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Q3 2018 ION Geophysical Corp Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to ION Geophysical's Third Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host for today's call, Rachel White, Vice President of Corporate Communications. Thank you, you may begin.

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

Thank you, operator. Good morning, and welcome to ION's third 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, November 1, 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 - Presidentand CEO***

Thanks, Rachel, and good morning, everyone. We are disappointed with the third quarter results as the originally anticipated improvement in deal flow was impacted by 3 key factors. First, the Panama license round has yet to be announced. Second, the recently elected President in Mexico has caused the E&P industry to pause spending on new acreage and seismic data in Mexico until there is better clarity on international investment after he takes office in December. Third, the continued E&P company disciplined focus on procurement is restricting exploration spending and pushing deals into the fourth quarter, although we did have greater success in the third quarter closing some deals as compared to the first two quarters of the year. I'll speak to these factors in more detail in a few minutes.

As expected, some of the delayed second quarter transactions closed during the third quarter. While sales from our Panama and Mexico programs were pushed out, we saw strong commitments and an acceleration of activity in Brazil with our Picanha 3D reimaging

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program. Pent-up demand for data has continued to build a strong pipeline of opportunities for the fourth quarter and 2019. Absent an announcement of the Panama license round this quarter and a material amount of year-end budget spending, especially given the recent events in Mexico, we now anticipate 2018 results will be in line with or somewhat lower than 2017, due to the slow start to the year. We now believe that our EBITDA will be in the range of flat to a 25% reduction year-on-year. While long-term oil and gas fundamentals remain strong, near-term exploration spending continues to be lumpy and unpredictable. I'll discuss our outlook for the fourth quarter at the end of the call.

In our E&P Technology & Services segment, revenues were down 30% this quarter due to delays in data purchase decisions caused by the 3 previously mentioned factors. First, license rounds continued to be a key driver of multi-client sales. In the current disciplined spending environment, clients wait to purchase data until a formal public announcement has been made by the government, and the continued delay of Panama license round announcement significantly impacted our third quarter results. Absent an announcement of this license round in the fourth quarter, we anticipate the benefit of this program will be realized in 2019 and beyond.

Second, the newly elected Mexican President, López Obrador, better known as AMLO, has not been as supportive of international investment as his predecessor. Since his campaign ended, AMLO's rhetoric has become more supportive of energy forms, and we believe he is not likely to suspend upstream licensing. However, E&P companies are waiting until he takes office this December 1st to see if there will be any changes in policy or the cadence of license rounds. In addition to Panama and Brazil, Mexico is an important area of focus for our multi-client programs. So disappointingly, this will push Mexico sales into 2019 as well.

AMLO has stated that he is committed to increasing Mexico's oil production 30%, which has been steadily declining since 2004, due to a lack of investment and the natural decline of the fields. International investment and expertise are believed to be key to stemming those declines. We don't think the government will revert its policies and curtail international investment in the energy industry, especially given its demonstrated success generating $200 billion in new investments. New production is coming online in 90 awarded blocks among 68 operators. The regulatory uncertainty has temporarily stopped all new venture activity and related seismic data purchasing. Companies who hold acreage are continuing to move forward with the block commitments and development plans. Despite this temporary pause in activity, we believe there is huge long-term potential offshore Mexico to mimic the U.S. Gulf of Mexico activity over the last few decades.

Third, in our last quarter call, we cautioned that if cash preservation continued to be a higher priority than reserve replacement, as it had throughout the downturn, exploration teams would likely have to wait for year-end funds to free up to get access to data. We've seen a number of deals that we anticipated closing earlier in the year due to strong demand and support from exploration teams push out to the end of the year when budgets need to be spent. With higher oil prices and improved cash flow, we believe capital will gradually shift back over the next several quarters to fund exploration programs and replace reserves. We're seeing early signs from oil and gas customers that there will be excess budget to be spent in the fourth quarter this year.

We expected our programs in Panama and Mexico to contribute between $30 million and $40 million in the back half of the year. While sales from these 2 programs pushed out, we saw strong commitments and an acceleration of activity in Brazil with our Picanha 3D reimaging program. For example, we witnessed firsthand the conflict between exploration and procurement departments on a major Picanha deal in the second quarter. The client licensed a very small piece of the program in the last quarter of 2017 and negotiated internally for months to license the full program, finally closing the deal in the third quarter after internally reallocating budget to fund it.

