey, Executive Vice President and Chief Financial Officer.

Before I turn the call over to management, I have a few items to go over. If you would like to be on an e-mail distribution or fax list to receive future news releases, or experienced a technical problem and didn't receive yours yesterday, please call DRG&E and provide us with that information. That number is 529-6600. If you would like to listen to a replay of today's call, it is available via Web cast by going to the Investor Relations section of the company's Web site at www.i-o.com, or via recorded instant replay until May 5th. To use the replay feature, call area code 303-590-3000, and use the pass code 11028489.

Information reported on this call speaks only as of today, April 28, 2005, and, therefore, you are advised that time-sensitive information may no longer be accurate as of the time of any replay. Before we begin, let me remind you that certain statements made by management during this call may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements regarding the company's expected future financial positions, segment sales, results of operations, cash flow, funds from operations, financing plans, gross margins, business strategy, budgets, projected costs and expenses, capital expenditures, competitive position, product offerings, technology developments, access to capital and growth opportunities are forward-looking statements.

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These forward-looking statements are based on management's current expectations, and include known and unknown risks, uncertainties and other factors, many of which the company is unable to predict or control, that may cause the company's actual results or performance to materially differ from any future results or performance expressed or implied by those statements. These risks and uncertainties include the risk factors disclosed by the company from time to time in its filings with the SEC, including its annual report on form 10K for the year ended December 31, 2004. Furthermore, as we start this call, please also referred to the statement regarding forward-looking statements incorporated in our press release issued yesterday, and please note that the contents of our conference call this morning are covered by these statements.

Before I turn the call over to Bob Peebler, I would like to invite all of you to the analyst meeting we'll be hosting on May 10th in New York at the New York Palace Hotel. Please call me at 713-529-6600 if you would like to join us.

Bob?

Bob Peebler - Input/Output, Inc. - President and CEO

Good morning, and thank you for joining us.

Even though we had a slow start, as anticipated, we are seeing increasing strength in the various business drivers. This is increasing our confidence on the year as a whole. For example, GXT ended 2004 with a lower-than-expected backlog of processing business, which resulted in significant spare capacity and, therefore, losses for this part of their business through Q1. Since the end of last year, we have seen their backlog of processing projects grow by over 400%, entering Q2 with a much stronger book of business going forward. After a few months of disappointing results, we are finally seeing GXT's business regain a better balance between proprietary processing, multi-client surveys and data sales, which has positive implications for improving profitability for GXT as the year unfolds.

In addition to increasing backlog and associated revenues, we are pleased with GXT's progress in opening new international centers. For example, we recently opened a processing center in Venezuela, and have already started booking business. We have plans for opening two more international centers this year. We look forward to having a broader portfolio of served markets that will help smooth out the revenue base for GXT's processing business, and a broader future base of processing capability to support the emerging full-wave imaging market.

In our land imaging systems business, we are effectively sold out on some of our more mature product lines, such as vibrator trucks, which we are stretched to keep pace with the market. The only Q1 soft spot in our mature lines was sensor, and that can likely be attributed to delayed orders versus any slowdown. Their pipeline still appears to be large enough to support their total 2005 plan numbers.

We are also making progress with System Four, including a strategic sale in April at a high-density hybrid system to an established contractor in Algeria. This was very important to us, as it penetrates a market that has historically been a stronghold of our main competitor. More importantly, we now have a land system platform in Algeria that can be expanded to support VectorSeis as we develop demand for full-wave via the oil companies participating in that region. We believe that the most recently approved hydrocarbon law for Algeria will significantly increase forward investment, and will likely drive a large increase in seismic activity. Therefore, this is one of our key target areas for future business expansion, and establishing a beachhead was very important for us.

