

ION GEOPHYSICAL CORP  
Form 10-Q  
August 02, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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 (I.R.S. Employer  
incorporation or organization) 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  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  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  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

At July 30, 2018, there were 14,002,999 shares of common stock, par value \$0.01 per share, outstanding.



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)

	June 30, 2018	December 31, 2017
	(In thousands, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,349	\$ 52,056
Accounts receivable, net	15,375	19,478
Unbilled receivables	15,046	37,304
Inventories	14,925	14,508
Prepaid expenses and other current assets	5,961	7,643
Total current assets	95,656	130,989
Deferred income tax asset	3,614	1,753
Property, plant, equipment and seismic rental equipment, net	48,442	52,153
Multi-client data library, net	82,576	89,300
Goodwill	23,543	24,089
Intangible assets, net	1,082	1,666
Other assets	731	1,119
Total assets	\$ 255,644	\$ 301,069
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 459	\$ 40,024
Accounts payable	26,173	24,951
Accrued expenses	28,936	38,697
Accrued multi-client data library royalties	27,988	27,035
Deferred revenue	8,402	8,910
Total current liabilities	91,958	139,617
Long-term debt, net of current maturities	117,159	116,720
Other long-term liabilities	12,606	13,926
Total liabilities	221,723	270,263
Equity:		
Common stock, \$0.01 par value; authorized 26,666,667 shares; outstanding 14,002,999 and 12,019,701 shares at June 30, 2018 and December 31, 2017, respectively	140	120
Additional paid-in capital	951,349	903,247
Accumulated deficit	(899,213)	(854,921)
Accumulated other comprehensive loss	(19,634)	(18,879)
Total stockholders' equity	32,642	29,567
Noncontrolling interest	1,279	1,239
Total equity	33,921	30,806
Total liabilities and equity	\$ 255,644	\$ 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Service revenues	\$ 15,752	\$ 34,454	\$ 40,838	\$ 58,282
Product revenues	8,991	11,547	17,413	20,275
Total net revenues	24,743	46,001	58,251	78,557
Cost of services	22,033	24,827	44,362	47,126
Cost of products	4,227	5,556	8,553	9,712
Gross profit (loss)	(1,517 )	15,618	5,336	21,719
Operating expenses:				
Research, development and engineering	4,259	4,107	8,514	7,602
Marketing and sales	6,007	4,931	11,105	9,417
General, administrative and other operating expenses	10,736	10,152	20,876	22,184
Total operating expenses	21,002	19,190	40,495	39,203
Loss from operations	(22,519 )	(3,572 )	(35,159 )	(17,484 )
Interest expense, net	(2,911 )	(4,241 )	(6,747 )	(8,705 )
Other income (expense), net	84	192	(707 )	(4,876 )
Loss before income taxes	(25,346 )	(7,621 )	(42,613 )	(31,065 )
Income tax expense	154	2,402	1,226	1,984
Net loss	(25,500 )	(10,023 )	(43,839 )	(33,049 )
Net income attributable to noncontrolling interest	(366 )	(418 )	(453 )	(734 )
Net loss attributable to ION	\$(25,866)	\$(10,441)	\$(44,292)	\$(33,783)
Net loss per share:				
Basic	\$(1.86 )	\$(0.88 )	\$(3.31 )	\$(2.85 )
Diluted	\$(1.86 )	\$(0.88 )	\$(3.31 )	\$(2.85 )
Weighted average number of common shares outstanding:				
Basic	13,928	11,875	13,374	11,847
Diluted	13,928	11,875	13,374	11,847

See accompanying Footnotes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(In thousands)			
Net loss	\$ (25,500)	\$ (10,023)	\$ (43,839)	\$ (33,049)
Other comprehensive loss, net of taxes, as appropriate:				
Foreign currency translation adjustments	(2,580 )	1,199	(755 )	1,716
Comprehensive net loss	(28,080 )	(8,824 )	(44,594 )	(31,333 )
Comprehensive (income) loss, attributable to noncontrolling interest	(366 )	(418 )	(453 )	(734 )
Comprehensive net loss attributable to ION	\$ (28,446)	\$ (9,242 )	\$ (45,047)	\$ (32,067)

See accompanying Footnotes to Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$(43,839)	\$(33,049)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Depreciation and amortization (other than multi-client data library)	4,778	9,030
Amortization of multi-client data library	19,557	21,933
Stock-based compensation expense	2,043	1,169
Accrual for loss contingency related to legal proceedings	—	5,000
Deferred income taxes	(1,866)	(932)
Change in operating assets and liabilities:		
Accounts receivable	3,896	2,075
Unbilled receivables	24,013	(5,542)
Inventories	(445)	440
Accounts payable, accrued expenses and accrued royalties	(10,629)	(6,059)
Deferred revenue	(445)	5,521
Other assets and liabilities	2,733	3,905
Net cash (used in) provided by operating activities	(204)	3,491
Cash flows from investing activities:		
Cash invested in multi-client data library	(13,782)	(8,482)
Purchase of property, plant, equipment and seismic rental assets	(424)	(915)
Net cash used in investing activities	(14,206)	(9,397)
Cash flows from financing activities:		
Payments under revolving line of credit	(10,000)	—
Payments on notes payable and long-term debt	(29,699)	(3,157)
Net proceeds from issuance of stock	47,219	—
Dividend payment to non-controlling interest	(200)	—
Other financing activities	(881)	(296)
Net cash provided by (used in) financing activities	6,439	(3,453)
Effect of change in foreign currency exchange rates on cash, cash equivalents and restricted cash	264	(169)
Net decrease in cash, cash equivalents and restricted cash	(7,707)	(9,528)
Cash, cash equivalents and restricted cash at beginning of period	52,419	53,433
Cash, cash equivalents and restricted cash at end of period	\$44,712	\$43,905

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

	Six months ended June 30,	
	2018	2017
	(In thousands)	
Cash and cash equivalents	\$44,349	\$43,272
Restricted cash included in prepaid expenses and other current assets	60	330
Restricted cash included in other long-term assets	303	303
Total cash, cash equivalents, and restricted cash shown in statement of cash flows	\$44,712	\$43,905
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 June 30, 2018, and the condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017 and the condensed consolidated statements of cash flows for the six months ended June 30, 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 and six months ended June 30, 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 six months ended June 30, 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.



