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# FINAL TRANSCRIPT

Q1 2017 ION Geophysical Corp Earnings Call

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**Phyllis Camara** *Pax World Funds - Analyst*

**Thomas McKay** *Simplon Partners - Analyst*

**John Foster** - *Private Investor*

## PRESENTATION

### Operator

Greetings, and welcome to the ION Geophysical First Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Rachel White, Vice President of Corporate Communications. Thank you, Miss White. You may begin.

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### **Rachel White** *ION Geophysical Corporation - VP, Corporate Communications*

Thank you, Devin! Good morning, and welcome to ION's first quarter 2017 earnings conference call. We appreciate your joining us today. As indicated on Slide 2, our hosts today are Brian Hanson, President and Chief Executive Officer; and Steve Bate, Executive Vice President and Chief Financial Officer.

Before I turn the call over to them, I have a few items to cover. We will be using slides to accompany today's call. They are accessible via a link on the Investor Relations page of our website, iongeo.com. There, you will also find a replay of today's call.

Moving on to Slide 3. Information reported on this call speaks only as of today, May 4, 2017, and therefore, you are advised that time-sensitive information may no longer be accurate at the time of any replay. Before we begin, let me remind you that certain statements made during this call may constitute forward-looking statements, which are based on our current expectations and include known and unknown risks, uncertainties and other factors, many of which we are unable to predict or control, that may cause our actual results or performance to differ materially from any future results or performance expressed or implied by those statements.

These risks and uncertainties include the risk factors disclosed by ION from time to time in our filings with the SEC, including in our annual report on Form 10-K and in our quarterly reports on Form 10-Q. Furthermore, as we start this call, please refer to the disclosure regarding forward-looking statements incorporated in our press release issued yesterday, and please note that the contents of our conference

call this morning are covered by these statements.

I'll now turn the call over to Brian, who will begin on Slide 4.

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**R. Brian Hanson *ION Geophysical Corporation - President and CEO***

Thanks, Rachel, and good morning, everyone.

As we indicated in our year-end earnings call, we expected our first quarter revenues to increase significantly compared to the first quarter of 2016, and they did. Our first quarter revenues were up 44%, driven in part by continued strong sales of our 3D multi-client Campeche reimaging program and an increase in data library sales.

Over the last two years, we have worked tirelessly to overcome the financial challenges facing us, and up until this point, we had managed to resolve all but one. We implemented cost-reduction initiatives, we reduced our debt, we resolved the risk of delisting on the New York Stock Exchange, and we renegotiated and extended the maturity of our bonds. Today, I'm extremely pleased to report that we are nearing closure on our last major financial challenge, the patent litigation lawsuit with WesternGeco. The District Court recently indicated in a ruling from the bench that we will be held to have willfully infringed on the patents and we will be ordered to pay WesternGeco \$5 million when the final order is issued. The \$5 million in damages for willfulness is in addition to the \$21 million award we previously paid in November of last year. While we are not happy with the willfulness determination, we are overall pleased with the District Court's indication that the additional damages should be on the low end of what could have been a maximum possible amount of \$44 million. This eight-year journey, starting from the trial court, moving to the appellate court, then all the way to the Supreme Court, back to the appellate court and finally landing back at the trial court for the judge to make this final ruling from the bench has been a long journey. We are now simply awaiting the final order to be entered to memorialize the ruling from the bench. We are excited to put this lawsuit behind us as it doesn't reflect the current spirit of collaboration between the parties.

In our E&P Technology and Services segment, we experienced a significant increase in our new venture and data library revenues compared to the first quarter last year, and our Imaging Services revenues were slightly up, further indicating the bottom of the cycle is behind us. We are seeing a dramatic increase in the sales pipeline for our 3D multi-client Campeche reimaging program, due in part to the upcoming bid rounds in Mexico closing in June and December of this year and February and October next year, as well as recently announced Mexican bid round regulation changes. Instead of simply announcing the available blocks for each of the upcoming license rounds over the next 5 years, E&P companies will have an opportunity to nominate blocks. As a result, the large seamless regional framework we've created is an even more appealing asset to customers as it allows them to better understand and evaluate a broader area to nominate optimal blocks for the upcoming bid rounds for years to come. We anticipate that this program alone could generate \$60 million to \$80 million in revenue over the next 12 to 18 months.