Another important milestone that was achieved via business development activities during the first quarter and early April was adding two new VectorSeis contractors, one in the former Soviet Union, and the other covering the mid-continent in North America. The North America sale is an important step for our full-wave market development activities, since we have generated more full-wave demand than the current North American contractor could cover. We now have 10 contractors who are providing VectorSeis services around the world, with two in North America and the balance in international markets. As we stated in our last conference call, one of our key short-term missions is to prove that recording the full-wave field using VectorSeis technology will ultimately replace today's approach using arrays of geophones. Eventually, we believe VectorSeis will be the center of choice due to improved image quality, regardless of the situation. Gains on system productivity using full-wave point receivers will also play a significant role in converting the market, since costs will come down to improve field performance.

I would like to give you a brief update on some of the oil company full-wave usage numbers that I gave during the last call. These are preliminary numbers that will be future -- further refined during our second quarter call. I will compare 2003, 2004 and Q1 2005 full-wave data. First, estimated full-wave oil company surveyed expenditures in 2003 was 7.2 million, in 2004, 36.9 million, and the first quarter of 2005, 21 million. With 21 million already spent this year, we believe it's realistic expectation that we would see oil company full-wave spending increase by over 100%. The actual number of surveys versus dollars -- there were 24 surveys in 2003, 40 surveys in 2004, and 16 surveys in the first quarter of 2005. We also expect the number of surveys to more than double this year, and, as important, the size of the surveys appear to be increasing. Full-

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wave surveys in the first quarter include ones in India, Russia, China, Canada and Poland. By our own internal estimates, I/O's VectorSeis market share is still 70% or higher. We will also update these estimates in our market data -- as our market data improves throughout the year.

Our marine business results were slightly down from last year, but, when we back out the revenue from the VectorSeis ocean sale in Q1 2004, the underlying business shows strong growth. The most important news for our marine business is the strong contractor activity that is driving an increase in our pipeline, even including a few large opportunities in equipping some new vessels that will likely be coming online over the next -- over the latter part of 2005 and in early 2006. Interest in our new Digi products is also growing related to the demand for higher density, more accurate marine shooting, partially driven by our contractor customer's competitive reaction to Schlumberger Q. Due to these factors, our pipeline is suggesting a strong second half for our marine group.

In addition, we have made solid progress with VectorSeis Ocean, with many of the original teething problems being identified, some solved, and some in the planning stage of resolution. We anticipate that our launch partner, RXT, will finish the current jobs in the Gulf of Mexico in early summer. We will then have time to implement the engineering upgrades so RXT can get much better overall productivity on our future jobs. We are also working on enhancements that will be incorporated in our version two that we are targeting to ship in Q4 or early 2006.

During this first launch phase, the marine group has carried significant additional costs associated with supporting RXT on the current job to assure successful delivery of quality image to the oil company customer. These efforts will carry on through this quarter, but should taper off significantly once we finished the launch phase, hopefully by the end of Q2. We are still bullish on the ultimate market success of VSO, and believe that our technical teams have turned the corner on understanding and correcting the launch issues. Putting the operational issues aside, the ocean bottom VectorSeis data appears to be excellent, and should set a new standard for marine imaging.

I will now turn the call over to Mike, who will give more detail on our results for Q1.

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

Thank you, Bob.

Taking a look at the details of Q1, revenues were 66.8 million. With the exception of our sensor geophone unit, as Bob mentioned, all our businesses were near our revenue plan. The sensor unit had a record year last year, and is trying to duplicate that this year. Their Q1 revenue was five million short of plan, impacting our results by about \$0.02. They will be working hard to recover that as the year progresses.

Our entire land business, both sensor and the land systems unit, had revenues of 30.6 million, compared to 20.6 million a year ago. Sensor geophone business was down two million year-over-year, resulting in all the land revenue growth being in our systems and truck business. Gross margins in our land group were 22% compared to 25% last year, reflecting the large percentage of vibrator trucks and other mature lower margin products in the revenue mix this year, as contractors buy immediate needs to get crews working. The second quarter is indicating a more balanced mix of products, with two System Four sales already shipped in April.

