ION GEOPHYSICAL CORP
Form 10-Q
May 03, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NUMBER: 1-12691
ION GEOPHYSICAL CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	22-2286646
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2105 CityWest Blvd.
Suite 100

Houston, Texas	77042-2839
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (281) 933-3339

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ý
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý
At May 1, 2018, there were 13,909,509 shares of common stock, par value $0.01 per share, outstanding.

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ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2018	December 31, 2017
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,750	$ 52,056
Accounts receivable, net	29,750	19,478
Unbilled receivables	16,349	37,304
Inventories	14,728	14,508
Prepaid expenses and other current assets	5,754	7,643
Total current assets	117,331	130,989
Deferred income tax asset	1,877	1,753
Property, plant, equipment and seismic rental equipment, net	50,007	52,153
Multi-client data library, net	84,433	89,300
Goodwill	25,188	24,089
Intangible assets, net	1,374	1,666
Other assets	843	1,119
Total assets	$ 281,053	$ 301,069
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 1,014	$ 40,024
Accounts payable	22,817	24,951
Accrued expenses	26,195	38,697
Accrued multi-client data library royalties	28,324	27,035
Deferred revenue	11,330	8,910
Total current liabilities	89,680	139,617
Long-term debt, net of current maturities	116,916	116,720
Other long-term liabilities	12,938	13,926
Total liabilities	219,534	270,263
Equity:		
Common stock, $0.01 par value; authorized 26,666,667 shares; outstanding 13,909,509 and 12,019,701 shares at March 31, 2018 and December 31, 2017, respectively	139	120
Additional paid-in capital	950,464	903,247
Accumulated deficit	(873,347)	(854,921)
Accumulated other comprehensive loss	(17,054)	(18,879)
Total stockholders’ equity	60,202	29,567
Noncontrolling interest	1,317	1,239
Total equity	61,519	30,806
Total liabilities and equity	$ 281,053	$ 301,069

See accompanying Footnotes to Unaudited Condensed Consolidated Financial Statements.

ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
	(In thousands, except per share data)	
Service revenues	$25,086	$23,828
Product revenues	8,422	8,728
Total net revenues	33,508	32,556
Cost of services	22,329	22,299
Cost of products	4,326	4,156
Gross profit	6,853	6,101
Operating expenses:		
Research, development and engineering	4,255	3,495
Marketing and sales	5,098	4,486
General, administrative and other operating expenses	10,140	12,032
Total operating expenses	19,493	20,013
Loss from operations	(12,640)	(13,912)
Interest expense, net	(3,836)	(4,464)
Other expense, net	(791)	(5,068)
Loss before income taxes	(17,267)	(23,444)
Income tax expense (benefit)	1,072	(418)
Net loss	(18,339)	(23,026)
Net income attributable to noncontrolling interest	(87)	(316)
Net loss attributable to ION	$(18,426)	$(23,342)
Net loss per share:		
Basic	$(1.44)	$(1.98)
Diluted	$(1.44)	$(1.98)
Weighted average number of common shares outstanding		
Basic	12,813	11,818
Diluted	12,813	11,818

See accompanying Footnotes to Unaudited Condensed Consolidated Financial Statements.

ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Net loss	$(18,339)	$(23,026)
Other comprehensive loss, net of taxes, as appropriate:		
Foreign currency translation adjustments	1,825	517
Comprehensive net loss	(16,514)	(22,509)
Comprehensive income attributable to noncontrolling interest	(87)	(316)
Comprehensive net loss attributable to ION	$(16,601)	$(22,825)

See accompanying Footnotes to Unaudited Condensed Consolidated Financial Statements.

ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31, 2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net loss	$(18,339)	$(23,026)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization (other than multi-client data library)	2,523	4,677
Amortization of multi-client data library	9,793	9,258
Stock-based compensation expense	812	634
Accrual for loss contingency related to legal proceedings	—	5,000
Deferred income taxes	(117)	(1,909)
Change in operating assets and liabilities:		
Accounts receivable	(10,084)	4,756
Unbilled receivables	20,919	(5,348)
Inventories	(164)	(274)
Accounts payable, accrued expenses and accrued royalties	(10,155)	(2,488)
Deferred revenue	2,381	7,193
Other assets and liabilities	3,039	3,368
Net cash provided by operating activities	608	1,841
Cash flows from investing activities:		
Cash invested in multi-client data library	(9,240)	(3,363)
Purchase of property, plant, equipment and seismic rental assets	(61)	(49)
Net cash used in investing activities	(9,301)	(3,412)
Cash flows from financing activities:		
Payments under revolving line of credit	(10,000)	—
Payments on notes payable and long-term debt	(29,144)	(1,706)
Net proceeds from issuance of stock	47,219	—
Other financing activities	(575)	(286)
Net cash provided by (used in) financing activities	7,500	(1,992)
Effect of change in foreign currency exchange rates on cash, cash equivalents and restricted cash	(113)	409
Net decrease in cash, cash equivalents and restricted cash	(1,306)	(3,154)
Cash, cash equivalents and restricted cash at beginning of period	52,419	53,433
Cash, cash equivalents and restricted cash at end of period	$51,113	$50,279