Increasingly, the industry is turning to multi-client programs to meet their exploration needs versus shooting proprietary surveys, which we are well suited to deliver. We continue to receive very positive customer feedback on the unprecedented turnaround time and significant imaging improvement we've made in both subsalt and above-salt imaging. Our Imaging Services group remains close to being fully utilized, with a large portion of our capacity dedicated to these higher potential projects.

As a result of being disciplined and maintaining our conservative standards for program underwriting during the downturn, we have not floated a vessel on a multi-client program in two years while others in the industry took significant and unrewarded balance sheet risk. However, we are now seeing new venture activity pick up and have sanctioned 3 programs, which meet our underwriting standards, to kick off in the next 90 days. While we can't speak to the geographic location of these programs for competitive reasons, they have been in development for multiple years.

In addition to the new venture rebound, we also had a significant increase in data library sales, primarily offshore South America and onshore North America.

Our E&P Advisors group was awarded a contract to provide technical advice to Jarfengi in association with the upcoming Faroe Islands Fourth Licensing Round. Our team of geophysical and geological experts will evaluate the expected ultimate recoverable oil and gas potential of existing discoveries in support of this round.

Our E&P Operations Optimization segment continues to be hampered by low utilization levels and day rates among our contractor customers. However, during this period of reduced activity, we have now successfully completed 39 deployments of our simultaneous offshore operations management software, Marlin, and we continue to receive great client feedback about it. I'd like to share an example of how we're revolutionizing offshore operations and the value we're providing.

To effectively manage operations, an operator requires situational awareness at what's going on around them. Today, offshore operations are often managed manually via spreadsheets, with information pieced together from emails, phone calls, and radio discussions with nearby operators. In active fields, operations are increasingly complex and may require a full-time representative to coordinate operations among multiple parties by emailing plans that are quickly out of date in a static format that can't comprehend or keep up with all the moving parts. For example, one field can have shipping, seismic, FPSO and other support vessels operating in close proximity simultaneously, around a number of installations such as drill rigs and platforms. These workflows and operations can greatly benefit from proactive use of intelligent, automated software such as ION's Marlin solution. Marlin provides an opportunity to proactively manage operations and avoid potential conflicts where expensive assets are involved and any delay is extremely costly. In some cases, it may even prevent accidents from occurring. Marlin automatically integrates a number of data sources such as AIS, GPS, GIS, MetOcean and visual data between onshore operations, offshore structures and other vessels to create a common operational picture. Marlin is the only solution that combines spatial information to visualize in-field operations, with temporal information to comprehend what's happening over time in a calendar. Clients can slide forward

in the calendar to comprehend and proactively respond to future scenarios.

We helped one client manage multiple survey projects in a major construction, drilling and production area in the Middle East that involved 9 fields, 33 offshore platforms and over 300 wells. The oil and gas major said, "ION detected multiple intrusions during this project, all of which were identified, tracked and managed to reduce the overall survey duration. It is clear that both ION services personnel and Marlin contributed significantly to the efficient and safe operation of this challenging project." That's the kind of impact we're making in operations.

We recently announced that Scottish Enterprise will help fund the development of Marlin from a service offering into a shrink-wrapped software solution that can be deployed more broadly to optimize offshore operations. It supports our effort to diversify our offerings more broadly in the E&P market and beyond into a much larger marine logistics market. We believe that Marlin has the potential to develop into a very nice software business for ION.

Turning to our core software business, we have worked diligently to protect our industry-leading command and control system market position against competitive threats. I'm very pleased to announce that one of our large, long-time customers went through an extensive evaluation of the offering and the partnership and has recently recommitted to us on a long-term basis to continue our long-standing collaborative relationship.

