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Conference Call Transcript

IO - Q4 2004 Input/Output Inc. Earnings Conference Call

Event Date/Time: Feb. 17. 2005 / 8:30AM CT
Event Duration: N/A

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PRESENTATION

Operator

Good morning ladies and gentlemen and welcome to the Input/Output fourth quarter earning conference call. At this time all participants are on a listen-only mode. Following today's presentation instructions will be given for the question and answer session. If anyone needs assistance at any time during the conference please press the star followed by the zero on your touch-tone telephone, and as a reminder this conference is being recorded today, Thursday, February 17, 2005. I would now like to turn the conference over to Mr. Jack Lascar; please go ahead, sir.

Jack Lascar - ***Input/Output Inc. - Partner, Investor Relations***

Thank you, Dustin. Good morning, and welcome to the Input/Output conference call. We appreciate your joining us this morning. 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 (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 website at www.i- o.com or hear a recorded instant replay until February 24. Two use the replay feature call area code (303) 590-3000 and use the passcode 11022816. Information reported on this call speaks only as of today, February 17, 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 position, segment sales, results of operations, cash flows, funds from operations, financing plans, gross margins, business strategy, budget, projected costs, and expenses, capital expenditures, competitive positions, product offerings, technology development, access to capital and growth opportunities are forward-looking statements.

These forward-looking statements are based on Management's current expectations and includes known and unknown risks, uncertainties, and other factors many of which the Company's unable to predict or control that may cause the Company's actual results or performance to materially differ from any future results or performance express or implied by these statements. These risks and uncertainties include the risk factors

disclosed by the Company from time to time in its filings with the SEC including in its quarterly report on Form 10Q for the quarter ended December 30, 2004.

Furthermore as we start this call please also refer to the statement regarding forward-looking statements incorporated in our press release issued yesterday, and please note that the contents---the contents of our conference this morning are colored by these statements. I would like to turn the call now over to Bob Peebler.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Good morning, and thank you for joining us. The agenda this morning will include review of where we are against our goals in our path forward, review of the fourth quarter and 2004 financial results, a look forward at current 2005 expectations, followed by a question and answer period. Mike will later be covering the details of the numbers related to the past quarter and for all of 2004, but I would like first to give you my analysis of our business compared to our short term goals and longer term strategic objectives.

As you know Q4 fell way below our guidance and our own internal forecasts, mainly due to two GXT Data sales that didn't close and represented approximately 10 million in revenues and 0.10 a share.

We also had a 5 million----5 million Vibroseis truck sales in our land business unit representing about 0.02 a share that was delayed. The majority of which closed in January. The combined impact of the data library and Vibroseis delay was 15 million and approximately 0.12 cents per share.

If they would have closed as forecast that would have put us comfortably in both the revenue and earnings range that we originally provided. However, I would like to comment that even if we would have made our numbers I would have not been satisfied with the results primarily due to the balance of revenues at GXT and the slower than expected sales of System 4 in our Land Group. I will now dig a bit deeper into these issues and what we are doing to improve the situation going into 2005. I will start with our Imaging Systems Group and our Full-Wave leadership goals.

The positive highlights of the Image Systems Group include----included a record year of our Sensor Division, solid performance in our Marine Group including the VectorSeis Ocean Sale, strong Digiting product line performance and Concept Systems delivering as we expected when we acquired them.

On the disappointing side even though our VectorSeis system sales, year-over-year grew by 55 percent, ending at 31 million, we fell short of our goal of 40 million for the year. The shortfall was in our Land VectorSeis system sales, and even though we had a significant number of opportunities throughout the year it has taken longer to close those opportunities than expected. Some of this problem can be attributed to a conservative industry with long adoption cycles.

For example, our patchy lance (ph) resulted in two significant surveys being shot in Canada last winter with processing and interpretation being conducted during most of the summer and into the fall. They only recently completed three successful wells which demonstrated that the full cycle time can take a year or more. Even with these long cycle times we need to improve business development results, and recently we made some changes aimed at improving our capabilities to manage large complex sales including bringing in a new VP of business development.

We are now making adjustments throughout the organization as needed to sharpen our capabilities and keep pace with the market, particularly reinforcing our pull-through strategy via oil companies. I believe our issues are more related to finding ways to be a marketing and business development to speed up the fusion than anything inherent in the market which I will now speak to.

One issue in this early stage of market development is measuring the diffusion of the technology into the marketplace. Counting systems sales is only one indicator and tends to lag market uptake since each system sold takes awhile to get fully loaded before the contractor needs to buy an additional system. Contractors are still generally short on capital and a bit gun-shy in purchasing new technology, and therefore their tendency is not to add any additional capacity until they are certain of strong backlog. To a certain extent it's the old chicken and egg problem of jump starting new technology. To help better understand a full-in market we are now tracking additional metrics that gives us a much better handle on how Full-Wave is being accepted. Let me give you a few interesting and positive statistics.