In the marine business, sales were 10.9 million. This included no VSO sales, as our plan calls for VSO revenues in the last half of the year. Last year's first quarter marine revenues of 11.5 million included 3.1 million of VSO revenue. Excluding last year's VSO revenue, our marine business is up approximately 30%. This is evidence of an improving marine market. As the marine fleet worldwide increases in utilization, we are starting to see more opportunities for revenue growth throughout the year. Gross margins in the marine group were 36%, compared to 41% last year.

Our Concept Systems data management software business had revenues of 3.2 million, and GXT had revenues of 20.7 million. GXT had gross margins of 16% in the first quarter, which diluted the overall margins when compared to last year. An important key for GXT going forward is the growing backlog of processing projects, which grew 400% during Q1. We expect revenues and gross margin from this portion of their business to improve significantly in Q2 and beyond, as GXT's capacity is more fully utilized with processing projects.

Overall operating expenses fell from 30% of revenue in Q1 last year to 28% this year. We expected that Q1 would be the highest percentage of operating expenses for the year. As we have indicated, we expect revenues to increase through the year, while expenses should remain around the 20 million level. Excluding acquisitions, normal operating expenses were up 21% on an increase in revenues of 27%. Almost all of the increase in operating expenses were in sales and marketing, specifically China, Russia, and business development functions in all of our product groups.

Many people ask us a very logical question -- "With all of the boats rising, why doesn't I/O breakout earnings like some of the other seismic companies?" First, you can see from our comments, the traditional land and marine business is growing in double digits. The land group is up

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50%, and the traditional marine group products up 30%. However, as we have said many times, these mature product are feeding a vast array of next-generation products currently in the early adopter market. We estimate that we will spend 20 to \$25 million this year on full-wave related projects and market penetration. This does not include expenditures on other next-generation non-full-wave products, such as next-generation marine streamer technologies and land data management solutions.

I/O is about changing the way seismic is done, and we are heavily investing in this vision. We will cover this in more detail at our May 10 analyst meeting in New York City.

A few non-recurring items in Q1 are worth noting. The wrap up of 2004 Sarbanes Oxley compliance work in Q1 increased operating expenses about 600,000. Affecting gross margins, our marine group incurred approximately 400,000 and our continued support of our VSO product as we work through the launch issues. Our land group incurred approximately \$1 million in under-absorption costs resulting from the high vibrator track revenue mix and lower incoming inventory for other products. In Q1, we had a tax benefit of approximately \$1.3 million, as some prior year foreign tax audits were resolved in our favor.

Turning to the balance sheet, inventory dropped slightly, with a much larger drop expected in Q2 as we start to see more system shipments in our land business. CapEx for the quarter was 1.5 million. Additions to the data library were 2.7 million. As a final note, we have signed a commitment letter for a 25 million revolver. We expect to close this facility in the next couple of weeks. We believe this will provide the financial flexibility needed to carry I/O for the foreseeable future.

For 2005, we continue to expect revenues to range between 320 and 365 million, with much of the revenue growth coming from continued market penetration of our field acquisition systems, continued improvement of GX Technology's overall results, and a stronger overall marine seismic market. We expect sales and margins to improve as we move through the year, with full year gross margins to range between 30% and 35%. We anticipate operating expenses as a percentage of revenues to range between 23% and 28% during the year. As a result, we continue to anticipate 2005 earnings to range between \$0.15 and \$0.40 per share. I'd like to turn the call back to Bob now for some closing comments.

Bob Peebler - Input/Output, Inc. - President and CEO

I'd like to say a few words about the operational side of our business. As stated in our last conference call, much of our efforts in 2004 was getting the foundation pieces in place to support our strategy. The acquisition of Concept Systems and GXT, and strengthening in our balance sheet, was our primary focus. This year, we have moved much more into the execution of our strategy, including refining our R&D manufacturing to deliver better products, and building our global business development organization that can handle the complexities of solution selling across the imaging value chain to both oil companies and seismic contractors, and into emerging markets.

Our most recent management change, where I had taken over as acting president of our imaging systems group, reflects my believe that I have a unique qualification in managing technology businesses through the early adopter stage, and getting closer to the action over the next several months should allow us to better help assure that we accomplish our 2005 goals. We have made significant progress over the last 24 months, and we will still have much more we can do to improve our execution, both technical and business development, and that is where I will be spending the majority of my time.

