

ION GEOPHYSICAL CORP

Form 10-Q

May 06, 2010

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NUMBER: 1-12691
ION GEOPHYSICAL CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)**

DELAWARE
(State or other jurisdiction of
incorporation or organization)

22-2286646
(I.R.S. Employer Identification No.)

2105 CityWest Blvd.
Suite 400
Houston, Texas
(Address of principal executive offices)

77042-2839
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (281) 933-3339

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: No:
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). *
Yes No

* The registrant has not yet been phased into the interactive data requirements.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes: No:
At April 30, 2010, there were 152,279,674 shares of common stock, par value \$0.01 per share, outstanding.

ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
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FOR THE QUARTER ENDED MARCH 31, 2010

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ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31,	December
	2010	31,
	2009	
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 46,344	\$ 16,217
Restricted cash	1,185	1,469
Accounts receivable, net	61,112	111,046
Current portion notes receivable		13,367
Unbilled receivables	28,708	21,655
Inventories, net	53,545	202,601
Deferred income tax asset	6,827	6,001
Prepaid expenses and other current assets	6,598	23,145
Total current assets	204,319	395,501
Deferred income tax asset	15,652	26,422
Property, plant and equipment, net	18,245	78,555
Multi-client data library, net	123,538	130,705
Equity method investment	119,000	
Goodwill	50,705	52,052
Intangible assets, net	24,650	61,766
Other assets	6,962	3,185
Total assets	\$ 563,071	\$ 748,186
 LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	\$ 7,950	\$ 271,132
Accounts payable	18,282	40,189
Accrued expenses	45,390	65,893
Accrued multi-client data library royalties	17,628	18,714
Fair value of the warrant		44,789
Deferred revenue and other current liabilities	14,417	13,802
Total current liabilities	103,667	454,519
Long-term debt, net of current maturities	106,502	6,249
Non-current deferred income tax liability	5,456	1,262
Other long-term liabilities	8,960	3,688
Total liabilities	224,585	465,718

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Stockholders' equity:		
Cumulative convertible preferred stock	68,786	68,786
Common stock, \$0.01 par value; authorized 200,000,000 shares; outstanding 142,616,881 and 118,688,702 shares at March 31, 2010 and December 31, 2009, respectively, net of treasury stock	1,426	1,187
Additional paid-in capital	774,804	666,928
Accumulated deficit	(482,438)	(411,548)
Accumulated other comprehensive loss	(17,527)	(36,320)
Treasury stock, at cost, 849,539 shares at both March 31, 2010 and December 31, 2009	(6,565)	(6,565)
Total stockholders' equity	338,486	282,468
Total liabilities and stockholders' equity	\$ 563,071	\$ 748,186

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 31,	
	2010	2009
	(In thousands, except per share data)	
Product revenues	\$ 40,242	\$ 59,476
Service revenues	48,477	47,414
 Total net revenues	 88,719	 106,890
 Cost of products	 30,491	 40,031
Cost of services	35,862	33,163
 Gross profit	 22,366	 33,696
 Operating expenses:		
Research, development and engineering	8,999	11,465
Marketing and sales	7,906	9,763
General and administrative	16,438	19,000
Impairment of intangible assets		38,044
 Total operating expenses	 33,343	 78,272
 Loss from operations	 (10,977)	 (44,576)
Interest expense, net, including \$18.8 million of a debt discount and write-off of debt issuance costs in 2010	(25,643)	(6,933)
Loss on disposition of land division	(38,115)	
Fair value adjustment of the warrant	12,788	
Other income (expense)	3,217	(22)
 Loss before income taxes	 (58,730)	 (51,531)
Income tax expense (benefit)	12,160	(13,963)
 Net loss	 (70,890)	 (37,568)
Preferred stock dividends	875	875
 Net loss applicable to common shares	 \$ (71,765)	 \$ (38,443)
 Net loss per share:		
Basic and diluted	\$ (0.60)	\$ (0.39)

Weighted average number of common shares outstanding:

Basic and diluted

120,312

99,743

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$ (70,890)	\$ (37,568)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization (other than multi-client library)	11,238	10,643
Amortization of multi-client library	12,382	13,899
Stock-based compensation expense related to stock options, nonvested stock and employee stock purchases	1,660	2,035
Bad debt expense	131	2,377
Amortization of debt discount	8,656	
Write-off of unamortized debt issuance costs	10,121	
Fair value adjustment of the warrant	(12,788)	
Deferred income taxes	8,179	(15,380)
Loss on disposition of land division	38,115	
Impairment of intangible assets		38,044
Change in operating assets and liabilities:		
Accounts and notes receivable	35,294	46,645
Unbilled receivables	(7,053)	(6,956)
Inventories	(52)	(18,337)
Accounts payable, accrued expenses and accrued royalties	(12,536)	(52,551)
Deferred revenue	3,913	1,158
Other assets and liabilities	269	7,152
Net cash provided by (used in) operating activities	26,639	(8,839)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,268)	(1,580)
Investment in multi-client data library	(5,215)	(18,296)
Cash, net of fees, from disposition of land division	102,848	
Cash balances of the disposed land division contributed to INOVA Geophysical	(3,058)	
Other investing activities	(3,168)	143
Net cash provided by (used in) investing activities	90,139	(19,733)
Cash flows from financing activities:		
Net proceeds from issuance of debt	105,695	
Net proceeds from issuance of common stock	38,039	
Borrowings under revolving line of credit	85,000	32,000
Repayments under revolving line of credit	(174,429)	
Payments on notes payable and long-term debt	(139,211)	(14,873)

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Payment of preferred dividends	(875)	(875)
Other financing activities	(28)	257
Net cash (used in) provided by financing activities	(85,809)	16,509
Effect of change in foreign currency exchange rates on cash and cash equivalents	(842)	(437)
Net increase in cash and cash equivalents	30,127	(12,500)
Cash and cash equivalents at beginning of period	16,217	35,172
Cash and cash equivalents at end of period	\$ 46,344	\$ 22,672
Non-cash items from investing and financing activities:		
Expiration of BGP Warrant	\$ 32,001	\$
Conversion of BGP Domestic Convertible Note to equity	\$ 28,571	\$
Equity method investment in INOVA Geophysical	\$ 119,000	\$

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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The condensed consolidated balance sheet of ION Geophysical Corporation and its subsidiaries (collectively referred to in this Part I - Item 1 as the Company or ION, unless the context otherwise requires) at December 31, 2009 has been derived from the Company's audited consolidated financial statements at that date. The condensed consolidated balance sheet at March 31, 2010, the condensed consolidated statements of operations for the three months ended March 31, 2010 and 2009, and the condensed consolidated statements of cash flows for the three months ended March 31, 2010 and 2009 are unaudited. In the opinion of management, all adjustments (consisting of normal recurring accruals, except as otherwise disclosed) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the operating results for a full year or of future operations.

These condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States have been omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

On March 25, 2010, the Company completed the disposition of most of its land seismic equipment businesses in connection with its formation of a land equipment joint venture with BGP, Inc., China National Petroleum Corporation (BGP). BGP is a subsidiary of China National Petroleum Corporation (CNPC) and is a leading global geophysical services contracting company. The resulting joint venture company, organized under the laws of the People's Republic of China, is named INOVA Geophysical Equipment Limited (INOVA Geophysical). The results of operations and financial condition of the Company as of and for the three months ended March 31, 2010 have been materially affected by this disposition, which affects the comparability of certain of the financial information contained in this Quarterly Report on Form 10-Q. The Company will account for its 49% interest in INOVA Geophysical as an equity method investment. Because the financial statements of INOVA Geophysical are not expected to be sufficiently timely for the Company to apply the equity method currently, the Company will record its share of earnings of INOVA Geophysical on a one fiscal quarter lag basis. Thus, the Company's share of INOVA Geophysical's first full quarterly results will be included in the Company's financial results for the three and nine month periods ending September 30, 2010. This formation of the joint venture and related transactions are described in more detail in Note 2 *Joint Venture with BGP and Related Financing Transactions*.

(2) Joint Venture with BGP and Related Financing Transactions

On March 25, 2010, the Company completed the transactions contemplated under two definitive agreements relating to its proposed joint venture and related transactions with BGP:

A Stock Purchase Agreement with BGP dated as of March 19, 2010 (the Stock Purchase Agreement), under which ION agreed to sell 23,789,536 shares of ION's common stock to BGP; and

A Share Purchase Agreement with BGP dated as of March 24, 2010 (the Share Purchase Agreement), under which ION agreed to sell to BGP a 51% equity interest in INOVA Geophysical, thereby forming the joint venture with BGP.

The transactions under the Stock Purchase Agreement and the Share Purchase Agreement had been contemplated under the terms of that certain binding Term Sheet (the Term Sheet) dated as of October 23, 2009 between ION and BGP. The Term Sheet and related agreements and instruments were described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The Term Sheet was superseded by the execution and delivery of the Stock Purchase Agreement and the Share Purchase Agreement.