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

	Three Months Ended		Six Months Ended June	
	June 30,		30,	2017
	2018	2017	2018	
Net revenues:				
E&P Technology & Services:				
New Venture	\$8,125	\$19,986	\$21,851	\$26,935
Data Library	1,725	9,710	7,673	20,316
Total multi-client revenues	9,850	29,696	29,524	47,251
Imaging Services	5,338	4,186	10,232	9,941
Total	15,188	33,882	39,756	57,192
Operations Optimization:				
Devices	4,761	7,679	8,919	12,669
Optimization Software & Services	4,794	4,440	9,576	8,696
Total	9,555	12,119	18,495	21,365
Ocean Bottom Integrated Technologies	—	—	—	—
Total	\$24,743	\$46,001	\$58,251	\$78,557
Gross profit (loss):				
E&P Technology & Services	\$(4,856 )	\$11,921	\$(513 )	\$15,931
Operations Optimization	4,933	6,258	9,244	11,045
Ocean Bottom Integrated Technologies	(1,594 )	(2,561 )	(3,395 )	(5,257 )
Total	\$(1,517 )	\$15,618	\$5,336	\$21,719
Gross margin:				
E&P Technology & Services	(32 )%	35 %	(1 )%	28 %
Operations Optimization	52 %	52 %	50 %	52 %
Ocean Bottom Integrated Technologies	— %	— %	— %	— %
Total	(6 )%	34 %	9 %	28 %
Income (loss) from operations:				
E&P Technology & Services	\$(10,206)	\$6,353	\$(11,000)	\$5,257
Operations Optimization	1,243	3,022	2,029	4,571
Ocean Bottom Integrated Technologies	(2,926 )	(3,860 )	(5,755 )	(7,868 )
Support and other	(10,630 )	(9,087 )	(20,433 )	(19,444 )
Loss from operations	(22,519 )	(3,572 )	(35,159 )	(17,484 )
Interest expense, net	(2,911 )	(4,241 )	(6,747 )	(8,705 )
Other income (expense), net	84	192	(707 )	(4,876 )
Loss before income taxes	\$(25,346)	\$(7,621 )	\$(42,613)	\$(31,065)

#### (4) Revenue From Contracts With Customers

The Company derives revenue from the sale or license of (i) multi-client and proprietary data, imaging services and E&P Advisors consulting 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) a full suite of technology and services 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 such as backlog with an original expected length of one year or less within the footnotes.

Multi-client and Proprietary Surveys, and Imaging and E&P Advisors 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 Company’s navigation, survey design 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 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 recognizes 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

The following table is a summary of net revenues by geographic area (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net revenues by geographic area:				
Latin America	\$7,594	\$12,172	\$17,446	\$18,757
North America	4,309	13,870	12,357	21,265
Europe	6,060	11,428	11,609	17,064
Asia Pacific	3,929	6,762	7,863	11,585
Africa	2,222	913	7,241	1,473
Middle East	441	501	1,190	1,081
Commonwealth of Independent States	188	355	545	7,332

Total \$24,743 \$46,001 \$58,251 \$78,557

See Footnote 3 "Segment Information" of Footnotes to Unaudited Condensed Financial Statements for revenue by segment for the three and six months ended June 30, 2018 and 2017.

### Unbilled Receivables

Unbilled receivables relate to revenues recognized on multi-client surveys, imaging services and Devices equipment repairs on a proportionate basis, and on licensing of multi-client data libraries for which invoices have not yet been presented to the customer. The following table is a summary of unbilled receivables (in thousands):

	June 30, December 31,	
	2018	2017
New Venture	\$9,797	\$ 33,183
Imaging Services	4,941	4,121
Devices	308	—
Total	\$15,046	\$ 37,304

The changes in unbilled receivables were as follows (in thousands):

Unbilled Receivables at December 31, 2017	\$37,304
Recognition of unbilled receivables	47,005
Revenues billed to customers	(69,263 )
Unbilled receivables at June 30, 2018	\$15,046

### Deferred Revenue

Billing practices are governed by the terms of each contract based upon achievement of milestones or pre-agreed schedules. Billings do not necessarily correlate with revenue recognized on a proportionate basis as work is performed and control is transferred to the customer. Deferred revenue represents cash received in excess of revenue not yet recognized as of the reporting period, but will be recognized in future periods. The following table is a summary of deferred revenues (in thousands):

	June 30, December 31,	
	2018	2017
New Venture	\$6,501	\$ 6,548
Imaging Services	465	676
Devices	96	633
Optimization Software & Services	1,340	1,053
Total	\$8,402	\$ 8,910

The changes in deferred revenues were as follows (in thousands):

Deferred revenue at December 31, 2017	\$8,910
Cash collected in excess of revenue recognized	12,866
Recognition of deferred revenue <sup>(a)</sup>	(13,374)
Deferred revenue at June 30, 2018	\$8,402

<sup>(a)</sup> The majority of deferred revenue recognized relates to Company's New Venture and Imaging Services groups.

The Company expects to recognize all deferred revenue over the next 12 months.

### Credit Risks

At June 30, 2018, the Company had one multinational oil customer with a balance of 11% of its total combined accounts and unbilled receivable balances. However, there were no customers that comprised more than 10% of our total net revenues for the six months ended June 30, 2018.

The loss of this customer or deterioration in this customers relationship with the Company could have a material adverse effect on results of operations and financial condition of the Company.

### (5) Long-term Debt



The following table is a summary of long-term debt obligations, net (in thousands):

Obligations (in thousands)	June 30, 2018	December 31, 2017
Senior secured second-priority lien notes (maturing December 15, 2021)	\$120,569	\$ 120,569
Senior secured third-priority lien notes (redeemed on March 26, 2018)	—	28,497
Revolving line of credit (maturing August 22, 2019)	—	10,000
Equipment capital leases and other debt	459	1,661
Costs associated with issuances of debt	(3,410 )	(3,983 )
Total	117,618	156,744
Current portion of long-term debt and lease obligations	(459 )	(40,024 )
Non-current portion of long-term debt and lease obligations	\$117,159	\$ 116,720

#### Revolving Credit Facility

In August 2014, ION Geophysical Corporation and its material U.S. subsidiaries, GX Technology Corporation, ION Exploration Products (U.S.A.), Inc., and I/O Marine Systems, Inc. (collectively, the “Subsidiary Borrowers”; ION Geophysical Corporation and the Subsidiary Borrowers are, collectively, the “Borrowers”) entered into a Revolving Credit and Security Agreement with PNC Bank, National Association (“PNC”), as agent (the “Original Credit Agreement”). The Original Credit Agreement was amended by the First Amendment to Revolving Credit and Security Agreement in August 2015 (the “First Amendment”) and the Second Amendment (as defined below) (the Original Credit Agreement, as amended by the First Amendment and the Second Amendment, is herein called the “Credit Facility”).