Operator, we are now ready for questions.

QUESTION AND ANSWER

Operator

Thank you, sir.

Joe Agular with Johnson Rice.

Joe Agular - Johnson Rice - Analyst

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I have a question on the System Four VectorSeis sales. You mentioned, through April, selling two systems. Were those two systems both sold in the month of April?

Bob Peebler - Input/Output, Inc. - President and CEO

No, one was in the first quarter, and one was just right after -- I think it was, like, the first week or so. It's basically a deal that was negotiated the first quarter, also.

Joe Agular - Johnson Rice - Analyst

One thing I've been a little bit perplexed with is your commentary on the startup expenses on the marine side. If I'm reading the numbers correctly, you all have been profitable in the marine segment.

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

That's true.

Bob Peebler - Input/Output, Inc. - President and CEO

That's correct.

Joe Agular - Johnson Rice - Analyst

But obviously, then, the profitability is well below what you think it will be once you get some of these issues worked out. Is that accurate?

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

That's fair.

Bob Peebler - Input/Output, Inc. - President and CEO

That's correct.

Operator

Thiru Ramakrishnan with Simmons & Company.

Thiru Ramakrishnan - Simmons & Company - Analyst

First question, are you going to have any related startup costs with GXT opening up office in Venezuela, Nigeria, and Angola?

Bob Peebler - Input/Output, Inc. - President and CEO

Nothing of any significance. We leased some facility there, hired a couple of people, and have connected some technology together, so nothing that should be noticeable.

Thiru Ramakrishnan - Simmons & Company - Analyst

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Are these facilities that are being put in place, is this based on projects you have in hand, or is this kind of you need the local content?

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

Both -- all the facilities have been put in place to really respond to very specific oil company requests. So, for example, the day we opened the doors almost in Venezuela, we already have projects in hand. So, I guess we're opportunistic in that sense that we're looking at the places around the world where we have the most possibilities to have business in the door when we first open. We try to work and, if we don't have a backlog of business, we have a near backlog of business. Obviously, local content also is important. One of the areas we're close to opening the facility is also in Nigeria, and that's an area -- actually our timing is fortuitous, because they've recently passed some laws (inaudible) need to be able to process in country.

Thiru Ramakrishnan - Simmons & Company - Analyst

Looking at your traditional projects -- traditional products, looking at your kind of gross margin trends, I'm wondering is it possible for you guys to squeeze any more margin out of your traditional products, the geophones, the connectors, the cables, via either pricing or maybe moving manufacturing to China or Russia, one or the other?

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

We have -- we're doing all those things. We're constantly looking at ways to reduce the manufacturing costs and have just ongoing plans. As you know, a majority of our manufacturing now is through outsource partners, and they take us to wherever they can maintain the quality but bring costs down. Also, we're constantly looking at the R&D side. Are there things in sustaining production engineering, and have plans laid out to do that. In some of the lines, we're seeing some price increase, where we have some parts of our business that are effectively -- we're stretched to meet the demand, and, obviously, when you have that situation, you have opportunities selectively to increase prices, and we're doing some of that.

Thiru Ramakrishnan - Simmons & Company - Analyst

Last question, and I'm not sure if I heard you correctly. The 25 million revolver, that's incremental to the preferred deal that you did last quarter?

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

Correct.

Thiru Ramakrishnan - Simmons & Company - Analyst

And given the excess capital you got with the preferred deal, is there something specific that this 25 million is needed for, or is this just extra cushioning, or more extra cushioning?

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

It is simply a working capital capability. as Bob mentioned in his comments, there are several large opportunities out there. It seems that the projects are getting bigger, and all that carries working capital requirements with it.

Operator

Andrew O'Connor with Wells Capital.

Andrew O'Connor: I wanted to know, Bob, can you further characterize your approach to new business development in Russia?

