ION GEOPHYSICAL CORP
Form 10-Q/A
November 09, 2009

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q/A
(Amendment No. 1)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009
OR

o **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: þ No: o

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 o No o

* 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 þ	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: o No: þ

At July 29, 2009, there were 118,349,436 shares of common stock, par value $0.01 per share, outstanding.

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ION GEOPHYSICAL AND SUBSIDIARIES
EXPLANATORY NOTE TO FORM 10-Q/A

This Form 10-Q/A (Amendment No. 1) amends our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 as filed with the Securities and Exchange Commission (the SEC) on August 6, 2009, and is being filed to reflect the restatement of our condensed consolidated financial statements for the three months and the six months ended June 30, 2009, as discussed in Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements contained herein.

The determination to restate these financial statements resulted from an error in revenue recognition of certain product revenues in connection with the delivery of our FireFly® land seismic data acquisition system and related hardware and components in China, which we had recorded for the second fiscal quarter of 2009. The error resulted from the fact that the sales records in the possession of our management at June 30, 2009 did not contain all relevant documentation relating to that particular sale. Upon obtaining and reviewing all additional documentation related to the sale, we ascertained that the additional documentation provided additional terms with respect to that sale. On October 29, 2009, management and our Board of Directors, upon the recommendation of the Audit Committee of our Board of Directors, concluded that we should not have recognized the revenues from the sale in our results of operations for the second fiscal quarter of 2009. As a result, on November 4, 2009, we announced that the previously reported consolidated financial statements as of and for the three and six months ended June 30, 2009 should no longer be relied upon.

The reason for the incomplete documentation in our sales records for this sale resulted from a sales employee in our China sales office failing to forward all material documentation related to the sale, as is required by our revenue recognition policies. The discovery of the existence of the additional documentation relating to the sale in question occurred during the course of due diligence procedures that had been performed in connection with our joint venture and related transactions with BGP Inc., China National Petroleum Corporation (BGP), which was publicly announced on October 16, 2009. In connection with this due diligence process, we discovered certain documentation irregularities regarding the sale of the FireFly system, including that a portion of the documentation reflecting the terms for the sale was not made available to our management for assessment with respect to the recording and reporting of the sale. The purchaser of this equipment has confirmed to us that it has accepted the delivered system in question, and we are working with our customer to collect payment and anticipate its collection in the fourth quarter of 2009.

The consolidated financial information contained in this Form 10-Q/A as of and for the three and six months ended June 30, 2009 reflects our restated results of operations for those three and six month periods and our restated financial condition as of June 30, 2009. Our consolidated statement of cash flows for the six months ended June 30, 2009 has been restated resulting in changes within cash flows from operating activities, but no change to net cash provided by operating activities. For additional information concerning the restatements, the accounting periods affected and the impact on our results of operations and financial condition, see Note 1 of Notes to Unaudited Condensed Consolidated Financial Statements contained elsewhere in this Form 10-Q/A.

The principal adjustments made as a result of the restatement of the consolidated financial statements include a reduction in product revenues of approximately $11.3 million, a reduction in cost of products and services of approximately $8.2 million and a reduction in gross profits of approximately $3.1 million, for each of the three and six month periods ended June 30, 2009. The restated financial statements will also reflect the inclusion of several other adjustments for the first six months of fiscal 2009, of which the largest was approximately $3.3 million of additional stock-based compensation expense related to 2006, 2007 and 2008. Accounting Standards Codification (ASC) 718, *Share-Based Payments,* requires estimates of forfeitures of share-based awards to be made at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. This prior-period stock-based compensation expense relates to adjustments between estimated and actual forfeitures, which should have been recognized over the vesting periods of such awards. These adjustments were not deemed material with respect to either the results of prior years or the anticipated results and the trend of earnings for the current year and were therefore considered appropriate to include in an otherwise-required restatement of the second quarter. Additional details on these adjustments are included in Note 1 of Notes to Unaudited Condensed Consolidated Financial

Statements contained elsewhere in this Form 10-Q/A.

Because the controls in effect at our sales office in China at June 30, 2009 regarding our revenue recognition policies did not effectively confirm the accuracy and completeness of documentation relating to a large sale of products, we determined that there was a material weakness in our internal control over financial reporting that existed as of June 30, 2009.

We have commenced a process to review procedures in place in our China sales office and elsewhere in order to remediate this material weakness, and implement any necessary changes to our revenue recognition policies in effect in order to avoid a controls deficiency such as this in the future.

Based on their evaluation of the effectiveness of the company s disclosure controls and procedures as of June 30, 2009, our principal executive officer and principal financial officer had concluded that our disclosure controls and procedures were effective at that time to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Our second quarter Form 10-Q had contained disclosure of this conclusion. In light of the material weakness regarding the revenue recognition matters and this sale as of June 30, 2009, our principal executive officer and principal financial officer have now concluded that, as of June 30, 2009, our disclosure controls and procedures were not effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. This Form 10-Q/A contains these new disclosures regarding our disclosure controls and procedures as of June 30, 2009. As required by Rule 12b-15 under the Exchange Act, new certifications of our principal executive officer and principal financial officer are being filed as exhibits to this Form 10-Q/A under Item 6 of Part II.

For purposes of this Form 10-Q/A, and in accordance with Rule 12b-15 under the Exchange Act, each item in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 that was affected by this Amendment No. 1 has been amended and replaced in its entirety.

This Form 10-Q/A contains modified or updated disclosures from the original Form 10-Q as required to reflect only (i) the amendments related to the restatement, (ii) certain modifications related to subsequent events, that have occurred after August 6, 2009, the date the Quarterly Report on Form 10-Q was originally filed, as required under Accounting Standards Codification (ASC) 855-10, *Subsequent Events* and (iii) the additional disclosures contained in Part I, Item 4 *Controls and Procedures* and Part II. Item 1A. *Risk Factors.* Information with respect to events occurring after August 6, 2009 that are not required under ASC 855-10 to currently be disclosed has been or will be set forth, as appropriate, in our subsequent periodic filings, including our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Any reference to facts and circumstances at a current date refer to such facts and circumstances as of such original filing date. No attempt has been made in this Form 10-Q/A to modify or update disclosures as presented in the original Form 10-Q, except as discussed above.

ION GEOPHYSICAL CORPORATION AND SUBSIDIARIES
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FOR THE QUARTER ENDED JUNE 30, 2009

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

	June 30, 2009 (Restated)	December 31, 2008
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,608	$ 35,172
Restricted cash	6,447	6,610
Accounts receivable, net	76,662	150,565
Current portion notes receivable	8,352	11,665
Unbilled receivables	27,360	36,472
Inventories, net	234,814	262,519
Prepaid expenses and other current assets	13,918	20,386
Total current assets	404,161	523,389
Notes receivable	5,970	4,438
Deferred income tax asset	17,661	11,757
Property, plant, equipment and seismic rental equipment, net	88,706	59,129
Multi-client data library, net	113,097	89,519
Goodwill	52,984	49,772
Intangible assets, net	64,528	107,443
Other assets	19,880	15,984
Total assets	$ 766,987	$ 861,431
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	$ 26,646	$ 38,399
Accounts payable	55,903	94,586
Accrued expenses	66,191	77,046
Accrued multi-client data library royalties	17,924	28,044
Deferred revenue and other current liabilities	18,503	18,159
Total current liabilities	185,167	256,234
Long-term debt, net of current maturities	243,970	253,510
Non-current deferred income tax liability	3,555	22,713
Other long-term liabilities	3,840	3,904
Total liabilities	436,532	536,361

Stockholders equity:		
Cumulative convertible preferred stock	68,786	68,786
Common stock, $0.01 par value; authorized 200,000,000 shares; outstanding 118,348,947 and 99,621,926 shares at June 30, 2009 and December 31, 2008, respectively, net of treasury stock	1,183	996
Additional paid-in capital	740,386	694,261
Accumulated deficit	(431,601)	(376,552)
Accumulated other comprehensive loss	(41,735)	(55,859)
Treasury stock, at cost, 849,430 and 848,422 shares at June 30, 2009 and December 31, 2008, respectively	(6,564)	(6,562)
Total stockholders equity	330,455	325,070
Total liabilities and stockholders equity	$ 766,987	$ 861,431

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 June 30,		Six Months Ended June 30,	
	2009 (Restated)	2008	2009 (Restated)	2008
	(In thousands, except per share amounts)			
Product revenues	$ 52,038	$ 104,360	$ 111,514	$ 197,394
Service revenues	37,219	76,305	84,633	123,430
Total net revenues	89,257	180,665	196,147	320,824
Cost of products	33,862	72,637	73,893	132,254
Cost of services	25,419	50,007	58,582	82,155
Gross profit	29,976	58,021	63,672	106,415
Operating expenses:				
Research, development and engineering	11,793	11,850	23,258	24,009
Marketing and sales	8,438	12,222	18,201	23,378
General and administrative	17,256	14,213	36,256	28,997
Impairment of intangible assets			38,044	
Total operating expenses	37,487	38,285	115,759	76,384
Income (loss) from operations	(7,511)	19,736	(52,087)	30,031
Interest expense	(6,861)	(652)	(14,278)	(1,139)
Interest income	512	540	996	1,077
Other income (expense)	(6,381)	253	(6,403)	505
Income (loss) before income taxes	(20,241)	19,877	(71,772)	30,474
Income tax expense (benefit)	(4,510)	3,524	(18,473)	5,583
Net income (loss)	(15,731)	16,353	(53,299)	24,891
Preferred stock dividends	875	908	1,750	1,818
Net income (loss) applicable to common shares	$ (16,606)	$ 15,445	$ (55,049)	$ 23,073
Earnings per share:				
Basic net income (loss) per share	$ (0.16)	$ 0.16	$ (0.54)	$ 0.25
Diluted net income (loss) per share	$ (0.16)	$ 0.16	$ (0.54)	$ 0.24

Weighted average number of common shares outstanding:				
Basic	105,121	94,222	102,447	94,095
Diluted	105,121	102,272	102,447	98,047

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)

	Six Months Ended June 30,	
	2009 (Restated)	2008
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (53,299)	$ 24,891
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization (other than multi-client library)	21,740	13,171
Amortization of multi-client library	22,021	34,002
Stock-based compensation expense related to stock options, nonvested stock and employee stock purchases	7,406	4,138
Bad debt expense	2,625	303
Fair value adjustment of preferred stock redemption features		(173)
Impairment of intangible assets	38,044	
Deferred income tax	(24,697)	942
Change in operating assets and liabilities:		
Accounts and notes receivable	71,538	18,134
Unbilled receivables	9,112	(30,118)
Inventories	(10,112)	(59,568)
Accounts payable, accrued expenses and accrued royalties	(60,059)	8,444
Deferred revenue	(438)	(441)
Other assets and liabilities	14,071	(183)
Net cash provided by operating activities	37,952	13,542
Cash flows from investing activities:		
Purchase of property, plant and equipment	(2,007)	(7,705)
Investment in multi-client data library	(45,599)	(57,105)
Other investing activities	(208)	110
Net cash used in investing activities	(47,814)	(64,700)
Cash flows from financing activities:		
Net proceeds from issuance of long-term debt	11,785	
Net proceeds from issuance of common stock	38,220	
Borrowings under revolving line of credit	32,000	50,000
Repayments under revolving line of credit		(50,000)
Payments on notes payable and long-term debt	(66,196)	(4,037)
Costs associated with debt amendments	(3,800)	
Issuance of preferred stock		35,000
Payment of preferred dividends	(1,750)	(1,818)
Proceeds from employee stock purchases and exercise of stock options	265	4,317

Other financing activities	(31)	(255)
Net cash provided by financing activities	10,493	33,207
Effect of change in foreign currency exchange rates on cash and cash equivalents	805	327
Net increase (decrease) in cash and cash equivalents	1,436	(17,624)
Cash and cash equivalents at beginning of period	35,172	36,409
Cash and cash equivalents at end of period	$ 36,608	$ 18,785

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(1) Basis of Presentation, Restatement and Overview

Basis of Presentation

The 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, 2008 has been derived from the Company s audited consolidated financial statements at that date. The consolidated balance sheet at June 30, 2009 (restated see below), the consolidated statements of operations for the three and six months ended June 30, 2009 (restated see below) and 2008, and the consolidated statements of cash flows for the six months ended June 30, 2009 (restated see below) and 2008 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, 2009 (as restated) are not necessarily indicative of the operating results for a full year or of future operations.

These 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 consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

On September 18, 2008, the Company completed the acquisition of ARAM Systems Ltd. and Canadian Seismic Rentals Inc. (sometimes collectively referred to herein as ARAM). The results of operations of the Company for the three and six months ended June 30, 2009 have been affected by this acquisition, which may affect the comparability of certain of the financial information contained in this Quarterly Report on Form 10-Q. This acquisition is described in more detail in Note 2 *ARAM Acquisition.*

Further, in connection with preparation of the consolidated financial statements and in accordance with the recently issued Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events,* the Company evaluated subsequent events after the balance sheet date of June 30, 2009 through November 9, 2009, the date of the Company s filing of this Form 10-Q/A.

Restatement of Financial Statement as of and for the Three and Six Months Ended June 30, 2009

The consolidated balance sheet at June 30, 2009, the consolidated statements of operations for the three and six months ended June 30, 2009 and the consolidated statement of cash flows for the six months ended June 30, 2009 are being restated. The determination by the Company to restate these financial statements resulted from an error in revenue recognition of certain product revenues in connection with the delivery of the Company s FireFly® land seismic data acquisition system and related hardware and components in China, which the Company had recorded for the second fiscal quarter of 2009. The error resulted from the fact that the sales records in the possession of the Company s management at June 30, 2009 did not contain all relevant documentation relating to that particular sale. Upon obtaining and reviewing all additional documentation related to the sale, the management of the Company ascertained that the additional documentation provided additional terms with respect to that sale. On October 29, 2009, management and the Board of Directors of the Company, upon the recommendation of the Audit Committee of the Board of Directors, concluded that the Company should not have recognized the revenues from the sale in the Company s results of operations for the second fiscal quarter of 2009. As a result, on November 4, 2009, the Company announced that its previously reported consolidated financial statements as of and for the three and six months ended June 30, 2009 should no longer be relied upon.

The reason for the incomplete documentation for the Company s sales records resulted from a sales employee in the Company s China sales office failing to forward all material documentation related to the sale, as is required by the Company s revenue recognition policies. The discovery of the existence of the additional documentation relating to the sale in question occurred during the course of due diligence procedures that had been performed in connection with the Company s joint venture and related transactions with BGP Inc., China National Petroleum Corporation (BGP), which was publicly announced on October 16, 2009. In connection with this due diligence process, Company

employees discovered certain documentation irregularities regarding the sale of the FireFly system, including that a portion of the documentation reflecting the terms for the sale was not made available to the Company s management for assessment with respect to the recording and reporting of the sale.

The consolidated financial information contained in this Form 10-Q/A as of and for the three and six months ended June 30, 2009 reflects the Company s restated results of operations for those three and six month periods and its restated financial condition as of June 30, 2009. The consolidated statement of cash flows for the six months ended June 30, 2009 has also been restated resulting in changes within cash flows from operating activities, but no change to net cash provided by operating activities. For additional information concerning the restatements, the accounting periods affected and the impact on the Company s results of operations and financial condition, see Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations* contained in this Form 10-Q/A.

The principal adjustments and changes made as a result of the restatement of these consolidated financial statements are as follows:

- Product revenues for the three and six months ended June 30, 2009 are reduced by approximately $11.3 million;
- Cost of products and services are reduced by approximately $8.2 million for each of these periods;
- Gross profits are reduced by approximately $3.1 million for each of these periods; and
- Loss from operations increased (i) from approximately ($0.2) million for the three months ended June 30, 2009 to approximately ($7.5) million, and (ii) from approximately ($44.8) million for the six months ended June 30, 2009 to approximately ($52.1) million.

The restated financial statements also reflect the inclusion of several other adjustments for the first six months of fiscal 2009, of which the largest was approximately $3.3 million of stock-based compensation expense related to 2006, 2007 and 2008. Accounting Standards Codification (ASC) 718, *Share-Based Payments,* requires estimates of forfeitures of share-based awards to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. This prior-period stock-based compensation expense relates to adjustments between estimated and actual forfeitures, which should have been recognized over the vesting period of such awards. These adjustments were not deemed material with respect to either the results of prior years or the anticipated results and the trend of earnings for the current year and were therefore considered appropriate to include in an otherwise-required restatement of second quarter results.