The Credit Facility is available to provide for the Borrowers’ general corporate needs, including working capital requirements, capital expenditures, surety deposits and acquisition financing. The maximum amount of the revolving line of credit under the Credit Facility is the lesser of \$40.0 million or a monthly borrowing base.

In April 2016, the Borrowers and PNC entered into a second amendment (the “Second Amendment”) to the Credit Facility. The Second Amendment, among other things:

- increased the applicable margin for loans by 0.50% per annum (from 2.50% per annum to 3.00% per annum for alternate base rate loans and from 3.50% per annum to 4.00% per annum for LIBOR-based loans);
- increased the minimum excess availability threshold to avoid triggering the agent’s rights to exercise dominion over cash and deposit accounts and increases certain of the thresholds upon which such dominion ceases;
- increased the minimum liquidity threshold to avoid triggering ION Geophysical Corporation’s obligation to calculate and comply with the existing fixed charge coverage ratio and increased certain of the thresholds upon which such required calculation and compliance cease;
- established a reserve that was to reduce the amount available to be borrowed by the aggregate amount owing under all Third Lien Notes that remained outstanding (if any) on or after February 14, 2018 (i.e., 90 days prior to the stated maturity of the Third Lien Notes);
- increased the maximum amount of certain permitted junior indebtedness to \$200.0 million (from \$175.0 million);
- incorporated technical and conforming changes to reflect that the Second Lien Notes and the remaining Third Lien Notes (and any permitted refinancing thereof or subsequently incurred replacement indebtedness meeting certain requirements) constitute permitted indebtedness;
- clarified the circumstances and mechanics under which ION Geophysical Corporation may prepay, repurchase or redeem the Second Lien Notes, the remaining Third Lien Notes and certain other junior indebtedness;
- modified the cross-default provisions to incorporate defaults under the Second Lien Notes, the remaining Third Lien Notes and certain other junior indebtedness; and
- eliminated the potential early commitment termination date and early maturity date that would otherwise have occurred ninety (90) days prior to the maturity date of the Third Lien Notes if any of the Third Lien Notes then remained outstanding.

The borrowing base under the Credit Facility will increase or decrease monthly using a formula based on certain eligible receivables, eligible inventory and other amounts, including a percentage of the net orderly liquidation value of the Borrowers’ multi-client library (not to exceed \$15.0 million for the multi-client data library data component).

As of June 30, 2018, the borrowing base under the Credit Facility was \$23.3 million, and there was no indebtedness under the Credit Facility. The Credit Facility is scheduled to mature on August 22, 2019.

The obligations of Borrowers under the Credit Facility are secured by a first-priority security interest in 100% of the stock of the Subsidiary Borrowers and 65% of the equity interest in ION International Holdings L.P., and by substantially all other assets of the Borrowers.

The Credit Facility contains covenants that, among other things, limit or prohibit the Borrowers, subject to certain exceptions and qualifications, from incurring additional indebtedness (including capital lease obligations), repurchasing equity, paying dividends or distributions, granting or incurring additional liens on the Borrowers' properties, pledging shares of the Borrowers' subsidiaries, entering into certain merger transactions, entering into transactions with the Company's affiliates, making certain sales or other dispositions of the Borrowers' assets, making certain investments, acquiring other businesses and entering into sale-leaseback transactions with respect to the Borrowers' property.

The Credit Facility requires that the Borrowers maintain a minimum fixed charge coverage ratio of 1.1 to 1.0 as of the end of each fiscal quarter during the existence of a covenant testing trigger event. The fixed charge coverage ratio is defined as the ratio of (i) ION Geophysical Corporation's EBITDA, minus unfunded capital expenditures made during the relevant period, minus distributions (including tax distributions) and dividends made during the relevant period, minus cash taxes paid during the relevant period, to (ii) certain debt payments made during the relevant period. A covenant testing trigger event occurs upon (a) the occurrence and continuance of an event of default under the Credit Facility or (b) the failure to maintain a measure of liquidity greater than (i) \$7.5 million for five consecutive business days or (ii) \$6.5 million on any given business day. Liquidity, as defined in the Credit Facility, is ION Geophysical Corporation's excess availability to borrow (\$23.3 million at June 30, 2018) plus the aggregate amount of unrestricted cash held by the Borrowers and their domestic subsidiaries. At June 30, 2018, the Borrowers and their domestic subsidiaries had unrestricted cash totaling \$34.9 million and non-domestic subsidiaries had unrestricted cash totaling \$9.5 million.

At June 30, 2018, ION Geophysical Corporation was in compliance with all of the covenants under the Credit Facility. The Credit Facility contains customary event of default provisions (including a "change of control" event affecting ION Geophysical Corporation), the occurrence of which could lead to an acceleration of ION Geophysical Corporation's obligations under the Credit Facility.

#### Senior Secured Notes

As of December 31, 2017, ION Geophysical Corporation's 9.125% Senior Secured Second Priority Notes due December 2021 (the "Second Lien Notes") had an outstanding aggregate principal amount of \$120.6 million, and ION Geophysical Corporation's 8.125% Senior Third Priority Notes due May 2018 (the "Third Lien Notes") had an outstanding aggregate principal amount of \$28.5 million (The Third Lien Notes and the Second Lien Notes, are herein, collectively the "Notes"). In March 2018, ION Geophysical Corporation obtained consent from a majority of the Second Lien Notes holders and from PNC to redeem, in full, the Third Lien Notes prior to their stated maturity. On March 26, 2018, ION Geophysical Corporation redeemed the Third Lien Notes by paying the then outstanding principal amount of \$28.5 million, plus all accrued and unpaid interest through the redemption date. For a complete discussion of the Third Lien Notes prior to their early redemption, see Footnote 3 to the Financial Statements included in the Company's Annual Report on Form 10-K, as amended for the year ended December 31, 2017.