We now have 8 contractors with VectorSeis capabilities compared to 1 at the beginning of 2003. The majority of the contractors are international including Russian, Chinese, Polish and Canadian. We estimate that 2 years ago in 2003 all companies spent approximately 7 million on Full-Wave surveys. This number increased approximately 38 million in 2004, a 5x increase year-over-year.

There has an estimated 70 percent increase in the total number of Full-Wave surveys between 2003 and 2004, and within those numbers the number of 3D surveys have increased by a factor of 4 which is a reason for the accelerating increase in total dollars per survey.

Majoring total Full-Wave expenditures for 2004, all companies in Russia were number one followed by North America and then China. Over the last 2 years 38 oil companies have acquired Full-Wave surveys and of the 38, 18 were new to the Full-Wave scene in 2004 and 11 who had Full-Wave surveys in 2003 repeated surveys in 2004.

We estimate that approximately 70 percent of the Full-Wave surveys over the last two years were done with I/O VectorSeis systems. This data supports our belief that we are in the early adopter stages of Full-Wave technology and that technology uptake is accelerating as the Industry develops a better understanding of the measurement and how to better process and interpret the Full-Wave data. Related to moving the ball forward in the are of better technical understanding I would also like to outline several places we have made fundamental progress.

We now have a much better realization of the value proposition for Full-Wave that leads with a much improved pressure wave that includes new state of art signal processing called vector filtering that has been worked on by our technical teams over the last several months.

We have also made substantial progress in leveraging the technical horsepower of GXT , supporting the development of our internal capability for processing Full-Wave data. We have a goal of being in full production by year end and striving for Full-Wave processing leadership over the next couple of years. We are also exploring how and when we can best be involved in assuring the Industry also has state of art Full-Wave interpretation tools.

We are working on many fronts to educate clients on the value of Full-Wave, both marine and land, including more productive operations related to point receiver recordings; a theme for us at the last SEG for the ones of you who attended.

We enter 2005 having resolved substantially all of the start up issues we had with system four that nagged us through the last half of 2004. The exclamation point for our land Full-Wave capabilities is the ongoing DGP, Synapex (ph) project which has approximately 15,000 live channels which we believe is a record. Most importantly the job is going well in tough environmental conditions.

We are also involved with another Apache like deal with TNK-BP where our technical cooperation is focused on demonstrating the value of Full-Wave to them and has already resulted in a system four AC (ph) sale in support of this project.

In summary we were disappointed that we had a slower than expected finish with VectorSeis land sales but enter 2005 with a growing Full-Wave market. We expect the combination of growing interest by oil companies, improved system four operation performance and improved business development practices will help us convert more opportunities into sales during 2005, particularly during the second half of 2005 with a goal of 45 million of VectorSeis system sales for the year.

On the marine side of the I. S. G. (ph) business, as already mentioned, we believed our first commercial VectorSeis commercial ocean system to be our launch partner, RXT. The system was put into operation last fall and unfortunately we had some initial teething problems getting the system fully functional. However, the data quality has been excellent and when the system began to perform as designed the operational efficiency exceeded expectations.

As with any new complex system introduction the things you least expect are often the ones that cause you the most problems. In early December we thought we had most of the main start-up issues behind us and we were encouraged with the exceptional productivity on last phases of a shoot. Since then RXT moved on to an even larger shoot, but we had a new issue crop up on January first related to our battery management system. The issue has been solved in the short-term and we intend to upgrade the battery system over the next couple months.

In the meantime it appears we have a reasonably stable operation and the crew is achieving solid production numbers. We will continue to provide service and support to the project and upgrade the system as necessary. In our conversation with both RXT and oil companies we see a growing interest in VectorSeis ocean with good indications of a backlog of business that can be built by RXT.

Moving on to GXT our original revenue and earnings expectations have not yet been achieved. We believe GXT has a great set of technology and people and has a good base of business with a strong brand. The short-term issues we are experiencing generally a related to three things. One, as with all acquisitions the GXT management team was forced to spend a lot of their time on nonbusiness matters during the nine months involved in selling the company. This, combined with the fact that they had experienced rapid growth in a changing market, has created growing pains. GXT management is now focused solely on the business and are getting things back in order but they have worked to over the next few months.