A summary of the restatements included in this amended filing are:

	As Previously Reported	Adjustments	As Restated
	(In thousands, except per share data)		
Balance Sheet as of June 30, 2009:			
Accounts receivable, net	$ 87,915	$(11,253)	$ 76,662
Inventories, net	227,250	7,564	234,814
Prepaid expenses and other current assets	14,351	(433)	13,918
Total current assets	408,283	(4,122)	404,161
Deferred income tax asset	15,693	1,968	17,661
Property, plant and equipment and seismic rental equipment, net	89,749	(1,043)	88,706
Total assets	770,184	(3,197)	766,987
Accrued expenses	67,315	(1,124)	66,191
Total current liabilities	186,291	(1,124)	185,167
Total liabilities	437,656	(1,124)	436,532
Additional paid-in-capital	737,119	3,267	740,386
Accumulated deficit	(426,261)	(5,340)	(431,601)
Total stockholders equity	332,528	(2,073)	330,455
Total liabilities and stockholders equity	770,184	(3,197)	766,987

Statement of Operations for the three months ended June 30, 2009:

Product revenues	$ 63,291	$(11,253)	$ 52,038
Total net revenues	100,510	(11,253)	89,257
Cost of products	41,876	(8,014)	33,862
Cost of services	25,593	(174)	25,419

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	As Previously Reported	Adjustments	As Restated
	(In thousands, except per share data)		
Gross profit	33,041	(3,065)	29,976
Research, development and engineering	10,750	1,043	11,793
Marketing and sales	8,938	(500)	8,438
General and administrative	13,556	3,700	17,256
Total operating expenses	33,244	4,243	37,487
Income (loss) from operations	(203)	(7,308)	(7,511)
Income (loss) before income taxes	(12,933)	(7,308)	(20,241)
Income tax benefit	(2,542)	(1,968)	(4,510)
Net income (loss)	(10,391)	(5,340)	(15,731)
Net loss applicable to common shares	(11,266)	(5,340)	(16,606)
Basic net loss per common share	(0.11)	(0.05)	(0.16)
Diluted net loss per common share	(0.11)	(0.05)	(0.16)
Statement of Operations for the six months ended June 30, 2009:			
Product revenues	$122,767	$(11,253)	$111,514
Total net revenues	207,400	(11,253)	196,147
Cost of products	81,907	(8,014)	73,893
Cost of services	58,756	(174)	58,582
Gross profit	66,737	(3,065)	63,672
Research, development and engineering	22,215	1,043	23,258
Marketing and sales	18,701	(500)	18,201
General and administrative	32,556	3,700	36,256
Total operating expenses	111,516	4,243	115,759
Income (loss) from operations	(44,779)	(7,308)	(52,087)
Income (loss) before income taxes	(64,464)	(7,308)	(71,772)
Income tax benefit	(16,505)	(1,968)	(18,473)
Net income (loss)	(47,959)	(5,340)	(53,299)
Net loss applicable to common shares	(49,709)	(5,340)	(55,049)
Basic net loss per common share	(0.49)	(0.05)	(0.54)
Diluted net loss per common share	(0.49)	(0.05)	(0.54)
Statement of Cash Flows for the six months ended June 30, 2009:			
Net income (loss)	$ (47,959)	$ (5,340)	$ (53,299)
Stock-based compensation expense related to stock options, nonvested stock and employee stock purchases	4,139	3,267	7,406
Deferred income taxes	(22,729)	(1,968)	(24,697)
Accounts and notes receivable	60,285	11,253	71,538
Inventories	(2,548)	(7,564)	(10,112)
Accounts payable and accrued expenses	(58,935)	(1,124)	(60,059)
Other assets and liabilities	12,595	1,476	14,071

Overview

Demand for the Company s products and services is cyclical and substantially dependent upon activity levels in the oil and gas industry, particularly the willingness and ability of the Company s customers to expend their capital for oil and natural gas exploration and development projects. This demand is highly sensitive to current and expected future

oil and natural gas prices.

The current global financial crisis, which has contributed, among other things, to significant reductions in available capital and liquidity from banks and other providers of credit, has resulted in the worldwide economy entering into a recessionary period, which may be prolonged and severe. Oil prices have been highly volatile in recent years, increasing to record levels in the second quarter of 2008 and then sharply declining thereafter, falling to approximately $35 per barrel during the first quarter of 2009. By the end of July 2009, oil prices were approximately $70 per barrel. Due to oversupply, natural gas prices at the Henry Hub interconnection point at the end of July 2009 were approximately 75% below the July 2008 price of $13.31 per mmBtu. These conditions have sharply curtailed demand for exploration activities in North America and other regions.

The weakness in demand for the Company s products, the uncertainty surrounding future economic activity levels and the tightening of credit availability have resulted in decreased sales of the Company s business units. The Company s land seismic equipment businesses in North America and Russia have been particularly adversely affected. The Company expects that the level of

customers exploration and production expenditures will continue to be low for the remainder of 2009 to the extent that exploration and production companies (E&P companies) and seismic contractors are limited in their access to the credit markets as a result of further disruptions in, or a more conservative lending stance by, the lending markets. There continues to be significant uncertainty about future exploration and production activity levels and the impact on the Company s businesses. Furthermore, the Company s seismic contractor customers and the E&P companies that are users of the Company s products, services and technology have reduced their capital spending from mid-2008 levels.

While the current global recession and the decline in oil and gas prices have slowed demand for the Company s products and services in the near term, the Company believes that the industry s long-term prospects remain favorable because of the declining rates in oil and gas production. The Company believes that technology that adds a competitive advantage through cost reductions or improvements in productivity will continue to be valued in its marketplace, even in the current difficult market. For example, the Company believes that its new technologies, such as FireFly®, DigiFIN and Orca®, will continue to attract interest from its customers because those new technologies are designed to deliver improvements in image quality within more productive delivery systems.

In response to the recent downturn in the demand for the Company s products and services, the Company has taken measures to reduce its cost structure. In addition, the Company has slowed its capital spending, including investments for its multi-client data library. To date, the most significant cost reduction has related to reduced headcount. In the fourth quarter of 2008 through the first six months of 2009, the Company reduced its headcount by 319 positions, or approximately 21% of its employee headcount, in order to adjust to the expected lower levels of activity. Including all contractors and employees, the Company reduced its headcount by 424 positions, or 23%. In April 2009, the Company also initiated a salary reduction program that reduced employee base salaries. The salary reductions reduced affected employees annual base salaries by 12% for the Company s chief executive officer, chief operating officer and chief financial officer, 10% for all other executives and senior management, and 5% for most other employees. The Company has adopted a payment plan whereby employees affected by the salary reduction program may receive a payment in the beginning of 2010 in an amount that is approximately equal to the amount of their salary reduction plus interest if the Company achieves certain predetermined levels of adjusted EBITDA during 2009 and the Company determines that its liquidity levels are sufficient to make the payments. Additionally, the Board of Directors elected to implement a 15% reduction in director fees. In addition to the salary reduction program, the Company elected to suspend its matching contributions to its employee 401(k) plan contributions. The Company plans to reinstate employee salary levels and the 401(k) plan employer match benefit once business conditions improve. The Company has also reduced its research and development spending but intends to continue to fund strategic programs to position it for the expected recovery in economic activity. Overall, the Company has and will continue to give priority to generating cash flow and reducing its cost structure, while maintaining its long-term commitment to continued technology development.

The Company reported in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, that, as of that date, it was in compliance with all of its financial covenants under its commercial banking credit facility that was amended in 2008 (the Amended Credit Facility) and its Bridge Loan Agreement with Jefferies Finance LLC dated as of December 30, 2008 (the Bridge Loan Agreement). The Company also reported that, based upon its 2009 first quarter results and its then-current operating forecast for the remainder of 2009, it was probable that, unless certain mitigating actions were taken, the Company would not be in compliance for the period ending September 30, 2009 with certain of the financial covenants contained in the Amended Credit Facility loan agreement and the Bridge Loan Agreement. Due to these uncertainties, the Company completed a $40.7 million offering of common stock. The Company then used the proceeds of the offering to repay the Bridge Loan Agreement indebtedness and entered into an additional amendment (the Fifth Amendment) to its Amended Credit Facility that, among other things, modified certain of the financial and other covenants contained in the Amended Credit Facility.

There are certain possible scenarios and events beyond the Company s control, such as lack of improvement in E&P company and seismic contractor spending, lack of improvement in the Company s operating results, significant write-downs of accounts receivable or inventories, changes in certain currency exchange rates and other factors, that could cause the Company to fall out of compliance with certain financial covenants contained in the Amended Credit Facility for the period ending September 30, 2009. The Company s failure to comply with such covenants could result

in an event of default that, if not cured or waived, could have a material adverse effect on the Company s financial condition, results of operations and debt service capabilities. If the Company was not able to satisfy all of these covenants, the Company would need to seek to amend, or seek one or more waivers of,

those covenants under the Amended Credit Facility. There can be no assurance that the Company would be able to obtain any such waivers or amendments, in which case the Company would likely seek to obtain new secured debt, unsecured debt or equity financing. However, there also can be no assurance that such debt or equity financing would be available on terms acceptable to the Company or at all. In the event that the Company would need to amend the Amended Credit Facility, or obtain new financing, the Company would likely incur up front fees and higher interest costs and other terms in the amendment would likely be less favorable to the Company than those currently provided under the Amended Credit Facility.

On June 4, 2009, the Company completed a private placement transaction in which the Company issued and sold 18,500,000 shares of its common stock in privately-negotiated transactions for aggregate gross proceeds of approximately $40.7 million. The $38.2 million in net proceeds from the offering, along with $2.6 million of cash on hand, were applied to repay in full the outstanding indebtedness under the Bridge Loan Agreement, which had been scheduled to mature on January 31, 2010.

On June 29, 2009, the Company also entered into a $20.0 million secured equipment financing term loan with ICON ION, LLC (ICON), an affiliate of ICON Capital Inc. The Company received $12.5 million from ICON on June 29, 2009 and $7.5 million on July 20, 2009. All borrowed indebtedness under this arrangement is scheduled to mature on July 31, 2014, and constitutes permitted indebtedness under the Amended Credit Facility. The Company and its subsidiaries intend to use the proceeds of the secured term loan for working capital and general corporate purposes. See further discussion at Note 9 *Notes Payable, Long-Term Debt and Lease Obligations.*

As of June 30, 2009 and July 29, 2009, the Company had available $0.2 million of additional revolving credit borrowing capacity, which can be used only to fund further letters of credit under the Amended Credit Facility. The Company s cash and cash equivalents as of July 29, 2009 were approximately $34.0 million compared to $36.6 million at June 30, 2009.

For more information on subsequent material modifications and amendments to the Company s outstanding debt agreements and the Company entering into a binding term sheet with BGP, which sets forth, among other things, the principal terms for a proposed joint venture between BGP and the Company, please refer to Note 16 *Subsequent Events.*

(2) ARAM Acquisition

In September 2008, the Company acquired the outstanding shares of ARAM. The following summarized unaudited pro forma consolidated income statement information for the three and six months ended June 30, 2008, assumes that the ARAM acquisition had occurred as of the beginning of the period presented. The Company has prepared these unaudited pro forma financial results for comparative purposes only. These unaudited pro forma financial results may not be indicative of the results that would have occurred if ION had completed the acquisition as of the beginning of the period presented or the results that may be attained in the future. Amounts presented below are in thousands, except for the per share amounts:

	Pro forma Three Months Ended June 30, 2008	Pro forma Six Months Ended June 30, 2008
Pro forma net revenues	$ 191,512	$ 366,012
Pro forma income from operations	$ 22,618	$ 40,932
Pro forma net income applicable to common shares	$ 11,911	$ 19,934
Pro forma basic net income per common share	$ 0.12	$ 0.20
Pro forma diluted net income per common share	$ 0.12	$ 0.20

(3) Impairment of Intangible Assets

In the first quarter of 2009, the Company recorded an impairment charge of $38.0 million, before tax, associated with a portion of its proprietary technology and the remainder of its customer relationships related to the ARAM acquisition. In the fourth quarter of 2008, the Company had recorded an intangible asset impairment charge of $10.1 million, before tax, related to ARAM s customer relationships, trade name and non-compete agreements. This

additional impairment during the first quarter of 2009 was the result of the continued overall economic and financial crisis, which has continued to adversely affect the demand for the Company s products and services, especially land analog acquisition products within North America and Russia. As of June 30, 2009, no further impairment indicators were noted and no additional impairments of the Company s intangible assets had occurred. The Company s net book value associated with ARAM s acquired intangibles was $34.3 million at June 30, 2009.

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements,* (SFAS 157), as amended by FSP SFAS 157-1 and FSP SFAS 157-2. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FSP SFAS 157-2 delayed, until the first quarter of fiscal year 2009, the effective date for SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On March 31, 2009, the Company performed a non-recurring valuation of its intangible assets related to its ARAM acquisition, which resulted in the $38.0 million impairment charge noted above. The valuation was performed using Level 3 inputs. The fair value of these assets was estimated using a discounted cash flow model, which includes a variety of inputs. The key inputs for the model included the current operational five-year forecast for the Company, the current market discount factor and the forecasted cash flows related to each intangible asset. The forecasted operational and cash flow amounts were determined using the current activity levels in the Company as well as the current and expected short-term market conditions.

(4) Segment and Product Information

In order to allow for increased visibility and accountability of costs and more focused customer service and product development, the Company evaluates and reviews 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 and six months ended June 30, 2009 and 2008 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009 (Restated)	2008	2009 (Restated)	2008
Net revenues:				
Land Imaging Systems	$ 19,162	$ 45,820	$ 53,344	$ 95,708
Marine Imaging Systems	24,224	50,368	42,677	84,856
Data Management Solutions	9,217	9,596	16,463	18,762
Total ION Systems	52,603	105,784	112,484	199,326
ION Solutions	36,654	74,881	83,663	121,498
Total	$ 89,257	$ 180,665	$ 196,147	$ 320,824
Income (loss) from operations:				
Land Imaging Systems	$ (10,845)	$ 1,320	$ (15,592)	$ 4,615
Marine Imaging Systems	7,743	11,181	10,504	21,182
Data Management Solutions	5,818	5,468	10,248	10,676
Total ION Systems	2,716	17,969	5,160	36,473
ION Solutions	4,602	16,070	9,808	22,297
Corporate	(14,829)	(14,303)	(29,011)	(28,739)
Impairment of intangible assets			(38,044)	
Total	$ (7,511)	$ 19,736	$ (52,087)	$ 30,031

(5) Restructuring Activities

In the first half of fiscal 2009, the Company continued its restructuring program that was initiated in the fourth quarter of 2008. Under this program, the Company reduced its employee headcount by a total of approximately 21% (or 319 positions) through the first six months of 2009. When terminated independent contractors are included, the Company reduced its headcount by a total of 424 positions, or 23%. At December 31, 2008, the Company had accrued $1.8 million related to severance costs. In the first six months of 2009, the Company accrued an additional $1.8 million related to severance costs and made cash payments to employees of $2.9 million, resulting in an accrual as of June 30, 2009 of $0.7 million. Of the amount expensed for the six months ended June 30, 2009, approximately $1.3 million was included in operating expenses, with the remaining $0.5 million included in cost of sales. During the remainder of 2009, the Company will continue to evaluate its staffing needs and may reduce its employee headcount further as necessary.

In April 2009, the Company initiated a salary reduction program that reduced employee base salaries. The salary reductions ranged from 12% for the Company s chief executive officer, chief operating officer and chief financial officer, 10% for all other executives and senior management, and 5% for most other employees. The Company has adopted a variable payment plan whereby

employees affected by the salary reduction program may receive a payment in the beginning of 2010 approximately equal to the amount of the salary reduction plus interest if the Company achieves certain predetermined levels of adjusted EBITDA during 2009 and the Board of Directors determines that the liquidity levels of the Company are sufficient to allow the payments. The Company has not accrued any amounts under the variable payment plan as of June 30, 2009. The Board also elected to implement a 15% reduction in director fees. In addition to the salary reduction program, the Company suspended its match to employee 401(k) plan contributions.

(6) Inventories

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

	June 30, 2009 (Restated)	December 31, 2008
Raw materials and subassemblies	$ 111,691	$ 104,862
Work-in-process	11,280	20,698
Finished goods	135,141	161,065
Reserve for excess and obsolete inventories	(23,298)	(24,106)
Inventories, net	$ 234,814	$ 262,519

During the six months ended June 30, 2009, the Company transferred approximately $41.0 million of inventories, at cost, to its seismic rental equipment pool.

(7) Net Income (Loss) per Common 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 committed for issuance under outstanding stock options at June 30, 2009 and 2008 was 7,506,225 and 6,217,625, respectively, and the total number of shares of restricted stock and restricted stock units outstanding at June 30, 2009 and 2008 was 721,721 and 1,046,277, respectively. During the six months ended June 30, 2009 and 2008, the Company issued zero and 505,866 shares under stock option exercises, respectively.

As of June 30, 2009, the Company had 30,000, 5,000 and 35,000 outstanding shares, respectively, of Series D-1, Series D-2, and Series D-3 Cumulative Convertible Preferred Stock (collectively referred to as the Series D Preferred Stock), which may currently be converted, at the holder s election, into up to 9,669,434 shares of common stock. The outstanding shares of Series D-1 Preferred Stock and of Series D-2 Preferred Stock were dilutive for the three months ended June 30, 2008; however, the outstanding shares of Series D-3 Preferred Stock were anti-dilutive for the same three-month period. For the three and six months ended June 30, 2009 and the six months ended June 30, 2008, all of the outstanding shares of Series D Preferred Stock were anti-dilutive. As shown in the table below, the Company s convertible senior notes that matured on December 15, 2008 were dilutive for the three and six months ended June 30, 2008.

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,	
	2009 (Restated)	2008	2009 (Restated)	2008
Net income (loss) applicable to common shares	$ (16,606)	$ 15,445	$ (55,049)	$ 23,073

Impact of assumed convertible debt conversion, net of tax		99		199
Impact of assumed Series D Preferred Stock conversions:				
Series D-1 Preferred Stock dividends		389		
Series D-2 Preferred Stock dividends		65		
Fair value adjustment of Series D-2 Preferred Stock redemption feature, net of tax		(121)		
Net income (loss) after impact of assumed convertible debt and preferred stock conversions	$ (16,606)	$ 15,877	$ (55,049)	$ 23,272

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2009 (Restated)	2008	2009 (Restated)	2008
Weighted average number of common shares outstanding	105,121	94,222	102,447	94,095
Effect of dilutive stock awards		2,250		2,276
Effect of convertible debt conversion		1,676		1,676
Effect of assumed Series D Preferred Stock conversions:				
Series D-1 Preferred Stock conversion		3,812		
Series D-2 Preferred Stock conversion		312		
Weighted average number of diluted common shares outstanding	105,121	102,272	102,447	98,047
Basic net income (loss) per share	$ (0.16)	$ 0.16	$ (0.54)	$ 0.25
Diluted net income (loss) per share	$ (0.16)	$ 0.16	$ (0.54)	$ 0.24

(8) Issuance of Common Stock

On June 1, 2009, the Company entered into purchase agreements with certain institutional investors for the private placement of an aggregate of 18,500,000 shares of the Company s common stock at a purchase price per share of $2.20, resulting in total gross proceeds to the Company of approximately $40.7 million. The sale of the shares in the private placement occurred on June 4, 2009. The Company received approximately $38.2 million in net proceeds from the private placement transaction (after deduction of related fees and expenses), and used the net proceeds along with approximately $2.6 million of cash on hand to repay in full the outstanding indebtedness under the Company s Bridge Loan Agreement, which was scheduled to mature on January 31, 2010. See further discussion at Note 9 *Notes Payable, Long-Term Debt and Lease Obligations.*

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

Obligations (in thousands)	June 30, 2009	December 31, 2008
$100.0 million revolving line of credit	$ 98,000	$ 66,000
Term loan facility	110,937	120,313
Bridge loan		40,816
Secured equipment financing	12,500	
Amended and restated subordinated seller note	35,000	35,000
Subordinated seller note		10,000
Facility lease obligation	4,405	4,610
Equipment capital leases and other notes payable	9,774	15,170
Total	270,616	291,909
Current portion of notes payable, long-term debt and lease obligations	(26,646)	(38,399)
Non-current portion of notes payable, long-term debt and lease obligations	$ 243,970	$ 253,510

Revolving Line of Credit and Term Loan Amended Credit Facility. The Company, its subsidiary, ION International S.à r.l. (ION Sàrl), and certain of the Company s domestic and other foreign subsidiaries (as guarantors) are parties to a $100.0 million amended and restated revolving credit facility and a $125.0 million original principal amount term loan facility under the terms of its Amended Credit Facility, which is governed by the terms of its amended credit agreement with its commercial bank lenders. The revolving credit facility provides additional flexibility for the Company s international capital needs by permitting non-U.S. borrowings by ION Sàrl under the facility and providing the Company and ION Sàrl the ability to borrow in alternative currencies. Under the terms of the Amended Credit Agreement, up to $60.0 million (or its equivalent in foreign currencies) is available for borrowings by ION Sàrl and up to $75.0 million is available for borrowings by the Company; however, the total level of outstanding borrowings under the revolving credit facility may not exceed $100.0 million. The term loan indebtedness was borrowed in September 2008 to fund a portion of the cash consideration for the ARAM acquisition.

