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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. Ms. White, you may begin.

Rachel White ***ION Geophysical Corporation - Vice President, Corporate Communications***

Thank you, Devon. Good morning, and welcome to ION's First Quarter 2018 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 3, 2018, 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.

R. Brian Hanson ***ION Geophysical Corporation - President and CEO***
Thanks, Rachel. Good morning, everyone.

I must say I'm actually pleased with the results of the quarter. The financial results were in line with the expectations we outlined on the last earnings call, but more importantly, and unexpectedly, our backlog increased $10 million, or 40%, over prior year, a solid indication of momentum in the business as we generated increasing interest in program underwriting and imaging work. So we're off to a good start for 2018.

Today, I'll review our first quarter financial results and operational highlights. Before we wrap up, I will reiterate our outlook for 2018 and why we believe it's shaping up to be a considerable improvement over 2017. Please feel free to raise any additional topics you'd like us to cover during Q&A.

First, let's review the financials. Our first quarter results were in line with our expectations. As we indicated on our fourth quarter earnings call, we expected our strong backlog to translate to good first quarter 2018 revenues, in line with or potentially exceeding the first quarter 2017, and they did. Our first quarter revenues of $34 million increased 3% compared to one year ago.

I spoke with several investors during the quarter, who were surprised that we cautioned the first quarter could be flat with prior during the last call, which made me realize we have done a poor job of explaining how our sales process works. Our first quarter is historically our weakest quarter because our customers don't typically buy for the first two months of the year. They are usually still finalizing the allocation of their budgets, which is why our first quarter typically generates the least amount of revenues and EBITDA, and this year was no different. This year our customers set their capital budgets late in the quarter and did not start to engage in meaningful technical and commercial discussions until mid-March, resulting in the majority of our first quarter sales coming in very late in the quarter. Effectively, we only had a couple of weeks of selling time. In down cycles, this is even worse as they hold off spending through the first quarter and typically do a budget calibration in March or April to ensure the assumptions they built their budgets on are still accurate before allocating the spend.

A soft first quarter leads to the back half of the year being better than the front half. Additionally, if clients have any unused budget, they typically use it to buy data in the fourth quarter. So the spending starts late in the first quarter, and picks up momentum throughout the year as they make their selections and negotiate transactions that culminate in a more robust fourth quarter. Therefore, a 3% increase in revenue and a 40% increase in backlog for the first quarter gives us confidence we're off to a good start for 2018.

Generally, the majority of our EBITDA is generated in the second half of the year. Since we pretty much have a fixed cost base, increasing revenues over and above it convert to EBITDA nicely. We said we expect 2018 to be a significant improvement on 2017 results on a full year basis, but that we would not be surprised to see breakeven or slightly better EBITDA generation in the first quarter, similar to 2017. Our adjusted EBITDA for the first quarter was slightly better compared to last year at $128,000, and it's the seventh straight quarter it’s been breakeven or better.

In our E&P Technology & Services segment, revenues were up 5% this quarter, and we are seeing increasing momentum in the business for the rest of the year. Our strategic decision to shift closer to the reservoir has paid off in all three E&P Technology & Services business lines. We ended the quarter with continued strong backlog of $35 million, which is up 40%, or $10 million, year-on-year, and up across the board in each of the three offerings.

Multi-client sales were up 12%, with new venture revenues increasing 98% and data library sales decreasing 44% compared to the first quarter of last year. The fact that our new venture revenues were up so significantly is another indicator that our new programs are in geographic areas that are attracting capital. Multi-client revenues came from diverse geographic areas in Mexico, Brazil, Argentina, Nigeria, East Africa, the Mediterranean and across the Caribbean.

