

SEITEL INC  
Form 10-Q  
November 10, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

Commission File Number: 001-10165

**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:**

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

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 November 7, 2011, there were 100 shares of the Company's common stock outstanding, par value \$.001 per share.

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**Table of Contents****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) September 30, 2011	December 31, 2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 38,607	\$ 89,971
Receivables		
Trade, net of allowance for doubtful accounts of \$1,043 and \$2,556, respectively	48,352	34,404
Notes and other, net of allowance for doubtful accounts of \$1,501 and \$0, respectively	2,729	84
Due from Seitel Holdings, Inc.	858	156
Seismic data library, net of accumulated amortization of \$706,345 and \$622,030, respectively	114,724	106,104
Property and equipment, net of accumulated depreciation and amortization of \$11,143 and \$9,704, respectively	4,790	5,446
Investment in marketable securities	174	3,102
Prepaid expenses, deferred charges and other	12,185	10,249
Intangible assets, net of accumulated amortization of \$27,776 and \$23,777, respectively	28,107	33,117
Goodwill	203,768	208,050
Deferred income taxes	326	326
<b>TOTAL ASSETS</b>	<b>\$ 454,620</b>	<b>\$ 491,009</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 30,709	\$ 53,170
Income taxes payable	608	8
Debt		
Senior Notes	275,000	402,056
Notes payable	110	154
Obligations under capital leases	3,134	3,394
Deferred revenue	48,603	37,121
Deferred income taxes	1,635	2,128
<b>TOTAL LIABILITIES</b>	<b>359,799</b>	<b>498,031</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDER'S EQUITY (DEFICIT)</b>		
Common stock, par value \$.001 per share; 100 shares authorized, issued and outstanding at September 30, 2011 and December 31, 2010		
Additional paid-in capital	397,954	277,488
Retained deficit	(321,027)	(311,401)
Accumulated other comprehensive income	17,894	26,891

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TOTAL STOCKHOLDER S EQUITY (DEFICIT)	94,821	(7,022)
TOTAL LIABILITIES AND STOCKHOLDER S EQUITY (DEFICIT)	\$ 454,620	\$ 491,009

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

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

	Three Months Ended September 30,	
	2011	2010
<b>REVENUE</b>	<b>\$ 52,208</b>	<b>\$ 46,140</b>
<b>EXPENSES:</b>		
Depreciation and amortization	34,052	45,021
Cost of sales	13	10
Selling, general and administrative	7,637	8,516
	41,702	53,547
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>10,506</b>	<b>(7,407)</b>
Interest expense, net	(7,198)	(10,194)
Foreign currency exchange gains (losses)	(1,631)	228
Loss on early extinguishment of debt	(7,912)	
Other income	44	55
Loss before income taxes	(6,191)	(17,318)
Benefit for income taxes	(1,080)	(1,401)
<b>NET LOSS</b>	<b>\$ (5,111)</b>	<b>\$ (15,917)</b>

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

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

	Nine Months Ended September 30,	
	2011	2010
<b>REVENUE</b>	<b>\$ 147,249</b>	<b>\$ 111,478</b>
<b>EXPENSES:</b>		
Depreciation and amortization	99,712	121,788
Cost of sales	68	73
Selling, general and administrative	23,127	23,414
	122,907	145,275
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>24,342</b>	<b>(33,797)</b>
Interest expense, net	(27,622)	(30,520)
Foreign currency exchange gains (losses)	(1,174)	120
Loss on early extinguishment of debt	(7,912)	
Gain on sale of marketable securities	2,467	52
Other income	208	189
<b>Loss before income taxes</b>	<b>(9,691)</b>	<b>(63,956)</b>
Benefit for income taxes	(65)	(3,211)
<b>NET LOSS</b>	<b>\$ (9,626)</b>	<b>\$ (60,745)</b>

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

**Table of Contents****SEITEL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)***(In thousands)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net loss	\$ (5,111)	\$ (15,917)	\$ (9,626)	\$ (60,745)
Unrealized gain on securities held as available for sale, net of tax:				
Unrealized net holding gain (loss) arising during the period	(284)	2,829	(461)	3,124
Less: Reclassification adjustment for realized gains included in earnings			(2,467)	(52)
Foreign currency translation adjustments	(10,503)	3,925	(6,069)	2,107
Comprehensive loss	\$ (15,898)	\$ (9,163)	\$ (18,623)	\$ (55,566)