We continue to believe the ongoing license rounds and farm-in opportunities in Mexico and Brazil and the anticipated Panama license round will be significant drivers of our near-term multi-client performance, potentially setting up 2019 in addition to our other programs.

Our new venture program activity remains the best near-term indicator of the velocity in our business and is up 27% year-on-year. We sanctioned 7 of the 6 to 8 new programs we expected to do this year and we currently intend to invest $30 million to $35 million in our multi-client data library in 2018. Backlog, which primarily consists of multi-client programs in progress, remained strong at $33 million.

Building on our reimaging success, we sanctioned 2 new reprocessing programs during the quarter. The first program expands on our growing data library in Mexico with a large 19,000 square kilometer reprocessing program onshore. The initial 6,500 kilometer phase of

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the Tabasco 3D program is fully underwritten and underway with initial deliverables expected in the first quarter. The second is a large 2D reimaging program offshore Nigeria.

We completed the initial phase of GrandSPAN acquisition in October. The data provides a significant uplift and will aid in prospect evaluation. We've continued to have strong client interest, setting up phase 2 nicely for next year. We also completed the north extension of our Campeche 3D reimaging program offshore Mexico during the quarter.

Our Imaging Services group's strategy to focus on higher-value, technology-driven proprietary projects improved revenue, margins and backlog. Our revenue was up 20% and our backlog was up 30% with the majority of projects utilizing higher-value ocean bottom and wave-based imaging.

Our E&P Advisors continue to be awarded an increasing amount of reservoir services work growing backlog into 2019 and are also very well positioned for upcoming license round management work.

In our Operations Optimization segment, we continue to maintain leading market share in our core software and equipment businesses, while pursuing additional opportunities for our technology and adjacent markets. Revenues were up 20% this quarter due to additional installations of Gator, ION's industry-leading ocean bottom command and control system, and continued strength in our optimization services business enabled by Marlin. Robustness in the ocean bottom market continued to drive Gator software and hardware sales. Gator is the central hub that integrates and manages data, enabling our customers to orchestrate complex multi-vessel ocean bottom operations. During the quarter, Gator was deployed on its largest ocean bottom crew ever, coordinating 20 vessels in a single offshore super crew operation.

We have been steadily establishing Marlin as the premier offshore optimization offering since launching it in 2015. We have made great strides in shifting the offshore paradigm from traditional manual processes to more efficient software-enabled workflows and are well positioned as the digitalization wave takes hold offshore. Similar to air traffic control, Marlin integrates a variety of data sources with operational plans in real-time to maximize the safety and efficiency of offshore operations.

During the quarter, we reached 108 deployments, 17 of which were active during the quarter. We successfully closed the substantial deal we mentioned last quarter for one of the largest E&P companies to use Marlin as a long-term solution for managing global offshore seismic operations and have already deployed the software in their offices. This deal includes the requirement for their subcontractors to also use Marlin and our optimization services personnel. Following success in seismic operations, the customer intends to more broadly deploy the software on other offshore operations.

In our latest Marlin release in September, we moved our private cloud hosting capability from Marlin data synchronization to a more scalable Amazon Web Service delivery. At the request of our customers, we also fully virtualized Marlin to deliver the application under a software-as-a-service model where the software is available via a web browser. Historically, our command-and-control installations required complex behind-the-firewall IT infrastructure. To enable wider and more rapid take-up of Marlin, we now have a fully featured SaaS application running in the cloud, which has already led to increased office and field-based opportunities.

In our Ocean Bottom Integrated Technologies group, we are gaining traction bringing our fully integrated seabed system, 4Sea, to market through asset light business models. We are offering 4Sea components more broadly to the growing number of OBS service providers under recurring revenue commercial strategies that enable us to share in the value our technology delivers.