The interest rate on borrowings under the Amended Credit Facility is, at the Company s option, (i) an alternate base rate (either the prime rate of HSBC Bank USA, N.A., or a federals funds effective rate plus 0.50%, plus an applicable interest margin) or (ii) for Eurodollar borrowings and borrowings in Euros, pounds sterling or Canadian dollars, a LIBOR-based rate, plus an applicable interest margin. The amount of the applicable interest margin is determined by reference to a leverage ratio of total funded debt to consolidated EBITDA for the four most recent trailing fiscal quarters. The interest rate margins range from 2.875% to 5.5% for alternate base rate borrowings, and from 3.875% to 6.5% for Eurodollar borrowings. As of June 30, 2009, $110.9 million in outstanding term loan indebtedness under the Amended Credit Facility accrued interest at an applicable LIBOR-based interest rate of 6.2% per annum, while $98.0 million in total outstanding revolving credit indebtedness under the Amended Credit Facility accrued interest at an applicable LIBOR-based interest rate of 5.6% per annum. The average effective interest rates for the quarter ended June 30, 2009

under the LIBOR-based rates for the term loan indebtedness and the Amended Credit Facility were 6.2% and 5.5%, respectively.

At March 31, 2009, the Company was in compliance with all of the financial covenants under the terms of the Amended Credit Facility and the Bridge Loan Agreement. However, based upon the Company s first quarter results and its then-current operating forecast for the remainder of 2009, management for the Company determined that it was probable that, if the Company and its subsidiaries did not take any mitigating actions, they would not be in compliance with one or more of the Company s financial covenants under those two debt agreements for the period ending September 30, 2009. As a result, the Company approached the lenders under the Amended Credit Facility to obtain amendments to relax certain of these financial covenants and completed a private placement of the Company s common stock, which, along with its cash on hand, generated sufficient funds to repay the outstanding indebtedness under the Bridge Loan Agreement. See further discussion of the private placement offering at Note 8 *Issuance of Common Stock.*

The Company and its bank lenders entered into a Fifth Amendment to the Amended Credit Facility in June 2009. Excluding certain amendments to the financial covenants, which are incorporated into the description of financial covenants below, the principal modifications to the terms of the Amended Credit Agreement resulting from the Fifth Amendment were as follows:

Increased applicable maximum interest rate margins in the event that the Company s leverage ratio exceeds 2.25 to 1.0 from 4.5% to up to 5.5% for alternate base rate loans, and from 5.5% to up to 6.5% for LIBOR-rate loans;

Modified a restricted payments covenant and permitting the Company to apply up to $6.0 million of its available cash on hand to prepay the indebtedness under the Bridge Loan Agreement;

Added a requirement for the Company to apply 50% of its Excess Cash Flow, if any, calculated with respect to a just-completed fiscal year, to the prepayment of the term loan under the Amended Credit Agreement if the Company s fixed charge coverage ratio or its leverage ratio for the just-completed fiscal year does not meet certain requirements; and

Modified Section 2.18 of the Credit Agreement to (i) prohibit any increase in the revolving commitments under the Amended Credit Facility until the Company has delivered its compliance certificate for the period ending September 30, 2009, and then only if certain fixed charge coverage ratio and leverage ratio requirements are met, and (ii) reduce the maximum revolving credit facility amount to which the Amended Credit Facility can be increased to $140.0 million.

The Amended Credit Agreement contains covenants that restrict the Company, subject to certain exceptions, from:

Incurring additional indebtedness (including capital lease obligations), granting or incurring additional liens on the Company s properties, pledging shares of the Company s subsidiaries, entering into certain merger or other similar transactions, entering into transactions with affiliates, making certain sales or other dispositions of assets, making certain investments, acquiring other businesses and entering into certain sale-leaseback transactions with respect to certain of the Company s properties; or

Paying cash dividends on the Company s common stock and repurchasing and acquiring shares of the Company s common stock unless (i) there is no event of default under the Amended Credit Facility and (ii) the amount of cash used for cash dividends, repurchases and acquisitions does not, in the aggregate, exceed an amount equal to the excess of 30% of ION s domestic consolidated net income for the Company s most recently completed fiscal year over $15.0 million.

The Amended Credit Facility also requires the Company to be in compliance with certain financial covenants, including requirements for the Company and its domestic subsidiaries to:

maintain a minimum fixed charge coverage ratio (which must be not less than 1.50 to 1.0 for the fiscal quarter ending June 30, 2009; 1.00 to 1.0 for the fiscal quarter ending September 30, 2009; 1.10 to 1.0 for the fiscal quarter ending December 31, 2009; 1.15 to 1.0 for the fiscal quarter ending March 31, 2010; 1.25 to 1.0 for the fiscal quarter ending June 30, 2010; 1.35 to 1.0 for the fiscal quarter ending September 30, 2010; and 1.50 to 1.0 the fiscal quarter ending December 31, 2010 and thereafter);

not exceed a maximum leverage ratio (2.75 to 1.0 for the fiscal quarter ending June 30, 2009; 3.00 to 1.0 for the fiscal quarter ending September 30, 2009 and December 31, 2009; 2.75 to 1.0 for the fiscal quarter ending March 31, 2010 and June 30,

2010; 2.5 to 1.0 for the fiscal quarter ending September 30, 2010; and 2.25 to 1.0 the fiscal quarter ending December 31, 2010 and thereafter); and

maintain a minimum tangible net worth of at least 80% of the Company s tangible net worth as of September 18, 2008 (the date that the Company completed its acquisition of ARAM), plus 50% of the Company s consolidated net income for each quarter thereafter, and 80% of the proceeds from any mandatorily convertible notes and preferred and common stock issuances for each quarter thereafter.

At June 30, 2009, the Company was in compliance with all of the financial covenants under the terms of the Amended Credit Facility.

The term loan indebtedness under the Amended Credit Facility is subject to scheduled quarterly amortization payments of $4.7 million per quarter until December 31, 2010. Commencing on December 31, 2010, the quarterly principal amortization increases to $6.3 million per quarter until December 31, 2012, when the quarterly principal amortization amount increases to $9.4 million for each quarter until maturity on September 17, 2013. The term loan indebtedness matures on September 17, 2013, but the terms of the Amended Credit Facility allow the administrative agent to accelerate the maturity date to a date that is six months prior to the maturity date of additional debt financing that the Company may incur to refinance certain indebtedness incurred in connection with the ARAM acquisition.

The Amended Credit Facility contains customary events of default provisions (including an event of default upon any change of control event affecting the Company), the occurrence of which could lead to an acceleration of ION s payment obligations under the Amended Credit Facility.

The Amended Credit Facility includes a $35.0 million sub-limit for the issuance of documentary and stand-by letters of credit, of which $1.8 million was outstanding at June 30, 2009. As of July 29, 2009, the Company had available $0.2 million of additional revolving credit borrowing capacity, which can be used solely to fund additional letters of credit under the Amended Credit Facility.

The obligations of the Company and ION Sàrl under the Amended Credit Facility are guaranteed by certain domestic and foreign subsidiaries of the Company and are secured by security interests in stock of the domestic guarantors and certain first-tier foreign subsidiaries, and by substantially all of the Company s other assets and those of the guarantors. The obligations of ION Sàrl and the foreign guarantors are secured by security interests in all of the stock of the foreign guarantors and the domestic guarantors, and substantially all of the Company s assets and the other assets of the foreign guarantors and the domestic guarantors.

Bridge Loan. On December 30, 2008, the Company and certain of its domestic subsidiaries (as guarantors) entered into the Bridge Loan Agreement with Jefferies Finance LLC (Jefferies). Under the Bridge Loan Agreement, the Company borrowed $40.8 million in unsecured indebtedness (the Bridge Loan) to refinance certain outstanding short-term indebtedness that had been loaned to the Company by Jefferies in connection with the completion of the Company s acquisition of ARAM in September 2008. The maturity date of the Bridge Loan was January 31, 2010. In June 2009, the Company repaid the entire outstanding Bridge Loan indebtedness using the net proceeds of $38.2 million from a private placement of its common stock and $2.6 million of operating cash. Under the Bridge Loan Agreement, the Company was required to pay to Jefferies a non-refundable initial duration fee of 3.0% of the aggregate principal amount of the Bridge Loan outstanding (if any) on June 30, 2009 and a non-refundable additional duration fee of 2.0% of the aggregate principal amount of the Bridge Loan outstanding (if any) on September 30, 2009. However, due to the prepayment in June 2009, no such duration fees were required to be paid to Jefferies. The annual interest rate on the Bridge Loan at the time of its repayment was 15%. Inclusive of these additional fees (and an upfront fee previously paid of 5.0%), the effective interest rate on the Bridge Loan was 25.3% at the time of its repayment.

Secured Equipment Financing. On June 29, 2009, the Company entered into a $20.0 million secured equipment financing transaction with ICON. Two master loan agreements were entered into with ICON in connection with this financing transaction: (i) the Company, ARAM Rentals Corporation, a Nova Scotia unlimited company (ARC), and ICON entered into a Canadian Master Loan and Security Agreement dated as of June 29, 2009 with regard to certain seismic equipment leased to customers by ARC, and (ii) the Company, ARAM Seismic Rentals, Inc., a Texas corporation (ASRI), and ICON entered into a Master Loan and Security Agreement (U.S.) dated as of June 29, 2009 with regard to certain seismic equipment leased to customers by ASRI (collectively, the ICON Loan Agreements). All

borrowed indebtedness under the ICON Loan Agreements is scheduled to mature on July 31, 2014. The Company intends to use the proceeds of the secured term loans for working capital and general corporate purposes.

Under the ICON Loan Agreements, ICON advanced $12.5 million on June 29, 2009 and $7.5 million on July 20, 2009. The

indebtedness under the ICON Loan Agreements is secured by first-priority liens in (a) certain ARAM seismic rental equipment owned by ARC or ASRI located in the United States and Canada (subject to certain exceptions), and certain additional and replacement seismic equipment owned by such subsidiaries from time to time, (b) written leases or other agreements evidencing payment obligations relating to the leasing by ARC or ASRI of this equipment to their respective customers, including their related receivables, (c) the cash or cash equivalents held by such subsidiaries and (d) any proceeds thereof.

The repayment obligations of each of ARC and ASRI under the ICON Loan Agreements are guaranteed by the Company under a Guaranty dated as of June 29, 2009 (the Guaranty). The indebtedness under the ICON Loan Agreements and the Guaranty constitute permitted indebtedness under the Amended Credit Facility.

Under both ICON Loan Agreements, interest on the outstanding principal amount will accrue at a fixed interest rate of 15% per annum calculated monthly, and is payable monthly on the first day of each month. Principal and interest are payable, commencing on September 1, 2009, in 60 monthly installments until the maturity date, when all remaining outstanding principal and interest will be due and payable. Pursuant to the ICON Loan Agreements, ICON received a non-refundable upfront fee of $0.3 million. In addition, ICON will receive an administrative fee equal to 0.5% of the aggregate principal amount of advances under the ICON Loan Agreements, payable at the end of each of the first four years during their terms. Inclusive of these additional fees, the effective interest rate on the secured equipment financing was 16.6% as of June 30, 2009.

Beginning on August 1, 2012, and continuing until January 31, 2014, the outstanding principal balances of the loans may be prepaid in full by giving ICON 30 days prior written notice and paying a prepayment fee equal to 3.0% of the then-outstanding principal amount of the loans. Commencing on February 1, 2014, the loans may be prepaid in full by giving ICON 30 days prior written notice and without payment of any prepayment penalty or fee.

Amended and Restated Subordinated Seller Note. As part of the purchase price for the ARAM acquisition, in September 2008, the Company s acquisition subsidiary (ION Sub) issued an unsecured senior promissory note in the original principal amount of $35.0 million (the Senior Seller Note) to one of the selling shareholders of ARAM, now known as Maison Mazel Ltd. On December 30, 2008, in connection with other acquisition refinancing transactions that were completed on that date, the terms of the Senior Seller Note were amended and restated in an Amended and Restated Subordinated Promissory Note dated December 30, 2008 (the Amended and Restated Subordinated Note). The principal amount of the Amended and Restated Subordinated Note is $35.0 million and matures on September 17, 2013. The Company also entered into a guaranty dated December 30, 2008, whereby the Company guaranteed on a subordinated basis, ION Sub s repayment obligations under the Amended and Restated Subordinated Note under a guaranty dated December 30, 2008. Interest on the outstanding principal amount under note accrued at the rate of 15% per annum, and is payable quarterly.

The terms of the Amended and Restated Subordinated Note provide that the particular covenants contained in the Amended Credit Agreement (or in any successor agreement or instrument) that restrict the Company s ability to incur additional indebtedness will be incorporated into the Amended and Restated Subordinated Note. However, under the Amended and Restated Subordinated Note, neither Maison Mazel nor any other holder of the Amended and Restated Subordinated Note have a separate right to consent to or approve any amendment or waiver of the covenant as contained in the Amended Credit Facility.

In addition, ION Sub agreed that if it incurs indebtedness under any financing that:

- qualifies as Long Term Junior Financing (as defined in the Amended Credit Agreement),
- results from a refinancing or replacement of the Amended Credit Facility such that the aggregate principal indebtedness (including revolving commitments) thereunder would be in excess of $275.0 million, or
- qualifies as unsecured indebtedness for borrowed money that is evidenced by notes or debentures, has a maturity date of at least five years after the date of its issuance and results in total gross cash proceeds to the Company of not less than $45.0 million ($40.0 million after the Bridge Loan has been paid in full),

then ION Sub is obligated to repay in full from the total proceeds from such financing the then-outstanding principal of and interest on the Amended and Restated Subordinated Note.

The indebtedness under the Amended and Restated Subordinated Note is subordinated to the prior payment in full of the Company s Senior Obligations, which is defined in the Amended and Restated Subordinated Note as the

principal, premium (if

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any), interest and other amounts that become due in connection with:

- the Company s obligations under the Amended Credit Facility,
- the Company s liabilities with respect to capital leases and obligations under its facility sale-leaseback facility that qualify as a Sale/Leaseback Agreement (as that term is defined in the Amended Credit Agreement),
- guarantees of the indebtedness described above, and
- debentures, notes or other evidences of indebtedness issued in exchange for, or in the refinancing of, the Senior Obligations described above, or any indebtedness arising from the payment and satisfaction of any Senior Obligations by a guarantor.

In April 2009, ION Sub assigned the Amended and Restated Subordinated Note to the Company, and the related guaranty by the Company of ION Sub s repayment obligations was terminated. In connection with this assignment, ION Sub was released from its obligations under the Amended and Restated Subordinated Note.

Subordinated Seller Note. As part of the purchase price for the ARAM acquisition in September 2008, ION Sub also issued to Maison Mazel, Ltd., one of the selling shareholders of ARAM, an unsecured promissory note in the principal amount of $10.0 million original principal amount unsecured promissory note. In connection with the refinancing transactions that occurred in December 2008, the obligations of ION Sub and the Company under this note and a related guaranty were terminated and extinguished in exchange for the Company s assignment to Maison Mazel, Ltd. of the Company s rights to a Canadian federal income tax refund (the Refund Claim). However, while the indebtedness under this note was legally extinguished, the liability for financial accounting purposes could not be extinguished on the Company s consolidated balance sheet, and was included as short-term debt. In May 2009, the Company received and submitted to Maison Mazel, Ltd. the final Refund Claim. In June 2009, the remaining balance of $0.7 million of this indebtedness was paid.

The fair market value of the Company s outstanding notes payable and long-term debt was determined to be $270.6 million at June 30, 2009. Approximately $145.9 million of the Company s total outstanding indebtedness was re-negotiated on December 30, 2008, and an additional $98.0 million of the Company s revolving credit borrowings was re-negotiated in June 2009. Additionally, the debt under the ICON Loan Agreements totaling $12.5 million at June 30, 2009 was negotiated on June 29, 2009. As a result, all of the Company s principal debt facilities were negotiated within the last six months using current market rates. Also, a majority of the Company s indebtedness is variable-rate, which approximates fair value.

(10) Income Taxes

The Company maintains a valuation allowance for a significant portion of its U.S. deferred tax assets. The valuation allowance is calculated in accordance with the provisions of SFAS 109, *Accounting for Income Taxes,* which requires that a valuation allowance be established or maintained when it is more likely than not that all or a portion of deferred tax assets will not be realized. In the event that the Company s 2009 operating results are different than currently expected, an additional valuation allowance may be required to be established on the Company s existing unreserved net U.S. deferred tax assets, which total $21.9 million at June 30, 2009. These existing unreserved U.S. deferred tax assets are currently considered to be more likely than not realized. The Company s effective tax rates for the three months ended June 30, 2009 and 2008 were 22.3% (benefit on a loss) and 17.7% (provision on income), respectively. The Company s effective tax rates for the six months ended June 30, 2009 and 2008 were 25.7% and 18.3%, respectively. The increase in the Company s effective tax rate during the six months ended June 30, 2009 related primarily to the tax benefit on the impairment of intangible assets, which is taxed at 29%.