There has been an increase in both the volume and geographic diversity of new venture program activity, which is the best near-term indicator of the velocity in our business. At the end of the first quarter, we had 13 programs in progress. During the quarter, we sanctioned 3 new programs and completed 3 programs. The first new program sanctioned during the quarter was a fourth extension to our Campeche 3D reimaging program, bringing our total program footprint to over 100,000 square kilometers. The second new program sanctioned during the quarter was a new 2D BasinSPAN multi-client program offshore West Africa. ION and its partners are acquiring up to 7,200 kilometers of data in advance of the first Ghana license round anticipated in late 2018 to help refine understanding of the hydrocarbon potential of the area. The third program sanctioned was a new 3D multi-client reimaging program off Australia. The 17,000 square kilometer North Vulcan 3D multi-client reimaging program seamlessly integrates and reimages data from 15 vintage surveys using modern depth imaging. The 3 completed programs we added to our data library during the quarter were the Campeche South extension, PeruSPAN and the Austral Malvinas 2D reimaging program offshore Argentina.

As programs progress, they move from work in progress, new venture programs to completed programs on the shelf in our data library. When this occurs, activity shifts from backlog to revenue recognized in the quarter it's transacted in. As we continue to complete programs and build our data library, we expect backlog to level off, becoming a less meaningful metric moving forward.

Our diverse data library is exceptionally well positioned for the uptick in upcoming license round activity. Currently, we expect 112 active announced or anticipated license rounds during 2018 and 2019. In fact, more than 80 rounds are active or expected to launch in 2018. Our programs are exceptionally well positioned and relevant to 64 of the 112 license rounds.

We believe the ongoing license rounds and farm-in opportunities in Mexico and Brazil and the Panama license round announcement anticipated in the second quarter will be significant drivers of our multi-client performance this year. The change in access parameters in Mexico and Brazil is driving significant investment. Both Mexico and Brazil's recent license rounds have far exceeded industry expectations, which has supported the excellent data sales we have experienced and expect to continue experiencing. ION also has the only modern data offshore Panama, and if the license round draws as much interest as the industry is anticipating, we believe that will trigger great demand for our data.

However, not all license rounds are created equal, and there are a number of factors that impact whether a license round will be successful. Bid rounds vary in terms of acreage attractiveness, terms, data availability competition and transparency. To be successful, it is essential to align acreage attractiveness with the appropriate terms. A frontier area will not support the same royalties and tax regimes as a mature-producing basin.

For example, the Uruguay deep water license round recently held had a lot of client interest and engagement, but the results were disappointing with few companies opting to participate due to the terms, risks and costs associated with deep water. However, we remain optimistic about Uruguay because when countries resolve the disconnect between terms and attractiveness, they can subsequently have a successful license round. For example, in March 2017, the Mexican Energy Secretary announced significant changes for Round 2 and beyond, including the minimum royalties and other clauses in the contracts that were petitioned for by oil and gas companies, and this significantly improved the attractiveness of the blocks for future bid rounds.

At ION, we employ a rigorous screening process in an effort to align ourselves with the acreage and upcoming license rounds that we believe will be most attractive and successful. We assess the technical, economic, political, operational and strategic aspects of each potential multi-client program. However, our clients are usually the best litmus test. They vote with their checkbooks and underwrite the majority of the costs before we begin the program.

Our Imaging Services group's focus on higher-value, technology-driven proprietary projects with better margins is paying off. 30% of our backlog is for proprietary imaging projects with higher-value ocean bottom and/or wave-based imaging accounting for the majority of it.

Recognized as leaders in ocean bottom seismic and full waveform inversion, or FWI, imaging enabled us to win and start executing multiple high-profile proprietary ocean bottom nodal imaging projects last year, including the two largest OBS contracts awarded in 2017. This shift closer to the reservoir has enabled us to closely collaborate with multiple clients on production-focused projects and deliver valuable insights to inform their development plans. Our clients are pushing the limits of subsurface imaging with very dense spatial sampling and cutting-edge imaging tools, such as FWI, to maximize their understanding of the reservoir. Our E&P Advisors are fully integrated with the project, applying rock physics and petrophysical analysis to both fine tune the data processing workflows and identify and characterize potential reservoirs. This integration yields a well-calibrated product that can be used for appraisal and field development. This approach differentiates ION's capabilities, driving repeat business.

