

SEITEL INC  
Form 10-Q  
May 14, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

Commission File Number: 001-10165

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SEITEL, INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

76-0025431

(I.R.S. Employer Identification No.)

10811 S. Westview Circle Drive

Building C, Suite 100

Houston, Texas

(Address of principal executive offices)

77043

(Zip Code)

(713) 881-8900

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 9, 2012, there were 100 shares of the Company's common stock outstanding, par value \$.001 per share.

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## PART I—FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## SEITEL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	(Unaudited) March 31, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and cash equivalents	\$63,415	\$74,894
Receivables		
Trade, net of allowance for doubtful accounts of \$1,044 and \$1,043, respectively	52,015	51,306
Notes and other, net of allowance for doubtful accounts of \$1,501	3,985	4,322
Due from Seitel Holdings, Inc.	865	861
Seismic data library, net of accumulated amortization of \$793,513 and \$751,980, respectively	149,454	120,694
Property and equipment, net of accumulated depreciation and amortization of \$12,464 and \$11,882, respectively	4,847	5,039
Investment in marketable securities	347	262
Prepaid expenses, deferred charges and other	10,284	10,244
Intangible assets, net of accumulated amortization of \$31,143 and \$29,378, respectively	25,465	26,814
Goodwill	207,598	205,838
Deferred income taxes	56	56
<b>TOTAL ASSETS</b>	<b>\$518,331</b>	<b>\$500,330</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$59,420	\$60,550
Income taxes payable	2,401	1,464
Debt		
Senior Notes	275,000	275,000
Notes payable	79	95
Obligations under capital leases	3,176	3,161
Deferred revenue	48,575	48,845
Deferred income taxes	2,420	1,375
<b>TOTAL LIABILITIES</b>	<b>391,071</b>	<b>390,490</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDER'S EQUITY</b>		
Common stock, par value \$.001 per share; 100 shares authorized, issued and outstanding at March 31, 2012 and December 31, 2011	—	—
Additional paid-in capital	398,084	398,011
Retained deficit	(294,479)	(309,185)
Accumulated other comprehensive income	23,655	21,014
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>127,260</b>	<b>109,840</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$518,331</b>	<b>\$500,330</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.



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SEITEL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)  
 (In thousands)

	Three Months Ended March 31,	
	2012	2011
REVENUE	\$72,547	\$59,496
EXPENSES:		
Depreciation and amortization	39,384	42,414
Cost of sales	97	16
Selling, general and administrative	8,092	7,565
	47,573	49,995
INCOME FROM OPERATIONS	24,974	9,501
Interest expense, net	(7,219)	(10,159)
Foreign currency exchange gains	411	232
Gain on sale of marketable securities	—	1,487
Other income	81	49
Income before income taxes	18,247	1,110
Provision for income taxes	3,541	599
NET INCOME	\$14,706	\$511

The accompanying notes are an integral part of these condensed consolidated financial statements.

SEITEL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)  
 (In thousands)

	Three Months Ended March 31,	
	2012	2011
Net income	\$14,706	\$511
Unrealized gain on securities held as available for sale, net of tax:		
Unrealized net holding gain arising during the period	85	823
Less: Reclassification adjustment for realized gains included in earnings	—	(1,487)
Foreign currency translation adjustments	2,556	3,291
Comprehensive income	\$17,347	\$3,138

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## SEITEL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (Unaudited)

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income
	Shares	Amount			
Balance, December 31, 2011	100	\$—	\$398,011	\$(309,185)	) \$21,014
Amortization of stock-based compensation costs	—	—	73	—	—
Net income	—	—	—	14,706	—
Foreign currency translation adjustments	—	—	—	—	2,556
Unrealized gain on marketable securities, net of tax	—	—	—	—	85
Balance, March 31, 2012	100	\$—	\$398,084	\$(294,479)	) \$23,655

