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# ION Geophysical Corp. (IO)

## Q3 2020 Earnings Call

# CORPORATE PARTICIPANTS

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**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*

**Michael L. Morrison**
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# OTHER PARTICIPANTS

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**Joe Beninati**
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# MANAGEMENT DISCUSSION SECTION

**Operator**: Greetings, and welcome to the ION Geophysical Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Rachel White, Vice President, Corporate Communications. Thank you. You may begin.

## Rachel White
*Vice President, Investor Relations & Strategy Execution, ION Geophysical Corp.*

Good morning, and welcome to ION's Third Quarter 2020 earnings conference call. We appreciate your joining us today. As indicated on slide 2, our hosts today are Chris Usher, President and Chief Executive Officer; and Mike Morrison, Executive Vice President and Chief Financial Officer.

We'll be using slides to accompany today's call, which are accessible via link on our website, iongeo.com. There you'll also find a replay of today's call.

Before we begin, let me remind you that certain statements made during this call may constitute forward-looking statements. These statements are subject to various risks and uncertainties, including those detailed in our latest 10-K and other SEC filings, which may cause our results or performance to differ materially from those projected in these statements.

Our remarks today may also include non-GAAP financial measures. Additional details regarding these non-GAAP financial measures, including reconciliations to the most directly comparable GAAP financial measures, can be found in our earnings release issued yesterday.

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

## Christopher Theron Usher

*President & Chief Executive Officer, ION Geophysical Corp.*

Thank you, Rachel. Good morning, everyone. Thanks again for joining us.

Today, I'll discuss our third quarter performance, strategy execution progress, and operational highlights. Mike will elaborate on our financial results and fourth quarter expectations. Then I'll wrap up with our outlook and strategy to succeed in a difficult market.

Our third quarter results were negatively impacted by continued challenging industry conditions which began to more fully reflect the E&P budget reductions announced this spring. While spending and activity levels quickly slowed during the second quarter, E&P companies remained committed to a number of existing projects while restructuring their organizations and revising their budgets. This quarter, however, the underlying impact of reduced budgets began to take full effect with curtailed spending. Our strategic moves to scale our asset-light business to better align with anticipated lower demand enabled us to partially mitigate the impact to our third quarter results as we fully realized the structural changes and associated cost reductions we outlined earlier this year.

Despite the macro economic backdrop, we made significant progress executing our strategy during the third quarter. I'd like to thank our employees for their dedication to achieve these milestones. A major highlight was increasing backlog by nearly 80% sequentially, which reversed several consecutive quarters of steady decline. More specifically, we acquired the initial phase of our Mid North Sea High 3D multi-client program and built backlog for the significantly larger second phase next summer. We also commercialized our proprietary Gemini extended frequency source technology, a key ingredient for improving 3D subsurface imaging in complex geological settings.

In addition, we are seeing increasing traction of our offshore optimization software, Marlin, outside of our core market displaying the end market diversification of our technology. Notably, our team is engaged in four trials for ports and port-to-platform logistics and, based on the positive response, we believe we are well-positioned for several additional trials and tenders. In fact, we were just awarded a highly competitive bid to provide a port management system for a series of UK ports.

We also continue to benefit from our digital approach. For example, we applied machine learning for the first time to process large volumes of our Picanha 3D multi-client data more efficiently and cost effectively, which is key for our year-end deals we are targeting. We also deployed new automated source and vessel steering technology using artificial intelligence to improve imaging of reservoir fluid movements over time.

In our E&P Technology & Services business, we achieved one of our top strategic objectives this year to enter the 3D new acquisition multi-client data market. Historically, our data library was largely 2D and exploration-focused, which limited our revenues to about 3% of an expansive $2 billion to $3 billion offshore multi-client market. Importantly, this portfolio diversification to 3D further shifts new project investment closer to the reservoir, where capital investment tends to be more consistent and programs have larger scale revenue and earnings potential. We believe we can materially increase our share of this market even without an improvement in industry conditions.