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Bob Peebler - Input/Output, Inc. - President and CEO

Yes. Probably the best way to characterize it is that we have been building up a local base of capability over the last year and a half, and we're continuing to do that. So, more and more, our Russian operations are handled with our office in Moscow, and they pretty much cover the former Soviet Union out of that area. We also have support capabilities on the technology we have in Moscow, and are looking at even some of the outlying places if we need that. So, that would be our main emphasis, is to continue to build up people on the ground locally.

Andrew O'Connor: Is your approach -- is it more focused on Western companies in Russia, or local companies there, or perhaps a combination of the two?

Bob Peebler - Input/Output, Inc. - President and CEO

It's really a combination of the two. We have -- we are engaged pretty much across the spectrum, all the way from GasCrom (ph) to Luc Oil (ph) to TNKBP. We also have a good relationship with ConocoPhillips, who are working with Luc Oil, and that's sort of the demand creation side of the business, education of full-wave, etc. In addition, the contractors themselves are mainly -- well, they're all Russian contractors. The only exception to that would be Petra Alliance, which is partially owned by Slumberge, who we also sell equipment to. But, other than those guys, it would be all Russian contractors, and several of them, actually now that have our technology.

Andrew O'Connor: And then, is there any other, more generally in Russia or elsewhere, any other new contracts or new business development that you guys are in a position to be able to speak to this morning?

Bob Peebler - Input/Output, Inc. - President and CEO

Not really. I can just say that, building off of the comment he made about Algeria, I think that's the reflection of our belief, not just Algeria but all of North Africa. You can put Egypt where you want to put it, North Africa or the Middle East -- in the Middle East. So, that part of the world, plus the former Soviet Union, is just an area that we're going to continue to see increased seismic activity, and where the activity is increasing is where we also want. Iraq would be another area that, even though, as you know, that place is still a tough place to do business in, there's some movement there towards sort of reloading their seismic equipment, and we have interest there also.

Operator

Richard Dearnly with Longport Partners.

Richard Dearnly - Longport Partners - Analyst

Your share count on average this quarter is up 51%. The proxy was quiet on what you were going to do with the -- by doubling the authorized. Could you put some color on that?

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

Yes. You were hard to understand, but the question was, if I heard you right, was that the authorized share count request in the proxy statement, is that correct? OK, yes. That's a normal request. As we go forward, there is -- with the convertible and other things, we started to get to the point where we thought it was best to have more increased shares. The amount we're requesting is pretty normal with companies, if you go look in the past. So, it's a standard step that most companies do as they progress.

Bob Peebler - Input/Output, Inc. - President and CEO

Nothing specific planned there.

Richard Dearnly - Longport Partners - Analyst

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Well, part B, strategically, do you have all the pieces you need now to execute your strategy, or are there some technology pieces that are still missing?

Bob Peebler - Input/Output, Inc. - President and CEO

We don't have any large gaps in our arsenal now. In fact, we're quite pleased with the foundation pieces we have. The majority of what we'll be working on going forward is now basically through internal development activities rather than trying to acquire. I won't say that something might not walk in the door that would fit an add-on to one of our platforms, but, as I said, we don't really have any ambitions to go out and do a large acquisition, or whatever. We're just focused on now taking what we've got and making it work as best we can.

Operator

Tom Henwood with OMT Capital.

Tom Henwood - OMT Capital - Analyst

Yes. I wondered if you could flesh out a little bit the timing of this investment period, and when you think you'll be coming out of this heavy investment period with full-wave, and what the final margin model might look like for the company.

Bob Peebler - Input/Output, Inc. - President and CEO

On the timing, there's two kinds of expenditures. One is the ongoing R&D expenditure, and the other part of the expenditure would be building out sort of the marketing and sales capabilities that we wouldn't normally do if we didn't have the strategy that we currently have. I would say that the actual investment rate, just year-over-year, won't change that much, but it won't go up, and the revenues will be what will be increasing because of it. We'll need that channel in place to continue.