During the quarter, we made significant progress on the automated back deck deployment and retrieval system. We completed the majority of the engineering and provided compelling demonstrations to potential customers in Norway with our joint marketing partner. The system is designed to significantly improve the efficiency of ocean bottom operations by accelerating node deployment and retrieval. Typically, the industry operates at less than 2 knots. Our system is designed to run at 5 knots. In September, we successfully demonstrated the system running at 3 knots with nodes. However, due to testing facility limitations, the 5 knot demonstration was achieved without nodes. We are updating the testing facility to do the full 5 knot deployment and retrieval demonstration with nodes during the fourth quarter. This could be a significant game-changer by dramatically improving the economics of what today are fairly

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expensive surveys.

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

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

Thanks, Brian. Good morning, everyone. Our total third quarter revenues were down 23% compared to the third quarter of 2017. Revenues in our E&P Technology & Services segment decreased by 30%, while revenues in our Operations Optimization segment increased by 20%. Within E&P Technology & Services, our new venture revenues were $18 million, a decrease of 58%. Partially offsetting the decline in new venture revenues was an increase in our data library and Imaging Services revenues. Our data library revenues were $14 million, up 177%, mainly due to sales of the recently completed phase of our Brazil 3D reimaging program, along with sales of our India 2D data library. Our Imaging Services revenues were $4 million, up 20%, the result of a continued increase in proprietary ocean bottom imaging projects.

Within the Operations Optimization segment, Optimization Software & Services revenues were $6 million, a 46% increase from the third quarter of 2017. The increase in Optimization Software & Services revenues was due to continued increases in Gator ocean bottom command-and-control deployments. Devices revenues were $5 million, a slight increase from the third quarter of 2017.

Overall, we reported a net loss for the third quarter of $8 million or $0.54 per share compared to net income of $5 million or $0.41 per share in the third quarter of 2017.

Our adjusted EBITDA was $13 million in the third quarter of 2018, but was down from $27 million in the third quarter of 2017.

Net cash flow from operations during the quarter was a use of cash of $7 million compared to a generation of cash of $6 million during the third quarter of 2017. Including both investing and financing activities, we consumed $14 million of cash in the third quarter of 2018 compared to a consumption of $3 million one year ago.

During the quarter, we extended the maturity of our revolving credit facility by approximately 4 years. Our credit facility was set to mature less than a year from now, but will now mature in August 2023, subject to the successful retirement or extension of the maturity date of our second lien debt that matures in December 2021. As part of the extension, we increased the size of the facility from a maximum of $40 million to a maximum of $50 million. We also increased the overall borrowing base of the facility by raising the amount of borrowing capacity attributable to our multi-client data library and by including certain foreign receivables that are now eligible as collateral under the facility. At September 30, 2018, available borrowing capacity under the credit facility was $43 million, of which none was drawn.

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

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

Thanks, Steve. We continue to be optimistic about long-term oil and gas fundamentals and the eventual resumption of exploration activity due to the combination of higher oil prices, improved cash flow and unsustainably low reserve replacement rates. While we are disappointed with the number of closed deals in the quarter, we recognize our business has a history of being lumpy and are encouraged by the overall activity levels. There is a strong pipeline of opportunities and pent-up demand for multi-client data to evaluate license round opportunities, which is potentially setting up our fourth quarter and 2019 to be very strong. While we're certainly not giving up on the year, if the Panama license round is not announced in the fourth quarter, the benefit of our Panama and Mexico programs will be pushed into 2019. If this occurs, we will be relying on strong fourth quarter budget spending to exceed 2017 levels of EBITDA.

Before we open it up for questions, I'd like to take a minute to speak about our long-term incentive plan or LTIP for short. We were one of the first to act in the downturn, quickly and deeply streamlining the business. Since then, we've worked hard to maintain the $100 million of annualized cost we've taken out of business. This includes freezing merit increases for 3 years in a row and 2 years of salary reductions. We also haven't issued equity under our LTIP in almost 3 years, except in very limited cases involving new hires or promotions that would reduce our cash outlay. Given that, virtually all the equity we have issued to our employees will finish vesting on this coming March 1, 2019.