Two, GXT's U.S. Gulf of Mexico processing business was slower than expected in 2004, particularly in light of the expected run up of activity related to the future lease sales in deepwater. What has happened so far is new seismic shoots rather than reprocessing old data. Companies also seem to be jockeying around with their portfolios and how they want to play in the Gulf of Mexico which has resulted in delay for some opportunities. GXT has not seen the level of activity that is expected in the Gulf of Mexico but the good news is they are starting to see an increase in their prospects and their backlog in Q1 compared to Q4, 2004 should more than double if they close the business they expect this quarter. So things are starting to improve.

Three, GXT's integrated seismic service business was slowed by international permitting issues that have pushed some of this business from 2004 to this year. Some of the projects they expected to be kicked off in the second half of 2004 have moved into 2005. The wide range in our annual guidance is an indicator of the uncertainties of timing of these projects. The lower ends of our range is partially driven by the possibility of future slippage of some of these multi-client projects.

These three factors contributed to GXT being so dependent on closing data library sales in the fourth quarter of 2004. Even though GXT has a significant list of opportunities it's difficult to predict exactly when data library sales will close since they are mainly viewed as discretionary operating expenses by most oil companies. The unexpected last minute calculat---cancellation on a large GXT data library sale adversely affected our 2004 results.

In summary the key strategies to get GXT back to expected performance levels are: One, increase the breadth of GXT's proprietary processing business including opening two new international centers in Latin America and West Africa this year. Two, broaden GXT's client base for processing in the Gulf of Mexico, and grow the land business. And, three, watch multi-client projects as-planned this year. Accomplishing these three objectives should bring better balance to GXT's portfolio and should help put them back on track.

In summary, related to GXT, I'm still confident that the addition of GXT to our portfolio is mission-critical to our strategy and they have a bright future ahead. They may continue to struggle a bit through this quarter but with their growing prospects we should start seeing real progress in Q2 and beyond.

I've been dwelling on many of our short term challenges but it's also important to note we have made significant progress in 2004 on many fronts. I would like to highlight a few of them.

During 2003 we had a weak balance sheet and the Company was burning cash each quarter. Our cash flow and capital transactions over the last year, including our recent capital infusion have given us the financial strength and working capital to support our anticipated growth plans and navigate through the uncertainties that are inherent if our business at this stage of technology introduction. We acquired GXT and Concept Systems which are critical foundation pieces to our future plans. We have already been----begun cross company technology integration that we believe will have a positive impact on our future offerings starting in 2006.

We launched 2 product platforms that allows us to offer Full-Wave imaging in both the land and marine environments and to support our dual goals of improved image with much higher productive field systems. Considering the complexity of these systems we have made considerable progress in the early introduction phases.

We have energized the oil and gas customer base with our Full-Wave story and we believe that we are starting to gain leadership mind share which is an important part of our brand building going forward.

We have improved our financial performance year-over-year going from significant losses and negative cash flows in 2003 to a slight profit when the old Russian receivable write down is excluded and significant EBITDA growth. We also have seen improved critical performance indicators such as gross margins, which have moved from the teens in 2003 to around 30 percent to 2004. This is a big improvement that had been driven by our focus on new products, improved manufacturing costs and raising prices.

The good news is we still have much more room to continue---for continued improvement. I will now turn the call over to Mike who will give you much more detail on our results for Q4 and the full year.

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

Thanks, Bob. As Bob mentioned we are disappointed with Q4 and our inability to close a few deals at the end of the quarter in what would have had a significant impact on our results.

As outlined in our press release a very few large sale contracts made the difference in our results. As a result revenues were lower than expected at 67.8 million. With this mix of revenues gross margins were 30 percent compared to 25 percent last year.

Margins in our land imaging division were 35 percent in the fourth quarter compared to 23 percent in Q4, 2003. Our marine imaging division had margins of 43 percent compared to 39 percent in 2003. Margins were up handsomely in all our traditional product businesses.

DXT had revenues of 21.3 million in the fourth quarter, and lost 2.7 million at the operating income line as a result of the two data library sales not materializing in Q4. Within our lands imaging division our sensor geophone business continues to enjoy a robust analog geophone market with Q4 revenues up 124 percent from 2003 fourth quarter.

Our marine business is reflecting the start of a tightening in the marine seismic market. Our marine revenues were up 28 percent from 2003 fourth quarter without any Vectorseis ocean sales in this fourth quarter.

We recognize the gain of approximately 450,000 on the transaction involving our MEMS business with the swift company Callibris (ph) that was closed and announced December 17. Offsetting this gain in Q4 are one time charges of approximately 1 million, primarily consisting of Sarbanes-Oxley compliance of 500,000, and other costs related to VectorSeis ocean. Interest expense was at normal levels.

Now let me turn to the full year 2004. We gave many details in the press release covering 2004. When you step back and look at the past year 2004 was a large step forward for I/O. Revenues, excluding acquisitions, grew 25 percent . Margins improved dramatically as new products, cost reductions and outsourcing all contributed.