The Company has no significant unrecognized tax benefits and does not expect to recognize significant increases in unrecognized tax benefits during the next twelve month period. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense.

The Company s U.S. federal tax returns for 2004 and subsequent years remain subject to examination by tax authorities. The Company is no longer subject to IRS examination for periods prior to 2004, although carryforward attributes that were generated prior to 2004 may still be adjusted upon examination by the IRS if they either have been or will be used in a future period. In the Company s foreign tax jurisdictions, tax returns for 2005 and subsequent years generally remain open to examination.

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(11) Comprehensive Net Income (Loss)

The components of comprehensive net income (loss) are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009 (Restated)	2008	2009 (Restated)	2008
Net income (loss) applicable to common shares	$ (16,606)	$ 15,445	$ (55,049)	$ 23,073
Foreign currency translation adjustment	17,529	98	14,124	(236)
Comprehensive net income (loss)	$ 923	$ 15,543	$ (40,925)	$ 22,837

(12) Stock-Based Compensation

The Company calculated the fair value of each option award on the date of grant and each stock appreciation right award using the Black-Scholes option pricing model. The following assumptions were used for each respective period:

	Six Months Ended June 30,	
	2009	2008
Risk-free interest rates	1.6% - 2.4%	2.5% - 3.4%
Expected lives (in years)	4.1 - 4.7	5.0
Expected dividend yield	0%	0%
Expected volatility	86.3% - 91.9%	44.8% - 48.5%

The computation of expected volatility during the six months ended June 30, 2009 and 2008 was based on an equally weighted combination of historical volatility and market-based implied volatility. Historical volatility was calculated from historical data for a period of time approximately equal to the expected life of the option award, starting from the date of grant. Market-based implied volatility was derived from traded options on the Company s common stock having a life of approximately six months. The risk-free interest rate assumption is based upon the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

(13) Commitments and Contingencies

Legal Matters. On June 12, 2009, WesternGeco L.L.C. (WesternGeco) filed a lawsuit against the Company in the United States District Court for the Southern District of Texas, Houston Division. In the lawsuit, styled *WesternGeco L.L.C. v. ION Geophysical Corporation*, WesternGeco alleges that the Company has infringed several United States patents regarding marine seismic streamer steering devices that are owned by WesternGeco. WesternGeco is seeking unspecified monetary damages and an injunction prohibiting the Company from making, using, selling, offering for sale or supplying any infringing products in the United States. Based on the Company s review of the lawsuit filed by WesternGeco and the WesternGeco patents at issue, the Company believes that its products do not infringe any WesternGeco patents, that the claims asserted by WesternGeco are without merit and that the ultimate outcome of the claims against it will not result in a material adverse effect on the Company s financial condition or results of operations. The Company intends to defend the claims against it vigorously.

On June 16, 2009, the Company filed an answer and counterclaims against WesternGeco, in which the Company denies that it has infringed WesternGeco s patents and asserts that the WesternGeco patents are invalid or unenforceable. The Company also asserts that WesternGeco s Q-Marine system, components and technology infringe upon a United States patent owned by the Company related to marine seismic streamer steering devices. The claims by the Company also assert that WesternGeco misappropriated the Company s proprietary technology and breached a confidentiality agreement between the parties by using the Company s technology in its patents and products and that WesternGeco tortiously interfered with the Company s relationship with its customers. In addition, the Company claims that the lawsuit by WesternGeco is an illegal attempt by WesternGeco to control and restrict competition in the market for marine seismic surveys performed using laterally steerable streamers. In its counterclaims, the Company is

requesting various remedies and relief, including a declaration that the WesternGeco patents are invalid or unenforceable, an injunction prohibiting WesternGeco from making, using, selling, offering for sale or supplying any infringing products in the United States, a declaration that the WesternGeco patents should be co-owned by the Company, and an award of unspecified monetary damages.

On July 10, 2009, Fletcher International, Ltd. (Fletcher), the holder of shares of the Company s Series D Preferred Stock, filed a books and records proceeding in the Delaware Court of Chancery under Section 220(b) of the Delaware General Corporation Law, asking the Court to require the Company to produce a broad range of the Company s documents and records for inspection. Section 220(b) allows stockholders of Delaware corporations to make a demand on the corporation for access to certain books and records of the corporation, provided that such demand is made with appropriate specificity and is made for a proper purpose. The Company intends to vigorously defend this proceeding with respect to information that it believes has not been requested with appropriate specificity or for a proper purpose as required by law.

Under the Company s agreement with Fletcher regarding the Series D Preferred Stock held by Fletcher, the aggregate number of shares of common stock issued or issuable to Fletcher upon conversion or redemption of, or as dividends paid on, the Series D Preferred Stock could not exceed a designated maximum number of shares (the Maximum Number), and such Maximum Number could be increased by Fletcher providing the Company with a 65-day notice of increase, but under no circumstance could the total number of shares of common stock issued or issuable to Fletcher with respect to the Series D Preferred Stock ever exceed 15,724,306 shares. The Fletcher agreement had originally designated 7,669,434 shares as the original Maximum Number. On November 28, 2008, Fletcher delivered a notice to the Company to increase the Maximum Number to 9,669,434 shares, effective February 1, 2009. On September 15, 2009, Fletcher purported to deliver a second notice to the Company purporting to increase the Maximum Number from 9,669,434 shares to 11,669,434 shares, to become effective on November 19, 2009. The Company believes that its agreement with Fletcher gives Fletcher the right to issue only one notice to increase the Maximum Number. On November 6, 2009, the Company filed an action in the Court of Chancery of the State of Delaware, seeking a declaration that, under the relevant agreement, Fletcher is permitted to deliver only one notice to increase the Maximum Number and that its purported second notice is legally invalid.

The Company has been named in various other lawsuits or threatened actions that are incidental to its ordinary business. Litigation is inherently unpredictable. Any claims against the Company, whether meritorious or not, could be time consuming, cause the Company to incur costs and expenses, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits and actions cannot be predicted with certainty. Management currently believes that the ultimate resolution of these matters will not have a material adverse impact on the financial condition, results of operations or liquidity of the Company.

Warranties. The Company generally warrants that all of its manufactured equipment will be free from defects in workmanship, materials and parts. Warranty periods generally range from 30 days to three years from the date of original purchase, depending on the product. The Company provides for estimated warranty as a charge to cost of sales at time of sale, which is when estimated future expenditures associated with such contingencies become probable and reasonably estimated. However, new information may become available, or circumstances (such as applicable laws and regulations) may change, thereby resulting in an increase or decrease in the amount required to be accrued for such matters (and therefore a decrease or increase in reported net income in the period of such change). Additionally, as warranties expire, any remaining estimated warranty cost is credited to the income statement and would reduce the cost of products. A summary of warranty activity is as follows (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009 (Restated)	**2008**	**2009 (Restated)**	**2008**
Balance at beginning of period	$ 9,543	$ 13,185	$ 10,526	$ 13,439
Accruals for warranties issued during the period	(99)	1,101	(640)	2,490
Settlements made (in cash or in kind) during the period	(1,644)	(2,626)	(2,086)	(4,269)
Balance at end of period	$ 7,800	$ 11,660	$ 7,800	$ 11,660

(14) Concentration of Credit and Foreign Sales Risks

The majority of the Company s foreign sales are denominated in U.S. dollars. Product revenues are allocated to geographical locations on the basis of the ultimate destination of the equipment, if known. If the ultimate destination of such equipment is not known, product revenues are allocated to the geographical location of initial shipment. Service revenues related primarily to the ION Solutions division are allocated based upon the billing location of the customer. For the six months ended June 30, 2009 and 2008, international sales comprised 58% and 60%, respectively, of total net revenues. For the six months ended June 30, 2009, the Company recognized $32.2 million of sales to customers in Europe, $25.1 million of sales to customers in the Asia Pacific region, $25.6 million of sales to customers in the Middle East, $14.0 million of sales to customers in Latin American countries, $3.1 million of sales to customers in the Commonwealth of Independent States, or former Soviet Union (CIS) and $14.4 million of sales to customers in

Africa. In recent years, the CIS and certain Latin American countries have experienced economic problems and uncertainties. However, given the recent market downturn, more countries and areas of the world have also begun to experience economic problems and uncertainties. To the extent that world events or economic conditions negatively affect the Company s future sales to customers in these and other regions of the world or the collectibility of the Company s existing receivables, the Company s future results of operations, liquidity, and financial condition would be adversely affected.

(15) Recent Accounting Pronouncements

In June 2009, the Financial Accounts Standards Board (FASB) issued SFAS No. 165, *Subsequent Events,* (SFAS 165). SFAS 165 provides further background and clarification on the definition and disclosure requirements of subsequent events. The requirements under SFAS 165 provide that a Company s financial statements reflect the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company is not required to reflect the effects of subsequent events that relate to conditions arising after the date of the balance sheet. The provisions for SFAS 165 were effective for interim or annual periods beginning after June 15, 2009 and shall be applied prospectively. The adoption of SFAS 165 did not have a material impact to the Company s financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 provide additional clarification on interim disclosures and require public companies to disclose the fair value of financial instruments whenever companies publish interim financial summary information. The provisions for FSP FAS 107-1 and APB 28-1 were effective for interim periods ending after June 15, 2009 with earlier adoption permitted. The Company adopted FSP FAS 107-1 and APB 28-1 on the effective date. The adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact to the Company s financial position, results of operation or cash flows.

In April 2009, the FASB issued FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments* (FSP FAS 115-1 and FAS 124-1). FSP FAS 115-1 and FAS 124-1 provide additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This staff position changes (i) the method for determining whether an other-than-temporary impairment exists for debt securities and for cost method investments; and (ii) the amount of an impairment charge to be recorded in earnings. FSP FAS 115-1 and FAS 124-1 was effective for interim and annual periods ending after June 15, 2009. The Company has determined that it is not practicable to estimate the fair value of its cost method investments, as quoted market prices are not available. During 2009, there were no events or changes in circumstances that would indicate a significant adverse effect on the fair value of the Company s investments. The aggregate carrying amount of cost method investments was $5.0 million at June 30, 2009, and was included within Other Assets. The adoption of FSP FAS 115-1 and FAS 124-1 did not have a material impact to the Company s financial position, results of operation or cash flows.

In September 2008, the FASB issued FSP EITF 03-6-1*, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1), which was effective for fiscal years beginning after December 15, 2008. This FSP would require unvested share-based payment awards containing non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) to be included in the computation of basic earnings per share according to the two-class method. The adoption of FSP EITF 03-6-1 did not have a material impact on the Company s earnings per share computation.

(16) Subsequent Events

On October 23, 2009, the Company entered into a binding term sheet (the Term Sheet) with BGP, which sets forth, among other things, the principal terms for a proposed joint venture between BGP and the Company. In connection with the execution of the Term Sheet, the Company entered into a Sixth Amendment to the Amended Credit Facility effective as of October 23, 2009 (the Sixth Amendment), which, among other things, (i) increases the aggregate revolving commitment amount under the Amended Credit Facility from $100.0 million to $140.0 million, (ii) permits Bank of China, New York Branch (the New Lender), to join the Amended Credit Facility as a lender, and (iii) modifies, or provides limited waivers of, certain of the financial and other covenants contained in the Amended

Credit Facility. Contemporaneously with the execution of the Term Sheet, the Company entered into bridge financing arrangements consisting of the following:

Two promissory notes (the Convertible Notes) issued to the New Lender under the Amended Credit Facility as amended by the Sixth Amendment, convertible into shares of the Company s common stock; and

A Warrant Issuance Agreement with BGP, under which the Company granted BGP a warrant (the Warrant) to purchase

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shares of the Company s common stock that may be exercised in lieu of conversion of the Convertible Notes.

The Term Sheet contemplates that the Company will enter into a purchase agreement with BGP under which (i) BGP will acquire a 51% equity interest in the joint venture for an aggregate purchase price of $108.5 million cash to be paid to the Company and the contribution by BGP to the joint venture of certain assets and certain related liabilities of BGP that relate to the joint venture s business and (ii) the Company will acquire a 49% interest in the joint venture in exchange for the contribution of certain assets and certain related liabilities that relate to the Company s land business. The assets of each party to be transferred to the joint venture will include seismic recording systems, inventory, certain intellectual property rights and contract rights, all as may be necessary to own and operate the business of the joint venture.

The scope of the joint venture s business is defined in the Term Sheet as being the business of designing, development, engineering, manufacturing, research and development, distribution, sales and marketing and field support of land-based equipment used in seismic data acquisition for the energy and petroleum industry. Excluded from the scope of the joint venture s business will be (x) the analog sensor businesses of the Company and BGP and (y) the businesses of certain companies in which BGP or the Company is currently a minority owner. In addition to these excluded businesses, all of the Company s other businesses including Marine Imaging Systems, Concept Systems, Data Management Solutions and ION Solutions, which includes GXT s Imaging Solutions, Integrated Seismic Solutions (ISS) and BasinSPAN and seismic data libraries, will remain owned and operated by the Company and will not comprise a part of the joint venture.

On October 27, 2009, the Company borrowed an aggregate of $40 million in the form of revolving credit bridge financing arranged by BGP from Bank of China, New York Branch and evidenced by the Convertible Notes. The Company also granted to BGP a warrant to purchase a number of shares of the Company s common stock, equal to $40.0 million divided by an exercise price of $2.80 per share (subject to adjustment). At such time as when the Warrant becomes exercisable, it would initially be fully exercisable for 14,285,814 shares of common stock.

The execution of the Sixth Amendment, which included waivers of the financial covenants contained in the Amended Credit Facility for the fiscal quarters ending September 30, 2009, December 31, 2009, March 31, 2010 and June 30, 2010, should enable the Company to conduct its operations without defaulting under the Amended Credit Facility until the transactions with BGP are completed, which is currently believed to occur during the first quarter of 2010. Without these waivers, the Company would not have been in compliance with certain of its financial covenants at September 30, 2009. However, any failure to comply with the Company s other covenants under the Amended Credit Facility could result in an event of default that, if not cured or waived, could have a material adverse effect on the Company s financial condition, results of operations and debt service capabilities.

If the Company is not able to satisfy all of these covenants, the Company would need to seek to amend, or seek additional covenant waivers under the Amended Credit Facility. There can be no assurance that the Company would be able to obtain any such waivers or amendments, in which case the Company would likely seek to obtain new secured debt, unsecured debt or equity financing. However, there also can be no assurance that such debt or equity financing would be available on terms acceptable to the Company or at all. Additionally, if the proposed transactions with BGP are not completed as anticipated or if the proposed transactions with BGP were to be abandoned, even for reasons beyond the Company s control (such as failure to obtain certain regulatory approvals), then the waivers, upon notice from the lenders, would cease to be effective and the Company at that time would likely not be in compliance with certain of the financial covenants contained in the Amended Credit Facility, which would then result in an event of default.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

See Note 1 of Notes to Unaudited Condensed Consolidated Financial Statements for explanation regarding the restatement of financial statements as of and for the three and six months ended June 30, 2009.

Executive Summary

Our Business. We are a technology-focused seismic solutions company that provides advanced seismic data acquisition equipment, seismic software and seismic planning, processing and interpretation services to the global energy industry. Our products, technologies and services are used by oil and gas exploration and production (E&P) companies and seismic contractors to generate high-resolution images of the Earth s subsurface for exploration,

exploitation and production operations.

We operate our company through four business segments. Three of our business segments Land Imaging Systems, Marine Imaging Systems and Data Management Solutions make up our ION Systems division. Our fourth business segment is our ION Solutions division.

Land Imaging Systems cable-based, cableless and radio-controlled seismic data acquisition systems, digital and analog geophone sensors, vibroseis vehicles (i.e., vibrator trucks) and source controllers for detonator and vibrator energy sources.

Marine Imaging Systems towed streamer and redeployable ocean bottom cable seismic data acquisition systems and shipboard recorders, streamer positioning and control systems and energy sources (such as air guns and air gun controllers).

Data Management Solutions software systems and related services for navigation and data management involving towed marine streamer and seabed operations.

ION Solutions advanced seismic data processing services for marine and land environments, seismic data libraries, and Integrated Seismic Solutions (ISS) services.

Our Current Debt Levels. In connection with the ARAM acquisition, we increased our indebtedness significantly. As of June 30, 2009, we had outstanding total indebtedness of approximately $270.6 million, including capital lease obligations. Total indebtedness on that date included $110.9 million of five-year term indebtedness and $98.0 million in revolving credit debt, in each case incurred under our amended commercial banking credit facility (the Amended Credit Facility). Total indebtedness on that date also included $12.5 million in borrowings under a secured equipment financing transaction. We also had as of that date $35.0 million of subordinated indebtedness outstanding under an amended and restated subordinated promissory note (the Amended and Restated Subordinated Note) that we had issued to one of ARAM s selling shareholders as part of the purchase price consideration for the acquisition of ARAM.

As of June 30, 2009 and July 29, 2009, we had available $0.2 million of additional revolving credit borrowing capacity, which can be used only to fund additional letters of credit under the Amended Credit Facility. Our cash and cash equivalents as of July 29, 2009 were approximately $34.0 million compared to $36.6 million at June 30, 2009.

We reported in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, that, as of that date, we were in compliance with all of our financial covenants under (i) our Amended Credit Facility and (ii) our Bridge Loan Agreement dated as of December 30, 2008 (the Bridge Loan Agreement) with Jefferies Finance LLC (Jefferies). We also reported that, based upon our 2009 first quarter results and our then-current operating forecast for the remainder of 2009, it was probable that, unless certain mitigating actions were taken, we would not be in compliance for the period ending September 30, 2009 with certain of the financial covenants contained in Amended Credit Facility loan agreement and the Bridge Loan Agreement. Due to these uncertainties, during June 2009, we repaid the Bridge Loan Agreement indebtedness and entered into an additional amendment (the Fifth Amendment) to the Amended Credit Facility. Among other things, the Fifth Amendment modified certain of the financial and other covenants contained in the Amended Credit Facility. See further discussion below at *Liquidity and Capital Resources Sources of Capital* and at Note 9 *Notes Payable, Long-Term Debt and Lease Obligations*.

