ION GEOPHYSICAL CORP
Form 10-Q
August 08, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

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	22-2286646
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2105 CityWest Blvd. Suite 400 Houston, Texas	77042-2839
(Address of principal executive offices)	(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: ý 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 ý No ¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes: ¨ No: ý

At July 31, 2013, there were 157,053,797 shares of common stock, par value $0.01 per share, outstanding.

1

Table of Contents

ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
TABLE OF CONTENTS FOR FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2013

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2013	December 31, 2012
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 109,501	$ 60,971
Accounts receivable, net	92,712	127,136
Unbilled receivables	98,944	89,784
Inventories	79,495	70,675
Prepaid expenses and other current assets	20,294	25,605
Total current assets	400,946	374,171
Deferred income tax asset	81,961	28,414
Property, plant, equipment and seismic rental equipment, net	40,001	33,772
Multi-client data library, net	227,139	230,315
Equity method investments	77,654	73,925
Goodwill	53,991	55,349
Intangible assets, net	12,992	14,841
Other assets	15,731	9,796
Total assets	$ 910,415	$ 820,583
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 4,388	$ 3,496
Accounts payable	29,996	28,688
Accrued expenses	87,600	124,095
Accrued multi-client data library royalties	24,284	26,300
Deferred revenue	18,566	26,899
Total current liabilities	164,834	209,478
Long-term debt, net of current maturities	179,319	101,832
Other long-term liabilities	132,339	8,131
Total liabilities	476,492	319,441
Redeemable noncontrolling interest	2,229	2,123
Equity:		
Cumulative convertible preferred stock	27,000	27,000
Common stock, $0.01 par value; authorized 200,000,000 shares; outstanding 157,022,597 and 156,356,949 shares at June 30, 2013 and December 31, 2012, respectively, net of treasury stock	1,570	1,564
Additional paid-in capital	853,575	848,669
Accumulated deficit	(429,218)	(360,297)
Accumulated other comprehensive loss	(15,124)	(11,886)
Treasury stock, at cost, 849,539 shares at both June 30, 2013 and December 31, 2012	(6,565)	(6,565)
Total stockholders' equity	431,238	498,485
Noncontrolling interests	456	534
Total equity	431,694	499,019
Total liabilities and equity	$ 910,415	$ 820,583

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Service revenues	$89,603	$72,844	$179,552	$139,478
Product revenues	31,312	32,370	71,100	77,446
Total net revenues	120,915	105,214	250,652	216,924
Cost of services	66,965	43,321	136,238	90,727
Cost of products	17,332	15,950	42,839	39,098
Gross profit	36,618	45,943	71,575	87,099
Operating expenses:				
Research, development and engineering	9,087	10,306	18,377	18,032
Marketing and sales	8,968	8,654	16,948	16,071
General, administrative and other operating expenses	11,793	14,011	27,557	28,381
Total operating expenses	29,848	32,971	62,882	62,484
Income from operations	6,770	12,972	8,693	24,615
Interest expense, net	(2,756)	(1,364)	(3,822)	(2,882)
Equity in earnings (losses) of investments	(6,338)	3,777	(5,222)	6,245
Other income (expense), net	(107,118)	895	(106,091)	209
Income (loss) before income taxes	(109,442)	16,280	(106,442)	28,187
Income tax expense (benefit)	(38,705)	4,184	(37,504)	7,629
Net income (loss)	(70,737)	12,096	(68,938)	20,558
Net income (loss) attributable to noncontrolling interest	(59)	281	17	394
Net income (loss) attributable to ION	(70,796)	12,377	(68,921)	20,952
Preferred stock dividends	338	338	676	676
Net income (loss) applicable to common shares	$(71,134)	$12,039	$(69,597)	$20,276
Net income (loss) per share:				
Basic	$(0.45)	$0.08	$(0.44)	$0.13
Diluted	$(0.45)	$0.08	$(0.44)	$0.13
Weighted average number of common shares outstanding:				
Basic	156,910	155,631	156,689	155,587
Diluted	156,910	162,575	156,689	162,594