System four AC (ph), system four VectorSeis and VectorSeis ocean together had approximately 54 million in sales. EBITDA was 27.4 million, 32.6 million if you exclude the u-cos (ph) write off, compared to a negative 9.2 million in 2003. Without the impact of the Russian receivable write off I/O earned 0.03 per share in 2004 compared to a loss of 0.45 in the prior year.

Capex for 2004 was 5 million, and we ended the year with 109 million in working capital.

During the fourth quarter as we finalized our planning process we looked at various operating scenarios in Q4, 2005 and beyond. When we consider the various moving parts including working capital needs, both short and long-term, technology adoption variables, R&D opportunities and market trends to name just a few, the result was a determination that an additional amount of capital would be needed to support a short term growth, working capital needs, and support various longer term strategic scenarios. We believe our recent 30 million capital transaction accomplishes all of those objectives.

We considered various alternatives including term debt, revolvers, and stock. But because of the covenants and restrictions of the various debt forms available to us, when considered in context of the variables in our strategy, we concluded the convertible preferred was the best option for I/O. We wanted a structure and investor that reflected our believe in the long-term strategy of I/O and what we are trying to achieve.

Over the past several months Fletcher Asset Management has performed a normal investor due diligence, met the management team and reviewed publicly available information and concluded I/O was an opportunity they wanted to invest in.

Fletcher has invested in the oil and gas industry several times and understands our strategy. Over the past two months we have come to appreciate their long-term investment view and their desire to help companies grow and execute their growth plans. We believe the company is now well-positioned to execute on our long-term strategies as well as take advantage of opportunities that might present themselves to enhance such strategies.

Now turning to 2005. We expect revenues to range between 320 and 365 million as stated in the press release. The key variables in this 45 million range are new product adoption of system four AC (ph) and VectorSeis systems, VectorSeis ocean sales and multi-client and [inaudible] sales at GXT.

We are estimating total system four sales, both AC and BC, to range between 50 and 70 million in 2005. VectorSeis ocean is a large system with revenues typically between 10 and 20 million for each system. For 2005 the high-end of the range assumes two VectorSeis ocean system sales in the low end assumes one system sale. Because of the lead times any sales of VectorSeis ocean in 2005 will most likely occur during the second half of the year.

The library sales have proven more difficult to predict than we expected. Our 2005 revenue evident mailings include a 15 million swing between the high and low end of the range related to data library and multi-client revenues. The combination of these three large sources explain why we have an estimated 45 million range in our revenue forecast. We are estimating gross margins for the full year to be in the low 30s, since the revenues will most likely be skewed toward the last half of the year, gross margins should be expected to improve as the year progresses.

Normal operating expenses should continue in the low 20 million range each quarter as the Company continues its marketing sales and R&D efforts surrounding Full-Wave. The convertible preferred issuance will add about 375,000 per quarter as the preferred dividend is paid. And estimated taxes for the year are between 1 and 2 million as the company has NOLs in the U.S.

Turning to another matter, the Company is planning an analyst day in New York on May 10 at the New York Palace hotel. Invitations and more details will follow in the next couple of weeks. We invite all of to you join us in New York as we will try to provide you with some new insight into our technology and operations.

I think now we can turn it over to the question and answer period.

QUESTION AND ANSWER

Operator

[Caller Instructions]. Our first question comes from Thiru Ramakrishnan with Simmons. Please go ahead with your question.

Thiru Ramakrishnan - ***Simmons & Company International - Analyst***

Good morning, gentlemen. First question, when we look towards Q1 and I understand the relevance of not giving quarterly guidance but it would appear that since you are getting the Chinese VectorSeis sale in, it would appear that sequentially results should be better, is that a right assumption?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

Drew, the Chinese VectorSeis sale, in, I don't think we spoke to that, what we spoke to was that there were some vector, some Vibroseis truck sales that had come into the first quarter, those are typically lower margin transactions.

Thiru Ramakrishnan - ***Simmons & Company International - Analyst***

Well, I guess, the general overarching question is, you know, looking towards your '05 guidance $0.15 to $0.40, and it looks like revenues will be weighted towards the second half of '05. I'm just trying to get a feel for the ramp up and when a, kind of, return to profitability would occur.

Bob Peebler - ***Input/Output Inc. - President & CEO***

What we feel is if you look at, sort of, the parts of our business, one, GXP if we look, as I mentioned----if you look at their activities we think that their main business is going to get stronger, mainly starting in the second quarter, and that's really just because of project timing. Even if you have a build up of backlog, as you know, we don't-----on the processing side you don't really charge for those projects. You charge as they go forward, so a little bit depends on exactly when those things are actually getting signed.