In our Ocean Bottom Seismic Services segment, we continue to actively pursue multiple tenders for longer-term work while our crew and vessels remain cold-stacked to minimize costs. Aligned with oil companies production focus, we anticipate significant improvement in the OBS market in 2017, and continue to believe we are well positioned for our crew to go back to work this year. Due to the industry downturn, many projects were delayed over the last two years, building pent-up demand for OBS surveys. We're seeing significant sales pipeline growth. Approximately 20 projects worth over \$1 billion have been announced to take place over the next two years. 2017 is shaping up to have almost double the amount spent on OBS surveys compared to 2016. Four of those have recently been awarded, with the average project size of \$59 million. The Nigerian OBS project last year demonstrated our ability to quickly ramp up the crew, flawlessly execute the program and generate significant amounts of cash. If awarded one of these major surveys, we would expect a crew to generate \$100 to \$140 million in revenue annually.

You have heard me mention that we're proud we've been able to maintain our core competencies and key R&D programs through the downturn. However, we didn't think it was appropriate to speak about these developments when we were operating in defense mode during a tough industry downturn. These programs are key to positioning us to take advantage of the impending market upturn. I'd like to touch on just a couple of the things we've been working on to give you a flavor of the innovation on the horizon. At the upcoming European (sic) [International] Association of Geophysical Contractors annual meeting in June, a major trade show we participate in, we're going to introduce our new nodal ocean bottom seismic system, 4Sea. It will provide a step change in image quality and efficiency, driving down

the cost of acquisition and improving the economics so it can be applied to more production projects. We've been working quietly on developing this system for over 3 years and believe it will be extremely competitive in the marketplace. Given the long-term nature of the tendering process for ocean bottom surveys, we are now starting to submit bids with 4Sea technology for projects commencing in late 2018, when we expect it to be commercial.

We've also been investing to stay at the forefront of imaging technology. For example, BP recently attributed the identification of 200 million barrels of additional oil in its Atlantis field, and an additional upside potential of 800 million barrels of oil in other Gulf of Mexico fields to higher resolution Full Waveform Inversion imaging. Similar to ocean bottom seismic, Full Waveform Inversion, or FWI, is aligned with oil companies' production focus to better understand reservoirs and optimize production. It's an industry-leading new approach to develop data-driven reservoir models, ultimately increasing the resolution and contrast of the subsurface to improve understanding and extraction. It's already making an impact and we're one of only a handful of companies on the forefront of this development. This imaging is accomplished using the full recorded wavefield versus what has been done to date using only a portion of the recorded wavefield. This additional data enables you to derive models that can unlock areas of the subsurface, like below salt, that were previously invisible or highly distorted. Seabed seismic data responds well to FWI due to its extremely long offsets and ability to record low frequencies.

Our Devices group is also commercializing three new technologies that provide valuable new capabilities for our marine contractor customers while leveraging their existing equipment. The first is DigiLIFT, a smart streamer recovery device that attaches to our DigiBIRD and provides more accurate protection against cable loss. The second, is our Acoustics in Deployment software that enables customers to see real-time positioning of cables during deployment, retrieval and turns for safer, faster operations. The third is our new line of rechargeable batteries for our industry-leading streamer positioning systems. These will allow customers to recharge their batteries onboard, reducing hazardous environmental waste and challenging shipping logistics in remote locations.

With that, I'll turn it over to Steve to walk us through the financials, and then I'll wrap up before taking questions.

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**Steven A. Bate *ION Geophysical Corporation - CFO and EVP***

Thanks, Brian. Good morning, everyone.

Our total first quarter revenues were up 44% from the first quarter of 2016. Revenue in our E&P Technology and Services segment increased almost 80%, while revenues in our E&P Operations Optimization segment decreased by only 4%. Similar to the first quarter of 2016, our OBS Services segment had no revenues as our crew and vessels have been cold stacked since the third quarter of 2016.

Within our E&P Technology and Services segment, our data library revenues were \$11 million, an approximate 150% increase over Q1 of 2016, our new ventures revenues were \$7 million, a 110%

increase, and our Imaging Services revenues were \$6 million, a 6% increase. The increase in new ventures revenues was the result of our 3D multi-client Campeche reimaging program and an increase in data library sales, primarily related to our offshore South America and onshore North America data libraries.