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



**Table of Contents****SEITEL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT) (Unaudited)**

(In thousands, except share amounts)

	Common Stock		Additional	Retained	Accumulated
	Shares	Amount	Paid-In	Deficit	Other
			Capital		Comprehensive
Balance, December 31, 2010	100	\$	\$ 277,488	\$ (311,401)	\$ 26,891
Investment by Parent, net			120,066		
Amortization of stock-based compensation costs			400		
Net loss				(9,626)	
Foreign currency translation adjustments					(6,069)
Unrealized loss on marketable securities, net of tax					(461)
Reclassification adjustment for realized gains on marketable securities included in earnings, net of tax					(2,467)
Balance, September 30, 2011	100	\$	\$ 397,954	\$ (321,027)	\$ 17,894

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

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

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Reconciliation of net loss to net cash provided by operating activities:		
Net loss	\$ (9,626)	\$ (60,745)
Depreciation and amortization	99,712	121,788
Loss on early extinguishment of debt	7,912	
Deferred income tax benefit	(394)	(3,485)
Amortization of deferred financing costs	1,518	1,297
Amortization of debt premium	(56)	(73)
Amortization of stock-based compensation	400	2,729
Amortization of favorable facility lease	219	206
Allowance for collection of trade receivables	6	1,524
Non-cash other income	(98)	(42)
Non-cash revenue	(7,897)	(6,734)
Gain on sale of marketable securities	(2,467)	(52)
Increase in receivables	(17,485)	(17,794)
Decrease (increase) in other assets	15	(24)
Increase in deferred revenue	9,545	16,140
Decrease in accounts payable and other liabilities	(16,920)	(5,093)
<b>Net cash provided by operating activities</b>	<b>64,384</b>	<b>49,642</b>
Cash flows from investing activities:		
Cash invested in seismic data	(102,712)	(30,042)
Cash paid to acquire property, equipment and other	(1,221)	(198)
Net proceeds from sale of marketable securities	2,467	52
Cash from sale of property, equipment and other	35	
Advances to Seitel Holdings, Inc.	(752)	(9)
Repayment from Seitel Holdings, Inc.	50	
<b>Net cash used in investing activities</b>	<b>(102,133)</b>	<b>(30,197)</b>
Cash flows from financing activities:		
Principal payments on notes payable	(44)	(40)
Repayment of 9.75% Senior Notes	(131,094)	
Repayment of 11.75% Senior Notes	(2,000)	
Principal payments on capital lease obligations	(122)	(108)
Borrowings on line of credit	737	10
Payments on line of credit	(737)	(10)
Contributed capital	125,000	
Costs of debt and equity transactions	(6,333)	(65)
<b>Net cash used in financing activities</b>	<b>(14,593)</b>	<b>(213)</b>

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Effect of exchange rate changes	978	121
Net increase (decrease) in cash and equivalents	(51,364)	19,353
Cash and cash equivalents at beginning of period	89,971	26,270
Cash and cash equivalents at end of period	\$ 38,607	\$ 45,623
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 37,913	\$ 39,381
Income taxes	\$ 8,254	\$ 15
Supplemental schedule of non-cash investing activities:		
Additions to seismic data library	\$ 10,119	\$ 7,890

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)**

**September 30, 2011**

**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 and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The condensed consolidated balance sheet of the Company as of December 31, 2010 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, 2010.

**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 initial licenses may provide the customer with a limited exclusivity period. The payments for the initial exclusive 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

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processing the data.

The customers paying for the initial exclusive 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 when any customers' exclusivity period ends.

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***Revenue from Non-Exclusive Data Licenses***

The Company recognizes a substantial portion of its revenue from data licenses sold after any exclusive license period. 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

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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.

Third, the Company obtains concurrence from an independent third party on the portfolio of all non-monetary exchanges for data of \$750,000 or more in order to support the Company's valuation of the data received. The Company obtains this concurrence on an annual basis, usually in connection with the preparation of its annual financial statements.