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income (loss)	$(70,737)	$12,096	$(68,938)	$20,558
Other comprehensive income (loss), net of taxes, as appropriate:				
Foreign currency translation adjustments	597	(1,503)	(3,044)	265
Equity interest in investees' other comprehensive income (loss)	(526)	369	(549)	716
Unrealized income (loss) on available-for-sale securities	245	(499)	177	463
Other changes in other comprehensive income (loss)	102	(34)	178	(27)
Total other comprehensive income (loss), net of taxes	418	(1,667)	(3,238)	1,417
Comprehensive net income (loss)	(70,319)	10,429	(72,176)	21,975
Comprehensive income (loss) attributable to noncontrolling interest	(59)	281	17	394
Comprehensive net income (loss) attributable to ION	$(70,378)	$10,710	$(72,159)	$22,369

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended June 30, 2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$(68,938)	$20,558
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization (other than multi-client data library)	8,302	6,825
Amortization of multi-client data library	36,679	38,918
Stock-based compensation expense	3,831	2,992
Equity in (earnings) losses of investments	5,222	(6,245)
Gain on sale of cost-method investment	(3,591)	—
Accrual for loss contingency related to legal proceedings	110,000	—
Deferred income taxes	(48,627)	(2,225)
Change in operating assets and liabilities:		
Accounts receivable	34,259	61,701
Unbilled receivables	(9,160)	(32,300)
Inventories	(8,993)	(5,447)
Accounts payable, accrued expenses and accrued royalties	(26,487)	9,041
Deferred revenue	(8,242)	(6,176)
Other assets and liabilities	4,026	(1,912)
Net cash provided by operating activities	28,281	85,730
Cash flows from investing activities:		
Investment in multi-client data library	(33,503)	(52,581)
Purchase of property, plant and equipment	(8,963)	(4,890)
Investment in seismic rental equipment	—	(1,384)
Investment in and advances to GeoRXT	(9,500)	—
Proceeds from sale of investment	4,150	—
Maturity of short-term investments	—	20,000
Investment in convertible note	(2,000)	(1,000)
Other investing activities	76	—
Net cash used in investing activities	(49,740)	(39,855)
Cash flows from financing activities:		
Proceeds from issuance of notes	175,000	—
Payments under amended revolving line of credit	(97,250)	(1,000)
Borrowings under amended revolving line of credit	—	98,250
Repayment of term loan	—	(98,250)
Payments on long-term debt	(1,815)	(2,081)
Cost associated with issuance of notes	(6,731)	—
Cost associated with debt amendment	—	(1,313)
Payment of preferred dividends	(676)	(676)
Proceeds from exercise of stock options	1,972	317
Other financing activities	302	(101)
Net cash provided by (used in) financing activities	70,802	(4,854)
Effect of change in foreign currency exchange rates on cash and cash equivalents	(813)	(141)
Net increase in cash and cash equivalents	48,530	40,880
Cash and cash equivalents at beginning of period	60,971	42,402

Cash and cash equivalents at end of period	$109,501	$83,282

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The condensed consolidated balance sheet of ION Geophysical Corporation and its subsidiaries (collectively referred to as the "Company" or "ION," unless the context otherwise requires) at December 31, 2012 has been derived from the Company's audited consolidated financial statements at that date. The condensed consolidated balance sheet at June 30, 2013, and the condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2013 and 2012 and the condensed consolidated statements of cash flows for the six months ended June 30, 2013 and 2012, are unaudited. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2013 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 (the "SEC"). Certain information and footnote disclosures normally included in annual 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, 2012 and Amendment No. 1 thereto on Form 10-K/A, which was filed on April 17, 2013 and contains the separate consolidated financial statements of INOVA Geophysical Equipment Limited ("INOVA Geophysical") for the fiscal year ended December 31, 2012.