In our E&P Operations Optimization segment, our Optimization Software and Services revenues were flat to the first quarter of 2016, while our Devices revenues declined by 7%. Our E&P Operations Optimization segment continues to be impacted by reduced seismic contractor activities.

Our loss from operations was \$14 million during the first quarter of 2017 compared to an operating loss of \$30 million in the first quarter of 2016. As you might be aware, we invested heavily in Ventures programs prior to the downturn and accordingly, we currently carry a significant amount of straight-line amortization related to our historical multi-client data library investments, which is heightened due to lower revenues during the downturn. Therefore, we believe our adjusted EBITDA is more reflective of our financial performance. We had a breakeven adjusted EBITDA in the first quarter of 2017, compared to a negative \$17 million in the first quarter of 2016. This is our third consecutive quarter with a breakeven or better adjusted EBITDA, and the first time since Q1 2014 that we've had a breakeven or better adjusted EBITDA in the first quarter of the year. This is quite an accomplishment given that our first quarter is generally our weakest as a result of our customers setting budgets early in the year but taking time to allocate their spend. The year-over-year improvement in our operating loss and adjusted EBITDA was the result of a higher margin revenue mix, along with savings from prior cost-cutting initiatives we implemented over the last two years.

Our net cash flows from operations were \$2 million during the first quarter of 2017 compared to \$2.5 million 1 year ago. One important point I'd like to make is that we were able to generate cash from operations while coming off relatively weak revenue in the fourth quarter of 2016, yet again demonstrating that we have right-sized our business to reflect current market conditions. Including both investing and financing activities, we consumed total net cash flows of \$3 million in the first quarter of 2017, compared to a consumption of \$8 million in the first quarter of last year.

Our cash balance, excluding borrowings under our credit facility, at March 31st was \$40 million. We had outstanding borrowings of \$10 million and another \$10 million remaining availability on our maximum \$40 million credit facility at March 31st. Our borrowing base has been reduced because a significant portion of our receivables for the Campeche reimaging program is effectively purchased by IOC's through our Mexican entity, which are bank discounts. So we are not getting credit for high-quality receivables in the calculation of the borrowing base. We are evaluating options under our existing credit facility that would include these receivables in the borrowing base calculation. We are also looking at other financing alternatives that would allow us to have a more stable and robust borrowing capacity.

Before I turn the call back over to Brian, I would like to provide an update on our at-the-market equity program that we announced in December of last year. The program was designed so that we could issue and sell up to \$20 million of our common stock, based on certain conservative criteria. We put this

program in place to be better positioned to capitalize on opportunities such as acquiring complementary distressed assets, further deleveraging through buying back bonds at discounted rates or other value-added transactions. However, given the current share price, we have not sold any shares and effective May 2nd, we have canceled the program.

With that, I'll turn it back to Brian.

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**R. Brian Hanson *ION Geophysical Corporation - President and CEO***

Thanks, Steve. Supply and demand are coming into balance, stabilizing oil prices and E&P company balance sheets. Most analysts are suggesting a modest increase in E&P spending this year, however, we expect growth in seismic spending to lag behind some segments of the oil and gas sector, especially offshore marine activity, which remains our primary focus. That said, and more directly pertinent to ION, tenders have already started picking up in the OBS market and we are seeing renewed interest in underwriting new venture programs for the first time in two years. We believe that we are well positioned with our data libraries in areas of counter-cyclical activity ahead of upcoming license rounds, such as offshore Mexico and others. We are excited about the new technology we're commercializing in 2017 and 2018 and believe there is significant potential to build a wonderful software business around Marlin.

We continue to believe 2017 will be a modest improvement over 2016 as the market is starting to recover, but as usual, believe our first half will be softer than the back-half, especially when we consider back-half licensing round activities and the natural purchasing patterns of our customers. We've been able to maintain our capabilities, our workforce and our R&D programs to actively position ourselves technically and financially to take full advantage of what should be a more normal 2018.