Proceeds from the Sales of ION Common Stock and Equity Interests in INOVA Geophysical. As provided in the Stock Purchase Agreement, on March 25, 2010, ION issued to BGP 23,789,536 shares of ION's common stock in a privately-negotiated transaction at an effective purchase price of \$2.80 per share. The \$2.80 price per share had been

agreed to by the parties in the October Term Sheet.

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The 23,789,536 shares of ION common stock issued by ION to BGP consisted of (i) 10,204,082 shares acquired upon BGP's conversion of the approximately \$28.6 million principal balance of indebtedness outstanding under a Convertible Promissory Note dated as of October 23, 2009 (the Domestic Convertible Note) issued by the Company to Bank of China, New York Branch (Bank of China) and (ii) 13,585,454 shares BGP purchased for \$2.80 cash per share under the Stock Purchase Agreement, resulting in total gross cash proceeds to ION from this sale of approximately \$38.0 million. The conversion price per ION share under the Domestic Convertible Note was \$2.80 per share.

The Domestic Convertible Note, along with a Convertible Promissory Note issued by the Company's subsidiary, ION International S.à r.l., to Bank of China on October 23, 2009 (the Foreign Convertible Note) and together with the Domestic Convertible Note, the Convertible Notes) had been held by Bank of China in connection with certain bridge loan financing provided to ION by Bank of China in October 2009. On March 19, 2010, Bank of China assigned the Convertible Notes to BGP. On March 24, 2010, BGP delivered a notice to ION of its election to convert the entire outstanding principal amount under the Domestic Convertible Note into 10,204,082 shares of ION's common stock at the \$2.80 per share conversion price, simultaneously with and conditioned upon the closing of the transactions under the Stock Purchase Agreement. BGP did not convert any of the outstanding amount under the Foreign Convertible Note. The total outstanding indebtedness owed by the Company under the Foreign Convertible Note and all unpaid interest and fees on the Domestic Convertible Note were repaid by the Company, along with the other revolving credit loans under the Company's existing bank credit facility, using amounts borrowed under the Company's new Credit Facility and the \$38.0 million proceeds from the sale of 13,585,454 shares of ION common stock to BGP.

In October 2009, ION issued to BGP a warrant (the Warrant). BGP elected not to exercise the Warrant and, on March 25, 2010, BGP terminated the Warrant and surrendered it to ION. After giving effect to the issuance of the 23,789,536 shares of common stock of ION, BGP beneficially owned as of March 25, 2010, approximately 16.62% of the outstanding shares of ION common stock.

As part of the re-financing of the Company's debt, the Company, contemporaneously with the formation of INOVA Geophysical, entered into a new credit facility, which provided the Company with approximately \$106.3 million under a new five-year term loan and approximately \$100.0 million under a new revolving line of credit (the Credit Facility). In connection with the approximately \$38.0 million in cash received from BGP for BGP's purchase of 13,585,454 shares of ION common stock under the Stock Purchase Agreement, the Company borrowed approximately \$191.3 million in new borrowings under ION's new Credit Facility, consisting of approximately \$106.3 million under a new five-year term loan and approximately \$85.0 million under a new revolving line of credit. These funds, along with certain cash on hand, were applied to repay a total of approximately \$226.0 million in indebtedness, including (i) approximately \$89.4 million in outstanding revolving indebtedness under ION's prior bank senior credit facility, (ii) approximately \$101.6 million in outstanding indebtedness under a five-year term loan under ION's prior bank senior credit facility and (iii) approximately \$35.0 million of outstanding indebtedness under an amended and restated subordinated promissory note dated December 30, 2008 that was payable to one of the selling shareholders in connection with ION's acquisition of ARAM Systems Ltd. in 2008.

ION then applied a portion of the \$108.5 million in cash proceeds (\$102.8 million, net of transaction and professional fees) it received for BGP's purchase of the 51% equity interest in INOVA Geophysical (see *Formation of the Joint Venture* below) to repay the \$85.0 million of revolving loans that ION had borrowed to pay off the revolving indebtedness under ION's prior bank senior credit facility.