So there's even timing issues within the quarters which is why we're really trying to stay away now from the quarter. I think the main thing we are saying is that we see the business growing going forward and it's more skewed as we go toward the back end of the quarter---the back end of the year.

Thiru Ramakrishnan - ***Simmons & Company International - Analyst***

And the Two GXT data library sales that totaled 10 million, are those expected to close or are those----

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

We had one -- we've had one that's partially closed and we're going through some contracts with those guys. The other one, if you remember we mentioned in the last conference call, was cancelled at the moment because of a----an acquisition by the oil company that we were dealing with. And with our most recent conversations they are still sorting out, because now they've changed their portfolio, they are still prioritizing whether or not they are going to continue the emphasis they had before on the deepwater and if so are they going to buy the data. So we really don't know.

That sale, we still believe has a reasonable chance of ultimately being done. But it might not ever happen, but that's strictly, if it doesn't happen it's not that we lost it to someone else, it's just they decided not to spend; that should get clear, I doubt if that would happen in this quarter because they are telling us it's going to take them probably into spring before they sort out their new plan.

Thiru Ramakrishnan - ***Simmons & Company International - Analyst***

Last question on the VectorSeis guidance in sales in '05. Bob, do you expect customer mix to be kind of similar to what it was in '04, a lot of international players, or do you think that '05 will see some of the more traditional?

Bob Peebler - ***Input/Output Inc. - President & CEO***

I think that the, are you talking about the oil company mix or the contractor mix?

Thiru Ramakrishnan - ***Simmons & Company International - Analyst***

Well.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Or both?

Thiru Ramakrishnan - ***Simmons & Company International - Analyst***

Speak to both, please.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Yeah, let me speak first to where the activity seems to be growing. One is if we look at last year remember I said Russia was first and followed by North America then followed by China. But when we look at what's going on in China domestic, that market could actually grow this, in this year. In fact, we started a year in the middle of this very large shoot.

And so that would be the largest VectorSeis shoot ever and it's in China domestic and course depending on the success of that project if they solve some of the problems that they hope to solve then that could really help kick off VectorSeis even more in China. We are also seeing interest growing in North America. And so---and we're seeing interest growing in Russia. I have a feeling it's going to be sort of those same areas but there's new areas in the Middle East also, West of Africa, that's getting interesting to us.

So it's pretty much where there's oil and gas going on that we are seeing the increasing interest. Of course as you know this industry is a global business, too, so you may have the company that gets experience with it in North America and then they have another analog to it in Africa. So it'll start [inaudible] around like that also.

Thiru Ramakrishnan - ***Simmons & Company International - Analyst***

Any new contractor prospective?

Bob Peebler - ***Input/Output Inc. - President & CEO***

The contractor prospective I think that we may see some increase in that install base but I suspect mainly it'll be increasing capacity within the install base we have although we do have a few candidates, additional candidates that will likely buy systems this year. It will be a little of both. We would like to see the install base increase in size but we also like to see repeat business because that's telling us that they are enjoying the system and getting benefit from it and we are seeing both.

Thiru Ramakrishnan - ***Simmons & Company International - Analyst***

And, Michael, last question with '05 guidance, $0.15 to $0.40, does that include the new preferred dividend expense?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

Yes, it does.

Thiru Ramakrishnan - ***Simmons & Company International - Analyst***

Thanks, that's all I have.

Operator

Thank you. Our next question comes from [inaudible] DKN , please go ahead with your question.

PR Inaudible - ***DKN - Analyst***

Yes, good morning, a couple of questions. The first one is a little bit of a big picture item; trying to be as specific as you can. By most indications the seismic industry, after years of under investment, seemed to have turned a corner just a couple of quarters ago and we saw disappointing results from you if I'm not mistaken; you also were kind of expecting lukewarm results for the first two quarters. My question to you, is, is this because you have a slightly different dynamics, of course I understand adoption of new technology part, or something to do with integration and execution issue? And specifically what are you trying to do when you say and I quote, create better balance of processing, multi-client projects and data library results at GXT.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Let me talk to the two businesses separately, first the imaging systems group which was, where our technology and system sales are. If you strip out our new technology piece that part of the business is actually growing nicely. If we were only in the business of our standard, more mature product lines we would be pointing to that -- in fact as we mentioned sensor had a record year, the marine is picking up, and if you think about that makes sense because the majority of market is not where your early technology or the majority of the market is where all boats rise. So our boat is rising nicely in that part of the business.