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Now we're seeing the market pick up, and it's critical to keep our key employees in place. Our executive team is starting to get attractive offers, and we're already intervening to stem attrition in our middle management. Equity-based awards provide value to our shareholders by allowing us to attract and retain first-rate talent, while tying our employees' financial compensation to the performance of the company. Our board and I believe it is very important for our employees, especially our key employees, to have skin in the game.

I am proposing, and shareholders will be receiving more details about this shortly in our proxy statement, that we replenish our LTIP in a way that is beneficial to our shareholders. We engaged Aon Hewitt, a leading compensation consultant, to analyze our compensation program relative to industry practice and they concluded our current pool is insufficient to adequately attract and retain first-rate talent. Their analysis showed that to attract and retain top talent under an ISS-compliant plan, it would require us to make an annual grant of approximately 800,000 shares comprised of stock options and restricted stock awards, which over 3 years would require an additional 2.4 million shares for the LTIP. However, Aon Hewitt recommended a more creative non-compliant option that would require half as many shares to achieve the same result. Under this approach, we would grant all awards as performance-based restricted stock rather than having to make 2/3 of the grants of stock options as is typically pushed by ISS and Glass Lewis and contemplated by our current plan. ISS and Glass Lewis, 2 independent proxy advisory firms, like to require that a certain amount of shares be dedicated to stock options, so that the recipients don't benefit unless the stock price increases. Standard practice is to award restricted stock that vests over time regardless of the stock's performance and to couple that with stock options that are worthless if the stock doesn't appreciate.

We are not only going to propose that the restricted shares vest over a 3-year term as is traditional practice, but also that the restricted shares vest based on very aggressive performance triggers. The tranche that vests after one year must have a share price increase of 25% from the grant date. The tranche that vests after 2 years must have a share price increase of 50%, and the final tranche that vests after 3 years must have a share price increase of 75%. Essentially, this creates an award that behaves both as a restricted share and as a stock option that makes the value of the award per share higher than a stock option, but only if the performance triggers are satisfied. It is a creative option to bring our employees' compensation up to market levels suggested by Aon Hewitt, while at the same time requiring fewer shares to be used from the LTIP. So while the proposal will be considered outside of the guidelines of ISS and Glass Lewis, we estimate we will have to issue half as many shares for the same outcome with this approach over the next 3 years.

We are following Aon Hewitt's recommendation to ask you, our shareholders, to approve another 1.2 million shares of restricted stock, so we can continue to provide appropriate stock-based incentives to our employees. We're going to ask once for equity to incentivize our leadership team for the next 3 years. This isn't something we do often. The last time we asked to increase the share pool was in 2015. We plan to issue 900,000 shares now and save 300,000 shares for new hires and promotions. I intend for these awards to be time and performance vested so our interests are directly aligned with shareholders. Our employees won't be rewarded unless they stay at ION and help drive the stock price up for our shareholders.

We're holding a special meeting November 30 to request this increase in the number of shares available on our LTIP. We have to be able to compete to attract and retain the best and brightest, especially in our industry, which is cyclical by nature. I ask that you support this initiative on November 30. More details will be in the proxy statement. I'd like to extend an open invitation to call me to discuss this compensation proposal in more detail.

And with that, we'll turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

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

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

I just want to make sure I heard the guidance for the fourth quarter right. You're talking about 2018 EBITDA being flat to down 25%. So that would imply something on the order of at least $43 million of EBITDA on the fourth quarter. Am I doing that math right?

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R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

We're not to give you exact numbers because there's a -- you could drive a truck through the brackets on this one. But I think, in a kind of a worse case scenario, where Panama doesn't get announced, we don't have good budget spending at the end of the year and everything, I think we'd be down about 25% on -- but I also think that there is a strong possibility we're going to have very good budget spending in the fourth quarter, and we have the ability to beat 2017 EBITDA levels as well. I mean, the pipeline of activity, Colin, is, I've never seen it as large, it just continues to build and the frustration level is really getting it through the procurement process. And that used to freeze up and gets a little bit easier by the end of the year. The other thing I'd say is, we're seeing early indications from several oil and gas customers that they do have budget and some of them are actually even increasing their capital budgets to participate in this process at the end of the year. So like I said, you could drive a truck through this one.

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

Okay. And then, the second question is really on working capital. We had pretty significant cash consumption for the quarter in the working capital. Can you talk about how that unwinds? And how quickly?