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Seismic data library additions	\$ 5,113	\$ 1,937	\$ 10,119	\$ 7,890
Revenue recognized on specific data licenses and selections of data	2,481	648	5,514	5,613
Revenue recognized related to acquisition contracts	931	310	2,314	1,121
Revenue recognized related to Solutions	69		69	
<b>Revenue from Seitel Solutions</b>				

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





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**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 \$518,000 and \$418,000 for the three months ended September 30, 2011 and 2010, respectively, and \$1,420,000 and \$1,228,000 for the nine months ended September 30, 2011 and 2010, 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 October 1, 2011, 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.

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### ***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 and Utica, (g) other United States and (h) 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 nine months ended September 30, 2011 or 2010.

### **NOTE D-INCOME TAXES**

In February 2006, Olympic Seismic Ltd. ( Olympic ), a wholly owned subsidiary of the Company, was notified by Canada Revenue Agency ( CRA ) that CRA was going to perform an audit of certain aspects of Olympic's tax returns for the years 2003 and 2004. In February 2009, CRA notified the Company that the current audit was expanded to include years from 2005 through 2007. In April 2011, the Company received notification that CRA concluded their audits, disallowing Olympic's deductions for certain royalties payable to the Company's U.S. entities for years 2003 to 2007. Olympic and the Company object to and are appealing the audit results. As a condition to appeal the audit results, Olympic was required to pay \$7.6 million (Canadian) to CRA and did so in May 2011 and made an additional \$0.1 million payment in the third quarter of 2011. These payments, which included amounts for taxes, penalties and interest assessed by CRA, have been shown as income tax payments in the Consolidated Statement of Cash Flows because the amounts paid can be applied interchangeably to the amounts which may ultimately be due to CRA. As of September 30, 2011, the appeal process has not been concluded. The Company has recorded liabilities associated with potential adjustments that may occur as a result of the appeal based on management's assessment of the probability of the outcome of the appeal, net of certain payments made to CRA.

**Table of Contents****NOTE E-DEBT**

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

	September 30, 2011	December 31, 2010
9.75% Senior Notes	\$ 275,000	\$ 400,000
11.75% Senior Notes		2,000
Credit Facility		
Canadian Credit Facility		
Note payable to former executive	110	154
	275,110	402,154
Plus: Premium on debt		56
	\$ 275,110	\$ 402,210

**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 redemption price was equal to 104.875% of the principal amount of the notes, plus accrued and unpaid interest. Accordingly, the Company recorded a loss on early extinguishment of debt of \$7.9 million, which included the write-off of unamortized issue expenses, for the three and nine months ended September 30, 2011. 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.

**11.75% Senior Unsecured Notes:** On July 2, 2004, the Company issued, in a private placement, \$193.0 million aggregate principal amount of 11.75% senior notes due 2011 (the "11.75% Senior Notes"). As required by their terms, the 11.75% Senior Notes were exchanged for senior notes of like amounts and terms in a publicly registered exchange offer in February 2005. In connection with an excess cash flow offer in March 2005, \$4.0 million aggregate principal amount of these notes was tendered and accepted. In connection with the Merger and related transactions, \$187.0 million aggregate principal amount of these notes was tendered and accepted on February 14, 2007. The fair value of these notes was higher than the face value on the date of the Merger; consequently, a premium was reflected in the financial statements related to these notes. The remaining \$2.0 million aggregate principal amount of the 11.75% Senior Notes were tendered and accepted on May 3, 2011 pursuant to the excess cash flow offer for the year ended December 31, 2010 and therefore no 11.75% Senior Notes remain outstanding.

**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.



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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.

**Canadian Credit Facility:** Olympic had a revolving credit facility which allowed it to borrow up to \$5.0 million (Canadian) subject to an availability formula by way of prime-based loans or letters of credit. This facility was cancelled concurrently with the closing of the Credit Facility discussed above.

**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 F-SHAREHOLDER S EQUITY**

In May 2011, Centerbridge Capital Partners II, L.P. and Centerbridge Capital Partners SBS II, L.P. (together with Centerbridge Capital Partners II, L.P., Centerbridge ) purchased a minority interest in the Company s parent, Seitel Holdings, Inc. ( Holdings ), for \$125.0 million. Concurrently with the closing of this transaction, Holdings contributed \$125.0 million to the Company. Holdings incurred approximately \$4.9 million in professional fees associated with this transaction, which are reflected as a reduction to Holdings contribution to the Company. The funds received were used to redeem \$125.0 million of the Company s 9.75% Senior Notes in July 2011.