The initial phase of our new 3D multi-client program in the North Sea was acquired by our partner Shearwater GeoServices safely and ahead of schedule during the quarter. While the majority of the 11,000 square kilometer industry supported survey will be acquired next summer, completing this initial phase will enable us to finish the entire program by the end of the 2021 season. The survey covers one of the last underexplored sections of the prolific UK continental shelf, where there is limited modern 3D data. Recent play opening drilling ignited interest in this area, which is close to shore and existing infrastructure, making it attractive for investment. Since the program launched, additional acreage was awarded within the survey area, reinforcing the value of the asset and increasing the potential client base for our program.

The survey is located in a busy offshore area where fisheries, new wind farm construction and E&P operations are all co-mingled. Utilizing our Marlin and Orca software, we planned the project using an innovative digital methodology that takes into consideration ocean currents and nearby operations to make better decisions in real-time. This assured maximum data collection during the available 2020 season and more uniform subsurface coverage. We are processing the data for delivery in April and are looking forward to the second phase next summer. Besides the aforementioned benefits of our Operations Optimization software, we are also investigating a secondary use of our seismic data to provide wind farm operators additional geohazard insights.

In late June, we announced a global 2D data collaboration agreement with PGS to provide E&P companies an efficient way to identify and high-grade attractive frontier investment opportunities. Since then, the partnership has been progressing well and I've been really pleased with the high levels of engagement. Jointly marketing the nearly 1 million kilometers of data increases both companies' sales reach and efficiency while broadening and diversifying our exposure to data library deals globally. In the spirit of the agreement, we're also collaborating on multiple license round packages and considering new joint 2D programs.

This quarter we also commercialized our proprietary Gemini extended frequency source technology following a successful survey deployment in the Gulf of Mexico. The new source technology addresses the need for improved imaging and complex geologies to de-risk investments where significant CapEx is still flowing. Even in the current market, some of the most attractive E&P investment areas are in complex geological settings where accurate imaging is essential for cost effective oil and gas extraction.

We've been pleased with E&P customer support during Gemini's development and their advocacy now for rapid industry adoption to address challenging prospects in their portfolios by specifying the use of Gemini in a number of tenders. This important ingredient to enhancing subsurface knowledge differentiates ION as we expand into the larger 3D multi-client new acquisition market while maintaining our asset light approach.

In our Operations Optimization group, our client base has seen a reduction in offshore seismic activity compared to a year ago with only 40% of the fleet utilized. However, activity has started to improve slightly towards the end of the quarter.

During industry downturns, the majority of our software revenue stems from large multi-year command and control subscriptions. In spite of the distress market, we secured extensions of three such contracts this quarter adding to four earlier this year.

While we have been focused on driving adoption of our offerings outside of our core markets for some time, it has become increasingly important given the slowdown in seismic activity. We are leveraging our technologies and core competencies across Software and Devices to optimize decision making in new markets such as port and cargo transit optimization and port security; port-to-platform, wind farm construction and other offshore energy logistics; as well as real-time offshore infrastructure monitoring.

In our Software group, we had several Marlin trials underway this quarter for both ports and port-to-platform logistics. Our near-term focus is to demonstrate the value of our pilot projects and, based on the high levels of customer engagement and positive feedback, we are hopeful we'll convert these projects into paid subscriptions to generate near-term revenue. We are discussing additional maritime logistic trials with large national oil companies and believe we are well positioned for multiple tenders. Between the trials and tenders, we have qualified a substantial deal pipeline worth around $5 million in annual revenue and continue to build new connections through our outreach efforts.

I believe that the tender award I mentioned earlier is a validation of our progress. We will deploy Marlin SmartPort before the end of the year as a comprehensive port management system for a UK operator of a significant number of small ports and ferry terminals. Our team is very excited about this milestone, which brings us closer to crossing the chasm.