On June 4, 2009, we completed a private placement transaction under which we issued and sold 18,500,000 shares of our common stock in privately-negotiated transactions, for aggregate gross proceeds of approximately $40.7 million. The $38.2 million of net proceeds from the offering, along with $2.6 million of cash on hand, were applied to repay in full the outstanding indebtedness under the Bridge Loan Agreement. The indebtedness under the Bridge Loan Agreement had been scheduled to mature on January 31, 2010. See further discussion below at *Liquidity and Capital Resources Sources of Capital* and at Note 9 *Notes Payable, Long-Term Debt and Lease Obligations.*

On June 29, 2009, we entered into a $20.0 million secured equipment financing with ICON ION, LLC (ICON), an affiliate of ICON Capital Inc. We received $12.5 million from ICON on June 29, 2009 and $7.5 million on July 20, 2009. All borrowed indebtedness under the master loan agreements governing this equipment financing arrangement is scheduled to mature on July 31, 2014. The obligations under these master loan agreements are guaranteed by us under a guaranty dated as of June 29, 2009 (the Guaranty). The indebtedness under these loan agreements and this guaranty constitute permitted indebtedness under the Amended Credit Facility. We used the proceeds of these secured term loans for working capital and general corporate purposes. See further discussion below at *Liquidity and Capital Resources Sources of Capital* and at Note 9 *Notes Payable, Long-Term Debt and Lease Obligations.*

There are certain possible scenarios and events beyond our control, such as lack of improvement in E&P company and seismic contractor spending, lack of improvement in our operating results, significant write-downs of accounts receivable or inventories, changes in certain currency exchange rates and other factors, that could cause us to fall out of compliance with certain financial covenants contained in the Amended Credit Facility for the period ending September 30, 2009. Our failure to comply with such covenants could result in an event of default that, if not cured or waived, could have a material adverse effect on our financial condition, results of operations and debt service capabilities. If we were not able to satisfy all of these covenants, we would need to seek to amend, or seek one or more waivers of, those covenants under the Amended Credit Facility. There can be no assurance that we would be able to obtain any such waivers or amendments, in which case we would likely seek to obtain new secured debt, unsecured debt or equity financing. However, there also can be no assurance that such debt or equity financing would be available on terms acceptable to us or at all. In the event that we would need to amend the Amended Credit Facility, or obtain new financing, we would likely incur up front fees and higher interest costs and other terms in the amendment would likely be less favorable to us than those currently provided under the Amended Credit Facility.

Economic and Credit Market Conditions. Demand for our products and services is cyclical and substantially dependent upon activity levels in the oil and gas industry, particularly our customers willingness and ability to expend their capital for oil and natural gas exploration and development projects. This demand is highly sensitive to current and expected future oil and natural gas prices.

The current global financial crisis, which has contributed, among other things, to significant reductions in available capital and liquidity from banks and other providers of credit, has resulted in the worldwide economy entering into a recessionary period, which may be prolonged and severe. Oil prices have been highly volatile in recent periods, increasing to record levels in the second quarter of 2008 and then sharply declining thereafter, falling to approximately $35 per barrel during the first quarter of 2009. By the end of July 2009, oil prices were approximately $70 per barrel. Due to oversupplies of natural gas, prices for natural gas at the Henry Hub interconnection point at the end of July 2009 were approximately 75% below the July 2008 price of $13.31 per mmBtu. These conditions have sharply curtailed demand for exploration activities in North America and other regions. The uncertainty surrounding future economic activity levels and the tightening of credit availability have resulted in decreased sales for several of our businesses. Our land seismic equipment businesses in North America and Russia have been particularly adversely affected.

Our seismic contractor customers and the E&P companies that are users of our products, services and technology have generally reduced their capital spending. We expect that exploration and production expenditures continue to be constrained to the extent E&P companies and seismic contractors are limited in their access to the credit markets as a result of further disruptions in, or more conservative lending practices in, the credit markets. There continues to be significant uncertainty about future activity levels and the impact on our businesses.

We are in a down cycle for sales of our products and services that we believe will likely last through the remainder of 2009, with an expected recovery starting sometime in 2010, depending on the depth and length of the current downturn. Furthermore, our seismic contractor customers and the E&P companies that are users of our products, services and technology have generally reduced their capital spending.

International oil companies (IOCs) continue to have difficulty accessing new sources of supply, partially as a result of the growth of national oil companies. This situation is also affected by increasing environmental issues, particularly in North America, where companies may be denied access to some of the most promising onshore and offshore exploration opportunities. It is estimated that approximately 85%-90% of the world s reserves are controlled by national oil companies, which increasingly prefer to develop resources on their own or by working directly with the oil field services and equipment providers. These dynamics often prevent capital, technology and project management capabilities from being optimally deployed on the best exploration and production opportunities, which results in global supply capacity being less than it otherwise might be. As a consequence, the pace of new supply additions may be insufficient to keep up with demand once the global recession ends.

In response to this downturn, we have taken measures to further reduce operating costs in our businesses. We expect that 2009 will prove to be a challenging year for our North America and Russia land systems and vibroseis truck sales. In addition, we have slowed our capital spending, including investments for our multi-client data library,

and are projecting capital expenditures for 2009 at $90 million to $95 million compared with $127.9 million for the comparable period in 2008. Of that total, we expect to spend approximately $80 million to $85 million on investments in our multi-client data library during 2009, and we anticipate that a majority of this investment will be underwritten by our customers. To the extent our customers commitments do not reach an acceptable level of pre-funding, the amount of our anticipated investment could significantly decline. The remaining sums are expected to be funded from internally generated cash.

Through a variety of other resources, we are continuing to explore ways to reduce our cost structure. We have taken a deliberate approach to analyzing product and service demand in our business and are taking a more conservative approach in offering extended financing terms to our customers. To date, our most significant cost reduction has related to reduced headcount. During the fourth quarter of 2008 and continuing through the first six months of 2009, we reduced our headcount by 319 positions, or approximately 21% of our employee headcount, in order to adjust to the expected lower levels of activity. Including all contractors and employees, we reduced our headcount by 424 positions, or 23%. In April 2009, we also initiated a salary reduction program that reduced employee salaries. The salary reductions reduced affected employees annual base salaries by 12% for our chief executive officer, chief operating officer and chief financial officer, 10% for all other executives and senior management, and 5% for most other employees. We have adopted a variable payment plan whereby employees affected by the salary reduction program may receive a payment in the beginning of 2010 approximately equal to the amount of the salary reduction plus interest if we achieve certain predetermined levels of adjusted EBITDA during 2009 and our Board of Directors determines that our liquidity levels are sufficient to allow the payments. Our Board also elected to implement a 15% reduction in director fees. In addition to the salary reduction program, we suspended our matching contributions to employee 401(k) plan contributions. Based upon these cost reduction initiatives, we currently expect to generate annual savings of approximately $43 million. We have also reduced our research and development spending but will continue to fund strategic programs to position us for the expected recovery in economic activity. Overall, we will give priority to generating cash flow and reducing our cost structure, while maintaining our long-term commitment to continued technology development. Our business is mainly technology-based. We are not in the field crew business, and therefore do not have large amounts of capital and other resources invested in vessels or other assets necessary to support contracted acquisition services, nor do we have large manufacturing facilities. This cost structure gives us the flexibility to rapidly adjust our expense base when downward economic cycles affect our industry. This business model has also allowed us to reduce our annual operating expense by approximately $43 million in a very short period of time. We have focused on rapidly adjusting our headcount to better match the current level of activity, while preserving investment in our longer-term research and development programs. This flexibility should allow us to be better positioned for the expected recovery.

While the current global recession and the decline in oil and gas prices have slowed demand for our products and services in the near term, we believe that our industry s long-term prospects remain favorable because of the declining rates in oil and gas production and the relatively small number of new discoveries of oil and gas reserves. We believe that technology that adds a competitive advantage through cost reductions or improvements in productivity will continue to be valued in our marketplace, even in the current difficult market. For example, we believe that our new technologies, such as FireFly®, DigiFIN and Orca®, will continue to attract interest from our customers because those technologies are designed to deliver improvements in image quality within more productive delivery systems. We have adjusted much of our sales efforts for our ARIES® land seismic systems from North America to international sales channels (other than Russia). In late 2008, we announced the commercialization of our ARIES II system, which we believe will provide more flexibility for users.

2009 Developments. Our overall total net revenues of $196.1 million for the six months ended June 30, 2009 decreased $124.7 million, or 38.9%, compared to total net revenues for the six months ended June 30, 2008. Our overall gross profit percentage for the first six months of 2009 was 32.5% compared to 33.2% for the first six months of 2008. In the first six months of 2009, we recorded a loss from operations of ($52.1) million (which includes the effect of an impairment of intangible assets charge of $38.0 million in the first quarter of 2009), compared to $30.0 million income from operations for the first six months of 2008.

Developments to date in 2009 include the following:

In January 2009, we announced our first commercial delivery of a multi-thousand station FireFly system equipped with digital, full-wave VectorSeis® sensors to the world s largest land contractor. The deployment in the second quarter of 2009 of this FireFly system occurred in a producing hydrocarbon basin containing reservoirs that have proven difficult to image with conventional seismic techniques.

In March 2009, we announced that we had signed an agreement with The Polarcus Group of Companies for the provision of seismic data processing services. Under the agreement, we will

provide hardware, software and geophysicists in order to support a seismic project s entire imaging lifecycle, from the vessel to an onshore data processing center.

In April 2009, we announced that a 6,100 station FireFly system will be utilized by a super major to undertake two high channel count, multicomponent (full-wave) seismic acquisition programs in northeast Texas.

In April 2009, we announced the first commercial sale of our cable-based ARIES II seismic recording platform to one of the world s largest geophysical services providers. The sale includes two 5,000 channel ARIES II recording systems that the customer plans to deploy on upcoming, high-channel count seismic surveys.

In May 2009, we announced that an 8,000 station FireFly system will be utilized by Compania Mexicana de Exploraciones (Comesa), an oilfield services company majority-owned by PEMEX, the national oil company of Mexico, on three projects in Mexico.

In May 2009, we announced that we had successfully acquired an additional 6,200 kilometers of regional seismic data offshore India s western coast as part of our ongoing IndiaSPAN program. Another 3,800 kilometers has since been acquired off the east coast of India.

Key Financial Metrics. The following table provides an overview of key financial metrics for our company as a whole and our four business segments during the three and six months ended June 30, 2009, compared to those periods one year ago (in thousands, except per share amounts):

	Three Months Ended June 30,		Comparable Quarter Increase (Decrease)	Six Months Ended June 30,		Comparable Year-to-Date Increase (Decrease)
	2009 (Restated)	2008		2009 (Restated)	2008	
Net revenues:						
Land Imaging Systems	$ 19,162	$ 45,820	(58.2%)	$ 53,344	$ 95,708	(44.3%)
Marine Imaging Systems	24,224	50,368	(51.9%)	42,677	84,856	(49.7%)
Data Management Solutions	9,217	9,596	(3.9%)	16,463	18,762	(12.3%)
Total ION Systems	52,603	105,784	(50.3%)	112,484	199,326	(43.6%)
ION Solutions Division	36,654	74,881	(51.1%)	83,663	121,498	(31.1%)
Total	$ 89,257	$ 180,665	(50.6%)	$ 196,147	$ 320,824	(38.9%)
Income (loss) from operations:						
Land Imaging Systems	$ (10,845)	$ 1,320	(921.6%)	$ (15,592)	$ 4,615	(437.9%)
Marine Imaging Systems	7,743	11,181	(30.7%)	10,504	21,182	(50.4%)
Data Management Solutions	5,818	5,468	6.4%	10,248	10,676	(4.0%)
Total ION Systems	2,716	17,969	(84.9%)	5,160	36,473	(85.9%)
ION Solutions Division	4,602	16,070	(71.4%)	9,808	22,297	(56.0%)
Corporate	(14,829)	(14,303)	(3.7%)	(29,011)	(28,739)	(0.9%)
Impairment of intangible assets			0.0%	(38,044)		(100.0%)
Total	$ (7,511)	$ 19,736	(138.1%)	$ (52,087)	$ 30,031	(273.4%)
Net income (loss) applicable to common shares	$ (16,606)	$ 15,445		$ (55,049)	$ 23,073	

Basic net income (loss) per common share	$	(0.16)	$	0.16	$	(0.54)	$	0.25
Diluted net income (loss) per common share	$	(0.16)	$	0.16	$	(0.54)	$	0.24

We intend that the following discussion of our financial condition and results of operations will provide information that will assist in understanding our consolidated financial statements, the changes in certain key items in those financial statements from quarter to quarter, and the primary factors that accounted for those changes. Our results of operations for the three and six months ended June 30, 2009 have been affected by our acquisition of ARAM on September 18, 2008, which may affect the comparability of certain of the financial information contained in this Form 10-Q.

There are a number of factors that could impact our future operating results and financial condition, and may, if realized, cause our expectations set forth in this Form 10-Q and elsewhere to vary materially from what we anticipate. See Item 1A. *Risk Factors* below.

The information contained in this Quarterly Report on Form 10-Q contains references to our trademarks, service marks and registered marks, as indicated. Except where stated otherwise or unless the context otherwise requires, the terms VectorSeis, GATOR, Scorpion, SPECTRA, Orca, ARAM and FireFly refer to our VectorSeis®, GATOR®, Scorpion®, SPECTRA®, Orca®, ARAM® and FireFly® registered marks, and the terms BasinSPAN, DigiFIN, DigiSTREAMER and ARIES II refer to our BasinSPAN, DigiFIN, DigiSTREAMER and ARIES II trademarks and service marks.

Results of Operations

Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

Net Revenues. Net revenues of $89.3 million for the three months ended June 30, 2009 decreased $91.4 million, or 50.6%, compared to the corresponding period last year. Land Imaging Systems net revenues decreased by $26.7 million, to $19.2 million compared to $45.8 million in the corresponding period of last year. This decrease related mainly to the continued decreased market demand in North America and Russia for land seismic equipment. Marine Imaging Systems net revenues for the three months ended June 30, 2009 decreased by $26.2 million to $24.2 million compared to $50.4 million in the corresponding period of last year, principally due to the decrease in VectorSeis Ocean (VSO) system sales in 2008 which were not repeated during the three months ended June 30, 2009. This decrease was partially offset by multiple sales of our DigiFIN positioning systems. Revenues from our Data Management Solutions segment (our Concept Systems subsidiary) decreased slightly compared to the corresponding period of last year. This decrease was due entirely to the effect of foreign currency exchange rate fluctuations compared to a year ago. Converting those revenues to Data Management Solutions domestic currency of British Pounds Sterling, revenues for the second quarter of 2009 increased £1.0 million compared to the second quarter of 2008.

Our ION Solutions division s net revenues decreased by $38.2 million, to $36.7 million for the three months ended June 30, 2009, compared to $74.9 million in the corresponding quarter of 2008. The results for the second quarter of 2009 reflected decreased multi-client data library and new venture program sales, partially offset by increases in data processing service revenues.

Gross Profit and Gross Profit Percentage. Gross profit of $30.0 million for the three months ended June 30, 2009 decreased $28.0 million, compared to the corresponding period last year. Gross profit percentages for the three months ended June 30, 2009 and 2008 were 33.6% and 32.1%, respectively. The slight increase in gross margin percentage occurred primarily in our Marine Imaging Systems division and is principally due to product mix combined with lower sales of VectorSeis Ocean (VSO) acquisition system equipment compared to the prior year. We experienced higher margin sales in our Data Management Solutions segment as well. ION Solutions segment s gross profit percentage slightly decreased due to product mix, while the Land Imaging Systems business segment showed a decrease in margins primarily due to increased amortization expense related to ARAM s acquired intangibles, combined with more higher margin sales in the second quarter of 2008 compared with the second quarter of 2009.

Research, Development and Engineering. Research, development and engineering expense was $11.8 million, or 13.2% of net revenues, for the three months ended June 30, 2009, a decrease of $0.1 million compared to $11.9 million, or 6.6% of net revenues, for the corresponding period last year. Based upon the recently initiated restructuring programs, we expect to incur lower costs related to our research, development and engineering efforts than in prior periods as mentioned in Item 2. *Executive Summary* above.

Marketing and Sales. Marketing and sales expense of $8.4 million, or 9.5% of net revenues, for the three months ended June 30, 2009 decreased $3.8 million compared to $12.2 million, or 6.8% of net revenues, for the corresponding period last year. The decrease in our sales and marketing expenditures reflects decreased salary and payroll expenses related to our reduced headcount, a decrease in travel expenses as part of our cost reduction measures and a decrease in conventions, exhibits and advertising expenses related to cost reduction measures and the timing of the expenses throughout the year. Based upon the recently initiated restructuring programs, we expect to continue to incur lower costs related to our marketing and sales efforts than in prior periods as mentioned in Item 2. *Executive Summary* above.

General and Administrative. General and administrative expenses of $17.3 million for the three months ended June 30, 2009 increased $3.1 million compared to $14.2 million for the second quarter of 2008. General and

administrative expenses as a percentage of net revenues for the three months ended June 30, 2009 and 2008 were 19.3% and 7.9%, respectively. The increase in general and administrative expense was mainly due to stock-based compensation expense related to adjustments between estimated and actual forfeitures of $3.3 million, which is an out-of-period adjustment as further described in Note 1 *Basis of Presentation, Restatement and Overview*. This increase was partially offset by lower operating expenses due to the focus on cost reduction, despite the inclusion of ARAM s expenses in 2009 and increased bad debt expenses. Based upon the recently initiated restructuring programs, we expect to

incur lower costs related to our general and administrative activities than in prior periods as mentioned in Item 2. *Executive Summary* above.