The Second Lien Notes remain outstanding and are senior secured second-priority obligations guaranteed by ION Geophysical Corporation's material U.S. subsidiaries, GX Technology Corporation, ION Exploration Products (U.S.A.), Inc. and I/O Marine Systems, Inc. (the "Guarantors"). The Second Lien Notes mature on December 15, 2021. Interest on the Second Lien Notes accrues at the rate of 9.125% per annum and is payable semiannually in arrears on June 15 and December 15 of each year during their term, except that the interest payment otherwise payable on June 15, 2021 will be payable on December 15, 2021.

The April 2016 indenture, governing the Second Lien Notes (the "Second Lien Notes Indenture") contains certain covenants that, among other things, limits or prohibits ION Geophysical Corporation's ability and the ability of its restricted subsidiaries to take certain actions or permit certain conditions to exist during the term of the Second Lien Notes, including among other things, incurring additional indebtedness, creating liens, paying dividends and making other distributions in respect of ION Geophysical Corporation's capital stock, redeeming ION Geophysical Corporation's capital stock, making investments or certain other restricted payments, selling certain kinds of assets, entering into transactions with affiliates, and effecting mergers or consolidations. These and other restrictive covenants contained in the Second Lien Notes Indenture are subject to certain exceptions and qualifications. All of ION Geophysical Corporation's subsidiaries are currently restricted subsidiaries.

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As of June 30, 2018, ION Geophysical Corporation was in compliance with the covenants with respect to the Second Lien Notes.

On or after December 15, 2019, the Company may, on one or more occasions, redeem all or a part of the Second Lien Notes at the redemption prices set forth below, plus accrued and unpaid interest and special interest, if any, on the Second Lien Notes redeemed during the twelve-month period beginning on December 15th of the years indicated below:

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Date	Percentage
2019	105.500%
2020	103.500%
2021 and thereafter	100.000%

## (6) Net Loss Per Share

Basic net loss per common share is computed by dividing net loss applicable to common shares by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is determined based on the assumption that dilutive restricted stock and restricted stock unit awards have vested and outstanding dilutive stock options have been exercised and the aggregate proceeds were used to reacquire common stock using the average price of such common stock for the period. The total number of shares issued or reserved for future issuance under outstanding stock options at June 30, 2018 and 2017 was 815,791 and 838,582, respectively, and the total number of shares of restricted stock and shares reserved for restricted stock units outstanding at June 30, 2018 and 2017 was 128,131 and 187,675, respectively. All the outstanding stock options for the three and six months ended June 30, 2018 and 2017 were anti-dilutive.

## (7) Income Taxes

The Company maintains a valuation allowance for substantially all of its deferred tax assets. The valuation allowance is calculated in accordance with the provisions of the ASC Topic 740 "Income Taxes," which requires that a valuation allowance be established or maintained when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. In the event the Company's expectations of future operating results change, the valuation allowance may need to be adjusted downward.

The tax provision for the six months ended June 30, 2018 has been calculated using the Company's overall estimated annual effective tax rate based on projected 2018 full year results. The tax provision includes impacts of the Tax Cut and Jobs Act enacted on December 22, 2017, however, these impacts are minimal due to the Company's U.S. net operating loss and valuation allowance position. The Company's effective tax rates for the three months ended June 30, 2018 and 2017 were (0.6)% and (31.5)%, respectively. The Company's effective tax rates for the six-months ended June 30, 2018 and 2017 were (2.9)% and (6.4)%, respectively. The Company's effective tax rates for the three and six months ended June 30, 2018 and 2017 were negatively impacted by the change in valuation allowance related to U.S. operating losses for which the Company cannot currently recognize a tax benefit. The Company's income tax expense for the six months ended June 30, 2018 of \$1.2 million primarily relates to results from the Company's non-U.S. businesses.

The Company has approximately \$0.4 million of unrecognized tax benefits and does not expect to recognize significant increases in unrecognized tax benefits during the next 12-month period. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense.

As of June 30, 2018, the Company's U.S. federal tax returns for 2014 and subsequent years remain subject to examination by tax authorities. In the Company's foreign tax jurisdictions, tax returns for 2013 and subsequent years generally remain open to examination.

## (8) Litigation

## WesternGeco

In June 2009, WesternGeco L.L.C. ("WesternGeco") filed a lawsuit against the Company in the United States District Court for the Southern District of Texas, Houston Division. In the lawsuit, styled WesternGeco L.L.C. v. ION Geophysical Corporation, WesternGeco alleged that the Company had infringed several method and apparatus claims contained in four of its United States patents regarding marine seismic streamer steering devices.

The trial began in July 2012. A verdict was returned by the jury in August 2012, finding that the Company infringed the claims contained in the four patents by supplying its DigiFIN<sup>®</sup> lateral streamer control units and the related software from the United States and awarded WesternGeco the sum of \$105.9 million in damages, consisting of \$12.5 million in reasonable royalties and \$93.4 million in lost profits.

In June 2013, the presiding judge entered a Memorandum and Order, denying the Company's post-verdict motions that challenged the jury's infringement findings and the damages amount. In the Memorandum and Order, the judge also ruled that WesternGeco was entitled to be awarded supplemental damages for the additional DigiFIN units that were supplied from the United States before and after the trial that were not included in the jury verdict due to the timing of the trial. In October 2013, the judge entered another Memorandum and Order, ruling on the number of DigiFIN units that were subject to supplemental damages and also ruling that the supplemental damages applicable to the additional units were to be calculated by adding together the jury's previous reasonable royalty and lost profits damages awards per unit, resulting in supplemental damages of \$73.1 million.

In April 2014, the judge entered another Order, ruling that lost profits should not have been included in the calculation of supplemental damages in the October 2013 Memorandum and Order and reducing the supplemental damages award in the case from \$73.1 million to \$9.4 million. In the Order, the judge also further reduced the damages awarded in the case by \$3.0 million to reflect a settlement and license that WesternGeco entered into with a customer of the Company that had purchased and used DigiFIN units that were also included in the damage amounts awarded against the Company.

In May 2014, the judge signed and entered a Final Judgment against the Company in the amount of \$123.8 million. The Final Judgment also included an injunction that enjoins the Company, its agents and anyone acting in concert with it, from supplying in or from the United States the DigiFIN product or any parts unique to the DigiFIN product, or any instrumentality no more than colorably different from any of these products or parts, for combination outside of the United States. The Company has conducted its business in compliance with the District Court's orders in the case, and the Company has reorganized its operations such that it no longer supplies the DigiFIN product or any parts unique to the DigiFIN product in or from the United States.