(2) Segment Information

The Company operates through three business segments – Solutions, Systems and Software. In addition, the Company has a 49% ownership interest in its INOVA Geophysical joint venture. The Company measures segment operating results based on income from operations. See Note 3 "Equity Method Investments" for the summarized financial information for INOVA Geophysical.

A summary of segment information is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net revenues:				
Solutions:				
New Venture	$33,249	$21,544	$81,685	$50,538
Data Library	21,521	22,235	30,969	32,503
Total multi-client revenues	54,770	43,779	112,654	83,041
Data Processing	33,849	28,190	65,135	55,055
Total	$88,619	$71,969	$177,789	$138,096
Systems:				
Towed Streamer	$12,570	$13,727	$26,119	$29,531
Ocean Bottom	383	1,616	7,148	5,135
Other	10,895	7,476	22,428	24,859
Total	$23,848	$22,819	$55,695	$59,525
Software:				
Software Systems	$7,464	$9,551	$15,405	$17,921
Services	984	875	1,763	1,382
Total	$8,448	$10,426	$17,168	$19,303
Total	$120,915	$105,214	$250,652	$216,924
Gross profit:				
Solutions	$21,890	$28,904	$42,087	$47,889
Systems	8,802	9,234	17,182	25,046

Software	5,926	7,805	12,306	14,164
Total	$36,618	$45,943	$71,575	$87,099

7

Table of Contents

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Gross margin:				
Solutions	25 %	40 %	24 %	35 %
Systems	37 %	40 %	31 %	42 %
Software	70 %	75 %	72 %	73 %
Total	30 %	44 %	29 %	40 %
Income from operations:				
Solutions	$11,021	$17,434	$18,378	$27,040
Systems	1,504	995	2,438	9,735
Software	4,955	6,879	10,116	12,361
Corporate and other	(10,710)	(12,336)	(22,239)	(24,521)
Income from operations	6,770	12,972	8,693	24,615
Interest expense, net	(2,756)	(1,364)	(3,822)	(2,882)
Equity in earnings (losses) of investments	(6,338)	3,777	(5,222)	6,245
Other income (expense), net	(107,118)	895	(106,091)	209
Income (loss) before income taxes	$(109,442)	$16,280	$(106,442)	$28,187

(3) Equity Method Investments

The following table reflects the change in the Company’s equity method investments and note receivable from equity method investees during the six months ended June 30, 2013 (in thousands):

	INOVA Geophysical	GeoRXT	Total
Investment at December 31, 2012	$73,925	$—	$73,925
Investment in equity	—	1,500	1,500
Note receivable	—	8,000	8,000
Equity in losses of investments	(2,876)	(2,346)	(5,222)
Equity interest in investees' other comprehensive income (loss)	(549)	—	(549)
Investments at June 30, 2013	$70,500	$7,154	$77,654

GeoRXT — In late February 2013, the Company purchased from Reservoir Exploration Technology ASA its 30% interest in a joint venture entity, GeoRXT B.V. (“GeoRXT”), for $1.5 million. GeoRXT is headquartered in Rio de Janeiro, Brazil, and specializes in seismic acquisition operations using ocean-bottom cables deployed from vessels leased by GeoRXT. The Company was granted an option, exercisable at any time on or prior to May 15, 2013, to increase its ownership percentage to 50%, which would have required making additional capital contributions to GeoRXT of $40.0 million. Additionally, the Company provided GeoRXT with an $8.0 million working capital loan, the repayment of which is guaranteed by the Company’s majority joint venture partner in GeoRXT, Georadar Levantamentos Geofisicos S/A (“Georadar”). The stated maturity date of the loan was May 25, 2013. The Company continues to perform a due diligence review of GeoRXT and has not yet increased its ownership interest in GeoRXT to a 50% equity interest. If the Company increases its ownership interest, a portion of the Company’s required capital contribution to GeoRXT for the additional equity interest would likely be effectively funded through the conversion of the loan into equity. As a result, the Company has elected to allow this loan to remain outstanding until the Company decides whether to increase its ownership interest.