Interest Expense. Interest expense of $6.9 million for the three months ended June 30, 2009 increased $6.2 million compared to $0.7 million for the second quarter of 2008. The increase is due to the higher levels of outstanding indebtedness and the higher effective interest rate under the Bridge Loan Agreement that we extinguished during the second quarter of 2009 combined with increased revolver borrowings of $98.0 million. See *Liquidity and Capital Resources Sources of Capital* below. Because of these increased levels of borrowed indebtedness, our interest expense will continue to be significantly higher in 2009 than we experienced in prior years.

Other Income (Expense). Other expense for the three months ended June 30, 2009 was $6.4 million compared to other income of $0.3 million for the second quarter of 2008. The other expense for the second quarter of 2009 mainly relates to higher foreign currency exchange losses that primarily resulted from our operations in Canada and in the United Kingdom.

Income Tax Expense (Benefit). Income tax benefit for the three months ended June 30, 2009 was ($4.5) million compared to income tax expense of $3.5 million for the three months ended June 30, 2008. We continue to maintain a valuation allowance for a significant portion of our U.S. federal net deferred tax assets. Our effective tax rates for the three months ended June 30, 2009 and 2008 were 22.3% (benefit on a loss) and 17.7% (provision on income), respectively.

Preferred Stock Dividends. The preferred stock dividend relates to our Series D-1, Series D-2 and Series D-3 Cumulative Convertible Preferred Stock (collectively referred to as the Series D Preferred Stock) that we issued in February 2005, December 2007 and February 2008, respectively. Quarterly dividends must be paid in cash. Dividends are paid at a rate equal to the greater of (i) 5% per annum or (ii) the three month LIBOR rate on the last day of the immediately preceding calendar quarter plus 2^{1}/2% per annum. All dividends paid to date on the Series D Preferred Stock have been paid in cash. The Series D Preferred Stock dividend rate was 5.0% at June 30, 2009.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Net Revenues. Net revenues of $196.1 million for the six months ended June 30, 2009 decreased $124.7 million, or 38.9%, compared to the corresponding period last year. Land Imaging Systems net revenues decreased by $42.4 million, to $53.3 million compared to $95.7 million in the corresponding period of last year. This decrease related mainly to the continued decreased market demand in North America and Russia for land seismic equipment. Marine Imaging Systems net revenues for the six months ended June 30, 2009 decreased by $42.2 million to $42.7 million compared to $84.9 million in the corresponding period of last year, principally due to the timing of new marine vessels being introduced into the market. This decrease was partially offset by multiple sales of our DigiFIN system and several marine streamer positioning system sales in the second quarter of 2009. Revenues from our Data Management Solutions segment (our Concept Systems subsidiary) of $16.5 million for the first half of 2009 decreased from the $18.8 million in revenues for the corresponding period of last year. This decrease was due entirely to the effect of foreign currency exchange rate fluctuations compared to a year ago. Converting those revenues to Data Management Solutions domestic currency of British Pounds Sterling, revenues for the first quarter of 2009 increased £1.4 million compared to the first half of 2008.

Our ION Solutions division s net revenues decreased by $37.8 million, to $83.7 million for the six months ended June 30, 2009, compared to $121.5 million in the corresponding period of 2008. The results for the first half of 2009 reflected decreased multi-client data library and new venture program sales, partially offset by increases in data processing service revenues.

Gross Profit and Gross Profit Percentage. Gross profit of $63.7 million for the six months ended June 30, 2009 decreased $42.7 million, compared to the corresponding period last year. Gross profit percentages for the six months ended June 30, 2009 and 2008 were 32.5% and 33.2%, respectively. The gross margin remained stable, despite decreases in the margins of our Land Imaging Systems division, which were principally due to increased amortization expense related to ARAM s acquired intangibles. We experienced higher margin sales in both our Data Management Solutions and our Marine Imaging Systems segments compared to the prior year. ION Solutions segment s gross profit percentage slightly decreased primarily due to product mix sold for the quarter.

Research, Development and Engineering. Research, development and engineering expense was $23.3 million, or 11.9% of net revenues, for the six months ended June 30, 2009, a decrease of $0.7 million compared to $24.0 million, or 7.5% of net revenues, for the corresponding period last year. The decrease was due primarily to decreased salary and payroll expenses related to our reduced headcount. Based upon the recently initiated restructuring programs, we expect to incur lower costs related to our research, development and engineering efforts than in prior periods as mentioned in Item 2. *Executive Summary* above.

Marketing and Sales. Marketing and sales expense of $18.2 million, or 9.3% of net revenues, for the six months ended June 30, 2009 decreased $5.2 million compared to $23.4 million, or 7.3% of net revenues, for the corresponding period last year. The decrease in our sales and marketing expenditures reflects decreased salary and payroll expenses related to our reduced headcount, a decrease in travel expenses as part of our cost reduction measures and a decrease in conventions, exhibits and advertising expenses related to cost reduction measures and the timing of the expenses throughout the year. Based upon the recently initiated restructuring programs, we expect to continue to incur lower costs related to our marketing and sales efforts than in prior periods as mentioned in Item 2. *Executive Summary* above.

General and Administrative. General and administrative expenses of $36.3 million for the six months ended June 30, 2009 increased $7.3 million compared to $29.0 million for the first six months of 2008. General and administrative expenses as a percentage of net revenues for the six months ended June 30, 2009 and 2008 were 18.5% and 9.0%, respectively. The increase in general and administrative expense was mainly due to stock-based compensation expense related to adjustments between estimated and actual forfeitures of $3.3 million, which is an out-of-period adjustment as further described in Note 1 *Basis of Presentation , Restatement and Overview*. Additionally, general and administrative expense reflects the inclusion of ARAM s expenses in 2009, severance charges related to the recent reductions in headcount and increased bad debt expenses. Based upon the recently initiated restructuring programs, we expect to incur lower costs related to our general and administrative activities than in prior periods as mentioned in Item 2. *Executive Summary* above.

Impairment of Intangible Assets. At March 31, 2009, we further evaluated our intangible assets for potential impairment. Based upon our evaluation and given the current market conditions, we determined that approximately $38.0 million of proprietary technology and customer relationships (written off entirely) related to ARAM acquired intangibles were impaired. In the fourth quarter of 2008, we recorded an impairment charge of $10.1 million related to ARAM s customer relationships, trade name and non-compete agreements. Our net book value associated with ARAM s acquired intangibles is $34.3 million at June 30, 2009 and has a remaining weighted average life of 6.7 years.

Interest Expense. Interest expense of $14.3 million for the six months ended June 30, 2009 increased $13.2 million compared to $1.1 million for the first quarter of 2008. The increase is due to the higher levels of outstanding indebtedness and the higher effective interest rate of the Bridge Loan Agreement that we extinguished in the second quarter of 2009, combined with increased revolver borrowings of $98.0 million. See *Liquidity and Capital Resources Sources of Capital* below. Because of these increased levels of borrowed indebtedness, our interest expense will continue to be significantly higher in 2009 than we experienced in prior years.

Other Income (Expense). Other expense for the six months ended June 30, 2009 was $6.4 million compared to other income of $0.5 million for the six months ended June 30, 2008. The other expense for the six months ended June 30, 2009 mainly relates to higher foreign currency exchange losses that primarily resulted from our operations in Canada and in the United Kingdom.

Income Tax Expense (Benefit). Income tax benefit for the six months ended June 30, 2009 was ($18.5) million compared to income tax expense of $5.6 million for the six months ended June 30, 2008. We continue to maintain a valuation allowance for a significant portion of our U.S. federal net deferred tax assets. Our effective tax rates for the six months ended June 30, 2009 and 2008 were 25.7% (benefit on a loss) and 18.3% (provision on income), respectively. The increase in our effective tax rate relates primarily to the tax benefit related to the further impairment of intangible assets (discussed above), which is taxed at 29%. The inclusion of this benefit at the higher rate increased the overall effective tax rate for the six month period. See Note 10 *Income Taxes* of Part I, Item 1 of this Form 10-Q.

Liquidity and Capital Resources

Sources of Capital

Our cash requirements include our working capital requirements, debt service payments, dividend payments on our preferred stock, data acquisitions and capital expenditures. In recent years, our primary sources of funds have been cash flow from operations, existing cash balances, equity issuances and our revolving credit facility (*see Revolving Line of Credit and Term Loan Facilities* below).

At June 30, 2009, our outstanding credit facilities and debt consisted of:

Our Amended Credit Facility, comprised of:

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An amended revolving line of credit sub-facility; and

A $125.0 million original principal amount term loan;

A secured equipment financing; and

A $35.0 million Amended and Restated Subordinated Promissory Note.

Revolving Line of Credit and Term Loan Facilities. In July 2008, we, ION Sàrl, and certain of our domestic and other foreign subsidiaries (as guarantors) entered into a $100 million amended and restated revolving credit facility under the terms of an amended credit agreement with our commercial bank lenders (this agreement, as it has been further amended, is referred to as the Amended Credit Agreement). This amended and restated revolving credit facility provided us with additional flexibility for our international capital needs by not only permitting borrowings by ION Sàrl under the facility but also providing us and ION Sàrl the ability to borrow in alternative currencies.

Under the terms of the Amended Credit Agreement, up to $60.0 million (or its equivalent in foreign currencies) is available for non-U.S. borrowings by ION Sàrl and up to $75.0 million is available for domestic borrowings; however, the total level of outstanding borrowings under the revolving credit facility cannot exceed $100.0 million. The Amended Credit Agreement includes provisions for an accordion feature, under which the total lenders commitments following September 2009 under the Amended Credit Agreement could be increased by up to $40.0 million, subject to the satisfaction of certain conditions.

On September 17, 2008, we added a new $125.0 million term loan sub-facility under the Amended Credit Agreement, and borrowed $125.0 million in term loan indebtedness and $72.0 million under the revolving credit sub-facility to fund a portion of the cash consideration for the ARAM acquisition.

The interest rate on borrowings under our Amended Credit Facility is, at our option, (i) an alternate base rate (either the prime rate of HSBC Bank USA, N.A., or a federals funds effective rate plus 0.50%, plus an applicable interest margin) or (ii) for Eurodollar borrowings and borrowings in Euros, pounds sterling or Canadian dollars, a LIBOR-based rate, plus an applicable interest margin. The amount of the applicable interest margin is determined by reference to a leverage ratio of total funded debt to consolidated EBITDA for the four most recent trailing fiscal quarters. The interest rate margins currently range from 2.875% to 5.5% for alternate base rate borrowings, and from 3.875% to 6.5% for Eurodollar borrowings. As of June 30, 2009, $110.9 million in term loan indebtedness under the Amended Credit Facility accrued interest at the then-applicable LIBOR-based interest rate of 6.2% per annum, while $98.0 million in total revolving credit indebtedness under the Amended Credit Facility accrued interest at the then-applicable LIBOR-based interest rate of 5.6% per annum. The average effective interest rates for the quarter ended June 30, 2009 under the LIBOR-based rates for the term loan indebtedness and the Amended Credit Facility were 6.2% and 5.5%, respectively.

At March 31, 2009, we were in compliance with all of the financial covenants under the terms of the Amended Credit Facility and the Bridge Loan Agreement. However, based upon our first quarter results and our then-current operating forecast for the remainder of 2009, we determined that it was probable that, if we did not take any mitigating actions, we would not be in compliance with one or more of our financial covenants under those two debt agreements for the period ending September 30, 2009. As a result, we approached the lenders under the Amended Credit Facility to obtain amendments to relax certain of these financial covenants and pursued the private placement of our common stock, which, along with our cash on hand, we believed would generate sufficient funds to repay the outstanding indebtedness under the Bridge Loan Agreement. See further discussion of the private placement offering below and at Note 8 *Issuance of Common Stock* in our Notes to Unaudited Condensed Consolidated Financial Statements.

In June 2009, we entered into an additional amendment (the Fifth Amendment) to our Amended Credit Facility that, among other things, modified certain of the financial and other covenants contained in the Amended Credit Facility and repaid the Bridge Loan Agreement indebtedness. At June 30, 2009, we were in compliance with all of the financial covenants under the terms of our Amended Credit Facility.

The principal modifications, excluding the amended debt covenants listed below, to the terms of the Amended Credit Agreement resulting from the Fifth Amendment were as follows:

The Fifth Amendment provided for an increase in applicable maximum interest rate margins in the event that our leverage ratio exceeds 2.25 to 1.0 from 4.5% to up to 5.5% for alternate base rate loans, and from 5.5% to

up to 6.5% for LIBOR-rate loans;

The Fifth Amendment modified a restricted payments covenant, permitting us to apply up to $6.0 million of its available cash on hand to prepay the indebtedness under the Bridge Loan Agreement;

The Fifth Amendment contained a new defined term Excess Cash Flow, and now requires us to apply 50% of our Excess Cash Flow, if any, calculated with respect to a just-completed fiscal year, to the prepayment of the term loan under the Amended Credit Agreement if our fixed charge coverage ratio or our leverage ratio for the just-completed fiscal year does not meet certain requirements; and

The Fifth Amendment modifies Section 2.18 of the Credit Agreement to (i) prohibit increases in the revolving commitments under the Amended Credit Facility until we have delivered our compliance certificate for the period ending September 30, 2009, and then only if certain fixed charge coverage ratio and leverage ratio requirements are met, and (ii) reduce the maximum revolving credit facility amount to which the Amended Credit Facility can be increased to $140.0 million.

The Amended Credit Agreement contains covenants that restrict us, subject to certain exceptions, from:

Incurring additional indebtedness (including capital lease obligations), granting or incurring additional liens on our properties, pledging shares of our subsidiaries, entering into certain merger or other similar transactions, entering into transactions with affiliates, making certain sales or other dispositions of assets, making certain investments, acquiring other businesses and entering into certain sale-leaseback transactions with respect to certain of our properties;

Paying cash dividends on our common stock and repurchasing and acquiring shares of our common stock unless (i) there is no event of default under the Amended Credit Facility and (ii) the amount of cash used for cash dividends, repurchases and acquisitions does not, in the aggregate, exceed an amount equal to the excess of 30% of our domestic consolidated net income for our most recently completed fiscal year over $15.0 million.

The Amended Credit Facility requires us to be in compliance with certain financial covenants, including requirements for us and our domestic subsidiaries to:

maintain a minimum fixed charge coverage ratio (which must be not less than 1.50 to 1.0 for the fiscal quarter ending June 30, 2009; 1.00 to 1.0 for the fiscal quarter ending September 30, 2009; 1.10 to 1.0 for the fiscal quarter ending December 31, 2009; 1.15 to 1.0 for the fiscal quarter ending March 31, 2010; 1.25 to 1.0 for the fiscal quarter ending June 30, 2010; 1.35 to 1.0 for the fiscal quarter ending September 30, 2010; and 1.50 to 1.0 the fiscal quarter ending December 31, 2010 and thereafter);

not exceed a maximum leverage ratio (2.75 to 1.0 for the fiscal quarter ending June 30, 2009; 3.00 to 1.0 for the fiscal quarter ending September 30, 2009 and December 31, 2009; 2.75 to 1.0 for the fiscal quarter ending March 31, 2010 and June 30, 2010; 2.5 to 1.0 for the fiscal quarter ending September 30, 2010; and 2.25 to 1.0 the fiscal quarter ending December 31, 2010 and thereafter); and

maintain a minimum tangible net worth of at least 80% of our tangible net worth as of September 18, 2008 (the date that we completed our acquisition of ARAM), plus 50% of our consolidated net income for each quarter thereafter, and 80% of the proceeds from any mandatorily convertible notes and preferred and common stock issuances for each quarter thereafter.

The $125.0 million original principal amount of term loan indebtedness borrowed under the Amended Credit Facility is subject to scheduled quarterly amortization payments of $4.7 million per quarter until December 31, 2010. On that date, the quarterly principal amortization increases to $6.3 million per quarter until December 31, 2012, when the quarterly principal amortization amount increases to $9.4 million for each quarter until maturity on September 17, 2013. The term loan indebtedness matures on September 17, 2013, but the administrative agent under the Amended Credit Facility may accelerate the maturity date to a date that is six months prior to the maturity date of any additional debt financing that we may incur to refinance certain indebtedness incurred in connection with the ARAM acquisition, by giving us written notice of such acceleration between September 17, 2012 and October 17, 2012.

The Amended Credit Facility contains customary event of default provisions (including an event of default upon any change of control event affecting us), the occurrence of which could lead to an acceleration of ION s obligations under the Amended Credit Facility.

Revolving credit borrowings under the Amended Credit Facility are available to fund our working capital needs, to finance acquisitions, investments and share repurchases and for general corporate purposes. In addition, the Amended Credit Facility includes a $35.0 million sub-limit for the issuance of documentary and stand-by letters of credit, of which $1.8 million was outstanding at June 30, 2009. Borrowings under the Amended Credit Facility may be prepaid without penalty. As of July 29, 2009, we had available $0.2 million of additional revolving credit borrowing capacity, which can be used only to fund additional letters of credit under the Amended Credit Facility. Our cash and cash equivalents as of July 29, 2009 were approximately $34.0 million compared to $36.6 million at June 30, 2009.

Borrowings under the revolving credit sub-facility are not subject to a borrowing base. The Amended Credit Facility includes an accordion feature under which the total commitments under the Amended Credit Agreement could be increased by up to $40.0 million after September 30, 2009, subject to the satisfaction of certain conditions. The Amended Credit Facility also permits us to pursue certain sale/leaseback financing in order to finance leases of land seismic data acquisition systems and related equipment to our customers.

Our obligations and those of ION Sàrl under the Amended Credit Facility are guaranteed by certain of our domestic and foreign subsidiaries. These obligations and guarantees are secured by security interests in stock of our domestic guarantors and certain first-tier foreign subsidiaries, and by substantially all of our other assets (other than assets comprising the collateral for the new secured equipment financing discussed below).

Bridge Loan. On December 30, 2008, we and certain of our domestic subsidiaries (as guarantors) entered into the Bridge Loan Agreement with Jefferies. Under this Bridge Loan Agreement, we borrowed $40.8 million in unsecured debt to refinance certain outstanding short-term indebtedness that we had borrowed from Jefferies, in connection with the completion of the ARAM acquisition in September 2008. The maturity date of the Bridge Loan Agreement was January 31, 2010. As described above, we repaid the entire outstanding principal balance of $40.8 million in June 2009. The effective interest rate at the time of repayment was 25.3%.