The Company and WesternGeco each appealed the Final Judgment to the United States Court of Appeals for the Federal Circuit in Washington, D.C. (the "Court of Appeals"). On July 2, 2015, the Court of Appeals reversed in part the Final Judgment of the District Court, holding the District Court erred by including lost profits in the Final Judgment. Lost profits were \$93.4 million and prejudgment interest on lost profits was approximately \$10.9 million of the \$123.8 million Final Judgment. Pre-judgment interest on the lost profits portion will be treated in the same way as the lost profits. Post-judgment interest will likewise be treated in the same fashion. On July 29, 2015, WesternGeco filed a petition for rehearing en banc before the Court of Appeals. On October 30, 2015 the Court of Appeals denied WesternGeco's petition for rehearing en banc.

As previously disclosed, the Company recorded a loss contingency accrual of \$123.8 million. As a result of the reversal by the Court of Appeals, as of June 30, 2015, the Company reduced its loss contingency accrual to \$22.0 million.

On February 26, 2016, WesternGeco filed a petition for writ of certiorari by the Supreme Court. The Company filed its response on April 27, 2016. Subsequently, on June 20, 2016, the Supreme Court vacated the Court of Appeals' ruling although it did not address the lost profits question at that time. Rather, in light of the changes in case law regarding the standard of proof for willfulness in the Halo and Stryker cases, the Supreme Court indicated that the case should be remanded to the Court of Appeals for a determination of whether or not the willfulness determination by the District Court was appropriate.

On October 14, 2016, the Court of Appeals issued a mandate returning the case to the District Court for consideration of whether or not additional damages for willfulness were appropriate.

On November 14, 2016, the District Court ordered the sureties to pay principal and interest on the royalty damages previously awarded and declined to issue a final judgment until after consideration of whether enhanced damages for willfulness would be awarded. While the Company disagreed with the decision by the District Court ordering payment of the royalty damages and interest without a final judgment, on November 25, 2016, the Company paid WesternGeco the \$20.8 million due pursuant to the order, at which point the Company reduced its loss contingency accrual to zero.

On March 14, 2017, the District Court held a hearing on whether or not additional damages for willfulness would be payable. The Judge found that the Company's infringement was willful, based on his perception that the Company did not adequately investigate the scope of the patents, and the Company's conduct during trial. However, in his ruling at the hearing, he limited enhanced damages to \$5.0 million because it was a "close case," there was no evidence of

copying, and the Company was simply acting as a competitor in a capitalist marketplace. The District Court also ordered the appeal bond to be released and discharged. The Court's findings and ruling were memorialized in an order issued on May 16, 2017. On June 30, 2017, WesternGeco and the Company jointly agreed that neither party would appeal the District Court's award of \$5.0 million in enhanced damages. The parties also agreed that the \$5.0 million would be paid over the course of 12 months with \$1.25 million being paid in two installments of \$0.625 million in 2017 and the remaining \$3.75 million being paid in three quarterly payments of \$1.25 million beginning January 1, 2018. This agreement was memorialized by the court in an order issued on July 26, 2017. Upon assessment of the \$5.0 million in enhanced damages, the Company accrued \$5.0 million in the first quarter of 2017. As the Company has made the payments, the accrual has been adjusted, and as of June 30, 2018, the loss contingency accrual was \$1.25 million.

WesternGeco filed a second petition for writ of certiorari in the U.S. Supreme Court on February 17, 2017, appealing the lost profits issue again. The Company filed its response to WesternGeco's second attempt to appeal to the Supreme Court the lost profits issue, raising both the substantive matters the Company addressed by opposing WesternGeco's first petition, and also advancing a procedural argument that WesternGeco could not raise the same issue for a second time in a second petition for certiorari. On May 30, 2017, the Supreme Court called for the views of the U.S. Solicitor General regarding whether or not to grant certiorari. The Company and WesternGeco each met with the Solicitor General's office in late July 2017. On December 6, 2017, the Solicitor General filed its brief, and took the position that the Supreme Court ought to grant certiorari. On January 12, 2018, the Supreme Court granted certiorari as to whether the Court of Appeals erred in holding that lost profits arising from use of prohibited combinations occurring outside of the United States are categorically unavailable in cases where patent infringement is proven under 35 U.S.C. § 271(f)(2) (the specific statute under which the Company was ultimately held to have infringed WesternGeco's patents and upon which the District Court and Court of Appeals relied in entering their final rulings).

The Supreme Court heard oral arguments on April 16, 2018. At oral arguments, the Company argued that the Court of Appeals' decision that eliminated lost profits ought to be affirmed. WesternGeco and the Solicitor General argued that the Court of Appeals' decision that eliminated lost profits ought to be reversed.

On June 22, 2018, the Supreme Court reversed the judgment of the Court of Appeals, held that the award of lost profits to WesternGeco by the District Court was a permissible application of Section 284 of the Patent Act, and remanded the case back to the Circuit Court for further proceedings consistent with its (the Supreme Court's) opinion. On July 24, 2018, the Supreme Court issued the judgment that returned the case to the Court of Appeals.

At the Court of Appeals, in the case leading up to the Supreme Court, the Company presented multiple arguments as to why the District Court's award of lost profits was improper. The lost profits damages awarded by the District Court were based on the use of the Company's products by our customers outside of the United States. The Company argued at the Court of Appeals, and at the Supreme Court, that, as a matter of law, WesternGeco cannot recoup lost profits for the overseas use of the Company's products. This issue, decided in favor of WesternGeco in the recent Supreme Court opinion, was the only issue reached by the Supreme Court in that decision.

The Company also argued in the Court of Appeals that, under the jury instructions given in our case, the jury was required to find that the Company had been a direct competitor of WesternGeco in the survey markets where WesternGeco lost profits in order for WesternGeco to recoup them. Because the Court of Appeals ruled in favor of the Company on the first argument, and overturned the award of lost profits on that basis, the Court of Appeals did not rule on the Company's "direct competitor" argument, and that argument was not presented to the Supreme Court for review. Thus, while the Supreme Court overturned the Court of Appeals' decision that WesternGeco cannot recover foreign lost profits under the Patent Act, the Supreme Court did not order the Company to pay any amount with respect to lost profits but rather remanded the case back to the Court of Appeals for further consideration of whether lost profits are payable by the Company in this case. The Company will now be permitted to present its second argument at the Court of Appeals (that lost profits should not be awarded to WesternGeco because they were not the Company's direct competitor).