So in the IFG business we do have a dynamic that's unusual; that we have an unusually amount of our portfolio that's in the new technology introduction phase both in land and marine. So we have -- so we have a much bigger investment on sort of the medium to longer term than a company might typically have in balance. Obviously we believe that that's not a disadvantage in the longer term but obviously right now we are not enjoying all the uptick of just the general overall arching market.

On the other hand on the GXT side of the business, as we mentioned the -- I don't think the integration issue is as much of the issue as just getting the management team back in the saddle and fully on board and moving away from the mode they were in of basically going through the process, selling the company and helping raise the money.

So I think that is a bigger, I think that is a bigger, was a bigger sort of operational management issue versus big problems of integrating into I/O. In fact I would say where we are doing the real integration activities in technical cooperation is actually going quite well. Their business -- their business has been concentrated in the Gulf of Mexico and even further concentrated on some of the deep imaging challenges. And what's happened is a little bit of a sea change on the portfolio.

One was that in the deepwater with the lease sale coming we've seen to our surprise a fairly significant increase in loose shoots and where GXT had mainly been doing reprocessing of data that had already been done with depth imaging, so -- prespect depth imaging--- so in some ways that market has changed a bit. We are starting to see some of that now starting to come back. I think this is sort of a short term phenomenon that we have seen. Also we've just seen like I said the cast of characters, there's some new people coming into the deepwater, some people going out of the deepwater. So, there's a little bit of churn there.

Now, what we're very encouraged about is we had already started this fall the process of reaching out, taking their capabilities to the international markets and we are well on our way to doing that with the plans of opening at least two centers and well on the way of doing that this year. And already seeing good opportunities for those centers. So I'm encouraged on that strategy. We are taking their great technical capability and just basically enlarging the market and taking the processing where there still needs to be a lot of reprocessing. So that's a good thing and that will just get stronger as the year unfolds for us.

So I think that -- I think mainly GXT was a combination of a little bit of a distraction on the selling and a little bit of shift in their market. But we are reacting to that. It just takes a little while to adjust. But we are adjusting. I'm confident that over time they are going to be just fine.

PR Inaudible - ***DKN - Analyst***

Okay. Just as a follow up, I don't think I understood the total amount of guidance that you gave or at least some indications you gave before regarding VectorSeis system. You registered $31 million totals for 2004. Can you just sum it up as to what you think your likely sales number is going to be for 2005 in Vectorseis systems?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

I gave a number of base case of 45 million. We can do better that, we could do a little bit less, but that's sort of our current base case.

PR Inaudible - ***DKN - Analyst***

And one last question, I was wondering if you can speak to the liquidity situation a little bit better; if you are generating---or expecting to generate cash flow positive numbers and you have a certain amount of cash cushion I was wondering what is the incentive for getting the convert for 30 million possibly another 40 million, is this because you think that maybe some hiccups in a short term or is it because you think that there's some opportunistic acquisitions possibilities or what are those necessity of getting this thing done now that is [inaudible].

Bob Peebler - ***Input/Output Inc. - President & CEO***

Even though as now we've been looking at it since last summer and really accelerated in our planning process where we, we do look for cash flows, look at variables in our business plan, I think the uncertainty of timing and lumpiness, which was really accentuated in this last quarter, made us realize that we were right, that we really needed to look at increasing our liquidity, to really support our business plan.

So if you combine opportunities that come down the pike and some of these opportunities can be $10 million plus or minus of working capital needs over a period of time to be in the project or to get the equipment you need built, and so when---we factored----we looked at the business plan, we looked at the growth, and we factored all those in it was just clear to us that we needed really to have the right, the right capital base to run a company, we needed to increase that.

Now let Mike talk, he went through many, many different scenarios and different possibilities to what would be the right form of that capital and we feel like we've chosen the right one for ourselves and our shareholders. I'll let Mike if he wants to add to that.

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

Yes, PR, you mentioned several things that were on point. One is the variables and uncertainties going forward from quarter to quarter. We've experienced that. The changing pipeline of sales from quarter to quarter and as Bob said there are opportunities that we see that have large working capital requirements that come and go. All those together when you put in when you add to that the long-term growth plans and variables along the way, it suggested that there needed to be another level of capital in the business and then we hoped that some time in the near future the normal bank market would open up. As we all know the normal bank kind of markets as I mentioned in the script have lots of covenants and restrictions and we did not want to find ourselves in that world with the variability at this time.

PR Inaudible - ***DKN - Analyst***

Thank you very much.

Operator

Ladies and gentlemen, [Caller Instructions]. Next question, Thomas Henwin with OMT Capital. Please go ahead with your question.