I mentioned last quarter that our E&P Advisors group wrapped up the initial technical evaluation for their third license round management contract. We have now completed the expanded scope of our consultancy work, and I'd like to spend a few minutes describing the massive scale of the project and the value we delivered.

In this host government advisory role, we evaluated the potential of distressed fields for rejuvenation as well as new exploration blocks to be offered in a major oil province. In a world of heightened competition globally to attract E&P investment, this advisory service is designed to help host governments promote their assets with the appropriate terms to attract maximum investment.

The portfolio characterization and ranking we provided has significant value to the host government in managing the license round. This information enables them to view all fields in a comparative context based on a consistent, independent analysis. We provided a complete technical and economic evaluation for over 50 fields, including a total resource estimation and net present value of each of the fields. The information enables the country to strategically decide which fields they would like to include in the round and align signature bonuses and work programs with the risk, cost and value to maximize the likelihood of a successful license round. In addition, it enables the government to understand the amount of new investment and tax revenue the round will generate and to incentivize investment on the basis of strategic importance.

As a result of the expanded scope of our consultancy work, we continue to expect greater services revenues in the short term and success-based revenues in 2019. We are excited to provide this capability to governments to help maximize the value of their acreage and share in the success we enable.

In our Operations Optimization segment, we continue to have leading market share in our core software and equipment businesses while pursuing additional opportunities for our technology in adjacent markets. For example, Marlin is expanding into the production segment offshore, and Devices is targeting scientific, military and marine robotics applications.

Software and services revenues for the quarter were up about $1 million year-on-year due to increasing Marlin deployments and higher demand for our seabed software and services. Offshore services had its strongest quarter since the third quarter of 2015 and our second strongest first quarter ever.

During the first quarter, we launched the enterprise version of Marlin software to more broadly optimize offshore operations and continue advancing maritime digitization. Marlin supports a step-change offshore from traditional manual processes to digital solutions that integrate and share information in real time to enable better, safer decisions. Similar to air traffic control, Marlin is designed to maximize the safety and efficiency of offshore operations by integrating a variety of data sources in real time with operational plans, creating an unparalleled picture of offshore operations to enhance decision-making.

ION has been delivering Marlin as a service for over three years. This process not only helped differentiate our offshore services business and drive its rebound, as noted earlier, but also enabled close collaboration with customers offshore to gather requirements to efficiently develop an enterprise-wide software package. Enterprise software enables us to address a much larger customer base through a software distribution model than we could through a technology as a service model. Marlin consistently unites and engages personnel across activities and is proving invaluable around event transparency as almost every project is followed by a request for extensive mission playback from the system.

We completed 16 additional deployments of Marlin in the first quarter across 6 projects, now bringing us to 83 deployments total. These deployments have spanned a variety of offshore operations, including AUV flight planning and optimization, integrated offshore activity planning, optimization of time-lapse seismic surveys comingled with busy oil and gas operations, marine operations in arctic ice and shore-based marine control centers.

We continue to see growing interest in Marlin as a result of the value we're providing. Over 60% of our projects have been with repeat customers.

We are making good progress in generating interest to adopt Marlin in adjacent markets outside of oil and gas, such as offshore wind farms, port management and harbor security. For example, we have met with government agencies who believe Marlin's real-time operational view and playback capability would be beneficial in monitoring and resolving port harbor violations and disputes. In addition, fishing industry executives see potential for Marlin to more cost effectively track large schools of fish and how to optimize their fleet to catch them. Route optimization is critical across multiple industries.

Our market entry strategy for Marlin includes engagement with the right partnerships in these industries to enhance our offering and/or to accelerate Marlin's adoption. We have had strong engagement from potential partners who want to tie into the platform.

In addition to Marlin's development, we are also now executing long-term technology road maps we developed last year to keep our other software platforms and capabilities leading edge.