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SEITEL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
 (In thousands)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$14,706	\$511
Depreciation and amortization	39,384	42,414
Deferred income tax provision	1,065	205
Amortization of deferred financing costs	492	516
Amortization of debt premium	—	(26 )
Amortization of stock-based compensation	73	264
Amortization of favorable facility lease	72	73
Non-cash other income	—	(48 )
Non-cash revenue	(2,115 )	(1,240 )
Gain on sale of marketable securities	—	(1,487 )
Decrease (increase) in receivables	(1,092 )	1,482
Decrease (increase) in other assets	(543 )	188
Increase (decrease) in deferred revenue	985	(6,358 )
Decrease in accounts payable and other liabilities	(7,534 )	(13,903 )
Net cash provided by operating activities	45,493	22,591
Cash flows from investing activities:		
Cash invested in seismic data	(56,420 )	(46,096 )
Cash paid to acquire property, equipment and other	(250 )	(239 )
Net proceeds from sale of marketable securities	—	1,487
Cash from sale of property, equipment and other	—	35
Advances to Seitel Holdings, Inc.	(4 )	(1 )
Net cash used in investing activities	(56,674 )	(44,814 )
Cash flows from financing activities:		
Principal payments on notes payable	(16 )	(14 )
Principal payments on capital lease obligations	(42 )	(40 )
Borrowings on line of credit	—	737
Payments on line of credit	—	(737 )
Net cash used in financing activities	(58 )	(54 )
Effect of exchange rate changes	(240 )	(4 )
Net decrease in cash and equivalents	(11,479 )	(22,281 )
Cash and cash equivalents at beginning of period	74,894	89,971
Cash and cash equivalents at end of period	\$63,415	\$67,690
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$13,475	\$19,679
Income taxes, net of refunds received	\$1,462	\$(15 )
Supplemental schedule of non-cash investing activities:		
Additions to seismic data library	\$709	\$190
The accompanying notes are an integral part of these condensed consolidated financial statements.		





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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

March 31, 2012

NOTE A-BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Seitel, Inc. and its subsidiaries (the “Company”) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. In preparing the Company’s financial statements, a number of estimates and assumptions are made by management that affect the accounting for and recognition of assets, liabilities, revenues and expenses. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for any other quarter of 2012 or for the year ending December 31, 2012. The condensed consolidated balance sheet of the Company as of December 31, 2011 has been derived from the audited balance sheet of the Company as of that date. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

NOTE B-REVENUE RECOGNITION

Revenue from Data Acquisition

The Company generates revenue when it creates a new seismic survey that is initially licensed by one or more of its customers to use the resulting data. The payments for the initial licenses are sometimes referred to as underwriting or prefunding. Customers make periodic payments throughout the creation period, which generally correspond to costs incurred and work performed. These payments are non-refundable. The Company considers the contracts signed up to the time the Company makes a firm commitment to create the new seismic survey as underwriting. Any subsequent licensing of the data while it is in progress is considered a resale license (see “Revenue from Non-Exclusive Data Licenses”).

Underwriting revenue is recognized throughout the creation period using the proportional performance method based upon costs incurred and work performed to date as a percentage of total estimated costs and work required.

Management believes that this method is the most reliable and representative measure of progress for its data creation projects. On average, the duration of the data creation process is approximately one year. Under these contracts, the Company creates new seismic data designed in conjunction with its customers and specifically suited to the geology of the area using the most appropriate technology available.

The Company outsources the substantial majority of the work required to complete data acquisition projects to third party contractors. The Company’s payments to these third party contractors comprise the substantial majority of the total estimated costs of the project and are paid throughout the creation period. A typical survey includes specific activities required to complete the survey, each of which has value to the customers. Typical activities, that often occur concurrently, include:

- permitting for land access, mineral rights, and regulatory approval;
- surveying;
- drilling for the placement of energy sources;
- recording the data in the field; and
- processing the data.

The customers paying for the initial licenses receive legally enforceable rights to any resulting product of each activity described above. The customers also receive access to and use of the newly acquired, processed data.

The customers’ access to and use of the results of the work performed and of the newly acquired, processed data is governed by a license agreement, which is a separate agreement from the acquisition contract. The Company’s acquisition contracts require the customer either to have a license agreement in place or to execute one at the time the

acquisition contract is signed. The Company maintains sole ownership of the newly acquired data, which is added to its library, and is free to license the data to other customers.

#### Revenue from Non-Exclusive Data Licenses

The Company recognizes a substantial portion of its revenue from licensing of data once it is available for delivery. These are sometimes referred to as resale licensing revenue, post-acquisition license sales or shelf sales.