With that, we'll turn it back to the operator for Q&A.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Tom McKay with Simpleton (sic) [Simplon] Partners.

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**Thomas McKay *Simplon Partners - Analyst***

It's Simplon Partners. My question was -- two questions, one on the patent litigation. Do you expect WesternGeco to appeal this \$5 million ruling, if it's finalized by the District Court?

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**R. Brian Hanson *ION Geophysical Corporation - President and CEO***

Potentially. But let me sort of give you my perspective. And this is my personal view, and I'm sure our counsel wouldn't want me telling you this. But in my opinion, the good news is, the judge found us willful. So the judge has found in WesternGeco's favor. Then what the judge did was assign the amount

of damages, which is completely in his purview to do that. So for them to appeal, they're basically going to be appealing the amount of damages and that's really not a topic that appellate courts are in tune to pick up. They are more or less trying to pick up topics that are, was it the proper application of law? So I think if they do appeal, I think they've got a very low probability of success.

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**Thomas McKay *Simplon Partners - Analyst***

Got it. And my second question is, if the ocean bottom survey crew goes back to work, you said that annual revenues could be in the range of \$120 million to \$140 million. What kind of EBITDA would that translate into, would you say?

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**R. Brian Hanson *ION Geophysical Corporation - President and CEO***

I wouldn't answer that question directly, Tom. But I would point you back to 2014's financials, and you can get a pretty good idea how that crew performs.

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**Thomas McKay *Simplon Partners - Analyst***

Okay. All right. I'll do that.

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**R. Brian Hanson *ION Geophysical Corporation - President and CEO***

Just in case our competition is listening.

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**Operator**

Our next question comes from the line of Ariel Rothman with Tegean Capital.

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**Ariel Rothman *Tegean Capital - Analyst***

So you guys have done a pretty good job kind of controlling costs and maintaining cash in a pretty challenging environment. With kind of the new investment and kind of new venture that you have going forward, would you anticipate in 2017 -- what kind of cash use or not would you anticipate for 2017, I guess?

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**R. Brian Hanson *ION Geophysical Corporation - President and CEO***

Yes, great question, Ariel. We have very tight underwriting standards for these programs. So that means that we want to see industry participants vote with their checkbook to support our programs. So as a result, we typically don't have a lot of cash drain as a result of doing them. Our expectation for cash this year is that we will be a positive cash-generating business. So I'd expect our cash balances to grow by the end of the year.

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**Ariel Rothman *Tegean Capital - Analyst***

And just related to that. I guess when you did the exchange, you've kind of pushed most of the bond maturities out. But there was a piece that still remains that, I guess, is becoming current relatively soon. Any thoughts on how -- refinancing that or dealing with that at this point?

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**R. Brian Hanson *ION Geophysical Corporation - President and CEO***

Yes, we have -- it's totally on our radar. We have several ideas around that stub. It's not that big. It's \$28 million. It's very manageable.

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**Operator**

Our next question comes from the line of David Steinberg with DLS Capital.

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**David Lee Steinberg *DLS Capital Management - Analyst***

Your tone sounds -- [not a question,] more of a comment -- a lot brighter than I've heard on the other calls. And I think you've done a pretty good job of this. It seems to me that with the -- and this is a question -- the litigation possibly behind you, the balance sheet should be in pretty good shape. And you guys should be able to really weather the turn here and probably the worst is over. Is that a fair general assessment without putting any hard targets on anything?

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**R. Brian Hanson *ION Geophysical Corporation - President and CEO***

Yes, I think that's absolutely fair, David. We -- I absolutely believe that we are not only -- we've not only seen the bottom, but we're now on the recovery side of this downturn. When I look at our business specifically, and I look at the little -- the areas of green shoots that we are observing. So the other thing I can tell you, that the first quarter financial results demonstrate to me that we have really rightsized this business because it is -- I've been here for 11 years, and I know just how hard it is to generate breakeven or positive EBITDA in the first quarter. And so for us to do it, do it on \$33 million of revenue, tells me that we've got the wind at our back.