Secured Equipment Financing. On June 29, 2009, we entered into a $20.0 million secured equipment financing transaction with ICON ION, LLC (the Lender), an affiliate of ICON Capital Inc. Two master loan agreements were entered into with ICON in connection with this transaction: (i) we, ARAM Rentals Corporation, a Nova Scotia unlimited company (ARC), and ICON entered into a Canadian Master Loan and Security Agreement dated as of June 29, 2009 with regard to certain equipment leased to customers by ARC, and (ii) the Company, ARAM Seismic Rentals, Inc., a Texas corporation (ASRI), and ICON entered into a Master Loan and Security Agreement (U.S.) dated as of June 29, 2009 with regard to certain equipment leased to customers by ASRI (collectively, the ICON Loan Agreements). All borrowed indebtedness under the ICON Loan Agreements is scheduled to mature on July 31, 2014. We and our subsidiaries intend to use the proceeds of the secured term loans for working capital and general corporate purposes.

Under the terms of the ICON Loan Agreements, ICON advanced $12.5 million on June 29, 2009 and $7.5 million on July 20, 2009. The indebtedness under the ICON Loan Agreements is secured by first-priority liens in (a) certain of our ARAM seismic rental equipment located in the United States and Canada (subject to certain exceptions), and certain additional and replacement seismic equipment, (b) written leases or other agreements evidencing payment obligations relating to the leasing by ARC or ASRI of this equipment to their respective customers, including their related receivables, (c) the cash or cash equivalents held by such subsidiaries and (d) any proceeds thereof.

The obligations of each of ARC and ASRI under the ICON Loan Agreements are guaranteed by us under a Guaranty dated as of June 29, 2009 (the ICON Guaranty). The ICON Loan Agreements and the ICON Guaranty constitute permitted indebtedness under our current commercial banking credit facility.

Under both ICON Loan Agreements, interest on the outstanding principal amount will accrue at a fixed interest rate of 15% per annum calculated monthly, and is payable monthly on the first day of each month. Principal and interest are payable, commencing on September 1, 2009, in 60 monthly installments until the maturity date, when all remaining outstanding principal and interest will be due and payable. Pursuant to the ICON Loan Agreements, in connection with the closing in June 2009, ARC and ASRI paid ICON a non-refundable upfront fee of $0.3 million. In addition, ICON will receive an administrative fee equal to 0.5% of the aggregate principal amount of advances under the ICON Loan Agreements, payable at the end of each of the first four years during their terms. Inclusive of these additional fees, the effective interest rate on the ICON loan was 16.6% as of June 30, 2009.

Beginning on August 1, 2012, and continuing until January 31, 2014, we may prepay the outstanding principal balances of the loans in full by giving ICON 30 days prior written notice and paying a prepayment fee equal to 3.0% of the then-outstanding

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principal amount of the loans. Commencing on February 1, 2014, the loans may be prepaid in full without payment of any prepayment penalty or fee, subject to our giving ICON 30 days prior written notice.

Amended and Restated Subordinated Seller Note. As part of the purchase price for the ARAM acquisition, our acquisition subsidiary (ION Sub) issued an unsecured senior promissory note (the Senior Seller Note) in the original principal amount of $35.0 million to Maison Mazel Ltd., one of the selling shareholders of ARAM. On December 30, 2008, in connection with other acquisition refinancing transactions that were completed on that date, the Senior Seller Note was amended and restated through an Amended and Restated Subordinated Promissory Note (the Amended and Restated Subordinated Note) issued to Maison Mazel, the selling shareholder. The principal amount of the Amended and Restated Subordinated Note is $35.0 million and matures on September 17, 2013. We also entered into a guaranty dated December 30, 2008, whereby we guaranteed on a subordinated basis ION Sub s repayment obligations under the Amended and Restated Subordinated Note. Interest on the outstanding principal amount under the Amended and Restated Subordinated Note accrues at the rate of fifteen percent (15%) per annum, and is payable quarterly.

The terms of the Amended and Restated Subordinated Note provide that the particular covenants contained in the Amended Credit Agreement (or in any successor agreement or instrument) that restricts our ability to incur additional indebtedness will be incorporated into the Amended and Restated Subordinated Note. However, under the Amended and Restated Subordinated Note, neither Maison Mazel nor any other holder of the Amended and Restated Subordinated Note will have a separate right to consent to or approve any amendment or waiver of the covenant as contained in the Amended Credit Facility**.**

In addition, ION Sub agreed that if it incurs indebtedness under any financing that:

- qualifies as Long Term Junior Financing (as defined in the Amended Credit Agreement),
- results from a refinancing or replacement of the Amended Credit Facility such that the aggregate principal indebtedness (including revolving commitments) thereunder would be in excess of $275.0 million, or
- qualifies as unsecured indebtedness for borrowed money that is evidenced by notes or debentures, has a maturity date of at least five years after the date of its issuance and results in total gross cash proceeds to us of not less than $45.0 million ($40.0 million after the Bridge Loan has been paid in full),

then ION Sub will be obligated to repay in full from the total proceeds from such financing the then-outstanding principal of and interest on the Amended and Restated Subordinated Note.

The indebtedness under the Amended and Restated Subordinated Note is subordinated to the prior payment in full of our Senior Obligations, which are defined in the Amended and Restated Subordinated Note as the principal, premium (if any), interest and other amounts that become due in connection with:

- our obligations under the Amended Credit Facility,
- our liabilities with respect to capital leases and obligations under our facility sale-leaseback facility that qualify as a Sale/Leaseback Agreement (as that term is defined in the Amended Credit Agreement),
- guarantees of the indebtedness described above, and
- debentures, notes or other evidences of indebtedness issued in exchange for, or in the refinancing of, the Senior Obligations described above, or any indebtedness arising from the payment and satisfaction of any Senior Obligations by a guarantor.

Effective April 9, 2009, (i) ION Sub transferred the Amended and Restated Subordinated Note to us and we assumed in full the obligations of ION Sub under such note, and (ii) our guaranty of payment of the indebtedness under the Amended and Restated Subordinated Note was terminated. ION Sub was also released from its obligations under the Amended and Restated Promissory Note by Maison Mazel.

Subordinated Seller Note. As part of the purchase price for the ARAM acquisition in September 2008, ION Sub also had issued to Maison Mazel a $10.0 million original principal amount unsecured Subordinated Seller Promissory Note. In connection with the refinancing transactions that occurred in December 2008, our obligations and those of ION Sub under the Subordinated Seller Note were terminated and extinguished in exchange for our assignment to Maison Mazel of our rights to a Canadian government tax refund

(the Refund Claim). However, while the indebtedness under this note was legally extinguished, the liability for financial accounting purposes could not be extinguished on our consolidated balance sheet and was subsequently included as short-term debt. In May 2009, we received and submitted the final Refund Claim to one of the selling shareholders of ARAM. In June 2009, we paid to Maison Mazel the remaining amount of this liability of $0.7 million.

Private Placement of 18.5 Million Shares of Common Stock. On June 4, 2009, we completed the offering and sale of 18,500,000 shares of our common stock in privately-negotiated transactions with several institutional investors. The purchase price per share of common stock sold was $2.20, representing total gross proceeds of approximately $40.7 million. The net proceeds from the offering of $38.2 million were applied, along with $2.6 million of our cash on hand, to repay in full the outstanding indebtedness under the Bridge Loan Agreement. In accordance with the terms of the stock purchase agreements, we filed with the SEC on June 11, 2009, a registration statement with respect to potential resale of the shares purchased by the investors, which registration statement was declared effective on June 19, 2009. The offering and sale by us of the shares of common stock in the private placement were not registered under the Securities Act of 1933, as amended, in reliance on an exemption from the registration requirements of that Act.

Cumulative Convertible Preferred Stock. During 2005, we entered into an Agreement dated February 15, 2005 with Fletcher International, Ltd. (Fletcher) (this Agreement, as amended to the date hereof, is referred to as the Fletcher Agreement) and issued to Fletcher 30,000 shares of our Series D-1 Preferred Stock in a privately-negotiated transaction, receiving $29.8 million in net proceeds. The Fletcher Agreement also provided to Fletcher an option to purchase up to an additional 40,000 shares of additional series of preferred stock from time to time, with each series having a conversion price that would be equal to 122% of an average daily volume-weighted market price of our common stock over a trailing period of days at the time of issuance of that series. In 2007 and 2008, Fletcher exercised this option and purchased 5,000 shares of Series D-2 Preferred Stock for $5.0 million (in December 2007) and the remaining 35,000 shares of Series D-3 Preferred Stock for $35.0 million (in February 2008). Fletcher remains the sole holder of all of our outstanding shares of Series D Preferred Stock. Dividends on the shares of Series D Preferred Stock must be paid in cash.

Under the Fletcher Agreement, if a 20-day volume-weighted average trading price per share of our common stock fell below $4.4517 (the Minimum Price), we were required to deliver a notice (the Reset Notice) to Fletcher. On November 28, 2008, the 20-day volume-weighted average trading price per share of our common stock on the New York Stock Exchange for the previous 20 trading days was calculated to be $4.328, and we delivered the Reset Notice to Fletcher in accordance with the terms of the Fletcher Agreement. In the Reset Notice, we elected to reset the conversion prices for the Series D Preferred Stock to the Minimum Price ($4.4517 per share), and Fletcher s redemption rights were terminated. The adjusted conversion price resulting from this election was effective on November 28, 2008.

In addition, under the Fletcher Agreement, the aggregate number of shares of common stock issued or issuable to Fletcher upon conversion or redemption of, or as dividends paid on, the Series D Preferred Stock could not exceed a designated maximum number of shares (the Maximum Number), and such Maximum Number could be increased by Fletcher providing us with a 65-day notice of increase, but under no circumstance could the total number of shares of common stock issued or issuable to Fletcher with respect to the Series D Preferred Stock ever exceed 15,724,306 shares. The Fletcher Agreement had designated 7,669,434 shares as the original Maximum Number. On November 28, 2008, Fletcher delivered a notice to us to increase the Maximum Number to 9,669,434 shares, effective February 1, 2009.

The conversion prices and number of shares of common stock to be acquired upon conversion are also subject to customary anti-dilution adjustments. Converting the shares of Series D Preferred Stock at one time could result in significant dilution to our stockholders that could limit our ability to raise additional capital. See Item 1A. *Risk Factors* below.

Meeting our Liquidity Requirements. As of December 31, 2008, our total outstanding indebtedness (including capital lease obligations) was $291.9 million and included $120.3 million in borrowings under our term loans and $66.0 million of revolving credit indebtedness under our Amended Credit Facility, $40.8 million under the Bridge Loan Agreement and $35.0 million of subordinated indebtedness under our Amended and Restated Subordinated

Note. As of June 30, 2009, our total outstanding indebtedness (including capital lease obligations) had been reduced to approximately $270.6 million, consisting of approximately $110.9 million in borrowings under the term loans and $98.0 million in revolving credit indebtedness under the Amended Credit Facility, $12.5 million of borrowings under our new secured equipment financing and $35.0 million of outstanding subordinated indebtedness under the Amended and Restated Subordinated Note. The repayment in full in June 2009 of the Bridge Loan Agreement indebtedness was significant because it represented at that time short-term indebtedness scheduled to mature in January 2010. Inclusive of the additional fees (and an upfront fee previously paid of 5.0%), the effective interest rate was 25.3% at the time of repayment. Currently, by their terms, none of our principal debt facilities mature prior to 2013.

There are certain scenarios and events beyond our control, such as lack of improvement in E&P company and seismic contractor spending, lack of improvement in our operating results, significant write-downs of accounts receivable or inventories, changes in certain currency exchange rates and other factors, that could cause us to fall out of compliance with certain financial covenants contained in the Amended Credit Facility for the period ending September 30, 2009. Our failure to comply with such covenants could result in an event of default that, if not cured or waived, could have a material adverse effect on our financial condition, results of operations and debt service capabilities. If we were not able to satisfy all of these covenants, we would need to seek to amend, or seek one or more waivers of, those covenants under the Amended Credit Facility. There can be no assurance that we would be able to obtain any such waivers or amendments, in which case we would likely seek to obtain new secured debt, unsecured debt or equity financing. However, there also can be no assurance that such debt or equity financing would be available on terms acceptable to us or at all. In the event that we would need to amend the Amended Credit Facility, or obtain new financing, we would likely incur up front fees and higher interest costs and other terms in the amendment would likely be less favorable to us than those currently provided under the Amended Credit Facility.

As of June 30, 2009 and July 29, 2009, we had available $0.2 million of additional revolving credit borrowing capacity, which can be used only to fund further letters of credit under the Amended Credit Facility. Our cash and cash equivalents as of July 29, 2009 were approximately $34.0 million compared to $36.6 million at June 30, 2009.

Although we are still evaluating the impact of the current credit crisis and decline in commodity prices on our company, we expect that our capital expenditures in 2009 will be reduced from 2008 levels. If there continues to be a significant lessening in demand for our products and services as a result of any prolonged declines in the long-term expected price of oil and natural gas, we may see a further reduction in our own capital expenditures, which will, in turn, lessen our requirements for working capital. This reduction could therefore generate operating cash flows and liquidity compared to the prior period and offset reduced cash generated from operations (excluding working capital changes). We are currently projecting our capital expenditures for the remainder of 2009 to be in the range of $90 million to $95 million. Of that amount, we are estimating that approximately $80 million to $85 million will be spent on investments in our multi-client data library, but we are anticipating that most of these investments will be underwritten by our customers. To the extent our customers commitments do not reach an acceptable level of pre-funding, the amount of our anticipated investment could significantly decline. The remaining sums are expected to be funded from our internally generated cash.

Cash Flow from Operations

We have historically financed operations from internally generated cash and funds from equity and debt financings. Cash and cash equivalents were $36.6 million at June 30, 2009, an increase of $1.4 million from December 31, 2008. Net cash provided by operating activities was approximately $38.0 million for the six months ended June 30, 2009, compared to $13.5 million for the six months ended June 30, 2008. The cash provided by our operating activities for the six months ended June 30, 2009 was primarily driven by increased collections on our receivables and a decrease in our unbilled receivables due to timing of sales and invoicing. This increase was partially offset by a decrease in our accounts payable and accrued expenses associated with payments of our obligations.

Cash Flow from Investing Activities

Net cash flow used in investing activities was $47.8 million for the six months ended June 30, 2009, compared to $64.7 million for the six months ended June 30, 2008. The principal uses of cash in our investing activities during the six months ended June 30, 2009 were $45.6 million for investments in our multi-client data library compared to $57.1 million during the six months ended June 30, 2008.

Cash Flow from Financing Activities

Net cash flow provided by financing activities was $10.5 million for the six months ended June 30, 2009, compared to $33.2 million for the six months ended June 30, 2008. The net cash flow provided by financing activities during the six months ended June 30, 2009 was primarily related to $32.0 million of borrowings on our revolving credit facility, the net proceeds from the ICON Loan Agreements of $11.8 million, and the net proceeds of $38.2 million from the private placement of our common stock. This cash inflow

was partially offset by scheduled principal payments on our term loan, the prepayment of the principal balance on the Bridge Loan Agreement and payments under our other notes payable and capital lease obligations all totaling $66.2 million. Additionally, we paid $1.8 million in cash dividends on our outstanding Series D-1, Series D-2 and Series D-3 Preferred Stock and $3.8 million in financing costs related to the Fifth Amendment on our Amended Credit Facility during the six months ended June 30, 2009.

Inflation and Seasonality

Inflation in recent years has not had a material effect on our costs of goods or labor or the prices for our products or services. Traditionally, our business has been seasonal, with strongest demand in the second half of our fiscal year. However, we anticipate that, due to the state of the current financial markets, the slowdown in the economy and the decline in commodity prices, we will likely not experience the level of normal seasonal year-end spending by oil and gas companies and seismic contractor customers due to these customers taking a more conservative approach and lowering their spending plans for the remainder of 2009.

Critical Accounting Policies and Estimates

General. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2008, for a complete discussion of our other significant accounting policies and estimates. There have been no material changes in the current period regarding our critical accounting policies and estimates.

Recent Accounting Pronouncements

See Note 15 of *Notes to Unaudited Condensed Consolidated Financial Statements.*

Credit and Foreign Sales Risks

The majority of our foreign sales are denominated in United States dollars. Product revenues are allocated to geographical locations on the basis of the ultimate destination of the equipment, if known. If the ultimate destination of such equipment is not known, product revenues are allocated to the geographical location of initial shipment. Service revenues primarily relate to our ION Solutions division are allocated based upon the billing location of the customer. For the six months ended June 30, 2009 and 2008, international sales comprised 58% and 60%, respectively of total net revenues. For the six months ended June 30, 2009, we recognized $32.2 million of sales to customers in Europe, $25.1 million of sales to customers in Asia Pacific, $25.6 million of sales to customers in the Middle East, $14.0 million of sales to customers in Latin American countries, $3.1 million of sales to customers in the Commonwealth of Independent States, or former Soviet Union (CIS) and $14.4 million of sales to customers in Africa. In recent years, the CIS and certain Latin American countries have experienced economic problems and uncertainties. However, given the recent market downturn, more countries and areas of the world have also begun to experience economic problems and uncertainties. To the extent that world events or economic conditions negatively affect our future sales to customers in these and other regions of the world or the collectibility of our existing receivables, our future results of operations, liquidity, and financial condition may be adversely affected. We currently require customers in these higher risk countries to provide their own financing and in some cases assist the customer in organizing international financing and export-import credit guarantees provided by the United States government. We do not currently extend long-term credit through notes to companies in countries we consider to be inappropriate for credit risk purposes.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures. As of June 30, 2009, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file with or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time period specified by the SEC s rules and forms and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. In light of the material weakness set forth below, these officers have concluded that our disclosure controls and procedures were not effective as of June 30, 2009.