The following table is a reconciliation of cash and cash equivalents to total cash, cash equivalents, and restricted cash:

	Three months ended March 31, 2018	2017
	(In thousands)	
Cash and cash equivalents	$50,750	$49,640
Restricted cash included in prepaid expenses and other current assets	60	285
Restricted cash included in other long-term assets	303	354
Total cash, cash equivalents, and restricted cash shown in statement of cash flows	$51,113	$50,279

Short-term restricted cash included in prepaid expenses and other current assets and long-term restricted cash included in other assets are primarily used to secure standby and commercial letters of credit.

See accompanying Footnotes to Unaudited Condensed Consolidated Financial Statements.

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ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
FOOTNOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The condensed consolidated balance sheet of ION Geophysical Corporation and its subsidiaries (collectively referred to as the "Company" or "ION," unless the context otherwise requires) at December 31, 2017 has been derived from the Company's audited consolidated financial statements at that date. The condensed consolidated balance sheet at March 31, 2018, and the condensed consolidated statements of operations, comprehensive loss and cash flows for the three months ended March 31, 2018 and 2017, are unaudited. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2018, are not necessarily indicative of the operating results for a full year or of future operations.

The Company's financial statements reflect a non-redeemable noncontrolling interest in a majority-owned affiliate which is reported as a separate component of equity in "Noncontrolling interest" in the condensed consolidated balance sheets. The activity for this noncontrolling interest relates to proprietary processing projects in Brazil.

These condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in annual financial statements presented in accordance with accounting principles generally accepted in the United States have been omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K as amended for the year ended December 31, 2017.

(2) Recent Accounting Pronouncements

In February 2016, the Financials Account Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The guidance will be effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years with early adoption permitted. The Company will adopt ASU 2016-02 on January 1, 2019. The Company is currently evaluating its operating leases related to offices, processing centers, warehouse spaces and, to a lesser extent, certain equipment. The Company expects the recording of these leases as right-of-use assets and liabilities will result in a material impact on its consolidated balance sheet. However, the Company expects the income statement recognition to appear similar to its current methodology.

On January 1, 2018, the Company adopted FASB Accounting Standard Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" and all the related amendments using the modified retrospective method. The adoption did not have a material impact to the Company's revenue recognition policy under the previous standard (ASC 605) and adoption of the new standard, ASC 606, did not result in an adjustment to the Company's beginning retained earnings balance.

On January 1, 2018, the Company adopted ASU 2016-18, Statement of Cash Flows - "Restricted Cash (a consensus of the FASB Emerging Issues Task Force) (ASU 2016-18)", using a retrospective transition method to each period presented. The new standard no longer requires the Company to present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. Adoption of the new standard resulted in a decrease of $0.1 million in net cash provided by operating activities as previously reported for the three months ended March 31, 2017. See the consolidated statement of cash flows above which includes a reconciliation of cash and cash equivalents to total cash, cash equivalents, and restricted cash.

(3) Segment Information

The Company evaluates and reviews its results based on three business segments: E&P Technology & Services, Operations Optimization (formerly referred to as E&P Operations Optimization), and Ocean Bottom Integrated Technologies (formerly referred to as Ocean Bottom Seismic Services). The Company measures segment operating results based on income (loss) from operations.

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The following table is a summary of segment information (in thousands):