**NOTE G-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)
<b>At September 30, 2011:</b>				
Cash equivalents	\$ 37,515	\$ 37,515	\$	\$
Investment in stock options related to equity securities	174		174	
<b>At December 31, 2010:</b>				
Cash equivalents	\$ 89,581	89,581	\$	\$
Investment in equity securities	2,232	2,232		
Investment in stock options related to equity securities	870		870	

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The Company had no transfers of assets between any of the above levels during the nine months ended September 30, 2011 or September 30, 2010.

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 equity securities are measured at fair value using closing stock prices from an active international market and are classified within Level 1 of the valuation hierarchy. 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 nine months ended September 30, 2011 and 2010, the Company sold a portion of its investment in equity securities for proceeds totaling \$2.5 million and \$52,000, respectively. 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 \$253.5 million as of September 30, 2011, compared to the book value of \$275.1 million. The quoted market price of the 9.75% Senior Notes was \$253.4 million at September 30, 2011. The fair value of the 9.75% Senior Notes, the 11.75% Senior Notes and the note payable to a former executive approximated \$386.1 million as of December 31, 2010, compared to the book value of \$402.2 million. The quoted market price of the 9.75% Senior Notes was \$384.0 million at December 31, 2010.

**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 H-RELATED PARTY TRANSACTIONS**

In June 2011, the Company entered into a licensing agreement for \$335,000 with Texoz E&P, Inc., a wholly owned subsidiary of Texon Petroleum Ltd. ( Texon ). Texon was formed in 2006 as a spinoff from Wandoo Energy LLC, of which the Company owns 20% and has a representative on its board of directors. The Company received shares and stock options in Texon in connection with its formation. As of September 30, 2011, the Company has sold all of its shares in Texon but continues to hold stock options.

**NOTE I-STATEMENT OF CASH FLOW INFORMATION**

Cash and cash equivalents at September 30, 2011 and December 31, 2010 includes \$122,000 and \$186,000, respectively of restricted cash related to collateral on seismic operations bonds. The balance at September 30, 2011 also includes \$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):

	Nine Months Ended September 30,	
	2011	2010
Non-monetary exchanges related to resale licensing revenue	\$ 6,871	\$ 3,371
Non-monetary exchanges from underwriting of new data acquisition	3,202	2,701
Other non-monetary exchanges	188	42
Completion of data in progress from prior non-monetary exchanges		3,199
Less: Non-monetary exchanges for data in progress	(142)	(1,423)
Total non-cash additions to seismic data library	\$ 10,119	\$ 7,890





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

	Nine Months Ended September 30,	
	2011	2010
Acquisition revenue on underwriting from non-monetary exchange contracts	\$ 2,314	\$ 1,121
Licensing revenue from specific data licenses and selections on non-monetary exchange contracts	5,514	5,613
Solutions revenue recognized from non-monetary exchange contracts	69	
Total non-cash revenue	\$ 7,897	\$ 6,734

**NOTE J-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 September 30, 2011, 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 K-RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Updated ( ASU ) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The ASU clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This ASU is effective on a prospective basis for annual and interim reporting periods beginning on or after December 15, 2011. The Company does not expect the adoption of this new accounting update to have a material impact on its consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The ASU requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, entities will be required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As the new standard does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, the Company's financial position, results of operations or cash flows will not be impacted.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment. The ASU was issued to simplify the testing of goodwill for impairment. The standard permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the two-step goodwill impairment test currently prescribed in Accounting Standards Codification Topic 350. Otherwise, the two-step goodwill impairment test is not required. This ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company is currently evaluating the impact of adopting the provisions of ASU 2011-08, but does not expect the standard to have a significant impact on its financial statements.

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**NOTE L-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 September 30, 2011, \$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 September 30, 2011 and December 31, 2010, and the consolidating condensed statements of operations and statements of cash flows for the nine months ended September 30, 2011 and September 30, 2010 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.