We are optimistic about accelerating adoption given the range of value cases uncovered through these trials and deployments. For instance, this quarter we quantified how one client's vessel schedule deviated from the original plan by 40% and spent significant time at standby. Using Marlin route optimization, clients can minimize fuel consumption, decrease emissions and ensure vessels operate with just-in-time efficiency.

During the quarter, we launched new automated source and vessel steering technology from our Software and Devices groups that delivered significant improvement in 4D seismic repeatability. To maximize production, E&P companies conduct 4D or time lapse surveys over reservoirs to track hydrocarbon movement over time. To accurately image changes in reservoir fluid, seismic surveys need to be repeated as closely as possible. Modern seabed deployment methods have improved receiver repeatability and we now have an innovative solution leveraging artificial intelligence that addresses source repeatability challenges. We achieved a 50% closer match to the desired positions using fully automated source and vessel steering.

In our Devices group, we are progressing two promising adjacent market initiatives that are synergistic with our Software business and have the potential to accelerate our diversification efforts across Operations Optimization. Our initial focus is to develop real time monitoring solutions for the increasing amount of aging offshore infrastructure and decommissioning initiatives. It appeals to E&P companies desire to improve the safety and reduce the environmental risks of offshore oil and gas operation and aligns with our focus to provide data and analytics to enhance decision making.

Today most regulators require subsea infrastructure to be inspected periodically, which varies from months to years. It's typically an expensive cursory inspection with high levels of uncertainty. With advancements in technology, there is an opportunity to cost effectively shift from reactive to proactive systems that provide much more frequent, accurate measurements to ensure a safe operating environment.

We have advanced one promising concept under our new WellAlert branding, which has been in development for a year, and is attracting strong interest from the E&P companies. We are rapidly developing a prototype and have line of sight on promising operator funding for sea trials in 2021.

We continue to develop interest in our demonstrated port security capability to proactively detect and intelligently manage potential security threats. It's a longer wavelength business development cycle with defense customers.

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

## Michael L. Morrison

*Chief Financial Officer & Executive Vice President, ION Geophysical Corp.*

Thanks Chris. Good morning everyone. Before I cover our third quarter results, I'd like to reiterate that we are focused on managing what is within our control. As a reminder we scaled back our flexible asset light cost structure earlier this year by implementing almost $40 million of cost savings through a combination of permanent and temporary reductions. We are now fully benefiting from these efforts. The significance of which is highlighted in our year to-date results. While our year to date revenues of $95 million declined by $37 million from last year, our year-to-date net loss improved by $10 million.

Moving on to our third quarter results. Our third quarter revenues of $16 million were down 29% sequentially and 70% versus the prior year. In our E&P Technology & Services segment, revenues declined 34% sequentially and 75% year-on-year, primarily due to lower multi-client data library sales, some of which were postponed and remain in our near-term pipeline. However, our E&P Technology & Services backlog increased nearly 80% sequentially to $18 million, reversing several consecutive quarters of steady decline. We attribute this increase to our strategic shift to enter the 3D new acquisition multi-client market.

Our Operations Optimization segment revenues decreased 18% sequentially and 53% compared to last year. Within this segment, our Optimization Software and Services revenues declined 11% sequentially primarily due to continued reduced seismic activity and associated services demand resulting from COVID-19. The long-term command and control software contracts we have in place in our core market help to insulate our business and provide stability during periods of lower activity. While we don't treat our long-term Software contracts as backlog, so far this year, we have extended seven key multi-year deals worth over $5 million annually. Our Devices revenues decreased 24% sequentially due to continued reduced sales of towed streamer equipment spares and repairs.

As a result of our lower second quarter revenues, we expected to consume some of the cash in the third quarter. Cash decreased by $11 million sequentially, but is on par with our cash balances from a year ago, excluding our net revolver borrowings. Our cash balance was $51 million including $23 million from our revolver. Our total liquidity, defined as a combination of cash balance and the available borrowing capacity under our revolving credit facility, was $59 million, modestly below the $66 million from one year ago.