These sales fall under the following four basic forms of non-exclusive license contracts.

• **Specific license contract**—The customer licenses and selects data from the data library, including data currently in progress, at the time the contract is entered into and holds this license for a long-term period.

• **Library card license contract**—The customer initially receives only access to data. The customer may then select specific data, from the collection of data to which it has access, to hold long-term under its license agreement. The length of the selection periods under the library card contracts is limited in time and varies from customer to customer.

• **Review and possession license contract**—The customer obtains the right to review a certain quantity of data for a limited period of time. During the review period, the customer may select specific data from that available for review to hold long-term under its license agreement. Any data not selected for long-term licensing must be returned to the Company at the end of the review period.

• **Review only license contract**—The customer obtains rights to review a certain quantity of data for a limited period of time, but does not obtain the right to select specific data to hold long-term.

The Company's non-exclusive license contracts specify the following:

• that all customers must also execute a master license agreement that governs the use of all data received under the Company's non-exclusive license contracts;

• the specific payment terms, generally ranging from 30 days to 12 months, and that such payments are non-cancelable and non-refundable;

• the actual data that is accessible to the customer; and

• that the data is licensed in its present form, where is and as is and the Company is under no obligation to make any enhancements, modifications or additions to the data unless specific terms to the contrary are included.

Revenue from the non-exclusive licensing of seismic data is recognized when the following criteria are met:

• the Company has an arrangement with the customer that is validated by a signed contract;

• the sales price is fixed and determinable;

• collection is reasonably assured;

• the customer has selected the specific data or the contract has expired without full selection;

• the data is currently available for delivery; and

• the license term has begun.

Copies of the data are available to the customer immediately upon request.

For licenses that have been invoiced for which payment is due or has been received, but have not met the aforementioned criteria, the revenue is deferred along with the related direct costs (primarily sales commissions). This normally occurs under the library card, review and possession or review only license contracts because the data selection may occur over time. Additionally, if the contract allows licensing of data that is not currently available or enhancements, modifications or additions to the data are required per the contract, revenue is deferred until such time that the data is available.

#### Revenue from Non-Monetary Exchanges

In certain cases, the Company will take ownership of a customer's seismic data or revenue interest (collectively referred to as "data") in exchange for a non-exclusive license to selected seismic data from the Company's library and, in some cases, services provided by Seitel Solutions ("Solutions"). In connection with specific data acquisition contracts, the Company may choose to receive both cash and ownership of seismic data from the customer as consideration for

the underwriting of new data acquisition. In addition, the Company may receive advanced data processing services on selected existing data in exchange for a non-exclusive license to selected data from the Company's library. These exchanges are referred to as non-monetary exchanges. A non-monetary exchange for data always complies with the following criteria:

- the data license delivered is always distinct from the data received;
- the customer forfeits ownership of its data; and
- the Company retains ownership in its data.

In non-monetary exchange transactions, the Company records a data library asset for the seismic data received or processed at the time the contract is entered into or the data is completed, as applicable, and recognizes revenue on the transaction in equal value in accordance with its policy on revenue from data licenses, which is, when the data is selected by the customer, or revenue from data acquisition, as applicable, or as services are provided by Solutions. The data license to the customer is in the form of one of the four basic forms of contracts discussed above. These transactions are valued at the fair value of the data received or delivered, whichever is more readily determinable. Fair value of the data exchanged is determined using a multi-step process as follows:

First, the Company considers the value of the data or services received from the customer. In determining the value of the data received, the Company considers the age, quality, current demand and future marketability of the data and, in the case of 3D seismic data, the cost that would be required to create the data. In addition, the Company applies a limitation on the value it assigns per square mile on the data received. In determining the value of the services received, the Company considers the cost of such similar services that it could obtain from a third party provider.

Second, the Company determines the value of the license granted to the customer. Typically, the range of cash transactions by the Company for licenses of similar data during the prior six months are evaluated. In evaluating the range of cash transactions, the Company does not consider transactions that are disproportionately high or low.