The Company accounts for its interest in GeoRXT on a current basis; its shares of losses in GeoRXT for the three months and six months ended June 30, 2013 were $1.6 million and $2.3 million, respectively. The Company’s share of losses for the three months ended June 30, 2013 would have effectively reduced its equity method investment in GeoRXT to less than zero. Therefore, the Company reduced its equity method investment to zero and recorded its share of additional losses, totaling $0.8 million, to reduce the carrying value of the note receivable from GeoRXT. The following table reflects the summarized financial information for GeoRXT for the three months ended June 30, 2013 and the period from March 1 to June 30, 2013 (in thousands):

Table of Contents

	Three Months Ended June 30, 2013	Period from March 1 to June 30, 2013
Net revenues	$13,698	$19,668
Gross profit	$(195)	$122
Loss from operations	$(5,107)	$(6,876)
Net loss	$(5,151)	$(7,045)

INOVA Geophysical — The Company accounts for its 49% interest in INOVA Geophysical as an equity method investment and records its share of earnings and losses of INOVA Geophysical on a one fiscal quarter lag basis. For the three and six months ended June 30, 2013, the Company recorded its share of losses from INOVA Geophysical of $(4.7) million and $(2.9) million, respectively, compared to equity earnings in the same periods one year ago of $3.8 million and $6.2 million, respectively. The following table reflects the summarized financial information for INOVA Geophysical for the three months ended March 31, 2013 and 2012 and the six-month periods from October 1 to March 31 of 2013 and 2012 (in thousands):

	Three months ended March 31,		Six-Month Period from October 1 through March 31	
	2013	2012	2013	2012
Net revenues	$22,095	$56,779	$81,706	$115,777
Gross profit	$1,808	$19,502	$14,135	$33,466
Income (loss) from operations	$(8,511)	$8,910	$(8,761)	$15,419
Net income (loss)	$(9,772)	$8,654	$(6,030)	$14,371

(4) Net Income (Loss) per Share

Basic net income (loss) per common share is computed by dividing net income (loss) applicable to common shares by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is determined based on the assumption that dilutive restricted stock and restricted stock unit awards have vested and outstanding dilutive stock options have been exercised and the aggregate proceeds were used to reacquire common stock using the average price of such common stock for the period. The total number of shares issued or reserved for future issuance under outstanding stock options at June 30, 2013 and 2012 was 7,313,250 and 6,745,354, respectively, and the total number of shares of restricted stock and shares reserved for restricted stock units outstanding at June 30, 2013 and 2012 was 989,354 and 837,104, respectively.

As of June 30, 2013, there are 27,000 outstanding shares of the Company's Series D Cumulative Convertible Preferred Stock ("Series D Preferred Stock"), which may currently be converted, at the holder's election, into up to 6,065,075 shares of the Company's common stock. The effects of the dilutive stock awards and the outstanding shares of Series D Preferred Stock were anti-dilutive for three and six months ended June 30, 2013.

The following table summarizes the computation of basic and diluted net income (loss) per common share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss) applicable to common shares	$(71,134)	$12,039	$(69,597)	$20,276
Income impact of assumed Series D Preferred Stock conversion	—	338	—	676
Net income (loss) after assumed Series D Preferred Stock conversion	$(71,134)	$12,377	$(69,597)	$20,952
Weighted average number of common shares outstanding	156,910	155,631	156,689	155,587
Effect of dilutive stock awards	—	879	—	942
Effect of convertible preferred stock	—	6,065	—	6,065
Weighted average number of diluted common shares outstanding	156,910	162,575	156,689	162,594