**Table of Contents****CONSOLIDATING CONDENSED BALANCE SHEET**

As of September 30, 2011

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>					
Cash and cash equivalents	\$	\$ 31,907	\$ 6,700	\$	\$ 38,607
Receivables					
Trade, net		35,955	12,397		48,352
Notes and other	520	47	2,162		2,729
Due from Seitel Holdings, Inc.		858			858
Intercompany receivables (payables)	91,032	(75,070)	(15,962)		
Investment in subsidiaries	258,126	415,008	1,262	(674,396)	
Net seismic data library		73,462	41,262		114,724
Net property and equipment		1,551	3,239		4,790
Investment in marketable securities		174			174
Prepaid expenses, deferred charges and other	4,916	6,673	596		12,185
Intangible assets, net	900	17,265	9,942		28,107
Goodwill		107,688	96,080		203,768
Deferred income taxes		326			326
<b>TOTAL ASSETS</b>	<b>\$ 355,494</b>	<b>\$ 615,844</b>	<b>\$ 157,678</b>	<b>\$ (674,396)</b>	<b>\$ 454,620</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>					
Accounts payable and accrued liabilities	\$ 3,347	\$ 18,050	\$ 9,312	\$	\$ 30,709
Income taxes payable	110		498		608
Senior Notes	275,000				275,000
Notes payable	110				110
Obligations under capital leases			3,134		3,134
Deferred revenue		40,310	8,293		48,603
Deferred income taxes			1,635		1,635
<b>TOTAL LIABILITIES</b>	<b>278,567</b>	<b>58,360</b>	<b>22,872</b>		<b>359,799</b>
<b>STOCKHOLDER'S EQUITY</b>					
Common stock					
Additional paid-in capital	397,954				397,954
Parent investment		764,752	156,914	(921,666)	
Retained deficit	(321,027)	(207,442)	(39,828)	247,270	(321,027)
Accumulated other comprehensive income		174	17,720		17,894
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>76,927</b>	<b>557,484</b>	<b>134,806</b>	<b>(674,396)</b>	<b>94,821</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$ 355,494</b>	<b>\$ 615,844</b>	<b>\$ 157,678</b>	<b>\$ (674,396)</b>	<b>\$ 454,620</b>

**Table of Contents****CONSOLIDATING CONDENSED BALANCE SHEET**

As of December 31, 2010

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>					
Cash and cash equivalents	\$	\$ 75,068	\$ 14,903	\$	\$ 89,971
Receivables					
Trade, net		23,269	11,135		34,404
Notes and other		70	14		84
Due from Seitel Holdings, Inc.		156			156
Intercompany receivables (payables)	128,299	(124,507)	(3,792)		
Investment in subsidiaries	246,883	414,476	1,262	(662,621)	
Net seismic data library		74,719	31,385		106,104
Net property and equipment		1,402	4,044		5,446
Investment in marketable securities		3,102			3,102
Prepaid expenses, deferred charges and other	6,948	2,912	389		10,249
Intangible assets, net	900	19,674	12,543		33,117
Goodwill		107,688	100,362		208,050
Deferred income taxes		326			326
<b>TOTAL ASSETS</b>	<b>\$ 383,030</b>	<b>\$ 598,355</b>	<b>\$ 172,245</b>	<b>\$ (662,621)</b>	<b>\$ 491,009</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)</b>					
Accounts payable and accrued liabilities	\$ 14,731	\$ 18,410	\$ 20,029	\$	\$ 53,170
Income taxes payable	2		6		8
Senior Notes	402,056				402,056
Notes payable	154				154
Obligations under capital leases			3,394		3,394
Deferred revenue		31,140	5,981		37,121
Deferred income taxes			2,128		2,128
<b>TOTAL LIABILITIES</b>	<b>416,943</b>	<b>49,550</b>	<b>31,538</b>		<b>498,031</b>
<b>STOCKHOLDER'S EQUITY (DEFICIT)</b>					
Common stock					
Additional paid-in capital	277,488				277,488
Parent investment		764,752	156,908	(921,660)	
Retained deficit	(311,401)	(219,050)	(39,989)	259,039	(311,401)
Accumulated other comprehensive income		3,103	23,788		26,891
<b>TOTAL STOCKHOLDER'S EQUITY (DEFICIT)</b>	<b>(33,913)</b>	<b>548,805</b>	<b>140,707</b>	<b>(662,621)</b>	<b>(7,022)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)</b>	<b>\$ 383,030</b>	<b>\$ 598,355</b>	<b>\$ 172,245</b>	<b>\$ (662,621)</b>	<b>\$ 491,009</b>