Due to the Company's revenue recognition policies, revenue recognized on non-monetary exchange transactions may not occur at the same time the seismic data acquired is recorded as an asset. The activity related to non-monetary exchanges was as follows (in thousands):

	Three Months Ended March 31,	
	2012	2011
Seismic data library additions	\$709	\$190
Revenue recognized on specific data licenses or selections of data	827	201
Revenue recognized related to acquisition contracts	1,268	1,039
Revenue recognized related to Solutions	20	—
Revenue from Solutions		

Revenue from Solutions is recognized as the services for reproduction and delivery of seismic data are provided to customers.

#### NOTE C-SEISMIC DATA LIBRARY

The Company's seismic data library consists of seismic surveys that are offered for license to customers on a non-exclusive basis. Costs associated with creating, acquiring or purchasing the seismic data library are capitalized and amortized principally on the income forecast method subject to a straight-line amortization period of four years, applied on a quarterly basis at the individual survey level.

##### Costs of Seismic Data Library

For purchased seismic data, the Company capitalizes the purchase price of the acquired data.

For data received through a non-monetary exchange, the Company capitalizes an amount equal to the fair value of the data received by the Company or the fair value of the license granted to the customer, whichever is more readily determinable. See Note B – Revenue Recognition – Revenue from Non-Monetary Exchanges for discussion of the

process used to determine fair value.

For newly created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data. Such costs include salaries and benefits of the Company's processing personnel and certain other costs incurred for the benefit of the processing activity. The Company believes that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for internal data processing were \$647,000 and \$455,000 for the three months ended March 31, 2012 and 2011, respectively.

#### Data Library Amortization

The Company amortizes its seismic data library investment using the greater of the amortization that would result from the application of the income forecast method subject to a minimum amortization rate or a straight-line basis over the useful life of the data. With respect to each survey in the data library, the straight-line policy is applied from the time such survey is available for licensing to customers on a non-exclusive basis, since some data in the library may not be licensed until an exclusivity period has lapsed.

The Company applies the income forecast method by forecasting the ultimate revenue expected to be derived from a particular data library component over the estimated useful life of each survey comprising part of such component. This forecast is made by the Company annually and reviewed quarterly. If, during any such review, the Company determines that the ultimate revenue for a library component is expected to be significantly different than the original estimate of total revenue for such library component, the Company revises the amortization rate attributable to future revenue from each survey in such component. The lowest amortization rate the Company applies using the income forecast method is 70%. In addition, in connection with the forecast reviews and updates, the Company evaluates the recoverability of its seismic data library investment, and if required, records an impairment charge with respect to such investment. See discussion on "Seismic Data Library Impairment" below.

The actual aggregate rate of amortization depends on the specific seismic surveys licensed and selected by the Company's customers during the period and the amount of straight-line amortization recorded. The income forecast amortization rates can vary by component and, as of April 1, 2012, is 70% for all components. For those seismic surveys which have been fully amortized, no amortization expense is required on revenue recorded.

The greater of the income forecast or straight-line amortization policy is applied quarterly on a cumulative basis at the individual survey level. Under this policy, the Company first records amortization using the income forecast method. The cumulative amortization recorded for each survey is then compared with the cumulative straight-line amortization. If the cumulative straight-line amortization is higher for any specific survey, additional amortization expense is recorded, resulting in accumulated amortization being equal to the cumulative straight-line amortization for such survey. This requirement is applied regardless of future-year revenue estimates for the library component of which the survey is a part and does not consider the existence of deferred revenue with respect to the library component or to any survey.

#### Seismic Data Library Impairment

The Company evaluates its seismic data library investment by grouping individual surveys into components based on its operations and geological and geographical trends, resulting in the following data library segments for purposes of evaluating impairments: (I) North America 3D onshore comprised of the following components: (a) Texas Gulf Coast, (b) Eastern Texas, (c) Southern Louisiana/Mississippi, (d) Northern Louisiana, (e) Rocky Mountains, (f) Marcellus / Utica in Pennsylvania, Ohio and West Virginia, (g) Granite Wash in Oklahoma and the Texas Panhandle, (h) other United States, (i) Montney in British Columbia and Alberta, (j) Horn River in British Columbia, (k) Cardium in Alberta and (l) other Canada; (II) United States 2D; (III) Canada 2D; (IV) Gulf of Mexico offshore; and (V) international data outside North America. The Company believes that these library components constitute the lowest levels of independently identifiable cash flows.