The difficulty you have currently is we need the channel in place to build the market, but then, after the market -- the market will be built, but it will continue to grow and be service. If we didn't have -- if we weren't in this early stage, and we only had the traditional products, it would be much of what we're doing currently we would not be doing. But with our current strategy, we will need a more complex and sophisticated marketing sales organization. So, the bigger thing will be is that we made this investment, but then the infrastructure won't grow nearly as fast as the revenues grow.

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

If I could add a couple things. You asked about gross margins. Our out-year models, we talk about mid to upper 30s as the pipeline becomes full and the manufacturing becomes full, and the products are more out of this early adopter stage. So, those -- that's the kind of range we talk about.

Richard Dearnly - Longport Partners - Analyst

How about operating, Mike? How about operating margin model?

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

It's in the teens, high teens.

Richard Dearnly - Longport Partners - Analyst

Why -- do you have any visibility into when that demand begins to build, when that top line begins to turn up?

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Bob Peebler - Input/Output, Inc. - President and CEO

I think the visibility is actually the numbers we're giving you on how oil companies are using the technology. If you think about it, we're getting a double -- the business -- at the end, our technology is used in going out and running surveys. And if that activity is increasing, then, over time, you have to have more technology and expanding to keep up with that demand. So, we think that's the best leading indicator we have. It's even a better indicator than our sales, because our sales, to a certain extent, are lagging indicators, because you put a system out, it has to get loaded, and then -- before another system goes into place. Plus, at this stage of the market, they're going to be conservative until they start seeing -- they can look out and see the business developing out going forward.

So, I think that the data we're giving people, that I gave in the -- earlier on, is the right data to watch. And when we see that data, we've seen that data. The numbers are now getting large enough, and the numbers of contractors large enough, that we're starting to feel like we're getting a critical mass. So, when you have 10 contractors around the world equipped to provide the -- have spent millions of dollars, equipped to provide the services, and we see the surveys themselves at least increasing by 100% or more, that's a pretty good indicator.

Richard Dearnly - Longport Partners - Analyst

The range of revenues that you've given for the year, then, is a reflection of perhaps the visibility you have into the timing, and is the low end of that range, that it doesn't really take off yet this year, the high end of the range is that it takes off in the second half of the year sometime?

Bob Peebler - Input/Output, Inc. - President and CEO

There's more than that in it. We have -- that's partially right, and the diffusion -- there's combinations of different activities. We have -- in that number, we have not only the land full-wave system growth -- and there is a range on that, just because of not knowing exactly where at in the cycle -- we also have some fairly large sales.

For example our VectorSeis Ocean sale, we do have some revenues in the second half, yet we're still in the stage of proving out the technology and doing some re-engineering work, so the precise (ph) of when that would fall, there's some variability in those numbers, and those are big system sales. And then, also on the GXT side of our business, they do some fairly large multi-client projects, and the timing of those, when they start, is a variable. So, what we've effectively done is that we've taken sort of a base case, and then, around that base case, we move those big parts around and come up with different combinations. We can't possibly cover all the combinations, but it's our best current thinking, and so that's why you get those kinds of swings.

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

I will add, at our May 10 meeting, we're going to talk about your question specifically, the -- in the out years what is our thought process, and what does it look like out there. So, some of your questions around operating margins and gross margins, we'll talk about those on May 10.

Operator

Thiru Ramakrishnan.

Thiru Ramakrishnan - Simmons & Company - Analyst

Did you mention who you sold the VectorSeis system to in the mid-continent?

Mike Kirksey - Input/Output, Inc. - Executive VP and CFO

No, we did not mention that.

Bob Peebler - Input/Output, Inc. - President and CEO

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No, we did not.

Thiru Ramakrishnan - Simmons & Company - Analyst

Would you care to, or is that still sensitive information?

Bob Peebler - Input/Output, Inc. - President and CEO

No, we're not naming them mainly because we don't have the company's permission. We normally would like to have that before we say. I'll tell you that they're a mid-continent based company, a solid contractor that serves the mid-continent.