	Three Months Ended March 31, 2018	2017
Net revenues:		
E&P Technology & Services:		
New Venture	$13,726	$6,949
Data Library	5,948	10,606
Total multi-client revenues	19,674	17,555
Imaging Services	4,894	5,755
Total	24,568	23,310
Operations Optimization:		
Devices	4,158	4,990
Optimization Software & Services	4,782	4,256
Total	8,940	9,246
Ocean Bottom Integrated Technologies	—	—
Total	$33,508	$32,556
Gross profit (loss):		
E&P Technology & Services	$4,343	$4,010
Operations Optimization	4,311	4,787
Ocean Bottom Integrated Technologies	(1,801)	(2,696)
Total	$6,853	$6,101
Gross margin:		
E&P Technology & Services	18%	17%
Operations Optimization	48%	52%
Ocean Bottom Integrated Technologies	—%	—%
Total	20%	19%
Income (loss) from operations:		
E&P Technology & Services	$(794)	$(1,096)
Operations Optimization	786	1,549
Ocean Bottom Integrated Technologies	(2,829)	(4,008)
Support and other	(9,803)	(10,357)
Loss from operations	(12,640)	(13,912)
Interest expense, net	(3,836)	(4,464)
Other expense, net	(791)	(5,068)
Loss before income taxes	$(17,267)	$(23,444)

(4) Revenue From Contracts With Customers

The Company derives revenue from the sale or license of (i) multi-client and proprietary surveys, licenses of "on-the-shelf" data libraries and imaging services, within its E&P Technologies & Services segment; (ii) seismic data acquisition systems and other seismic equipment, (iii) seismic command and control software systems and software solutions for operations management within its Operations Optimization segment; and (iv) fully-integrated OBS solutions that include survey design and planning and data acquisition within its Ocean Bottom Integrated Technologies segment. All revenues of the E&P Technology & Services and Ocean Bottom Integrated Technologies segments and the services component of revenues for the Optimization Software & Services group as part of the Operations Optimization segment are classified as services revenues. All other revenues are classified as product revenues.

The Company uses a five-step model to determine proper revenue recognition from customer contracts. Revenue is recognized when (i) a contract is approved by all parties; (ii) the goods or services promised in the contract are identified; (iii) the consideration we expect to receive in exchange for the goods or services promised is determined; (iv) the consideration is allocated to the goods and services in the contract; and (v) control of the promised goods or services is transferred to the customer. The Company does not disclose the value of contractual future performance obligations with an original expected length of one year or less.

Multi-Client and Proprietary Surveys, and Imaging Services - As multi-client seismic surveys are being designed, acquired or processed (the “New Venture” phase), the Company enters into non-exclusive licensing arrangements with its customers, who pre-fund or underwrite these programs in part. License revenues from these surveys are recognized during the New Venture phase as the seismic data is acquired and/or processed on a proportionate basis as work is performed and control is transferred to the customer. Under this method, the Company recognizes revenue based upon quantifiable measures of progress, such as kilometers acquired or surveys of performance completed to date. Upon completion of a multi-client seismic survey, it is considered “on-the-shelf,” and licenses to the survey data are granted to customers on a non-exclusive basis.

The Company also performs seismic surveys, imaging and other services under contracts to specific customers, whereby the seismic data is owned by those customers. The Company recognizes revenue as the seismic data is acquired and/or processed on a proportionate basis as work is performed. The Company uses quantifiable measures of progress consistent with its multi-client seismic surveys.

Acquisition Systems and Other Seismic Equipment - For sales of seismic data acquisition systems and other seismic equipment, the Company recognizes revenue when control of the goods has transferred to the customer. Transfer of control generally occurs when (i) the Company has a present right to payment; (ii) the customer has legal title to the asset; (iii) the Company has transferred physical possession of the asset; (iv) the customer has significant rewards of ownership; and/or (v) the customer has accepted the asset.

Software - Licenses for the navigation, survey and quality control software systems provide the customer with a right to use the software. The Company offers usage-based licenses under which it receives a monthly fee based on the number of vessels and licenses used. For these usage-based licenses, revenue is recognized as the performance obligations are performed over the contract term, which is generally two to five years. In addition to usage-based licenses, the Company offers perpetual software licenses as it exists when made available to the customer. Revenue from these licenses is recognized upfront at the point in time when the software is made available to the customer. These arrangements generally include the Company providing related services, such as training courses, engineering services and annual software maintenance. The Company allocates consideration to each element of the arrangement based upon directly observable or estimated standalone selling prices. Revenue is recognized for these services as control transfers to the customer over time.

Ocean Bottom Integrated Technologies - The Company recognizes revenue as the seismic data is acquired and control transfers to the customer. The Company uses quantifiable measures of progress consistent with our multi-client surveys. In connection with acquisition contracts, the Company may receive revenues for preparation and mobilization of equipment and personnel, capital improvements to vessels, or demobilization activities. The Company defers the revenues earned and incremental costs incurred that are directly related to these activities and recognize such revenues and costs over the primary contract term of the acquisition project as we transfer the goods and services to the customer. The Company recognizes the costs of relocating vessels without contracts to more promising market sectors as such costs are incurred.

Revenue by Geographic Area