In the Devices group of our Operations Optimization segment, we are continuing to successfully execute our strategy of bringing new incremental offerings to market and selling existing technology into adjacent markets to offset some of the decline in seismic contractor revenues.

We are very close to commercializing our SailWing technology, which has had tremendous industry interest. SailWing is an innovative foil-based alternative to conventional bulky marine diverters and has the potential to be a significant growth area for ION. SailWing can be employed to optimize towing configurations and source array positioning, yielding significantly less drag, faster towing, improved fuel efficiency and safer operations through their flexible and smaller footprint while improving the geophysical performance of the survey.

After multiple successful field trials, we are moving into commercial tests with potential partners. Manufacturing lead times in our supply chain are delaying the commercial release of a full vessel deployment about a quarter. Based on the latest manufacturing schedule, we expect the first commercial deployment to be in the third quarter. We have submitted several proposals that are validating our pricing and new business models that combine an upfront payment with a recurring revenue stream.

We are continuing to work diligently to broaden and diversify our customer base for devices into adjacent markets. In the first quarter, we had a second sale of our highly differentiated compass solution for underwater navigation in GPS-deprived environments. After our compass technology, SailWing also has the most interest in adjacent markets to date.

We are participating in more multi-industry maritime events, such as Oceanology in London, where we saw a tremendously strong demand for our navigation technology and underwater communication applications; and identified needs beyond the military and autonomous underwater vehicle markets we're already beginning to serve.

We have scaled up and dedicated additional internal resources to more aggressively attack adjacent markets. In addition, we're identifying potential M&A targets to support our adjacent market strategy for software and devices.

In our Ocean Bottom Integrated Technologies group, we are gaining traction, bringing our fully integrated nodal system, 4Sea, to market in asset-light business models. As a reminder, we are offering 4Sea components more broadly to the growing number of OBS service providers with business models that enable us to share in the value our technology delivers. You'll notice we slightly evolved the segment name to better reflect the new asset-light go-to-market strategy we described in detail last quarter.

Two components, SimSurvey and SailWing, are available to order now, and we expect to complete engineering on three additional components: the Imaging Engine, the QA/QC component and the automated Back Deck in the next couple of quarters. As mentioned earlier, SailWing enables efficient control of source operations. The central data hub and imaging engine enable extremely efficient onboard processing for timely data delivery. And our SimSurvey tool enables efficient survey design and is being integrated with our Gator command and control software.

We are already seeing strong interest from industry participants for a number of the components. Through these sales discussions, we have identified two additional variations of the components to commercialize.

The OBS market is rebounding as predicted to be at pre-downturn levels of $1 billion in 2018 with significant growth projected beyond that. OBS will continue to grow spurred by the improved economics of next-generation systems as well as a growing adoption by E&P companies as the technology of choice to manage their reservoirs.

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

Steven A. Bate ***ION Geophysical Corporation – CFO and EVP***
Thanks, Brian. Good morning, everyone.

Our total first quarter revenues were up 3% compared to the first quarter of 2017. Revenues in our E&P Technology & Services segment increased by 5%, and revenues in our Operations Optimization segment decreased by 3%.

Overall, we reported a net loss for the first quarter of $18 million or $1.44 per share compared to a net loss of $23 million or $1.98 per share in the first quarter of 2017. Both periods included special items during the quarter, which, excluding those items, we had an adjusted net loss of $17 million or $1.34 per share in the first quarter of 2018 compared to an adjusted net loss of $18 million or $1.55 per share in the first quarter of 2017.

Our adjusted EBITDA was $128,000 in the first quarter of 2018, a slight improvement to the breakeven adjusted EBITDA of a year ago. This quarter represents our seventh consecutive quarter with breakeven or better adjusted EBITDA.

Net cash flow from operations during the quarter was a generation of cash of $600,000 compared to $2 million during the first quarter of 2017. Including both investing and financing activities, we consumed $1 million of cash in the first quarter of 2018 compared to a consumption of $3 million in the first quarter of last year.