Basic net income (loss) per share	$(0.45)	$0.08	$(0.44)	$0.13
Diluted net income (loss) per share	$(0.45)	$0.08	$(0.44)	$0.13

Table of Contents

(5) Long-term Debt

Obligations (in thousands)	June 30, 2013	December 31, 2012
Senior secured second-priority notes	$175,000	$—
Revolving line of credit	—	97,250
Facility lease obligation	1,936	2,334
Equipment capital leases	6,771	5,744
Total	183,707	105,328
Current portion of long-term debt and lease obligations	(4,388)	(3,496)
Non-current portion of long-term debt and lease obligations	$179,319	$101,832

Senior Secured Second-Priority Notes

On May 13, 2013, the Company sold $175 million aggregate principal amount of 8.125% Senior Secured Second-Priority Notes due 2018 (“Notes”) in a private offering pursuant to an Indenture dated as of May 13, 2013. The Notes are senior secured second-priority obligations of the Company, are guaranteed by certain of the Company’s U.S. subsidiaries, and mature on May 15, 2018. Interest on the Notes accrues at the rate of 8.125% per annum and will be payable semiannually in arrears on May 15 and November 15, commencing on November 15, 2013.

On or after May 15, 2015, the Company may on one or more occasions redeem all or a part of the Notes at the redemption prices set forth below, plus accrued and unpaid interest and special interest, if any, on the Notes redeemed during the twelve-month period beginning on May 15th of the years indicated below:

Date	Percentage
2015	104.063%
2016	102.031%
2017 and thereafter	100.000%

The Notes are initially jointly and severally guaranteed on a senior secured basis by each of the Company’s current material U.S. subsidiaries: GX Technology Corporation, ION Exploration Production (U.S.A.), Inc. and I/O Marine Systems, Inc. (the “Notes Guarantors”). The Notes and the guarantees are secured, subject to certain exceptions and permitted liens, by second-priority liens on substantially all of the assets that secure the indebtedness under the Company's senior first-priority secured credit facility with China Merchants Bank Co., Ltd., New York Branch (“CMB”) as administrative agent and lender under the facility (see “- Revolving Line of Credit” below). The indebtedness under the Notes is effectively junior to the Company's obligations under the senior secured credit facility to the extent of the value of the collateral securing the facility, and to any other indebtedness secured on a first-priority basis to the extent of the value of the Company's assets subject to those first-priority security interests.

The Company used the net proceeds from the offering to repay outstanding indebtedness under its senior secured credit facility with CMB and for general corporate purposes, including for potential additional capital contributions to GeoRXT. The Notes have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), or applicable state securities laws and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable state laws.

The Notes contain certain covenants that, among other things, limit the Company’s ability and the ability of its restricted subsidiaries to:

- Make certain investments; pay certain dividends or distributions on the capital stock or other equity interests of the Company or any restricted subsidiary; purchase, redeem or retire capital stock or certain indebtedness or make other types of restricted payments, unless
- No default under the Indenture has occurred or would occur as a result of such payment or investment,
- The Company would, after giving pro forma effect to such investment or payment, have been permitted to incur at least $1.00 of additional indebtedness under a Fixed Charge Coverage Ratio test under the Indenture and
- The aggregate cumulative amount of all such payments or investments would not exceed a sum calculated by reference to, among other items, the Company's consolidated net income, proceeds from certain sales of equity or assets, certain conversions or exchanges of debt for equity and certain other reductions in indebtedness;