Other proceedings may have an impact on WesternGeco's ability to recover lost profits damages and reasonable royalties even if the Company does not prevail on the "direct competitor" argument in the Court of Appeals. The Company was a party to a challenge to the validity of several of WesternGeco's patent claims by means of an Inter Partes Review ("IPR") with the Patent Trial and Appeal Board ("PTAB"). While the above-described lawsuit was pending on appeal, the PTAB invalidated four of the six patent claims that formed the basis for the jury verdict in the lawsuit. WesternGeco appealed that decision to the Court of Appeals, which heard the Company's and WesternGeco's arguments on January 23, 2018. The Court of Appeals affirmed the PTAB's invalidation of the patents on May 7, 2018, and on July 16, 2018, the Court of Appeals denied WesternGeco's petition for a panel rehearing and a rehearing en banc. This decision by the Court of Appeals may provide a separate ground for reducing or vacating any lost-profits or reasonable royalty award in the lawsuit.

On July 25, 2018, the Company filed a motion for leave to file supplemental briefing in the Court of Appeals, and concurrently, filed a brief arguing that the judgment of the District Court as to both lost profits and reasonable



royalties should be vacated, and that the case should be remanded to the District Court for a new determination on damages. On July 27, 2018, the Court of Appeals vacated its September 21, 2016 judgment with respect to damages, and ordered WesternGeco and the Company to submit supplemental briefing on what relief is appropriate in light of the Supreme Court's decision. This order rendered the Company's motion for leave to submit briefing moot, and, accordingly, the Court of Appeals denied the Company's motion as moot. The supplemental briefing ordered by the Court of Appeals is scheduled to be completed by September 7, 2018.

The Company may not ultimately prevail in any of the appeals processes noted above and the Company could be required to pay some or all of the lost profits that were awarded by the District Court if the judgment of the District Court is upheld by the Court of Appeals on remand, or if a new trial is granted and a new judgment issues. The Company's assessment that it does not have a loss contingency (other than the \$1.25 million noted above) may change in the future due to developments at the

Supreme Court, Court of Appeals, or District Court, and other events, such as changes in applicable law, and such reassessment could lead to the determination that an additional loss contingency is probable, which could have a material effect on the Company's business, financial condition and results of operations. The Company's assessments disclosed in this Quarterly Report on Form 10-Q or elsewhere are based on currently available information and involve elements of judgment and significant uncertainties.

#### Other Litigation

The Company has been named in various other lawsuits or threatened actions that are incidental to its ordinary business. Litigation is inherently unpredictable. Any claims against the Company, whether meritorious or not, could be time-consuming, cause the Company to incur costs and expenses, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits and actions cannot be predicted with certainty. The Company currently believe that the ultimate resolution of these matters will not have a material adverse effect on our financial condition or results of operations.

#### (9) Other Expense, Net

The following table is a summary of other expense, net (in thousands):

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Accrual for loss related to legal proceedings (Footnote 8)	\$—	\$—	\$—	\$(5,000)
Other income (expense), net	84	192	(707)	124
Total other expense, net	\$84	\$192	\$(707)	\$(4,876)

#### (10) Inventories

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

	June 30, 2018	December 31, 2017
Raw materials and subassemblies	\$19,988	\$ 20,448
Work-in-process	1,476	1,146
Finished goods	8,441	7,953
Reserve for excess and obsolete inventories	(14,980)	(15,039)
Total	\$14,925	\$ 14,508

#### (11) Accumulated Other Comprehensive Loss

The following table is a summary of changes in accumulated other comprehensive loss by component (in thousands):

	Foreign currency translation adjustments	Total
Accumulated other comprehensive loss at December 31, 2017	\$(18,879)	\$(18,879)
Net current-period other comprehensive income	(755)	(a)(755)
Accumulated other comprehensive loss at June 30, 2018	\$(19,634)	\$(19,634)

Represents the impact of foreign currency translation adjustments, primarily due to the devaluation of the British Pound Sterling ("GBP") on the Company's GBP-denominated balances, primarily in the Company's Optimization Software & Services group

(12) Supplemental Cash Flow Information and Non-cash Activity

The following table is a summary of cash paid for Interest and Income taxes and non-cash items from investing and financing activities (in thousands):

	Six Months Ended June 30, 2018 2017	
Cash paid during the period for:		
Interest	\$6,620	\$7,075
Income taxes	1,354	2,364
Non-cash items from investing and financing activities:		
Investment in multi-client data library in accounts payable and accrued expenses	—	4,561

(13) Fair Value of Financial Instruments

Authoritative guidance on fair value measurements defines fair value, establishes a framework for measuring fair value and stipulates the related disclosure requirements. The Company follows a three-level hierarchy, under which the fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels, moving from quoted prices in active markets in (Level 1) to unobservable inputs in (Level 3).

The carrying amounts of the Company's debt as of June 30, 2018 and December 31, 2017 were \$121.0 million and \$160.7 million, respectively, compared to its fair values of \$121.0 million and \$158.2 million as of June 30, 2018 and December 31, 2017, respectively. The fair value of the debt was calculated using a readily observable price (Level 1).

**Fair Value of Other Financial Instruments.** Due to their highly liquid nature, the amount of the Company's other financial instruments, including cash and cash equivalents, accounts and unbilled receivables, notes receivable, accounts payable, and accrued multi-client data library royalties, represent their approximate fair value.

(14) Stockholder's Equity and Stock-Based Compensation Expense

**Public Equity Offering**

On February 21, 2018, the Company announced its successful completion of a public equity offering. The Company issued and sold 1,820,000 shares of common stock at a public offering price of \$27.50 per share, and warrants to purchase an additional 1,820,000 shares of the Company's common stock. The net proceeds from this offering were \$47.2 million, including transaction expenses. A portion of the net proceeds were used to retire the Company's \$28.5 million Third Lien Notes in March 2018 (several weeks before their maturity date). The warrants have an exercise price of \$33.60 per share, are immediately exercisable and expire on March 21, 2019. If the warrants are exercised in full prior to their expiration, the Company would receive additional proceeds of \$61.2 million, excluding underwriter fees and other transaction expenses.