Thiru Ramakrishnan - Simmons & Company - Analyst

They're lower 48 U.S.?

Bob Peebler - Input/Output, Inc. - President and CEO

Yes, lower 48 U.S.

Operator

Joe Aguilar.

Joe Aguilar - Johnson Rice - Analyst

I was wanting to ask a question on the GX backlog. I mean, you all mentioned it's up 400% in processing. How does the level where the backlog is now compare to where it was, say, in the quarters before you bought the company?

Bob Peebler - Input/Output, Inc. - President and CEO

Joe, I would have to -- to be honest, I'd have to be speculating a bit. But what I do know is that the current backlog, in the current business activity, they're getting back to where their capacity is pretty much being used up. They may have a little bit of capacity in North America. In fact, some of our -- some of their places internationally are pretty -- not counting the brand new places, are full. So, we have -- actually, we have out of our European office, they would be -- their book of business is greater than it was at that time. And I'm not absolutely sure on the U.S. business, but I do know we're getting close to where they're sort of back to the full load of business.

Joe Aguilar - Johnson Rice - Analyst

And just in general, again on the GX side, kind of the market today with the increased interest in deep water, are you all -- what's driving the processing? Right now, reprocessing of existing data, or is this processing of newly shot data? Just curious on that front, as well.

Bob Peebler - Input/Output, Inc. - President and CEO

I think it's a little bit of both. I think they've got some -- still got some reprocessing going on. There's some leases changing hands and different things going on. I actually don't know if they -- what they have currently in-house is also related to new data. So, again, I just don't have that detail.

Joe Aguilar - Johnson Rice - Analyst

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Earlier, I asked you a question on the profitability. Is the reason you're profitable there, is it the DigiCORE stuff, is it streamer business?

Bob Peebler - Input/Output, Inc. - President and CEO

Well, we have -- yes, we certainly have -- our DigiCORE line is obviously one of our better lines, and it's a great technology, held high market share, and it's also playing into the market right now that's strengthening, which is for more accurate high-density shooting in marine environments. And so, that part of the business, when that business moves, then we get our best -- we do get our best margins. That's a great mix for us, but the other lines are also profitable. I mean, it's -- the marine guys are -- their book of business is a good, profitable business. Looking forward, the only sort of unusual costs they're carrying is just this launch period of VSO, and so that's taking away some of their profitability. But, as we mentioned, over time, obviously that will get corrected as we take progress.

Operator

Byron Pope with Pickering Energy Partners.

Byron Pope - Pickering Energy Partners - Analyst

With regard to the data management solutions segment, I know it's a relatively small piece of the overall puzzle, but it looks like the revenues were down year-over-year and sequentially. I'm just wondering what your outlook is for that business as we step through 2005, and was it profitable in Q1?

Bob Peebler - Input/Output, Inc. - President and CEO

Yes, it would have been profitable in Q1, and their business -- they sell -- part of their core business is selling systems into the marine, sort of the install base marine environment. I think, as we see the marine business expanding, their business should be fine. So, we don't have any concerns about Concept. They're a really nice niche business that also has some new products that will be coming out -- they're sort of in field test -- will be coming out towards the end of the year. Again, that's one of the issues for us is sort of this first half-second half, because even those guys will have a little more velocity with some of the new products in the second half. But no, they're fine, and we see them vary a little bit quarter by quarter, just because they're sort of software, and they're fairly large sales.

Operator

At this time, I show no further questions. I'd like to turn the conference back over for any concluding comments.

Bob Peebler - Input/Output, Inc. - President and CEO

We'd like to thank you for taking the time to attend this conference call, and look forward to seeing many of you at our analyst meeting in New York on May 10, and thank you, and good-bye.

Operator

Thank you. And ladies and gentlemen, this concludes the Input/Output first quarter earnings conference call. As a reminder, if you'd like to listen to the replay of today's conference, you may dial 303-590-3000, and you need to enter the access code of 11028489 followed by the pound sign.

Once again, thank you for participating in today's conference. At this time, you may now disconnect.

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