Our net cash flows through the first quarter of 2018 reflect the $47 million of net proceeds received from our equity offering. A portion of those proceeds will use to retire the $28.5 million of third-lien bonds ahead of their scheduled maturity in May 2018. We also repaid the $10 million outstanding under our credit facility during the first quarter.

I would like to expand a little more on the details of the equity raise. We sold 1.8 million of our common shares at a price of $27.50 per share and issued warrants to purchase an additional 1.8 million shares of our common stock. The warrants have an exercise price of $33.60 per share, are immediately exercisable and expire in March 2019. If the warrants are exercised in full, we will receive additional proceeds of approximately $61 million.

Our liquidity increased to $75 million at the end of the first quarter, which consists of $51 million of cash on hand and $24 million of available and undrawn borrowing capacity under our revolving credit facility. As a result of our first quarter debt repayments, our remaining long-term debt obligation is $121 million of second-lien bonds that mature in December 2021. With net debt of $70 million, our leverage position at the end of the first quarter of 2018 was approximately 1x trailing 12-month adjusted EBITDA generation.

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

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

We continue seeing increasingly positive signs of growth and recovery in the oil and gas industry. There's a growing consensus that the E&P market is in balance, thanks to healthy global demand and continued production cuts. E&P spending is projected to increase 8% in 2018, following 4% growth in 2017 and preceded by consecutive years of double-digit declines. This is the first time in three years that international spending is expected to increase where our offerings are more relevant.

We are also starting to see some of our customers once again allocate budget to exploration, which has been almost nonexistent for the last three and a half years of the downturn. We continue to be optimistic about the long-term oil and gas fundamentals and eventual resumption of exploration activity due to the combination of higher oil prices, improved cash flow, declining production and unsustainably low reserve replacement rates. As we have cautioned throughout the downturn, we expect there to be a delay from the overall improvement in the oil and gas market to the revival in offshore exploration activity.

While we do not extend guidance, I will share some thoughts around why we see 2018 shaping up to be considerably better than 2017. We believe ION and our offerings are well positioned to grow nicely versus 2017 as we continue executing our asset-light strategy.

We are seeing signs of heightened activity in our business and expect increasing momentum throughout the year. The acceleration in new program activity, which is driving the growth in backlog, is the best near-term indicator of the velocity of our business. As a point of comparison, we ended the first quarter of 2017 working on 6 programs and ended the first quarter of 2018 working on 13, more than twice as many programs, and we expect to sanction another 3 to 6 programs, with at least 2 of them being sanctioned in the second quarter depending on license round timing and client appetites for new venture activity. Since the quarter closed, we sanctioned our fourth program this year, another Mexican 3D reimaging program, which we plan to announce next week in the attractive Perdido area, believed to have prolific hydrocarbon potential. This will bring our total 3D multi-client reimaging data offshore Mexico to 149,000 square kilometers. With four new programs already sanctioned this year and the fifth we expect to sanction today, we're off to a good start. Our programs typically take anywhere from 6 to 18 months to complete depending on the program size and complexity. The number of active programs is a testament to the long-term nature of these programs, and we continue to recognize revenue throughout the completion milestones.

In addition, our data library is exceptionally well positioned for the uptick in upcoming license round activity as well as for any resumption in exploration activity to replace reserves, which, pre-downturn, was a very significant business for ION. Our imaging services group strategy to focus on high-end proprietary projects is paying off. The license round management focus for E&P Advisors is not only employing new success-based business models with better returns, but also the work is technically challenging, and we're broadening our core competencies. We are also gaining traction moving into adjacent markets and commercializing our 4Sea technology.

We are highly focused and making good progress executing against our three primary long-term strategic objectives. The first objective is to shift our business closer to the reservoir, where capital is flowing, while maintaining our exploration offerings for when activity resumes. Our 3D reimaging programs offshore Mexico and Brazil have been extremely successful, and we were awarded multiple large proprietary ocean bottom imaging contracts that leverage our cutting-edge full waveform inversion algorithms to produce sharper, more detailed reservoir images. We are also seeing strong interest for a number of 4Sea components due to their ability to dramatically improve the safety and efficiency of ocean bottom imaging.