We previously disclosed and still expect to close on the $12 million sale of our 49% equity stake in the non-strategic INOVA joint venture. However, the regulatory review is taking longer than anticipated and will likely extend into 2021.

We continue to work with our banking advisors to develop and execute a strategic plan to proactively address our bond well ahead of its scheduled maturity in December 2021. We continue negotiating with our largest bondholder and have made significant progress since our last call. While our focus remains on resolving the up and coming maturity in the near-term, the process may extend beyond the end of this year.

Lastly, while we do not normally supply forward-looking revenue guidance, we believe it's important to provide investors a near-term outlook on our business where possible during these uncertain times. We anticipate a substantial sequential improvement in our fourth quarter results. Specifically, we expect fourth quarter revenues to be significantly better than our second quarter, and under the right conditions, could even approach our fourth quarter revenues from last year.

With that I'll turn it back to Chris.

### Christopher Theron Usher

*President & Chief Executive Officer, ION Geophysical Corp.*

Thanks, Mike. In summary, I'm pleased with the strategic achievements we've made this year in spite of the challenging market backdrop combined with a 30% reduction in our cost structure. As described, both business segments are singularly focused on diversifying into larger markets. We entered the 3D new acquisition multi-client market and have demonstrated traction with our Marlin software business.

Looking ahead, while we expect the market will remain challenging in the near-term, we are seeing a number of positive developments. Oil prices have stabilized and clients are settling into their new roles with more clearly defined budgets to high-grade offshore reserves. Based on high levels of engagement on specific deals for the current quarter, including deals pushed from Q3 as Mike mentioned, we are expecting a substantial sequential improvement in our fourth quarter revenues. However, our visibility into 2021 remains limited due to the uncertain and fluid COVID disruptions.

The E&P industry is in a state of flux as companies digest the energy transition, evaluate its impact to oil and gas and carve out diverse strategies accordingly. Within oil and gas, E&P companies will seek to rebalance their portfolios in geographies with lower cost barrels, better fiscal regimes, and lower carbon footprint. These diverse strategies, along with associated M&A activity, will create opportunities for new entrants and for us to license data to a new set of clients. And there is a clear focus on reducing costs across the sector, augmented by real benefits from digitalization initiatives.

We believe long-term oil and gas fundamentals are strong and that significant exploration and development will be required to meet the world's energy needs for some time. In fact, given the pandemic's potential impact on peak oil timing, it may accelerate some E&P Majors' return to more active exploration to capture the best assets.

The E&P industry will remain important to ION and we are continuing to develop relevant solutions more broadly across the E&P lifecycle, leveraging technology to improve decision-making and efficiency. We see Operations Optimization solutions, such as our Marlin suite, becoming increasingly important where reducing risk, minimizing environmental impact and improving efficiency are driving value creation in seismic, energy logistics and ports. We're venturing outside of E&P where our technology and capability have the potential to create value while also adapting our E&P based offerings to the anticipated needs of the E&P market as we see it evolving.

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

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. Ladies and gentlemen at this time we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Amit Dayal with H.C. Wainwright. Please proceed with your question.

**Amit Dayal**
*Analyst, H. C. Wainwright & Co. LLC*

Q

Thank you. Good morning everyone. Just beginning with the outlook for the fourth quarter, what are the factors that could bring you to levels that we saw maybe in 4Q 2019? Is there any particular deal that needs to close to help you get to the 4Q 2019 levels? Any color on that front would be helpful. Thank you.