**Table of Contents****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2011**

(In thousands)

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Consolidating Eliminations</b>	<b>Consolidated Total</b>
<b>REVENUE</b>	\$	\$ 102,973	\$ 45,245	\$ (969)	\$ 147,249
<b>EXPENSES:</b>					
Depreciation and amortization		64,744	34,968		99,712
Cost of sales		61	7		68
Selling, general and administrative	1,278	14,498	8,320	(969)	23,127
	1,278	79,303	43,295	(969)	122,907
<b>INCOME (LOSS) FROM OPERATIONS</b>	(1,278)	23,670	1,950		24,342
Interest expense, net	(12,047)	(14,972)	(603)		(27,622)
Foreign currency exchange gains (losses)		4	(1,178)		(1,174)
Loss on early extinguishment of debt	(7,912)				(7,912)
Gain on sale of marketable securities		2,467			2,467
Other income	3	27	178		208
Income (loss) before income taxes and equity in income of subsidiaries	(21,234)	11,196	347		(9,691)
Provision (benefit) for income taxes		(251)	186		(65)
Equity in income of subsidiaries	11,608	161		(11,769)	
<b>NET INCOME (LOSS)</b>	\$ (9,626)	\$ 11,608	\$ 161	\$ (11,769)	\$ (9,626)

**Table of Contents****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2010**

(In thousands)

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Consolidating Eliminations</b>	<b>Consolidated Total</b>
<b>REVENUE</b>	\$	\$ 83,954	\$ 29,837	\$ (2,313)	\$ 111,478
<b>EXPENSES:</b>					
Depreciation and amortization		87,173	34,615		121,788
Cost of sales		66	7		73
Selling, general and administrative	2,668	14,196	8,863	(2,313)	23,414
	2,668	101,435	43,485	(2,313)	145,275
<b>LOSS FROM OPERATIONS</b>	(2,668)	(17,481)	(13,648)		(33,797)
Interest expense, net	(14,901)	(15,431)	(188)		(30,520)
Foreign currency exchange gains		2	118		120
Gain on sale of marketable securities		52			52
Other income	1	146	42		189
Loss before income taxes and equity in loss of subsidiaries	(17,568)	(32,712)	(13,676)		(63,956)
Provision (benefit) for income taxes		293	(3,504)		(3,211)
Equity in loss of subsidiaries	(43,177)	(10,172)		53,349	
<b>NET LOSS</b>	\$ (60,745)	\$ (43,177)	\$ (10,172)	\$ 53,349	\$ (60,745)

**Table of Contents****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****For the Nine Months Ended September 30, 2011**

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>Cash flows from operating activities:</b>					
Net cash provided by (used in) operating activities	\$ (38,639)	\$ 78,628	\$ 24,395	\$	\$ 64,384
<b>Cash flows from investing activities:</b>					
Cash invested in seismic data		(57,493)	(45,219)		(102,712)
Cash paid to acquire property, equipment and other		(1,055)	(166)		(1,221)
Net proceeds from sale of marketable securities		2,467			2,467
Cash from sale of property, equipment and other		34	1		35
Advances to Seitel Holdings, Inc.		(752)			(752)
Repayment from Seitel Holdings, Inc.		50			50
Net cash used in investing activities		(56,749)	(45,384)		(102,133)
<b>Cash flows from financing activities:</b>					
Principal payments on notes payable	(44)				(44)
Repayment of 9.75% Senior Notes	(131,094)				(131,094)
Repayment of 11.75% Senior Notes	(2,000)				(2,000)
Principal payments on capital lease obligations			(122)		(122)
Borrowings on line of credit			737		737
Payments on line of credit			(737)		(737)
Contributed capital	125,000				125,000
Costs of debt and equity transactions	(6,263)		(70)		(6,333)
Intercompany transfers	53,040	(65,040)	12,000		
Net cash provided by (used in) financing activities	38,639	(65,040)	11,808		(14,593)
Effect of exchange rate changes			978		978
Net decrease in cash and cash equivalents		(43,161)	(8,203)		(51,364)
Cash and cash equivalents at beginning of period		75,068	14,903		89,971
Cash and cash equivalents at end of period	\$	\$ 31,907	\$ 6,700	\$	\$ 38,607



**Table of Contents****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****For the Nine Months Ended September 30, 2010**