**Stock-Based Compensation**

The total number of shares issued or reserved for future issuance under outstanding stock options at June 30, 2018 and 2017 was 815,791 and 838,582, respectively, and the total number of shares of restricted stock and shares reserved for restricted stock units outstanding at June 30, 2018 and 2017 was 128,131 and 187,675, respectively. The total number of stock appreciation rights awards outstanding at June 30, 2018 and 2017 was 530,865 and 1,416,133, respectively. The following table presents a summary of the activity related to stock options, restricted stock, restricted stock unit awards and stock appreciation rights awards for the six months ended June 30, 2018:

	Stock Options	Restricted Stock and Unit Awards	Stock Appreciation Rights
Outstanding at December 31, 2017	890,341	201,702	565,864
Granted	10,000	66,773	—
Stock options and stock appreciation rights exercised/restricted stock and unit awards vested	(70,086)	(137,844)	(34,999)

Cancelled/forfeited	(14,464)	(2,500)	—
Outstanding at June 30, 2018	815,791	128,131	530,865

Stock-based compensation expense recognized for the six months ended June 30, 2018 and 2017, totaled \$2.0 million and \$1.2 million, respectively. Stock appreciation rights expense recognized for the six months ended June 30, 2018 and 2017, totaled \$2.5 million and \$0.3 million, respectively.

(15) Condensed Consolidating Financial Information

The Second Lien Notes were issued by ION Geophysical Corporation and the Second Lien Notes are guaranteed by the Guarantors, all of which are wholly-owned subsidiaries. The Guarantors have fully and unconditionally guaranteed the payment obligations of ION Geophysical Corporation with respect to the Second Lien Notes. The following condensed consolidating financial information presents the results of operations, financial position and cash flows for:

- ION Geophysical Corporation and the Guarantors (in each case, reflecting investments in subsidiaries utilizing the equity method of accounting).

- All other subsidiaries of ION Geophysical Corporation that are not Guarantors.

- The consolidating adjustments necessary to present ION Geophysical Corporation's results on a consolidated basis.

This condensed consolidating financial information should be read in conjunction with the accompanying consolidated financial statements and footnotes. For additional information pertaining to the Notes, See Item 2.

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II of this Form 10-Q.

Balance Sheet	June 30, 2018				
	ION Geophysical Corporation (In thousands)	The Guarantors	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$34,888	\$—	\$9,461	\$—	\$44,349
Accounts receivable, net	8	9,034	6,333	—	15,375
Unbilled receivables	—	9,594	5,452	—	15,046
Inventories	—	9,352	5,573	—	14,925
Prepaid expenses and other current assets	2,496	833	2,632	—	5,961
Total current assets	37,392	28,813	29,451	—	95,656
Deferred income tax asset	1,263	—	2,351	—	3,614
Property, plant, equipment and seismic rental equipment, net	448	6,419	41,575	—	48,442
Multi-client data library, net	—	55,481	27,095	—	82,576
Investment in subsidiaries	681,858	330,741	—	(1,012,599)	—
Goodwill	—	—	23,543	—	23,543
Intangible assets, net	—	1,082	—	—	1,082
Intercompany receivables	—	92,164	122,612	(214,776)	—
Other assets	515	145	71	—	731
Total assets	\$721,476	\$514,845	\$246,698	\$(1,227,375)	\$255,644
<b>LIABILITIES AND EQUITY</b>					
Current liabilities:					
Current maturities of long-term debt	\$329	\$130	\$—	\$—	\$459
Accounts payable	3,840	19,430	2,903	—	26,173
Accrued expenses	11,598	10,910	6,428	—	28,936
Accrued multi-client data library royalties	—	27,773	215	—	27,988
Deferred revenue	—	2,220	6,182	—	8,402
Total current liabilities	15,767	60,463	15,728	—	91,958
Long-term debt, net of current maturities	117,159	—	—	—	117,159
Intercompany payables	555,466	—	—	(555,466)	—
Other long-term liabilities	442	5,908	6,256	—	12,606
Total liabilities	688,834	66,371	21,984	(555,466)	221,723
Equity:					
Common stock	140	290,460	47,776	(338,236)	140
Additional paid-in capital	951,349	180,700	203,907	(384,607)	951,349
Accumulated earnings (deficit)	(899,213)	234,434	71,908	(306,342)	(899,213)
Accumulated other comprehensive income (loss)	(19,634)	4,324	(20,910)	16,586	(19,634)
Due from ION Geophysical Corporation	—	(261,444)	(79,246)	340,690	—
Total stockholders' equity	32,642	448,474	223,435	(671,909)	32,642
Noncontrolling interest	—	—	1,279	—	1,279
Total equity	32,642	448,474	224,714	(671,909)	33,921
Total liabilities and equity	\$721,476	\$514,845	\$246,698	\$(1,227,375)	\$255,644

Balance Sheet	December 31, 2017				
	ION Geophysical Corporation (In thousands)	The Guarantors	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$39,344	\$—	\$12,712	\$—	\$52,056
Accounts receivable, net	50	9,374	10,054	—	19,478
Unbilled receivables	—	16,666	20,638	—	37,304
Inventories	—	8,686	5,822	—	14,508
Prepaid expenses and other current assets	2,427	769	4,447	—	7,643
Total current assets	41,821	35,495	53,673	—	130,989
Deferred income tax asset	1,264	—	489	—	1,753
Property, plant, equipment and seismic rental equipment, net	511	7,170	44,472	—	52,153
Multi-client data library, net	—	62,438	26,862	—	89,300
Investment in subsidiaries	693,679	321,934	—	(1,015,613)	—
Goodwill	—	—	24,089	—	24,089
Intangible assets, net	—	1,666	—	—	1,666
Intercompany receivables	—	132,184	90,227	(222,411)	—
Other assets	686	145	288	—	1,119
Total assets	\$737,961	\$561,032	\$240,100	\$(1,238,024)	\$301,069
<b>LIABILITIES AND EQUITY</b>					
Current liabilities:					
Current maturities of long-term debt	\$39,774	\$250	\$—	\$—	\$40,024
Accounts payable	1,774	20,982	2,195	—	24,951
Accrued expenses	12,284	15,601	10,812	—	38,697
Accrued multi-client data library royalties	—	26,824	211	—	27,035
Deferred revenue	—	3,201	5,709	—	8,910
Total current liabilities	53,832	66,858	18,927	—	139,617
Long-term debt, net of current maturities	116,691	29	—	—	116,720
Intercompany payables	537,417	—	—	(537,417)	—
Other long-term liabilities	454	6,084	7,388	—	13,926
Total liabilities	708,394	72,971	26,315	(537,417)	270,263
Equity:					
Common stock	120	290,460	49,394	(339,854)	120
Additional paid-in capital	903,247	180,701	202,290	(382,991)	903,247
Accumulated earnings (deficit)	(854,921)	248,770	59,307	(308,077)	(854,921)
Accumulated other comprehensive income (loss)	(18,879)	4,372	(19,681)	15,309	(18,879)
Due from ION Geophysical Corporation	—	(236,242)	(78,764)	315,006	—
Total stockholders' equity	29,567	488,061	212,546	(700,607)	29,567
Noncontrolling interest	—	—	1,239	—	1,239
Total equity	29,567	488,061	213,785	(700,607)	30,806
Total liabilities and equity	\$737,961	\$561,032	\$240,100	\$(1,238,024)	\$301,069