**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*

A

Yeah. Amit, thank you so much for joining. Yeah, I think we have – I think two things. I think we have the part of the pipeline from Q3 just shift into Q4 which Mike mentioned, which had some significant deals in it that – that's been the thing all year long as we're talking to people and deals keep moving, but there's focused interest on certain parts of our data library for their strategy. So it's a question of when budgets free up for those teams. So we have that and then we have new ones in Q4 that we've also been nurturing that it really kind of come live in Q4, which will also be subject to those companies releasing budgets. So key trigger for all of those deals will be basically spare budget being released, giving their outlook to have for next year. So – and what they have not spent this year. So – and that's a normal Q4 phenomenon anyway and I think we have a sense that could happen this year from talking to an array of customers. And we have a couple chunkier deals in the pipeline that we've been nurturing for some time that are tied to data availability in Q4 which is around our Picanha, Brazil 3D dataset which drives a lot of our sales annually anyway. So those are kind of the key drivers there.

**Amit Dayal**
*Analyst, H. C. Wainwright & Co. LLC*

Q

Is that sort of a indication of activity like you mentioned in your prepared remarks picking up for your end markets and customers? Do you think this momentum potentially continues barring sort of any severe disruption from the pandemic resurgence [indiscernible] (00:20:02)

**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*

A

Yeah. I think it's a muted improvement. I think what's happening is the peoples' strategies are setting in, in the new world. And they are then – they put budgets in place and have been cautious in spending them. So for – through the end of this year, some of that budget may actually get, be freed up to be spent, particularly on data. And then going into 2021, it's hard to say obviously, but I do think if oil price stabilizes, then I think you're going to see people sticking to budgets.

And I think one of the things that's happening is people realized that through the pandemic impact that the maybe peak oil has even moved closer, which means that if you're going to change your strategy and find the right reserves and the right places, the lowest cost barrels and all that, that you need to do that pretty quickly, which means you need to spend on data and exploration in general to make sure you can find those reserves and get them online and produce them as [ph] if (00:20:59) demand is still increasing up to the peak. So to make the best of that macro scenario. So I think we're hearing that from some oil companies that have the balance sheets that they are thinking about moving exploration up next year and accelerating their search for these new heartlands or new locations.

**Amit Dayal**
*Analyst, H. C. Wainwright & Co. LLC*
Q

Understood. And as a part of this outlook, Chris we're seeing more success I guess this year with international opportunities, do you think next year, there is going to be more pick up in sort of [ph] your US (00:21:29) business?

**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*
A

Well, to be honest most of our – since we're offshore focused, there is, except for the Gulf of Mexico, where we don't have a huge lot. We only have a 2D library footprint. We don't have a 3D library footprint per se. Our exposure to US is pretty low. We have a lot more exposure in our library to the Southern Hemisphere Americas and West Africa and Europe now with our Mid North Sea High. So we're less dependent on the US activity, but we do partner with people in the Gulf of Mexico and we do have our Mexican Gulf of Mexico asset jointly with WesternGeco. So, but that's been given the Mexico situation there, with a hiatus on exploration, there is – there hasn't been a lot of activity on that part of the library for some time. So it's really going to be the international piece. And as activity does pick up in the Gulf of Mexico, which I do think it will, the ability to work through partners there with our Gemini seismic source, we had that successful trial in the quarter. And one of our peer companies, a larger data company did mention the success of that approach and the need for that kind of approach going forward, we would partner with companies like that to deliver our Gemini source as part of the equation. So we could participate that way as well.

**Amit Dayal**
*Analyst, H. C. Wainwright & Co. LLC*
Q

Okay. One positive surprise I guess [indiscernible] (00:22:57) was this $5 million in software sales that you are already generating on an annual basis. I just wanted to clarify, this is not part of your Operations Optimization segment, or the traditional services you offered under that segment. Could you clarify what this is and...

**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*
A

Yeah, absolutely. So Amit that's not current $5 million. That's line of sight on tenders and pilots we can convert to revenue. So we're looking at the things we're participating in right now through the end of the year. We think there is a – we have visibility on $5 million of recurring subscription revenue if we were to land tender A, B and C and convert a certain trial we have going here into revenue.