In connection with the Stock Purchase Agreement transactions, the Company entered into an Investor Rights Agreement with BGP that provides that, among other items:

for so long as BGP owns as least 10% of the Company's outstanding shares of common stock, BGP will have the right to nominate one director to serve on the Board of Directors; Mr. Guo Yueliang, a Vice President of CNPC, was appointed as an additional director to the Company's Board of Directors on April 1, 2010;

subject to customary exceptions, BGP will have certain pre-emptive rights to subscribe for a number of shares of the Company's common stock or other securities that the Company is then offering as may be necessary to retain BGP's proportionate ownership of common stock that exists before that issuance; and

BGP will have certain demand and piggyback registration rights with respect to resales of its shares.

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On April 20, 2010, the Company filed a shelf registration statement on Form S-3 with the SEC to register resales of the 23,789,536 shares of the Company's common stock now owned by BGP. This registration statement has not yet been declared or ordered effective by the SEC, and no offers or sales may be made under the preliminary prospectus contained in the registration statement unless and until it is declared effective by the SEC.

Formation of the Joint Venture. On March 25, 2010, ION and BGP formed the INOVA Geophysical joint venture as contemplated under the Share Purchase Agreement. The business of INOVA Geophysical is to design, develop, manufacture and sell land-based seismic data acquisition equipment for the petroleum industry worldwide. The joint venture was formed to combine ION's land seismic equipment business and technology with BGP's expertise and experience in land seismic operations and thereby create a new enterprise that would have the resources, technology and experience required to provide advanced products and services on a global basis.

The assets of each party contributed to the joint venture include land seismic recording systems, inventory, certain intellectual property rights and contract rights necessary to or principally used in the conduct or operation of the land equipment businesses as conducted or operated by BGP or ION prior to closing. Under the Share Purchase Agreement, the Company sold BGP a 51% equity interest in INOVA Geophysical for total consideration of \$108.5 million cash (\$102.8 million net of fees) and BGP's transfer to the Company of a 49% equity interest in a Chinese subsidiary that held land seismic equipment assets and related liabilities. The Company and BGP will contribute their respective interests in the Chinese subsidiary to INOVA Geophysical when certain non-US necessary governmental approvals are obtained.

INOVA Geophysical also assumed certain liabilities related to the transferred businesses. Among these liabilities was approximately \$18.4 million (as of March 25, 2010) in indebtedness under the rental land equipment secured financing that ION and its rental equipment subsidiaries had entered into in June 2009 with a subsidiary of ICON Capital Inc. ION remains liable on its guarantee of this indebtedness, but ION has received a back-up guaranty from two subsidiaries of INOVA Geophysical with respect to any defaults on this transferred indebtedness for which ION is called upon to remedy. INOVA Geophysical has agreed to issue a replacement back-up guaranty upon receipt of applicable government approvals. INOVA Geophysical has also assumed approximately \$2.3 million in capital lease liabilities related to certain equipment contributed to the joint venture.

Excluded from the assets and liabilities transferred to INOVA Geophysical and the scope of the INOVA Geophysical joint venture business were (i) the analog sensor businesses of ION and BGP and (ii) the businesses of certain companies in which BGP or ION are currently a minority owner. All of ION's other businesses including its Marine Imaging Systems, Data Management Solutions and ION Solutions (which includes GXT's Imaging Solutions, Integrated Seismic Solutions (ISS) and BasinSPAN and seismic data libraries) remain owned and operated by ION and do not comprise a part of the joint venture.

In connection with the closing of the transactions under the Share Purchase Agreement, ION, BGP and INOVA Geophysical entered into ancillary agreements concerning the provision of employees and support services by ION and BGP to INOVA Geophysical, and transfers and licenses of land equipment intellectual property rights to INOVA Geophysical by ION and BGP, along with the license-back to ION and BGP of certain intellectual property rights for future technology developed by INOVA Geophysical.

Accounting Impact to the Company of formation of the joint venture and related financing transactions. At the closing of the joint venture, the Company recorded a loss on disposition of its land division of approximately \$38.1 million. The following components comprise this loss on disposition:

The Company received cash proceeds from BGP of \$108.5 million, excluding transaction and professional fees.

The Company received a 49% interest in INOVA Geophysical, which was recorded at a fair value of \$119.0 million.

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The Company deconsolidated \$224.8 million of net assets associated with its land division.

The Company recognized \$21.2 million of accumulated foreign currency translation losses, primarily related to its Canada land operations.

The Company recognized \$7.0 million of expense resulting from the sale of ION stock to BGP at a discount to market under BGP's equity purchase commitment as an inducement for BGP to enter into the transaction.

The Company recognized \$5.0 million of expense related to it permanently ceasing the use of certain leased facilities previously occupied by its land division. See further discussion below.