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$ (39,224)	\$ 69,025	\$ 19,841	\$	\$ 49,642
Cash flows from investing activities:					
Cash invested in seismic data		(19,070)	(10,972)		(30,042)
Cash paid to acquire property, equipment and other		(153)	(45)		(198)
Net proceeds from sale of marketable securities		52			52
Return of capital from subsidiary		4,501	(4,501)		
Advances to Seitel Holdings, Inc.		(9)			(9)
Net cash used in investing activities		(14,679)	(15,518)		(30,197)
Cash flows from financing activities:					
Principal payments on notes payable	(40)				(40)
Principal payments on capital lease obligations			(108)		(108)
Borrowings on line of credit			10		10
Payments on line of credit			(10)		(10)
Costs of debt and equity transactions	(65)				(65)
Intercompany transfers	39,329	(39,329)			
Net cash provided by (used in) financing activities	39,224	(39,329)	(108)		(213)
Effect of exchange rate changes			121		121
Net increase in cash and cash equivalents		15,017	4,336		19,353
Cash and cash equivalents at beginning of period		24,221	2,049		26,270
Cash and cash equivalents at end of period	\$	\$ 39,238	\$	\$	\$ 45,623

**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with our consolidated financial statements and the related notes to the financial statements included elsewhere in this document.*

**CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING INFORMATION**

This Quarterly Report on Form 10-Q (this Quarterly Report) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Statements contained in this report about our future outlook, prospects, strategies and plans, and about industry conditions, demand for seismic services and the future economic life of our seismic data are forward-looking. All statements that express belief, expectation, estimates or intentions, as well as those that are not statements of historical fact, are forward looking. The words proposed, anticipates, will, would, should, estimates and similar expressions are intended to identify forward-looking statements. Forward-looking statements represent our present belief and are based on our current expectations and assumptions with respect to future events. While we believe our expectations and assumptions are reasonable, they involve risks and uncertainties beyond our control that could cause the actual results or outcome to differ materially from the expected results or outcome reflected in our forward-looking statements. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report may not occur. Such risks and uncertainties include, without limitation, actual customer demand for our seismic data and related services, the timing and extent of changes in commodity prices for natural gas, crude oil and condensate and natural gas liquids, conditions in the capital markets during the periods covered by the forward-looking statements, the effect of the slow recovery from the recent economic downturn, our ability to obtain financing on satisfactory terms if internally generated funds and our current Credit Facility are insufficient to fund our capital needs, the impact on our financial condition as a result of our debt and our debt service, our ability to obtain and maintain normal terms with our vendors and service providers, our ability to maintain contracts that are critical to our operations, changes in the oil and gas industry or the economy generally and changes in the exploration budgets of our customers. The foregoing and other risk factors are identified in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission (SEC).

The forward-looking statements contained in this report speak only as of the date hereof. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason. All forward-looking statements attributable to Seitel, Inc. or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in our Annual Report filed on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC and in our future periodic reports filed with the SEC.

**Overview****General**

Our products and services are used by oil and gas companies to assist in oil and gas exploration and development and management of hydrocarbon reserves. Prior to the recent shift in activity from conventional to resource plays, seismic data had been used for both exploration and production purposes but with a heavy bias towards exploration. With this recent shift, customer bias has reversed and seismic data is heavily employed in production, especially in the design of horizontal drilling and fracking programs. We own an extensive library of proprietary onshore and offshore seismic data that we license to a wide range of oil and gas companies. Oil and gas companies use seismic data in oil and gas exploration and development efforts to increase the probability of drilling success. We believe that our library of onshore seismic data is the largest available for licensing in North America. We generate revenue primarily by licensing data from our data library and from new data creation products, which are substantially underwritten or paid for by our clients. By participating in underwritten, nonexclusive surveys or purchasing licenses to existing data, oil and gas companies can obtain access to surveys at reduced costs as compared to acquiring seismic data on a proprietary basis.

Our primary areas of focus are onshore United States and Canada and, to a lesser extent, offshore U.S. Gulf of Mexico. These markets continue to experience major changes. Major integrated oil and gas companies and national oil companies have become more active in the U.S. market, primarily in the resource plays, through joint ventures, asset purchases and corporate transactions. The larger independent oil and gas companies continue to be responsible for a significant portion of current U.S. drilling activity. Our offshore seismic data is primarily located in the shallow waters of the U.S. Gulf of Mexico and generates a small percentage of our revenue.