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

Thanks, Colin. This is Steve. I think working capital for us, when you look at our revenue steam, it happens late in the quarter. So really the working capital draw is the timing of Q2 revenues, collections and then Q3 revenues. So I think as our -- as we see Q4 unfold, we would hope that the cash balance would build a little bit. But it all depends on the timing of the revenue stream from here. I think another -- the real thing we look at when we look at managing the business is our liquidity. And our liquidity is up quarter-to-quarter, significantly up over the prior year. So I think we're in good shape from a liquidity perspective. The increase in revenues from Q3 to Q2, that increase in revenue will drive collections towards the latter part of Q4 and will increase our cash balance. So working capital starts to get relieved in the fourth quarter and then benefits further in the first quarter from a strong fourth quarter.

Operator

(Operator Instructions) Our next question is from David Steinberg with DLS Capital.

David Lee Steinberg ***DLS Capital Management LLC - Founder, Managing Partner, and Managing Member***

There must be a frustration from yourselves and us for the sort of delays. Let me ask you a question on longer-term front. Of course, the company has been transformed quite a bit in the last 5 years. Is it fair to expect as the general service business, let's just say, the general -- the drillers and so forth, their business expands by 40%, 50% on a recovery, that we'd see something in the revenue related to that or maybe even greater? Or how do you guys see how you're going to participate along as you get a rebound here? I mean, just given the changes that have taken place over the last 5 years and the restructurings of the various businesses with that.

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

That's a hard question to answer mathematically. I can tell you that our sense is, there's just a tremendous build up in demand. It's almost like we're a race horse being held back. And I think that when the capital budget gets allocated, things are going to accelerate quite nicely.

David Lee Steinberg ***DLS Capital Management LLC - Founder, Managing Partner, and Managing Member***

So there's nothing about the strategic change in the way the business is at that would make an investor or somebody suspect that you're not going to have some beta that's near or around the direction of the general -- that general growth of the service business? In other words, the company is not significantly different.

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

No. I think the company is significantly different and very well positioned. If you take a look at who we are today, we're very much a data and software company positioned to oil and gas customers. If you went back a half a dozen years, we had a significant mix of our business in the equipment side of seismic that we were selling into contractors. But contractors today are not strong customers and their businesses are not necessarily rebounding the same way. So they don't write nice check with great margins. So I think we're positioned very nicely for the recovery and for the ultimate resumption of spending in exploration.

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Operator

Our next question is from Phyllis Camara with Pax Asset Management.

Phyllis Camara ***Pax World Management - Analyst***

I just had a question about the 3D seismic that you guys are doing. I know traditionally you've been offshore. Can you take that onshore? I'm seeing oil and gas is doing a lot more 3D seismic onshore than they ever have before. Is your -- can you move what you do onshore and take advantage with some of that?

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

Yes, absolutely, Phyllis. In fact, in this call, we announced the Tabasco 3D program that we're doing in Mexico. It's 19,000 square kilometers. It's a very large program. And it's not just onshore, it's complementary to our offshore program because the offshore extends onshore. So absolutely is the answer.

Phyllis Camara ***Pax World Management - Analyst***

Okay, great. Do you -- would you basically be competing with the Schlumbergers of the world onshore as well? Or is there anybody else that really has a large market share onshore that you would be competing with?

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

There is a number of smaller participants onshore, but Schlumberger is absolutely a participant and either a collaborator or a direct competitor depending on the program. Sometimes we partner...

Phyllis Camara ***Pax World Management - Analyst***

Sorry, go ahead.

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

Sometimes we partner with Schlumberger.

Phyllis Camara ***Pax World Management - Analyst***

Right. Yes, I thought you have in the past and still are partnering with WesternGeco being owned by Schlumberger. How is the lawsuit progressing? Can you give us an update on that?

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

I can. Actually I have some legally approved prepared remarks, which I'll repeat. The General Counsel is definitely unmuting now.