The Company evaluates its seismic data library investment for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company considers the level of sales performance in each component compared to projected sales, as well as industry conditions, among others, to be key factors in determining when its seismic data investment should be evaluated for impairment. In evaluating sales performance of each component, the Company generally considers five consecutive quarters of actual performance

below forecasted sales to be an indicator of potential impairment.

The impairment evaluation is based first on a comparison of the undiscounted future cash flows over each component's remaining estimated useful life with the carrying value of each library component. If the undiscounted cash flows are equal to or greater than the carrying value of such component, no impairment is recorded. If undiscounted cash flows are less than the carrying value of any component, the forecast of future cash flows related to such component is discounted to fair value and compared with such component's carrying amount. The difference between the library component's carrying amount and the discounted future value of the expected revenue stream is recorded as an impairment charge.

For purposes of evaluating potential impairment losses, the Company estimates the future cash flows attributable to a library component by evaluating, among other factors, historical and recent revenue trends, oil and gas prospectivity in particular regions, general economic conditions affecting its customer base and expected changes in technology and other factors that the Company deems relevant. The cash flow estimates exclude expected future revenues attributable to non-monetary data exchanges and future data creation projects.

The estimation of future cash flows and fair value is highly subjective and inherently imprecise. Estimates can change materially from period to period based on many factors, including those described in the preceding paragraph.

Accordingly, if conditions change in the future, the Company may record impairment losses relative to its seismic data library investment, which could be material to any particular reporting period.

The Company did not have any impairment charges during the three months ended March 31, 2012 or 2011.

#### NOTE D-DEBT

The following is a summary of the Company's debt (in thousands):

	March 31, 2012	December 31, 2011
9.75% Senior Notes	\$275,000	\$ 275,000
Credit Facility	—	—
Note payable to former executive	79	95
	\$275,079	\$ 275,095

9.75% Senior Unsecured Notes: On February 14, 2007, the Company issued, in a private placement, \$400.0 million aggregate principal amount of 9.75% senior notes due 2014 (the "9.75% Senior Notes"). The proceeds from the 9.75% Senior Notes were used to partially fund the transactions in connection with the February 14, 2007 merger of Seitel Acquisition Corp. with and into the Company pursuant to a merger agreement between the Company and Seitel Acquisition Corp. and Seitel Holdings, Inc. dated October 31, 2006 (the "Merger"). As required by their terms, the 9.75% Senior Notes were exchanged for senior notes of like amounts and terms in a publicly registered exchange offer in August 2007. On July 1, 2011, the Company redeemed \$125.0 million aggregate principal amount of the 9.75% Senior Notes outstanding in accordance with the terms and conditions of the indenture governing the 9.75% Senior Notes. The remaining notes mature on February 15, 2014. Interest is payable in cash, semi-annually in arrears on February 15 and August 15 of each year. The 9.75% Senior Notes are unsecured and are guaranteed by substantially all of the Company's domestic subsidiaries on a senior basis. The 9.75% Senior Notes contain restrictive covenants which limit the Company's ability to, among other things, incur additional indebtedness, pay dividends and complete mergers, acquisitions and sales of assets.

Upon a change of control (as defined in the indenture governing the 9.75% Senior Notes), each holder of the 9.75% Senior Notes will have the right to require the Company to offer to purchase all of such holder's notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest.

Credit Facility: On May 25, 2011, the Company entered into a credit agreement (the "Credit Facility") with Wells Fargo Capital Finance, LLC (the "U.S. Lender") and Wells Fargo Capital Finance Corporation Canada (the "Canadian Lender," and collectively with the U.S. Lender, the "Lenders"). The Credit Facility provides a \$30.0 million revolving credit facility with a Canadian sublimit of \$5.0 million, subject to borrowing base limitations. The Credit Facility expires on November 15, 2013, which date will be extended upon the occurrence of certain refinancing of the Company's 9.75% Senior Notes. Each existing and future direct and indirect wholly-owned domestic subsidiary of the Company (collectively, the "U.S. Guarantors") is a guarantor of payment of the U.S. obligations under the Credit Facility and each

future direct and indirect wholly-owned Canadian subsidiary of Olympic, is a guarantor of payment of the Canadian obligations under the Credit Facility.