Thomas Henwin - ***OMT Capital - Analyst***

Good. Thank you very much. One broad question then I have a couple of balance sheet questions. The broader question is if there is this acquisition going on which has deferred the purchase I guess of that GXT database, can you try to help me understand why when the acquisition was done, presumably they had some interest in the reserves or the petroleum prospects, so it's not clear to me why they end up delaying some of the seismic work.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Yeah. There is on the database sale itself there's really two steps to get to that database. The first step is the multi-client shoot itself and you have the original sponsors that pay for that shoot, have the main primary interest at that time. And a part of that is its prefunded and then they get the data after the ends of the shoot. DXT gets the opportunity as part of the deal. They get the opportunity and it varies sometimes after a certain period and they can resell that data to other oil companies that have an interest. If you think about it---so the primary group that would have the strongest interest at the beginning were the were ones that funded it and they go through the whole process of buying the data.

On the other hand you have expiration groups and these data sets tend to be the ones that the span projects are really to understand the geological system for long-term exploration projects and they are not really driven, if they start two months later or three months later or six months later or one month earlier; their time frames are just almost insignificant compared to the total time of the exploration study that they go through when they finally do something.

So what happens is the oil companies themselves, because these are fairly large purchases and are discretionary spending, discretionary in the sense that they can move it one month or two month or three months, just at their desire. They often wait until sort of the ends of the quarter to see how all their other expenses are and then frankly to a certain extent they use that expense item as sort of managing their business.

And so it makes a little bit harder for us to predict because the exploration manager probably still fully wants it, but then his boss may say, no, you have to wait until next quarter to go ahead and buy it. It's not so much that they are not going to do it it's just that their time frames are not in our time frames. In other words, their time frames of the decision-making process and their interest could easily span six months or so and they are fairly comfortable in moving it in that time frame.

The other thing that happens is that when they go and in look at these data sets, they spend a little bit of time making sure that they absolutely fit what they are trying to, sort of the information they need to try to solve the problem. And so there's also this sort of period of them getting comfortable with the data set before they purchase. So I guess a long answer and a long answer to a short question, we believe -- we believe that we can do better by getting in sooner with these people. So part of the issue is -- part of the issue is we don't have enough visibility into their decision making processes and part of it is that we're not probably selling those data sets early enough in the cycle knowing that weather exploring, getting a little bit further upstream.

So we can take some of the uncertainty out of it by just better, our own better work and marketing and sales, but all that will being said it's still going to be there, I think if you -- and that's when we said that we would like to have better balance -- I can't remember if it's you or the previous person that asked that, what we are saying is that we would like to have the GXT business where we have a combination of data sales and proprietary processing projects and new launch shooting so you are not sitting here just neating that data sale to put us in the range we want to be in.

So and I think that to a certain extent we just have a little period so have gotten out of balance for the reasons I described before and now we are starting to get back into a more reasonable balance.

Thomas Henwin - ***OMT Capital - Analyst***

That makes some sense. I think the thing that's difficult to understand as an outsider that's not intimately involved in the industry is that where the energy prices where they are, with the cost of capital where it is today, why people aren't going full bore on this is---

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Bob Peebler - ***Input/Output Inc. - President & CEO***

Understood. Our industry is like an old locomotive train and it takes a long time to get a head of steam built up. One thing that does happen is it does slowly but surely pick up. I just spent a couple of days at the Sera (ph) Conference here in Houston and a lot of executives there, and it was clear to me that people are starting to talk about the cycle we are in is they are using the analog of the 70's where you had fairly long growth cycle and this one is being driven more or less by the---at least perception of supply issues and so I think that those-----steam engine will just slowly but surely pick up speed.

Thomas Henwin - ***OMT Capital - Analyst***

Okay. A couple of for Mike: receivables at about 62 million. And with having missed a couple of the sales toward the end of the quarter there receivables seemed a little high. Can you address that?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

Well, they are not particularly different than the previous quarter. Again, the-----there is nothing really old in there that is of note. We do -- we do have some international sales that get a little longer just because of the time of the product across the water takes so---so long. But, there is nothing in there that's typically unusual.

Thomas Henwin - ***OMT Capital - Analyst***

What are the typical terms on an international deal?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

They can be up to 90 days, sometimes a little longer. Again most of that is transit and once transit-----time and giving them time to unload and check before the terms are due. Most of them are negotiated but international ones are typically longer than domestic ones. When you look on the GXT side which are mainly big oil companies, it's 30 days.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Actually in international markets we have some that are as long as 90 days for all the reasons and we have some that we get cash up front. We have some people that basically go on a letter of credit and there's cash in the bank before we ship and again you just sort of get into mix issues. Sometimes that thing shortens up because we have more than usual cash up front deals and sometimes a little longer because we don't have as many of those in but we don't see anything unusual about the mix right now.