We've got a trial going with a large port in East Africa and we're getting exposure to other larger ports in East Africa. So those – with the kind of subscription rates we see for large port Marlin revenue that would be pretty significant. And then some of the tenders we're participating on in the Middle East around optimization, non-seismic, outside of our core market, vessel optimization are significant too. They're kind of million dollar level kind of opportunities. So we have line of sight, and then for pipeline of things we can convert. So it's not existing revenue yet but we're -

**Amit Dayal**
*Analyst, H. C. Wainwright & Co. LLC*

Q

Understood.

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**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*

A

Yeah. Given the award we had just the other day, with actually the beginning of this week with the UK ports I mentioned, that's giving us encouragement that we have something that's absolutely fit for purpose right now. And as tenders come – and the fact that people are tendering for port management solutions also indicates that we're at the right place at the right time because that wasn't really happening before. So people are realizing the need for these kind of sophisticated software solutions to improve performance of ports. So it's kind of getting close to crossing the chasm situation.

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**Amit Dayal**
*Analyst, H. C. Wainwright & Co. LLC*

Q

So two follow-ups to that question. One is, could you give us a sense of it's going from what to potentially $5 million? And is this $5 million you are hoping to convert in sort of the next 12 months to 18 months?

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**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*

A

Yeah. I think the latter is what you just said is true. So we have very, very little revenue in that space now, it's all been, as we've said on prior quarters, that really, we only started – we only went live with our first port with a solution in the early – in the first half of this year. And then it's been the digital outreach through the pandemic phase to 1,000 ports where we joined webinars, we joined port associations, we had digital outreach to all the ports in the world to help them operate remotely through COVID. And we got a handful of significant trials out of that outreach, which have all gone very well.

We've got one that is more related to port-to-platform logistics than port management, although it's got port management in it that has gone extremely well. We've had our team and that group's team engaged every week with 5% people on each side engaged on different use cases and we're at the point now where we're talking commercial conversion of that with them and that'll be a significant account. So, we've gone from at the beginning of this year really having one small port, low level of revenue because it's small, to a bunch of trials and participation in tenders, to now winning a tender, being close to converting a trial account and plenty of other good trials underway. So – yeah, so, I think the key thing is the next 12 to 18 months trying to get to that $5 million level of subscription revenue.

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**Amit Dayal**
*Analyst, H. C. Wainwright & Co. LLC*

Q

That's really good news. Just one last question for me. With the pending sale to the $12 million you are expecting to receive, I mean is this just bureaucratic delays or is there anything else that is sort of pushing this out?

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**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*

A

Yeah. So that's simply bureaucratic. It's actually getting the filings done for antitrust for the buyer. So – and that's just going really slowly. I'm not sure the [ph] pandemics help (00:27:06) but it's bureaucratic from the China side and it's also just getting those things done. There's, actually I keep in touch with the buyer on a regular basis and they're still – that INOVA business is actually going surprisingly well given the pandemic and that it's land seismic. It's probably done better in the last three years than it did in half a decade before that in a better market. So in a poor market they're performing better, and there is interest – continued interest at that level of that deal with the buyer. They're getting frustrated it's taking so long as well.

**Amit Dayal**
*Analyst, H. C. Wainwright & Co. LLC*

Q

Okay. Thank you, Chris. That's all I have.

**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*

A

My pleasure, Amit. Thank you for joining.

**Operator**: [Operator Instructions] Our next question comes from the line of Colin Rusch with Oppenheimer. Please proceed with your question.

**Joe Beninati**
*Analyst, Oppenheimer & Co., Inc.*

Q

Hey, guys. It's Joe on for Colin this morning. Can you provide a little bit of color on how the pipeline of multi-client programs is changing in terms of total number, maturity of process, cancellations, things of that nature?

**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*

A

Sure. Well, I think one of the things that's changed in the recent quarter is just, given the pandemic and everything else is, and the lack of demand kicked off by that, is that the oil companies have looked at their strategies, revamped them, so they're trying to do what they can around the exploration as we talked about on the other question. But they've also, the bigger ones, the customers that have bought our data over the last 10, 15 years are the majors. And they – and a lot of them are changing the strategy to have a play in the energy transition as well.