The borrowings under the Credit Facility are secured by a perfected first priority lien and security interest (subject to certain exceptions) in favor of the U.S. Lender in all present and future assets and equity of the Company and each U.S. Guarantor and 65% of the equity in Olympic, and borrowings by Olympic are secured by a perfected first priority lien and security interest (subject to certain exceptions) in favor of the Canadian Lender in all present and future assets of Olympic. The Credit Facility has a variable interest rate depending on certain factors.

The Credit Facility requires that the Company maintain certain minimum excess availability (as defined in the Credit Facility) levels or the fixed charge coverage ratio (as defined in the Credit Facility) shall not be less than 1.00 to 1.00. In addition, the Credit Facility contains affirmative and negative covenants, representations and warranties, borrowing conditions, events of default and remedies for the Lenders. The aggregate loan or any individual loan made under the Credit Facility may be prepaid at any time subject to certain restrictions. The Credit Facility is also subject to the payment of upfront, letter of credit, administrative and certain other fees.

Note Payable to Former Executive: In connection with the settlement of certain litigation, the Company entered into a note payable to a former executive with remaining payments of \$6,000 per month until May 2013. The note is non-interest bearing. The note is guaranteed by Olympic.

#### NOTE E-FAIR VALUE MEASUREMENTS

Authoritative guidance on fair value measurements provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In measuring the fair value of the Company's assets and liabilities, market data or assumptions are used that the Company believes market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. The Company's assets that are measured at fair value on a recurring basis include the following (in thousands):

	Total	Fair Value Measurements Using Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
At March 31, 2012:				
Cash equivalents	\$62,956	\$62,956	\$—	\$—
Investment in stock options related to equity securities	347	—	347	—
At December 31, 2011:				
Cash equivalents	\$74,421	\$74,421	\$—	\$—
Investment in stock options related to equity securities	262	—	262	—

The Company had no transfers of assets between any of the above levels during the three months ended March 31, 2012 or March 31, 2011.

Cash equivalents include treasury bills and money market funds that invest in United States government obligations and a Canadian dollar investment account, all with original maturities of six months or less. The original costs of these assets approximate fair value due to their short-term maturity.

Investment in stock options related to equity securities are measured at fair value using the Black-Scholes option pricing model based on observable market inputs such as stock prices, interest rates and expected volatility assumptions. Based on these inputs, these assets are classified within Level 2 of the valuation hierarchy.

During the three months ended March 31, 2011, the Company sold a portion of its investment in equity securities for proceeds totaling \$1.5 million. Total realized gains were equal to proceeds received.

Other Financial Instruments:

Debt – Based upon the rates available to the Company, the fair value of the 9.75% Senior Notes and the note payable to a former executive approximated \$282.6 million as of March 31, 2012, compared to the book value of \$275.1 million. The quoted market price of the 9.75% Senior Notes was \$282.6 million at March 31, 2012. The fair value of the 9.75% Senior Notes and the note payable to a former executive approximated \$273.0 million as of December 31, 2011, compared to the book value of \$275.1 million. The quoted market price of the 9.75% Senior Notes was \$272.9 million at December 31, 2011. The fair value for the Company's most significant debt balance, the 9.75% Senior Notes, was estimated using Level 1 inputs whereas the estimate of fair value for the note payable to a former executive was calculated using Level 2 inputs.

Accounts Receivable and Accounts Payable – The fair values of accounts receivable and accounts payable approximated carrying value due to the short-term maturity of these instruments.

NOTE F-STATEMENT OF CASH FLOW INFORMATION

Cash and cash equivalents at March 31, 2012 and December 31, 2011 includes \$283,000 and \$122,000, respectively of restricted cash related to collateral on seismic operations bonds. The balances at March 31, 2012 and December 31, 2011 also include \$125,000 (Canadian) of restricted cash posted as security against Company issued credit cards for Olympic.