The Company recognized \$7.6 million of transaction and professional fees and other expenses associated with the closing of the joint venture.

In addition to the loss on disposition, the following represents the impact of the other related financing transactions:

The Company recorded a non-cash fair value adjustment of \$12.8 million, reflecting the decrease in the fair value of the Warrant from January 1, 2010 through March 25, 2010, the date of the closing of the joint venture. At that date, the remaining \$32.0 million liability representing the Warrant's fair value was reclassified to additional paid-in-capital.

The Company recognized in interest expense the remaining non-cash debt discount of \$8.7 million, which was associated with the issuance of the October 2009 Convertible Notes.

As part of the repayment of the previous revolving line of credit and term loan, the Company wrote-off to interest expense, \$10.1 million of unamortized debt issuance costs.

Due to the formation of INOVA Geophysical and other restructuring activities the Company had undertaken, the Company consolidated certain of its Stafford-based operations, which resulted in the Company permanently ceasing to use certain leased facilities as of March 31, 2010. The Company determined that the fair value of its remaining costs to be incurred under its lease of these facilities was approximately \$8.2 million. After considering all deferred items on the Company's balance sheet associated with this lease, the Company recorded a charge to its loss on disposition of land division of \$5.0 million during the three months ended March 31, 2010.

As part of the formation of INOVA Geophysical, the Company estimated the fair value of its 49% interest in INOVA Geophysical. The fair value was determined on a discounted cash flow basis based upon operating forecasts, which include assumptions about future market and economic conditions. The valuation utilized Level 3 inputs, and the main drivers in the calculation were INOVA Geophysical's operational five-year forecast, which includes revenues, operating expenses and capital expenditures. The Company corroborated its discounted cash flow analysis with a fair value analysis of the cash and other assets contributed by BGP for its 51% interest in INOVA Geophysical. As of March 31, 2010, the Company recognized an asset of \$119.0 million, which represents the fair value of 49% of INOVA Geophysical.

Table of Contents**(3) Segment and Product Information**

The Land Imaging Systems segment includes the disposed land division operations through March 25, 2010, the date of the closing of the joint venture. The Company evaluates and reviews its results based on four segments: three of these segments – Land Imaging Systems, Marine Imaging Systems and Data Management Solutions – make up the ION Systems Division, and the fourth segment is the ION Solutions Division. The Company measures segment operating results based on income from operations.

A summary of segment information for the three months ended March 31, 2010 and 2009 is as follows (in thousands):

	Three Months Ended March 31,	
	2010	2009
Net revenues:		
Land Imaging Systems	\$ 18,926	\$ 34,182
Marine Imaging Systems	13,699	18,453
Data Management Solutions	7,973	7,246
Total ION Systems Division	40,598	59,881
ION Solutions Division	48,121	47,009
Total	\$ 88,719	\$ 106,890
Income (loss) from operations:		
Land Imaging Systems	\$ (10,609)	\$ (4,747)
Marine Imaging Systems	1,892	2,761
Data Management Solutions	4,806	4,430
Total ION Systems Division	(3,911)	2,444
ION Solutions Division	5,565	5,206
Corporate	(12,631)	(14,182)
Impairment of intangible assets		(38,044)
Total	\$ (10,977)	\$ (44,576)
	March 31,	December
	2010	31,
		2009
Total assets:		
Land Imaging Systems	\$ 16,625	\$ 316,895
Marine Imaging Systems	94,044	107,883
Data Management Solutions	39,806	40,133
Total ION Systems Division	150,475	464,911
ION Solutions Division	215,161	221,596
Corporate and other	197,435	61,679
Total	\$ 563,071	\$ 748,186

Corporate and other assets include all assets specifically related to corporate personnel and operations, a majority of cash and cash equivalents and the investment in INOVA Geophysical.

(4) Inventories

A summary of inventories is as follows (in thousands):

	March 31, 2010	December 31, 2009
Raw materials and subassemblies	\$ 41,819	\$ 111,022
Work-in-process	5,601	10,129
Finished goods	18,872	112,068
Reserve for excess and obsolete inventories	(12,747)	(30,618)
Inventories, net	\$ 53,545	\$ 202,601

The decrease in net inventories from December 31, 2009 to March 31, 2010 was principally due to the formation of the INOVA Geophysical joint venture and the subsequent contribution of the land division's inventories of approximately \$148.0 million.