So as such they have rejigged their organization. So we've had to reconnect with who are the stakeholders who buy the data, who are the procurement guys that we deal with to land the deals. And so that went on through the second quarter and third quarter, and that seems to have settled down. We've used a lot of new digital tools to see who's moving, leaving, and joining, and moving around and then reengaging, so that's been successful.

And we think that the conversations we've had, the different things since pre-pandemic is the conversations around assets. There's less activity for sure but the conversations seem to be more meaningful and they continue on a regular pulse. And we seem to be just waiting for the budgets to be freed up by higher levels to let those buyers get the data they want. So they seem to have decided they want our data in these particular provinces, geographical provinces rather than just kicking tires and seeing if they can get the best deals between us and our competitors. They decided they like where our data is, the value proposition of the data, how we designed it, how it's been imaged, and when it's available as well.

So those seem to be more genuine conversations that we are maturing and that's a promising thing. And the other one is that there has been general discussion about we will buy this data if our budgets are released. And some of those deals are going through, I mean the budgets are already there, and we're getting – and they are moving. Others we're waiting. Others are pending us delivering large volumes of data, which is just high performance computing, get it done get it shipped to the customer for recognition. So a variety of things there.

And I would – to characterize Q4 versus Q3, and even Q2, we have the number of deals in the pipeline, some have slipped from – some of the ones that slipped from Q3, so they're still active. And then you have the ones we were nurturing for Q4, so you put those together and it's stronger than we had initially thought for Q4 in our plan. And then we have some other ones that we're nurturing that are big ones that are out there that are in the upside. So you got up – we have more upside coverage than we had last quarter and the quarter before as well. So if something slips out in the forecast, then we have stuff from upside that we're nurturing as well. So we're happy to see that upside come back because in lean times the upside part just pretty much goes away and you're stuck with optimizing with what you got in the base part of the forecast.

**Joe Beninati**
*Analyst, Oppenheimer & Co., Inc.*

Q

Sure. That's great. And then finally can you just give an update on any potential M&A targets that could augment the existing portfolio?

**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*

A

Well, Joe, that's a good question. If we have the balance sheet I'm sure on the software business we could. There is a whole host of small partners in the ecosystem, a lot of what we're doing around ports and harbors and ports to platform are around little software companies or data companies that are part of the piece of that whole ecosystem. It's a very, very large ecosystem from the vessels transiting to the port activity through the onshore logistics. And we could easily rollup, tuck-in a couple little companies that already have revenue and earnings, and that'd be a wonderful story. I think we need to be at the point where we have the liquidity to do that, or else some other creative means to do it, but at the moment we're nurturing that through partnerships. So a wide range of connections there.

On the data side I don't anticipate – I don't see as even with – I see as more generating the right programs in the right place like our Mid North Sea High 3D, working with partners, partners who are willing to take a share – some of the risk in the program, and obviously working with customers that want to underwrite that data. So I don't see a bunch of M&A on the seismic data side unless it's consolidation in the broader sense and we're part of that consolidation, but I don't see us driving that.

**Joe Beninati**
*Analyst, Oppenheimer & Co., Inc.*

Q

That's interesting. Thanks, guys.

**Christopher Theron Usher**
*President & Chief Executive Officer, ION Geophysical Corp.*

A

Yeah. Thanks.

**Operator**: There are no further questions in the queue. I'd like to hand the call back to Chris Usher for closing remarks.

## Christopher Theron Usher

*President & Chief Executive Officer, ION Geophysical Corp.*

Well, thank you everyone for joining us today. A very dynamic week out in the world with earnings and elections, et cetera, in the US. So appreciate your time and your interest in ION, and look forward to seeing you on the next call and hope to show you some – talk about some good success in Q4 and some further progress on the ports and harbors Marlin side. Thank you so much.

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**Operator**: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time. And have a wonderful day.