Material Weaknesses in Internal Control over Financial Reporting. As reported in our Current Report on Form 8-K filed with the SEC on November 4, 2009, we announced that our condensed consolidated financial statements as

of and for the three and six months periods ended June 30, 2009 should no longer be relied upon because of an error in revenue recognition of certain product revenues in connection with the

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delivery of our FireFly® land seismic data acquisition system and related hardware and components in China. As a result of this error in revenue recognition, we determined that we should restate our unaudited consolidated financial statements as of and for the three and six months ended June 30, 2009. The error resulted from the fact that the sales records in the possession of our management at June 30, 2009 did not contain all relevant documentation relating to that particular sale. On October 28, 2009, after obtaining and reviewing all additional documentation related to the sale, our management ascertained that the additional documentation provided additional terms with respect to that sale. On October 29, 2009, our management and our Board of Directors, upon the recommendation of the Audit Committee of the Board of Directors, concluded that we should not have recognized the revenues from the sale in our results of operations for the second fiscal quarter of 2009, and that, as a result, our previously reported unaudited consolidated financial statements as of and for the three and six month periods ended June 30, 2009 should no longer be relied upon.

The reason for the incomplete documentation in our sales records for this sale resulted from a sales employee in our China sales office failing to forward all material documentation related to the sale, as is required by our revenue recognition policies. The discovery of the existence of the additional documentation relating to the sale in question occurred during the course of due diligence procedures that had been performed in connection with our proposed joint venture and related transactions with BGP Inc., China National Petroleum Corporation (BGP), which we publicly announced on October 16, 2009. In connection with this due diligence process, our employees discovered certain documentation irregularities regarding the sale of the FireFly system, including that a portion of the documentation reflecting the terms for the sale had not been made available to our management for assessment with respect to the recording and reporting of the sale.

Because the controls in effect at our sales office in China at June 30, 2009 regarding our revenue recognition policies did not effectively confirm the accuracy and completeness of documentation relating to a large sale of our products, we determined that there was a material weakness in our internal control over financial reporting that existed as of June 30, 2009.

As a result, we are implementing the following procedures to remediate this material weakness:

- We will implement a quarterly certification requiring our regional sales force to confirm that all documentation related to sales transactions have been provided to our management.
- Certain regional sales offices (including China) will no longer have the authority to enter into sales contracts without the review and approval of designated corporate management; and
- We will provide further training and education on the Company s revenue recognition policies and procedures on an annual basis to our regional sales force.

Changes in Internal Control in Financial Reporting. There were no changes in our internal controls over financial reporting during the quarterly period ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. *Risk Factors*

This report contains or incorporates by reference statements concerning our future results and performance and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry s results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, would, should, intend, e plan, anticipate, believe, estimate, predict, potential, or continue or the negative of such terms or other co terminology. Examples of other forward-looking statements contained or incorporated by reference in this report include statements regarding:

- the expected effects of current and future worldwide economic conditions and demand for oil and natural gas and seismic equipment and services;
- future compliance with our debt financial covenants;

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future availability of cash to fund our operations and pay our obligations;
the timing of anticipated sales;
future levels of spending by our customers;
future oil and gas commodity prices;
future cash needs and future sources of cash, including availability under our revolving line of credit facility;
expected net revenues, income from operations and net income;
our expectations for future sources of financing the refinancing of our existing indebtedness;
expected gross margins for our products and services;
future benefits to our customers to be derived from new products and services, such as Scorpion and FireFly and our full-wave digital products and services;
future growth rates for certain of our products and services;
future sales to our significant customers;
our ability to continue to leverage our costs by growing our revenues and earnings;
the degree and rate of future market acceptance of our new products and services;
expectations regarding future mix of business and future asset recoveries;
our expectations regarding oil and gas exploration and production companies and contractor end-users purchasing our more expensive, more technologically advanced products and services;
the degree and rate of future market acceptance of our new products and services;
expectations regarding future mix of business and future asset recoveries;
anticipated timing and success of commercialization and capabilities of products and services under development and start- up costs associated with their development;
expected improved operational efficiencies from our full-wave digital products and services;
potential future acquisitions;
future levels of capital expenditures;
our ability to maintain our costs at consistent percentages of our revenues in the future;
our ability to leverage our costs in the future by growing our revenues and earnings;
the outcome of pending or threatened disputes and other contingencies;
future demand for seismic equipment and services;
future seismic industry fundamentals;

- the adequacy of our future liquidity and capital resources;
- future oil and gas commodity prices;
- future opportunities for new products and projected research and development expenses;
- success in integrating our acquired businesses;
- expectations regarding realization of deferred tax assets; and
- anticipated results regarding accounting estimates we make.

These forward-looking statements reflect our best judgment about future events and trends based on the information currently available to us. Our results of operations can be affected by inaccurate assumptions we make or by risks and uncertainties known or unknown to us. Therefore, we cannot guarantee the accuracy of the forward-looking statements. Actual events and results of operations may vary materially from our current expectations and assumptions.

Information regarding factors that may cause actual results to vary from our expectations, called risk factors, appears in our Annual Report on Form 10-K for the year ended December 31, 2008 in Part II, Item 1A. Risk Factors and in our Quarterly Report on Form 10-Q for the period ended March 31, 2009 in Part II, Item 1A Risk Factors. Other than as set forth below, there have been no material changes from the risk factors previously disclosed in that Form 10-K and Form 10-Q.

We have a substantial amount of outstanding indebtedness, and we will need to pay or refinance our existing indebtedness or incur additional indebtedness, which may adversely affect our operations.

As of June 30, 2009, we had outstanding total indebtedness of approximately $270.6 million, including capital lease obligations. Total indebtedness on that date included $110.9 million in borrowings under five-year term indebtedness and $98.0 million in borrowings under our revolving credit facility, in each case incurred under our Amended Credit Facility. As of June 30, 2009, we had entered into a secured equipment financing transaction and had borrowed $12.5 million. On July 20, 2009, we borrowed another $7.5 million under the secured equipment financing. In addition, as of June 30, 2009, we had $35.0 million of subordinated indebtedness outstanding under an Amended and Restated Subordinated Note that we issued to one of ARAM s selling shareholders in exchange for a previous promissory note we had issued to that selling shareholder as part of the purchase price consideration for the acquisition of ARAM.

As of June 30, 2009 and July 29, 2009, we had available $0.2 million of additional revolving credit borrowing capacity, which can be used solely to fund additional letters of credit under the Amended Credit Facility.

Our substantial levels of indebtedness and our other financial obligations increase the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due, in respect of our outstanding indebtedness. Our substantial debt could also have other significant consequences. For example, it could:

- increase our vulnerability to general adverse economic, competitive and industry conditions;
- limit our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes on satisfactory terms, or at all;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of our indebtedness, thereby reducing funds available to us for operations and any future business opportunities;
- expose us to the risk of increased interest rates because certain of our borrowings, including borrowings under our Amended Credit Facility, are at variable rates of interest;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- limit our planning flexibility for, or ability to react to, changes in our business and the industries in which we operate;

- limit our ability to adjust to changing market conditions; and
- place us at a competitive disadvantage to our competitors who may have less indebtedness or greater access to financing.

Our ability to obtain any financing, including any additional debt financing, whether through the issuance of new debt securities or otherwise, and the terms of any such financing are dependent on, among other things, our financial condition, financial market conditions within our industry, credit ratings and numerous other factors. There can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time, if at all. If we are unable to obtain financing on terms and within a time acceptable to us (or to negotiate extensions with our lenders on terms acceptable to us), it could, in addition to other negative effects, have a material adverse effect on our operations, financial condition, ability to compete or ability to comply with regulatory requirements. Such defaults, if not rescinded or cured, would have a materially adverse effect on our operations, financial condition and cash flows.

To comply with our indebtedness and other obligations, we will require a significant amount of cash and will be required to satisfy certain debt financial covenants. Our ability to generate cash and satisfy debt covenants depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including our acquisition debt, and to fund our working capital needs and planned capital expenditures, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flows from operations or that future borrowings will be available to us under the Amended Credit Facility or otherwise in an amount sufficient to enable us to pay our indebtedness, including our acquisition debt, or to fund our other liquidity needs. We will need to repay or refinance our indebtedness, including our acquisition debt, on or before the maturity thereof. We cannot assure you that we will be able to refinance any of such indebtedness on commercially reasonable terms, or at all.

In addition, if for any reason we are unable to meet our debt service obligations, we would be in default under the terms of our agreements governing our outstanding debt. If such a default were to occur, the lenders under the Amended Credit Facility could elect to declare all amounts outstanding under the Amended Credit Facility immediately due and payable, and the lenders would not be obligated to continue to advance funds to us. In addition, if such a default were to occur, our other indebtedness would become immediately due and payable.

The Amended Credit Facility and other outstanding debt instruments to which we are a party impose significant operating and financial restrictions, which may prevent us from capitalizing on business opportunities and taking other actions.

Subject to certain exceptions and qualifications, the Amended Credit Facility contains customary restrictions on our activities, including covenants that restrict us and our restricted subsidiaries from:

- incurring additional indebtedness and issuing preferred stock;
- creating liens on our assets;
- making certain investments or restricted payments;
- consolidating or merging with, or acquiring, another business;
- selling or otherwise disposing of our assets;
- paying dividends and making other distributions with respect to capital stock, or repurchasing, redeeming or retiring capital stock or subordinated debt; and
- entering into transactions with our affiliates.

The Amended Credit Facility also contains covenants that require us to meet certain financial ratios and minimum thresholds. For example, the Amended Credit Facility requires that we and our domestic subsidiaries meet certain minimum fixed charge coverage

ratio requirements, not exceed certain maximum leverage ratio limitations for each fiscal quarter beginning in 2009, and maintain certain minimum tangible net worth.

We reported in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, that, as of that date, we were in compliance with all of our financial covenants under our Amended Credit Facility and the Bridge Loan Agreement. We also reported that, based upon our 2009 first quarter results and our then-current operating forecast for the remainder of 2009, it was probable that, unless we took certain mitigating actions, we would not be in compliance for the period ending September 30, 2009 with certain of the financial covenants contained in these debt agreements. Due to these uncertainties, during June 2009, we entered into the Fifth Amendment to our Amended Credit Facility, which, among other things, modified certain of the financial and other covenants contained in the Amended Credit Facility. With the repayment of indebtedness outstanding under the Bridge Loan Agreement and our entering into the secured equipment financing transaction, we believe that our cash on hand and cash generated from our operations will be sufficient to fund our operations for the remainder of 2009. See - *Liquidity and Capital Resources Sources of Capital Meeting our Liquidity Requirements.*

As with any operating plan, there are risks associated with our ability to execute our 2009 plan. In addition, our ability to remain in compliance with the financial covenants can be affected by events beyond our control, including lack of improvement in E&P company and seismic contractor spending, lack of improvement in our operating results, significant write-downs of accounts receivable or inventories, changes in certain exchange rates and other factors. If we were not able to satisfy all of the financial covenants, we would need to seek to amend, or seek one or more waivers of, the covenants under the Amended Credit Facility. If we cannot satisfy the financial covenants and are unable to obtain waivers or amendments, the lenders could declare a default under the Amended Credit Facility. Any default under our Amended Credit Facility would allow the lenders under the facility the option to demand repayment of the indebtedness outstanding under the facility, and would allow certain other lenders to exercise their rights and remedies under cross-default provisions. If these lenders were to exercise their rights to accelerate the indebtedness outstanding, there can be no assurance that we would be able to refinance or otherwise repay any amounts that may become accelerated under the agreements. The acceleration of a significant portion of our indebtedness would have a material adverse effect on our business, liquidity, and financial condition. The ICON Loan Agreements contain certain restrictive covenants affecting us, and our Amended and Restated Subordinated Note contains additional restrictions on our ability to incur additional debt. Any additional debt financing we obtain is likely to have similarly restrictive covenants.

The restrictions in the Amended Credit Facility and our other debt instruments may prevent us from taking actions that we believe would be in the best interest of our business, and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. We also may incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. We cannot assure you that we will be granted waivers or amendments to these agreements if for any reason we are unable to comply with these agreements or that we will be able to refinance our debt on terms acceptable to us, or at all. The breach of any of these covenants and restrictions could result in a default under the Amended Credit Facility and our other debt instruments. An event of default under our debt agreements would permit the holders of such indebtedness to declare all amounts borrowed to be due and payable.

Our stock price has been volatile and has declined substantially since June 2008. If you make an investment in our stock, it could decline in value.

The securities markets in general and our common stock in particular have experienced significant price and volume volatility in 2008 and 2009. The market price and trading volume of our common stock may continue to experience significant fluctuations due not only to general stock market conditions but also to a change in sentiment in the market regarding our operations or business prospects or those of companies in our industry. In addition to the other risk factors discussed in this section, the price and volume volatility of our common stock may be affected by:

- operating results that vary from the expectations of securities analysts and investors;
- factors influencing the levels of global oil and natural gas exploration and exploitation activities, such as declining demand and declining prices for crude oil and natural gas;

- the operating and securities price performance of companies that investors or analysts consider comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and

changes in global financial markets and global economies and general market conditions, such as interest rates, commodity and equity prices and the value of financial assets.

To the extent that the price of our common stock remains low or declines further, our ability to raise funds through the issuance of equity or otherwise use our common stock as consideration will be reduced. This, in turn, may adversely impact our ability to reduce our financial leverage. Continued high levels of leverage or further increases in our leverage may make it more difficult for us to access additional capital. These factors may limit our ability to implement our operating and growth plans.

We are exposed to risks relating to the effectiveness of our internal controls.

Following the end of our third quarter of 2009, we discovered an error in revenue recognition of certain product revenues in connection with the delivery of a FireFly® land seismic data acquisition system and related hardware and components in China, which we had recorded in revenues for the second fiscal quarter of 2009. On November 4, 2009, we announced that we were restating our unaudited consolidated financial statements as of and for the three and six month periods ended June 30, 2009, as a result of this error in revenue recognition. We have concluded that, as of June 30, 2009, our internal control over financial reporting was not effective because this error in revenue recognition necessitating the restatement of our second quarter 2009 results of operations constituted a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. For a description of this material weakness in our internal control over financial reporting identified in November 2009 and determined to have existed at June 30, 2009, see Item 4. Controls and Procedures.

Although we have developed a remediation plan for the material weakness, there can be no assurance that such controls will effectively prevent material misstatements in our consolidated financial statements in future periods. We may experience controls deficiencies or material weakness in the future, which could adversely impact the accuracy and timeliness of our future reporting and reports and filings we make with the SEC.

If we, our option holders or our existing stockholders holding registration rights, sell additional shares of our common stock in the future, the market price of our common stock could decline.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market in the future, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, could make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

As of July 29, 2009, we had 118,349,436 shares of common stock issued and outstanding. Substantially all of these shares are available for public sale, subject in some cases to volume and other limitations or delivery of a prospectus. At June 30, 2009, we had outstanding stock options to purchase up to 7,506,225 shares of our common stock at a weighted average exercise price of $7.87 per share. We also had, as of that date, 16,962 shares of common stock reserved for issuance under outstanding restricted stock unit awards. Additionally, the holder of our Series D Preferred Stock currently has the right to convert the preferred shares it holds into 9,669,434 shares of our common stock. Under our agreement with the holder of our Series D Preferred Stock, the holder has the ability to sell the shares of our common stock (under effective registration statements) issuable to it upon conversion of the Series D Preferred Stock. Sales in the public market of shares of common stock issued upon conversion would apply downward pressure on then-prevailing market prices of our common stock. In addition, the very existence of the Series D Preferred Stock represents a future issuance, and perhaps a future sale, of our common stock to be acquired on conversion, which could also depress trading prices for our common stock.

The 18,500,000 shares of common stock we issued in June 2009 to certain institutional investors may be resold into the public markets in transactions pursuant to a currently-effective registration statement that was declared effective by the SEC on June 16, 2009. Thus, these purchasing institutional investors currently have the right to dispose of their shares in the public markets.

In addition, shares of our common stock are subject to certain demand and piggyback registration rights held by Laitram, L.L.C. We also may enter into additional registration rights agreements in the future in connection with any subsequent acquisitions or securities transactions we may undertake. Any sales of our common stock under these

registration rights arrangements with Laitram or other stockholders could be negatively perceived in the trading markets and negatively affect the price of our common stock. Sales of a substantial number of our shares of common stock in the public market under these arrangements, or the expectation of such sales, could cause the market price of our common stock to decline.

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Item 6. ***Exhibits***

10.1 Fifth Amendment to Amended and Restated Credit Agreement dated effective as of June 1, 2009 by and among ION Geophysical Corporation, ION International S.à r.l., certain other foreign and domestic subsidiaries of the ION Geophysical Corporation, HSBC Bank USA, N.A., as administrative agent, joint lead arranger and joint bookrunner, ABN AMRO Incorporated, as joint lead arranger and joint bookrunner, Citibank, N.A., as syndication agent, and the lenders party thereto. *

10.2 Form of Purchase Agreement dated as of June 1, 2009, for the offering and sale of 18,500,000 shares of common stock of ION Geophysical Corporation in privately-negotiated transactions to accredited investors (as defined in Rule 501 under the Securities Act of 1933, as amended), by and between ION Geophysical Corporation and the Purchasers named therein.*

10.3 Canadian Master Loan and Security Agreement dated as of June 29, 2009 by and among ICON ION, LLC, as lender, ION Geophysical Corporation and ARAM Rentals Corporation, a Nova Scotia corporation.*

10.4 Master Loan and Security Agreement (U.S.) dated as of June 29, 2009 by and among ICON ION, LLC, as lender, ION Geophysical Corporation and ARAM Seismic Rentals, Inc., a Texas corporation.*

31.1 Certification of President and Chief Executive Officer Pursuant to Rule 13a-14(a).

31.2 Certification of Executive Vice President and Chief Financial Officer Pursuant to Rule 13a-14(a).

32.1 Certification of President and Chief Executive Officer Pursuant to 18 U.S.C. §1350.

32.2 Certification of Executive Vice President and Chief Financial Officer Pursuant to 18 U.S.C. §1350.

* Previously included as an exhibit to the Quarterly Report on Form 10-Q of ION Geophysical Corporation for the quarterly period ended June 30, 2009, filed with the SEC on August 6, 2009.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ION GEOPHYSICAL CORPORATION

By /s/ R. Brian Hanson
R. Brian Hanson
Executive Vice President and Chief Financial Officer
(Duly authorized executive officer and principal financial officer)

Date: November 9, 2009

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