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Income Statement	Three Months Ended June 30, 2018				
	ION Geophysical Corporation	The Guarantors	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
	(In thousands)				
Net revenues	\$—	\$ 12,466	\$ 12,277	\$ —	\$ 24,743
Cost of sales	—	17,746	8,514	—	26,260
Gross profit (loss)	—	(5,280 )	3,763	—	(1,517 )
Total operating expenses	10,334	7,145	3,523	—	21,002
Income (loss) from operations	(10,334 )	(12,425 )	240	—	(22,519 )
Interest expense, net	(2,947 )	(7 )	43	—	(2,911 )
Intercompany interest, net	304	(2,811 )	2,507	—	—
Equity in earnings (losses) of investments	(11,202 )	4,162	—	7,040	—
Other income (expense)	(37 )	3	118	—	84
Net income (loss) before income taxes	(24,216 )	(11,078 )	2,908	7,040	(25,346 )
Income tax expense (benefit)	1,650	(418 )	(1,078 )	—	154
Net income (loss)	(25,866 )	(10,660 )	3,986	7,040	(25,500 )
Net income attributable to noncontrolling interest	—	—	(366 )	—	(366 )
Net income (loss) attributable to ION	\$(25,866)	\$(10,660)	\$ 3,620	7,040	\$(25,866)
Comprehensive net income	\$(28,446)	\$(10,660)	\$ 1,023	\$ 10,003	\$(28,080)
Comprehensive income attributable to noncontrolling interest	—	—	(366 )	—	(366 )
Comprehensive net income (loss) attributable to ION	\$(28,446)	\$(10,660)	\$ 657	\$ 10,003	\$(28,446)

Income Statement	Three Months Ended June 30, 2017				
	ION Geophysical Corporation	The Guarantors	All Other Subsidiaries	Consolidating Adjustments	Total Consolidated
	(In thousands)				
Net revenues	\$—	\$ 14,945	\$ 31,056	\$ —	\$ 46,001
Cost of sales	—	18,369	12,014	—	30,383
Gross profit (loss)	—	(3,424 )	19,042	—	15,618
Total operating expenses	8,072	6,712	4,406	—	19,190
Income (loss) from operations	(8,072 )	(10,136 )	14,636	—	(3,572 )
Interest expense, net	(4,183 )	(69 )	11	—	(4,241 )
Intercompany interest, net	265	(1,643 )	1,378	—	—
Equity in earnings of investments	1,910	9,077	—	(10,987 )	—
Other income (expense)	(328 )	(1 )	521	—	192
Net income (loss) before income taxes	(10,408 )	(2,772 )	16,546	(10,987 )	(7,621 )
Income tax expense (benefit)	33	(5,171 )	7,540	—	2,402
Net income (loss)	(10,441 )	2,399	9,006	(10,987 )	(10,023 )
Net income attributable to noncontrolling interest	—	—	(418 )	—	(418 )
Net income (loss) attributable to ION	\$(10,441)	\$ 2,399	\$ 8,588	(10,987)	\$(10,441)
Comprehensive net income (loss)	\$(9,242)	\$ 2,399	\$ 9,852	\$ (11,833)	\$(8,824)
Comprehensive income attributable to noncontrolling interest	—	—	(418 )	—	(418 )
Comprehensive net income (loss) attributable to ION	\$(9,242)	\$ 2,399	\$ 9,434	\$ (11,833)	\$(9,242)





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Income Statement	Six Months Ended June 30, 2018				Total Consolidated
	ION Geophysical Corporation	The Guarantors	All Other Subsidiaries	Consolidating Adjustments	
	(In thousands)				
Net revenues	\$—	\$ 24,254	\$ 33,997	\$ —	\$ 58,251
Cost of sales	—	34,541	18,374	—	52,915
Gross profit (loss)	—	(10,287 )	15,623	—	5,336
Total operating expenses	19,243	14,139	7,113	—	40,495
Income (loss) from operations	(19,243 )	(24,426 )	8,510	—	(35,159 )
Interest expense, net	(6,830 )	(13 )	96	—	(6,747 )
Intercompany interest, net	577	(5,130 )	4,553	—	—
Equity in earnings (losses) of investments	(16,117 )	14,382	—	1,735	—
Other income (expense)	(225 )	68	(550 )	—	(707 )
Net income (loss) before income taxes	(41,838 )	(15,119 )	12,609	1,735	(42,613 )
Income tax expense (benefit)	2,454	(783 )	(445 )	—	1,226
Net income (loss)	(44,292 )	(14,336 )	13,054	1,735	(43,839 )
Net income attributable to noncontrolling interest	—	—	(453 )	—	(453 )
Net income (loss) attributable to ION	\$(44,292)	\$(14,336 )	12,601	\$ 1,735	(44,292 )
Comprehensive net income (loss)	\$(45,047)	\$(14,384 )	\$ 11,825	\$ 3,012	\$(44,594 )
Comprehensive income attributable to noncontrolling interest	—	—	(453 )	—	(453 )
Comprehensive net income (loss) attributable to ION	\$(45,047)	\$(14,384 )	\$ 11,372	\$ 3,012	\$(45,047 )

Six Months  
 Ended June  
 30, 2017  
 ION  
 Income Statement Geophysical  
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