The second objective is to de-lever our balance sheet. The successful public equity offering in February 2018 was a large step forward in this regard and potentially allows us to become debt-free in the foreseeable future. The successful equity offering is not only an endorsement of our asset-light strategy, but also a recognition of the velocity in our business and our underlying value. These funds will further strengthen our balance sheet and enable us to be opportunistic and support continued diversification into adjacent markets. A portion of the $47 million net proceeds from the offering were used to retire ION's third-lien indentures of $28 million. Over the last three years, we have de-levered the business $70 million from $190 million to $120 million. The combination of the capital raised plus the potential exercise of the warrants by March 2019, along with our current liquidity and free cash flow throughout 2018, should position us with cash by early 2019 well in excess of the second-lien indentures coming due in 2021, reducing net debt to less than zero.

Our third objective is to broaden and diversify our offerings into adjacent markets. The E&P industry is extremely cyclical, and the combination of moving closer to the reservoir, de-levering and moving into adjacent markets will position us better for the next down cycle. We transformed our core command and control platform to optimize a wide variety of offshore operations. This quarter, we launched an enterprise version of Marlin that transitions from a services-led to an off-the-shelf solution. We have also solved some significant marine sensing, positioning and communication challenges with our devices technology, and we're gaining traction with these offerings in relevant adjacent markets. There is a lot more potential to diversify over the next 5 years as we strategically evaluate where to focus our efforts.

Similar to last year, we expect increasing momentum in our business throughout the year with the second half significantly stronger than the first.

In addition, we're holding an Investor Day in New York City, the morning of May 18. I want to encourage all investors to attend and meet each of our three senior operations leads and hear directly from them about each of their segments. If you're interested in attending, please reach out to Steve or send an e-mail to ir@iongeo.com. We look forward to seeing you in person then.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Colin Rusch with Oppenheimer.

Colin William Rusch ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***

Guys, can we just get into some of the customer relationships around the Marlin offering? With the rollout of the enterprise solution, how can we think about the initial applications? And how wide are those going to be? How many vessels will they be applied on? And the cadence of growing into a larger fleet deployment?

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

That's a really good question, Colin. I think that's something that we're going to learn a lot more about this year as we put the enterprise version into the marketplace. What we need to do is we need to first put it into pilot situations where companies can use it, and there's a number of different applications, as I've indicated. It could be -- for example, we're talking to a very large oil and gas company today that's looking at centralizing all of their global offshore operations -- seismic operations with Marlin. So they would build an onshore facility, and they would be able to track all the operations around the world. So that would be every vessel that's working on every survey, so it can have a fairly meaningful footprint. The same thing applies if we're going to run a pilot in a wind farm application, where all of the supply vessels, construction vessels, et cetera, for that entire wind farm would be plugged into Marlin. We have some learning to do around this, so I can't be more specific than that.

Colin William Rusch ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***

Okay. That's helpful. And then I appreciate that you guys talked about the balance sheet on the call here. But the conditions for your business, the overall macro environment and the foundation of what you guys have done over the last couple of years in terms of rightsizing the business really make it a different situation for pricing of some long-term debt. I hear commentary around the cash generation this year and getting to net cash positive. But would you pull the trigger on something around refinancing that debt because it's clearly mispriced given the risk profile of what's going on with the business right now?

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

Yes, that's not off the table, for sure. I think our target is to go -- drive to the net debt of 0 or actually build excess reserves over that. Going into the downturn, we had built up a cash reserve of about $180 million because we like to operate like that. Why I don't like to leverage in general is when we go into a downturn, our stock gets discounted tremendously. And I have seen it drop -- before that 2009 crisis, we peaked at $18, and we went to $1. And then we went through this last downturn, and the stock dropped all the way down to $0.01 on the dollar. And it's always because we're carrying leverage, and everybody doesn't think that we can handle all the leverage. So I want to make sure our balance sheet is in a position that if we start to go into a downturn again that we can retire debt and not create that uncertainty. But in the meantime, we're very cognizant of the prices of the debt, and if there's opportunities as we progress, we'll certainly examine them. I think we've always been pretty smart about managing our balance sheet.