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Basic and diluted net loss per common share is computed by dividing net loss applicable to common shares by the weighted average number of common shares outstanding during the period. The total number of shares available for issuance under outstanding stock options at March 31, 2010 and 2009 was 7,781,566 and 7,582,225, respectively, and the total number of shares of restricted stock and shares reserved for restricted stock units outstanding at March 31, 2010 and 2009 was 619,538 and 793,486, respectively. Due to the net loss applicable to common shares for the three months ended March 31, 2010 and 2009, all outstanding share-based arrangements were anti-dilutive.

On April 8, 2010, Fletcher International, Ltd. (Fletcher), the holder of all of ION's outstanding Series D Preferred Stock, converted 8,000 of its shares of Series D-1 Cumulative Convertible Preferred Stock, and all of the outstanding 35,000 shares of Series D-3 Cumulative Convertible Preferred Stock, into a total of 9,659,231 shares of common stock of the Company. Fletcher continues to own 22,000 shares of Series D-1 Cumulative Convertible Preferred Stock and 5,000 shares of Series D-2 Cumulative Convertible Preferred Stock. See further discussion of the Series D Preferred Stock at Note 7 *Cumulative Convertible Preferred Stock* and Note 10 *Commitments and Contingencies*. For the three months ended March 31, 2010 and 2009, all of the outstanding shares of Series D Preferred Stock were anti-dilutive.

(6) Notes Payable, Long-term Debt and Lease Obligations

Obligations (in thousands)	March 31, 2010	December 31, 2009
Revolving line of credit	\$	\$ 118,000
Term loan facility	106,250	101,563
Secured equipment financing		19,080
Amended and restated subordinated seller note		35,000
Facility lease obligation	4,053	4,174
Equipment capital leases and other notes payable	4,149	8,220
Unamortized non-cash debt discount		(8,656)
Total	114,452	277,381
Current portion of notes payable, long-term debt and lease obligations	(7,950)	(271,132)
Non-current portion of notes payable, long-term debt and lease obligations	\$ 106,502	\$ 6,249

Revolving Line of Credit and Term Loan Facility. On March 25, 2010, ION, its Luxembourg subsidiary, ION International S. à r.l. (ION Sàrl), and certain of its other U.S. and foreign subsidiaries entered into a new credit facility (the Credit Facility). The terms of the Credit Facility are set forth in a credit agreement dated as of March 25, 2010 (the Credit Agreement), by and among ION, ION Sàrl and China Merchants Bank Co., Ltd., New York Branch (CMB), as administrative agent and lender. The obligations of ION under the Credit Facility are guaranteed by certain of ION's material U.S. subsidiaries and the obligations of ION Sàrl under the Credit Facility are guaranteed by certain of ION's material U.S. and foreign subsidiaries, in each case that are parties to the credit agreement.

The Credit Facility replaces ION's previous syndicated credit facility under an amended and restated credit agreement dated as of July 3, 2008, as subsequently amended numerous times (the Prior Facility). Additionally, as part of the repayment of the indebtedness described in Note 2 *Joint Venture with BGP and Related Financing Transactions*, the Company wrote off approximately \$10.1 million of unamortized debt issuance costs related to the Prior Facility to interest expense in the first quarter of 2010. Any new costs relating directly to the new indebtedness will be amortized over the life of the respective debt instrument. The terms and conditions of the Credit Facility are similar in many respects to the terms and conditions under the Prior Facility. The Credit Facility provides ION with a revolving line of credit of up to \$100.0 million in borrowings (including borrowings for letters of credit), and refinanced ION's outstanding term loan under the Prior Facility with a new term loan in the original principal amount

of \$106.3 million. The Credit Facility, like the Prior Facility, permits direct borrowings by ION Sàrl for use by ION's foreign subsidiaries.

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Under the Credit Facility, up to \$75.0 million is available for revolving line of credit borrowings by ION, and up to \$60.0 million (or its equivalent in foreign currencies) is available for revolving line of credit borrowings by ION Sàrl, but the total amounts borrowed may not exceed \$100.0 million. Borrowings under the Credit Facility are not subject to a borrowing base.

Revolving credit borrowings under the Credit Facility may be utilized to fund the working capital needs of ION and its subsidiaries, and to finance acquisitions and investments and for general corporate purposes. In addition, the Credit Facility includes a \$35.0 million sub-limit for the issuance of documentary and stand-by letters of credit.

The revolving credit indebtedness and term loan indebtedness under the Credit Facility are each scheduled to mature on March 24, 2015. The \$106.3 million original principal amount under the term loan is subject to scheduled quarterly amortization payments, co