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**David Lee Steinberg *DLS Capital Management - Analyst***

Right. Now here's a question I have. The first quarter you were up -- I don't know -- 40% or whatever it is. That's more than a modest increase that you stated kind of in the route of the presentation. Is that anomalous that the first quarter was so much better? Or I mean, the guide would be, is that the rest of the year could be not necessarily up 44%, but directionally more than modest. Okay. I'm a little bit trying to figure out, you're talking about modest spending, is it from the industry? Because it sounds like your business is coming along a little bit better than the modest industry. Maybe you could just clear that up for me a little bit.

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**R. Brian Hanson *ION Geophysical Corporation - President and CEO***

Yes. But I also think there are pockets of our business that were hit -- we were hit much harder than the industry during the downturn. If you think about various segments in our business are running at one third of the levels of revenue that they did just two years ago. So naturally, we'd expect that the recovery would be more dramatic for us as well.

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**David Lee Steinberg *DLS Capital Management - Analyst***

Okay. So then it's possible that you have a lot of other strong quarters. Okay, great. Listen, you guys have done an extremely spectacular job. I would call out, I'm glad you canceled your at-the-market program. It's a nonconventional way of raising equity, and if your business seems to be turning here, that probably doesn't make a lot of sense.

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**Operator**

Our next question comes from the line of Phyllis Camara with Pax World Funds.

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**Phyllis Camara Pax World Funds - Analyst**

Just a quick question on the Campeche sales pipeline. That's going on until maybe the June bidding? Or has it -- have revenues from that -- from your multiclient library ended until the bidding restarts in June? And then there will be another bidding process in February of '18, where you can potentially get more revenues? I'm trying to...

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

Yes, Phyllis, let me explain how it works. First of all, the program is over a broad area. And that broad area is represented by multiple blocks that the Mexican government will put up for sale over several years. They've got a 5-year plan. So I just referred to the next 4 upcoming lease rounds, 2 this year, 2 next year. But this is going to go on for up to -- for many years. And so, the significance of them changing their -- changing the rules of the game and allowing operators to nominate blocks, is that now it encourages the operators to get the whole data set so they can evaluate the whole area and almost creates a little bit of competition with the operators to figure it out soon and nominate the blocks they want, and those who wait and sleep will potentially miss out on good blocks. So it makes that whole data set very attractive to all the operators who want to participate in that basin over the next 5 years. And then it kind of puts more of a -- accelerates their need to get that data. So I would expect that we're going to see -- that pipeline I referenced will be quarterly sales for the next 18 months.

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**Phyllis Camara Pax World Funds - Analyst**

Okay. That's what I wanted to make sure of. That's what I was hoping that I would hear from you. So you've sanctioned the 3 programs on the new venture activity. And that's though completely different than the Campeche and what you've already done in the Gulf of Mexico towards the Mexico area?

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

Absolutely. These are just 3 new independent programs that met our underwriting criteria, and we're pretty excited about them. One of them is another fantastic program that we think is going to be great for 2018.

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**Phyllis Camara Pax World Funds - Analyst**

Okay. And that you won't see any revenues from that at least for the second quarter, it might not start till the third and then -- or even 2018?

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

No, some of those programs will have revenue in '17. All of them will have revenue in '17. But these programs span multiple years and typically your first and second year are pretty dramatic. And then you continue to have revenue in the third, fourth and fifth year and then they're just -- it's an asset that just keeps on giving. We sell data today from programs we did 10 years ago.

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**Phyllis Camara Pax World Funds - Analyst**

Okay. On the Marlin software development and the Scottish award that you got, or I guess it was a grant. Do you expect that to generate revenues in addition to what you're already doing in Marlin at some point in the future? Or is this just something that is going to incrementally allow you to charge a little bit higher level -- a higher price on your Marlin?

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

No, the way Marlin works today is it's a software service. So we've built the software offering around it, but our people run it. And so it's presented to the customers as a service where we'll go out there and we'll help you do this. We need to take the -- we need to take it to the next level where we can prepackage it and just offer it as a software. There's quite a bit of development work to do that. It's a little bit of a different offering. And then we intend to build a software business around it versus a services business. So that grant is specifically there to enable us to do that, to help us with the R&D side.