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

Thank you for your question. Regarding the litigation, here's a brief update. In July, right around the time of our last earnings call, the Supreme Court returned the case to the Federal Circuit. And the Federal Circuit ordered us and WesternGeco to submit briefs on what damages, if any, WesternGeco is entitled to in light of the Supreme Court's decision in June. Our position, obviously, is that WesternGeco is entitled to no additional damages. One, because they weren't our direct competitor in the manner required by the jury instructions. And two, because in a parallel case that had nothing to do with the Supreme Court's recent decision, the Fed Circuit ruled in May that 4 of the 6 patent claims that underpin the trial court's award of damages were invalid. Meaning, they never should have been granted by the patent and trademark office. Because of the finding of invalidity, we believe and we argued in our brief to the Federal Circuit that we need a new trial for the $20 million in royalties we already paid and that WesternGeco should have to repay those damages to us pending a new trial. We also argued that lost profits shouldn't be available. WesternGeco argued that they're entitled to all the lost profits ordered by the District Court and that the invalidation of the patents should have no effect on either lost profits or on the royalties we already paid. The Federal Circuit scheduled oral arguments for November 16. We believe we're right and are hopeful that the Fed Circuit will throw out lost profits and give us a chance to reargue the royalties we already paid in light of their finding it invalidity.

Phyllis Camara ***Pax World Management - Analyst***

Okay. So November 16 is when you guys are going to -- will start the process over again with the courts?

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R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

We're going to do oral arguments at the Fed Circuit November 16.

Phyllis Camara ***Pax World Management - Analyst***

Okay, okay. All right. That's good to know. And then last question on Marlin. I know that you've talked before that other types of businesses than just oil and gas could certainly use Marlin. And it sounds like for shipping and that type of thing, you've been able to get tests with the system. Do we have any other signs of when potentially sales could go through with that, with the Marlin system? And if somebody like a large shipper or a large owner of VLCCs wanted your service, what kind of revenues could we expect from something like that? Could you give us an idea about that?

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

That's a really difficult -- the last part of your question is very difficult for me to tell you at this point in time. Let me tell you what we have done. We've spent a full year engaged with outside consultants and done a fairly comprehensive and exhaustive study of what we would consider to be sort of the maritime optimization marketplace. Meaning, looking at wind farms, looking at ports and harbors, looking at ports to platform type services, really analyzing them, understanding what's available in the marketplace, who is participating, where the gaps are, what the revenue potentials are potentially, and does it make sense for us to penetrate and in what form or format Marlin should take to do that. So we've got a fairly, I'd say a very comprehensive analysis. And it's ironic you asked this question because yesterday was the day we sort of finally went through and buttoned down exactly what our strategy is going to be relative to each of those opportunities. So now, it's a matter of really engaging and executing in a very disciplined way. And I think that's really what 2019 will be about. So in those areas, I would expect, we will probably be rolling out pilots to certain service providers in those areas and try to get more traction around Marlin there. But the good news is, we're getting great traction with Marlin in the E&P space, and it feels very much that we've got a couple of very large deals right now and it feels very much like we're close to penetrating the production side of the E&P space, which is pretty huge when you think about production and supply vessels and all that.

Phyllis Camara ***Pax World Management - Analyst***

Right. Yes. That would be. Do you -- did you have to hire new people to do this? Or I mean, an increase to your cost in order to have the right people to sell this product to the E&P companies or anybody else out there?

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

To a limited extent, yes, we did increase our resources. We've slowly increased our resources the last couple of years around Marlin. First, on the development side, now a little bit on the business development side. And I expect that in 2019, we'll be increasing our resources yet again as we bring on industry-specific experts that would be able to target the areas that we've identified outside of oil and gas.

Phyllis Camara ***Pax World Management - Analyst***

Okay, okay. And then, last question for me. And I was kind of off and on when you were talking about the annual grant of new shares and that type of thing. Are you going to actually issue new shares? Are you going to try and buy in shares that are outstanding already and hold those for new employees and employee grants or -- I didn't catch that.

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

So we are filing a proxy to request our shareholders issue 1.2 million shares into our long-term incentive plan.

Operator

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

R. Brian Hanson ***ION Geophysical Corporation - Presidentand CEO***

Well, thank you for taking the time to attend the conference call. And we look forward to talking to you on our fourth 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.

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