The Company had non-cash additions to its seismic data library comprised of the following for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2012	2011
Non-monetary exchanges related to resale licensing revenue	\$709	\$6,016
Non-monetary exchanges from underwriting of new data acquisition	—	352
Other non-monetary exchanges	—	48
Less: Non-monetary exchanges for data in progress	—	(6,226)
Total non-cash additions to seismic data library	\$709	\$190

Non-cash revenue consisted of the following for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2012	2011
Acquisition revenue on underwriting from non-monetary exchange contracts	\$1,268	\$1,039
Licensing revenue from specific data licenses and selections on non-monetary exchange contracts	827	201
Solutions revenue recognized from non-monetary exchange contracts	20	—
Total non-cash revenue	\$2,115	\$1,240

NOTE G-COMMITMENTS AND CONTINGENCIES

The Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolutions of these matters should not be material to the Company's financial position, results of operations or cash flows. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At March 31, 2012, the Company has recorded the estimated amount of potential exposure it may have with respect to litigation and claims. Such amounts are not material to the financial statements.

NOTE H-RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Presentation of Comprehensive Income" requiring entities to report components of other comprehensive



income in either a single continuous statement or in two separate but consecutive statements of net income and other comprehensive income. This ASU does not change the items that must be reported in comprehensive income, how these items are measured, or when these items must be classified to net income. In December 2011, the FASB issued ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05" which indefinitely deferred, pending further deliberation by the FASB at a future date, the requirement to present reclassification adjustments by component in both the statement where net income is presented and the statement where other comprehensive income is presented. Beginning with the three months ended March 31, 2012, the Company has provided the required financial reporting presentation pursuant to ASU 2011-05 herein.

#### NOTE I-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

On February 14, 2007, the Company completed a private placement of 9.75% Senior Notes in the aggregate principal amount of \$400.0 million. As of March 31, 2012, \$275.0 million aggregate principal amount remains outstanding. The Company's payment obligations under the 9.75% Senior Notes are jointly and severally guaranteed by certain of its 100% owned U.S. subsidiaries ("Guarantor Subsidiaries"). All subsidiaries of the Company that do not guaranty the 9.75% Senior Notes are referred to as Non-Guarantor Subsidiaries.

The consolidating condensed financial statements are presented below and should be read in connection with the Condensed Consolidated Financial Statements of the Company. Separate financial statements of the Guarantor Subsidiaries are not presented because (i) the Guarantor Subsidiaries are wholly-owned and have fully and unconditionally guaranteed the 9.75% Senior Notes on a joint and several basis, and (ii) the Company's management has determined such separate financial statements are not material to investors.

The following consolidating condensed financial information presents the consolidating condensed balance sheets as of March 31, 2012 and December 31, 2011, and the consolidating condensed statements of operations, statements of comprehensive income and statements of cash flows for the three months ended March 31, 2012 and March 31, 2011 of (a) the Company; (b) the Guarantor Subsidiaries; (c) the Non-Guarantor Subsidiaries; (d) elimination entries; and (e) the Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis.

Investments in subsidiaries are accounted for on the equity method. The principal elimination entries eliminate investments in subsidiaries, intercompany balances, intercompany transactions and intercompany sales.

#### CONSOLIDATING CONDENSED BALANCE SHEET

As of March 31, 2012

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>					
Cash and cash equivalents	\$—	\$56,410	\$7,005	\$—	\$63,415
Receivables					
Trade, net	—	31,866	20,149	—	52,015
Notes and other, net	500	516	2,969	—	3,985
Due from Seitel Holdings, Inc.	—	865	—	—	865
Intercompany receivables (payables)	87,605	(70,166 )	(17,439 )	—	—
Investment in subsidiaries	289,335	425,383	1,440	(716,158 )	—
Net seismic data library	—	65,881	83,573	—	149,454
Net property and equipment	—	1,825	3,022	—	4,847
Investment in marketable securities	—	347	—	—	347
Prepaid expenses, deferred charges and other	4,017	5,379	888	—	10,284
Intangible assets, net	900	15,659	8,906	—	25,465
Goodwill	—	107,688	99,910	—	207,598
Deferred income taxes	—	56	—	—	56

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TOTAL ASSETS	\$382,357	\$641,709	\$210,423	\$(716,158 )	\$518,331
LIABILITIES AND STOCKHOLDER'S EQUITY					
Accounts payable and accrued liabilities	\$3,347	\$21,769	\$34,304	\$—	\$59,420