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**Phyllis Camara Pax World Funds - Analyst**

Okay. How long do you think -- how long will you be working on it till you get to a point where you feel like it can be -- you can sell it as a software? Will it be a year, 2 years?

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

That's another really great question. And I think it's probably a little bit too soon for me to put a date in the sand. But I can tell you, we've been working on this now for several years. We're about 3 solid years into the development of this software, and we've got some really great momentum. I stumble a little bit only, Phyllis, because we probably don't have a complete understanding of the challenge to put it in a box and shrinkwrap it. I'm not sure how challenging that's going to be.

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**Phyllis Camara Pax World Funds - Analyst**

Yes. Can you do software as a service kind of thing?

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

What we're doing -- the first step is software as a service, and that's how we're going to market and the initial revenue streams from Marlin will be software as a service. And then ultimately, we want to transition it on a broader scale to just a package.

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**Phyllis Camara Pax World Funds - Analyst**

Okay. Okay. And then the ocean bottom work, or awards that have been given so far. You said there was one that had been awarded already and obviously, it was not awarded to you guys. Do you know -- what can you learn from that? That it wasn't awarded to you? Was -- your vessels not in the right spot? Or was there some technological reason or just in general, it went to a bigger player? Or do you know why?

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

Not at all. We don't quote on all ocean bottom surveys. Everybody's technology is not -- our technology

is suitable for certain environments as well as our competition's. And it's not a one size fits all. So the surveys that were awarded, we weren't participating in those quotes.

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**Phyllis Camara Pax World Funds - Analyst**

Okay. Okay. Good. So the 20 projects that have been announced over the next 2 years. What do you think -- how many would you imagine that you will bid on out of that 20 so far?

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

Scarily getting closer to a conversation around guidance, which I'd like to avoid.

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**Operator**

(Operator Instructions) Our next question is from the line of John Foster, a private investor.

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**John Foster - Private Investor**

From an overview basis, I'm curious how much do you see the company's financial and people position today hobbling potentially your future operations and opportunities?

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

Could you restate the question? I'm not sure I quite understood you, John.

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**John Foster - Private Investor**

Well, my point is, given your financial position today and the fact that you rightsized the business from a number perspective, but certainly a people business -- people point of view, I'm curious from this point, how much do you see that hobbling your future opportunities in the industry?

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

I understand what you're saying. I think we almost have to get -- we'd have to look at it segment by segment. And I think the area of the business where we potentially will see some constriction as a result of people cutbacks is on our imaging side, the processing and imaging side of the business, because it is very much a people-driven business. However, I would -- at the same time I say that I'll tell you that the part of our script where we talked about this new imaging technology Full Waveform Inversion is actually much more computer-driven than people-driven. And the general trend in the industry is better algorithms, more compute horsepower and less people to do processing. So it's a little bit of an offset, but if there's an area that we could feel some tightness and have to increase our capacity, it'd be on the imaging side. That's where we'd have to ramp up because we're running close to full utilization now.

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**John Foster - Private Investor**

So that takes the people side. So what about a financial point of view?

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**R. Brian Hanson ION Geophysical Corporation - President and CEO**

The financial point of view. The heaviest area in our business that requires capital is on the ocean bottom side. So both working capital related to going to work and shooting a survey, which is typically not

difficult to figure out how to work through. And the other is just the amount of capital required to invest in developing new technology and building new systems. So that -- doing something like that would probably require a capital raise, if we were going to -- when we go and expand our asset base.

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**Operator**

(Operator Instructions) There appear to be no further questions at this time. I'd like to turn the floor back over to Mr. Hanson for closing comments.

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**R. Brian Hanson *ION Geophysical Corporation - President and CEO***

Well, thank you for taking the time to attend our call, and we look forward to talking to you on our next earnings call.

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**Operator**

This concludes today's teleconference. You may disconnect your lines at this time. Thank you, and have a wonderful day.

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