Colin William Rusch ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***
Great. And then the last question is around -- glad to hear the commentary around new program wins and the prospects for the balance of the year. But can you talk a little bit about how you're seeing the share shift? And any potential share gains from leveraging the data library and the velocity of processing that you guys have in terms of winning clients? And how important that is on the sales process right now?

R. Brian Hanson ***ION Geophysical Corporation - President and CEO***
We don't think in terms of share when it comes to data library. What we think in terms of -- as I said on the call, is really evaluating the potential of the program and making sure we vet it thoroughly and get good underwriting to make sure that it's a successful program. And the reason I say that is we're -- it's -- we're kind of a niche business. And at $200 million of revenue, $250 million of revenue, we've told you these programs are meaningful to us, but relative to the broader E&P industry and the macro spend out there, we're very insignificant. So it's less about gaining share and more about making sure each program is very relevant.

Operator
Our next question comes from the line of Sheldon Grodsky with Grodsky Associates.

Sheldon Grodsky ***Grodsky Associates***
I'm relatively new to ION, and I noticed that you guys visited the Supreme Court in the case against Schlumberger. Could you just mention what they are seeking, what you were seeking and how the -- if you have any idea how the decision is going to come down?

R. Brian Hanson ***ION Geophysical Corporation - President and CEO***
Well, first of all, we certainly can't tell you we have an idea of how the Supreme Court is going to rule. We'll have to wait for them to rule. I'm going to redirect you back to our third -- to our fourth quarter call. If you look at the transcript there toward the end of it, I had fairly extensive prepared remarks, went into a lot of detail. I'm also going to point you to the Investor Relations section of our website, where we posted quite a bit of material on the lawsuit. And there's a significant disclosure in the Q. Outside of that, I prefer not to discuss it further on this call just because it's pending litigation.

Operator
Our next question comes from Akil Marsh with Janney.

Akil Kito Marsh ***Janney Montgomery Scott LLC, Research Division - VP of MLPs and Energy Infrastructure***
Just to clarify on the active program update. You're at 13 now. I think you mentioned you could have 3 to

6 more. So when we're thinking about -- when we get into 4Q '18, is the way to think about it that you could potentially have 16 to 19 active programs by 4Q '18?

R. Brian Hanson ***ION Geophysical Corporation - President and CEO***
There's a potential, absolutely. And you also noticed in the first quarter, we completed 3 programs and added 3 programs. And I think over time, that's what's you're going to -- it's going to kind of level off like that, where you'll see that we'll -- we're getting into more of an equilibrium, where we'll be completing programs and putting that in our data library while sanctioning new programs. And so that'll kind of level off, backlog should probably level off, and then the actual size of library will continue to expand. So for example, at the end of 2016, we had about 500,000 kilometers of data in our library. That's 2D data. And we didn't have an awful lot of 3D data. By the end of '17, we had 550,000 kilometers of 2D data, and we had completed about 165,000 square kilometers of 3D data. At the end of the first quarter now, just 90 days forward, we've added another 45,000 kilometers of data to the 2D library, so it's now at 595,000, and our 3D library is up to 190,000 square kilometers. So it -- so yes, you'll see the number of programs kind of increase and level out, and then I think you'll see just the data library will continue to expand very nicely as it has over the last 4 or 5 quarters.

Akil Kito Marsh ***Janney Montgomery Scott LLC, Research Division - VP of MLPs and Energy Infrastructure***
Great. And then in regards to your efforts to diversify in the Operations Optimization segment, there looked to be some big market size opportunities as far as E&P and offshore wind. Could you discuss broadly the competitive landscape as you enter into these new end markets?