Table of Contents

- Incur additional indebtedness or issue certain preferred stock, unless the Fixed Charge Coverage Ratio for the four most recently completed fiscal quarters immediately prior to such incurrence or issuance would have been 2.0 to 1.0, as determined on a pro forma basis as if the debt had been incurred or the stock issued at the beginning of such four-quarter period;
- Create, incur or assume any lien, except certain permitted liens;
- Restrict or encumber the ability of any restricted subsidiary to (i) pay dividends on or make any other distributions with respect to its equity interests, (ii) pay indebtedness owed to the Company or any restricted subsidiary, (iii) make loans or advances to the Company or any of its restricted subsidiaries or (iv) sell, lease or transfer properties or assets to the Company or any restricted subsidiary;
- Carry out certain mergers or consolidations with another entity, or sell, assign or lease all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, unless
- No default under the Indenture has occurred or would occur as a result of such merger or sale, and
- The Fixed Charge Coverage Ratio of the Company or its successor for the four most recently completed fiscal quarters immediately prior to such merger or sale would have been 2.0 to 1.0, as determined on a pro forma basis as if the merger or sale and any related financing transactions had occurred at the beginning of such four-quarter period, which would permit the Company or its successor to incur additional indebtedness under the Indenture;
- Create unrestricted subsidiaries; or
- Enter into certain transactions with affiliates of the Company.

These and other restrictive covenants contained in the Indenture are subject to important exceptions and qualifications. All of the Company's subsidiaries are currently restricted subsidiaries.

As of June 30, 2013, the Company was in compliance with these covenants.

In connection with the offering of the Notes, the Company entered into a consent agreement with CMB as administrative agent and lender under the Company’s senior secured credit facility. See “— Revolving Line of Credit” below.

In connection with the issuance of the Notes, the Company and the Notes Guarantors entered into a second lien intercreditor agreement dated as of May 13, 2013 (the “Intercreditor Agreement”) with, among others, CMB, as administrative agent, first lien representative for the first lien secured parties and collateral agent for the first lien secured parties, the trustee under the Indenture and the collateral agent for the second lien secured parties. The Intercreditor Agreement provides, among other things, that the liens on the collateral securing the Notes and related obligations will be junior and subordinate in all respects to the liens on the collateral securing the Company's senior secured credit facility and related obligations.

Revolving Line of Credit

On May 29, 2012, the Company amended the terms of its senior secured credit facility (the “Credit Facility”) with CMB, as administrative agent and lender. The First Amendment to the Credit Agreement and Loan Documents (the “First Amendment”) modified certain provisions of the Company’s senior credit agreement with CMB that it had entered into on March 25, 2010. The maturity date of any outstanding debt under the Credit Facility remains March 24, 2015.

As amended by the First Amendment, the Credit Facility provides that the Company may make revolving credit borrowings in U.S. Dollars, Euros, British Pounds Sterling or Canadian Dollars up to an amount not to exceed the U.S. Dollar equivalent of $175.0 million. The Company also agreed that no additional borrowings may be made at any time at which the outstanding indebtedness under the revolving line of credit (principal, accrued interest and fees) exceeds the U.S. Dollar equivalent of $175.0 million. The First Amendment eliminated sub-facility limits under the Credit Facility.

The Company’s obligations under the Credit Facility continue to be guaranteed by certain of its material U.S. subsidiaries that remain as parties to the Credit Facility. In addition, INOVA Geophysical continues to provide a bank stand-by letter of credit as credit support for the Company’s obligations under the Credit Facility. The Company also entered into a credit support agreement with INOVA Geophysical whereby the Company has agreed to indemnify INOVA Geophysical for any and all losses sustained by INOVA Geophysical that arise out of INOVA Geophysical’s guarantee.

As amended by the First Amendment, the interest rates per annum on borrowings under the Credit Facility are, at the Company's option:

- an alternate base rate equal to the sum of (i) the greatest of (a) the prime rate of CMB, (b) a federal funds effective rate plus 0.50%, or (c) an adjusted LIBOR-based rate plus 1.0%, and (ii) an applicable interest margin of 1.4% (reduced from 2.5%); or
- for eurodollar borrowings and borrowings in Euros, Pounds Sterling or Canadian Dollars, the sum of (i) an adjusted LIBOR-based rate, and (ii) an applicable interest margin of 2.4% (reduced from 3.5%).