Thomas Henwin - ***OMT Capital - Analyst***

Should I consider 90 days to be normal going forward?

Bob Peebler - ***Input/Output Inc. - President & CEO***

That's not normal.

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

No. In terms of our average invoice but there are some that are that long.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Yeah.

Thomas Henwin - ***OMT Capital - Analyst***

Because it would certainly be a way for you to generate some capital to be able to bring those in?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

We watch that all the time.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Yeah, that's right.

Thomas Henwin - ***OMT Capital - Analyst***

Unbilled revenue, what does that relate to?

Operator

Pardon, did you have any further question?

Thomas Henwin - ***OMT Capital - Analyst***

Unbilled revenue, what does that relate to? Hello?

Operator

One moment, please. Ladies and gentlemen, please stand by. The conference will rebegin momentarily. Once again, ladies and gentlemen, please continue to stand by. Pardon, go ahead with your question, please.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Sorry about that. We had a, our phone dropped off for some reason.

Thomas Henwin - ***OMT Capital - Analyst***

Sorry if I asked the wrong question.

Bob Peebler - ***Input/Output Inc. - President & CEO***

[Laughter] Don't ever ask that question again.

Thomas Henwin - ***OMT Capital - Analyst***

Unbilled revenue, Mike what is that?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

That is typically----Bob explained to you how a multi-client project works, and in some cases in a multi-client project there is cash received from the underwriters in advance of the actual completion on the project.

Thomas Henwin - ***OMT Capital - Analyst***

So it's done on a percentage completion basis?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

Yes, so that revenue is deferred; you see deferred revenue and then unbilled revenue is the opposite of that.

Thomas Henwin - ***OMT Capital - Analyst***

Got it. Although different. So that's profit income.

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

Yes.

Thomas Henwin - ***OMT Capital - Analyst***

Lastly can you remind me of the note receivable? became current?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

There are several, in the past we have done notes receivable in strategic situations. As you can see it's coming down ; the Russian one was in there. So there are several customers in there that we talk about and we disclose the biggest ones in our SEC filings.

Thomas Henwin - ***OMT Capital - Analyst***

Given that it's now, you got 60 million of current. That seems like a lot of cash coming in this year. Is it coming in after the period of time when you go through the bumpiness and that's why you needed the 30 million?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

The 60 million is receivable. That would normally come in here in the first 90 days of the year. Okay. But, again, we build into our sales pipeline and opportunities that present themselves and as we talked before that is, has many variables to it. Some projects that we get involved -- we mentioned earlier VectorSeis Ocean. One VectorSeis Ocean system could have working capital requirements between $5 and $10 million. And long lead times.

Thomas Henwin - ***OMT Capital - Analyst***

I guess what I'm struggling with you have 15 million a quarter coming in from this Russian receivable or Russian and other receivables. You could do one a quarter which we would all be happy with.

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

I'm sorry, Tom, I didn't understand your point.

Thomas Henwin - ***OMT Capital - Analyst***

You've got this fairly large receivable coming due.

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

61 million?

Thomas Henwin - ***OMT Capital - Analyst***

Right.

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

That's all receivables.

Thomas Henwin - ***OMT Capital - Analyst***

Yeah. Okay. I didn't mean to say just Russian but it's current receivables?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

Yes.

Thomas Henwin - ***OMT Capital - Analyst***

So that's a big source of capital this year. So, in effect you think you will need on the order of 90 million to finance operations?

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

Well, those receivables are of course replacing themselves all the time. At the end of the first quarter we will have another 60 or 70 million of receivables. If you think about in terms of cash flow it never really turns to cash it just gets replaced.

Thomas Henwin - ***OMT Capital - Analyst***

I'm sorry, I had the wrong line item. I was think of that 10 million of note receivables. Sorry. My apologies.

Mike Kirksey - ***Input/Output Inc. - EVP & CFO***

That's a long-term -- that note will come in over the next year or so and there are some long-term portions of that.

Thomas Henwin - ***OMT Capital - Analyst***

My apologies. That's all. Thanks.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Thanks, Tom.

Operator

Thank you. Once again, [Caller Instructions]. Gentlemen, there are no further questions at this time, please continue.

Bob Peebler - ***Input/Output Inc. - President & CEO***

Okay, well, thanks for joining us and we will look forward to the next quarter conference call. Thank you.

Operator

Thank you, ladies and gentlemen, this concludes the Input/Output networth quarter earnings conference call. If you would like to listen to a replay of today's conference call, please dial (303) 590-3000 followed by the passcode 11022816. Once again if you would like to listen to a replay of today's conference please dial (303) 590-3000 followed by the passcode 11022816. You may now disconnect and thank you for using AT&T teleconferencing.