R. Brian Hanson ***ION Geophysical Corporation - President and CEO***
Yes. What I'd like to do is set a little bit of context here. I don't want anybody to think of -- think in terms of those adjacent markets as delivering significant financial results over the next 12 or 18 months, likely to think in terms of this is a 5-year horizon. And so what we're doing is being very disciplined about evaluating which markets we want to enter. We've identified 2 specific markets. Now we're doing very extensive research on those markets. We've hired third parties to help us with this, and we've evaluated and put in place the framework to objectively analyze the opportunity and make sure we're making prudent decisions and not being opportunistic. So once we thoroughly analyzed the market, then we'll go into -- put an operational plan in place to approach those markets over the long term. So premature to talk about competition. What we want to make sure we do is we're identifying meaningfully relevant and good opportunities.

Operator
Our next question comes from the line of Andrew McLellan with Wasserstein & Co.

Andrew McLellan ***Wasserstein & Co.***
Just had 2 items. One is given the late start to customer spending in Q1, Brian, could you just provide any commentary on the Q2 and cadence of that? And the second item is just other seismic companies reported evidence of a strong recovery. Do you feel like you're getting your fair share of that recovery?

And any reason to believe that ION is better positioned than the rest?

R. Brian Hanson ***ION Geophysical Corporation - President and CEO***
Yes, I think we're extremely well positioned, and let me just make a couple of points. Instead of growing our backlog by $10 million, by getting support from new programs, if we had sold $10 million of data library and printed a $45 million a quarter and printed $10 million of EBITDA, everybody would think, "Wow, you guys had a knockout quarter." I actually think we had a better quarter than that because I'll always have that data in my library to sell. If I can attract oil company money to fund new programs, that means I'm going to drive growth for my business. So I was extremely pleased with the fact that we were able to attract that level of investment, increase our backlog $10 million, and knock out 3 new sanctioned programs in the first quarter. And coming out of the blocks here in the second quarter, the comment I'd make to you is, announcing another program next week and sanctioning another one today, a very meaningful program today, is a big deal to have. About 4 months into the year and have 5 sanctioned programs is a really strong indicator of the momentum of the business. So -- and you'll see that translate into revenue and EBITDA in the second, third and fourth quarter.

Andrew McLellan ***Wasserstein & Co.***
Great. And could you also just speak about kind of the recovery that the industry is witnessing and how kind of ION is positioned in terms of geographies and just broad diversification across different geographies?

R. Brian Hanson ***ION Geophysical Corporation - President and CEO***
You have 2 classification of companies in the industry. You've got asset light and asset heavy. And quite frankly, I don't really think you're seeing a tremendous recovery with the asset-heavy businesses in the industry even though they're talking a little more positively. Day rates are still down, and a lot of these companies are still working at cash flow breakeven levels. The asset-light companies, there's a few of us, and I think you're seeing they're having similar success. So for example, TGS has a very nice library, and they're positioned very well around the world relative to license rounds, and so their business is coming back quite nicely as well. But once again, I'll come back to my overall fundamental comment about how we look at markets, market share, et cetera. It's all about the quality of the program that we build and making sure our program passes our vetting, gets the underwriting and is in the right location. That's how you drive growth in our business.

Andrew McLellan ***Wasserstein & Co.***
One last item. As you look at the business, Brian, today versus 3 months ago, do you feel more positive or negative than 3 months ago?

R. Brian Hanson ***ION Geophysical Corporation - President and CEO***
I feel exactly the same. So from the fourth quarter call, I felt that we were going to have a considerable improvement over '17, and I feel exactly the same way. I think we got out of the block pretty good.

Operator

There are no further questions at this time. I'd like to turn the floor back over to management for closing comments.

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

Well, thank you for taking time to attend the conference call. Hope that we will see you at our Investor Day in New York, and if not, we look forward to talking to you on the second quarter call.

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines, and have a wonderful day.