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### ***Principal Factors Affecting Our Business***

Our business is dependent upon a variety of factors, many of which are beyond our control. The following are those that we consider to be principal factors affecting our business.

***Demand for Seismic Data:*** Demand for our products and services is cyclical due to the nature of the oil and gas industry. In particular, demand for our seismic data services depends upon exploration, production, development and field management spending by oil and gas companies and, in the case of new data creation, the willingness of these companies to forgo ownership in the seismic data. Capital expenditures by oil and gas companies depend upon several factors, including actual and forecasted oil and natural gas commodity prices, prospect availability and the companies' own short-term and strategic plans. These capital expenditures may also be affected by worldwide economic or industry-wide conditions. With the shift to unconventional plays, seismic data is increasingly tied to relatively stable development capital expenditures.

***Availability of Capital for Our Customers:*** Some of our customers are independent oil and gas companies and private prospect-generating companies that rely primarily on private capital markets to fund their exploration, production, development and field management activities. The reduction in cash flows being experienced by our customers resulting from lower commodity prices, along with the reduced availability of credit and increased costs of borrowing due to the tightening of the credit markets, could have a material impact on the ability of such companies to obtain funding necessary to purchase our seismic data.

***Merger and Acquisition Activity:*** Merger and acquisition activity continues to occur within our client base. This activity could have a negative impact on seismic companies that operate in markets with a limited number of participating clients. However, we believe that, over time, this activity has a positive impact on our business, as it generates re-licensing fees, results in increased vitality in the trading of mineral interests and results in the creation of new independent customers through the rationalization of staff within those companies affected by this activity.

***North America Drilling Activity:*** With relatively strong oil prices and weak natural gas prices, drilling activity has shifted to basins with liquids-rich hydrocarbons, such as the Eagle Ford, Bakken and Niobrara areas. There are an increasing number of horizontal rigs drilling in oil- and liquids-rich basins and we believe that activity in these basins will continue to increase more rapidly than in the gas basins.

***Government Regulation:*** Our operations are subject to a variety of federal, provincial, state, foreign and local laws and regulations, including environmental and health and safety laws. We invest financial and managerial resources to comply with these laws and related permit requirements. Modification of existing laws or regulations and the adoption of new laws or regulations limiting or increasing exploration or production activities by oil and gas companies may have a material effect on our business operations.

### **Non-GAAP Key Performance Measures**

Management considers certain performance measures in evaluating and managing our financial condition and operating performance at various times and from time to time. Some of these performance measures are non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with United States generally accepted accounting principles, or GAAP. These non-GAAP measures are not in accordance with, nor are they a substitute for, GAAP measures. These non-GAAP measures are intended to supplement our presentation of our financial results that are prepared in accordance with GAAP.

The following are the key performance measures considered by management.

***Cash Resales:*** Cash resales represent new contracts for data licenses from our library, including data currently in progress, payable in cash. We believe this measure is important in gauging new business activity. We expect cash resales to generally follow a consistent trend over several quarters, while considering our normal seasonality. Volatility in this trend over several consecutive quarters could indicate changing market conditions.

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The following is a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, total revenue (in thousands):

	\$0000.00	\$0000.00	\$0000.00	\$0000.00
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Cash resales	\$ 37,999	\$ 44,429	\$ 92,147	\$ 96,842
Other revenue components:				
Acquisition revenue	14,672	9,697	49,701	22,674
Non-monetary exchanges	856		6,871	4,050
Revenue recognition adjustments	(2,531)	(8,707)	(4,769)	(14,767)
Solutions and other	1,212	721	3,299	2,679
<b>Total revenue</b>	<b>\$ 52,208</b>	<b>\$ 46,140</b>	<b>\$ 147,249</b>	<b>\$ 111,478</b>

**Cash EBITDA:** Cash EBITDA represents cash generated from licensing data from our seismic library net of recurring cash operating expenses. We believe this measure is helpful in determining the level of cash from operations we have available for debt service and funding of capital expenditures (net of the portion funded or underwritten by our customers). Cash EBITDA includes cash resales plus all other cash revenues other than from data acquisitions, plus gains on sales of marketable securities obtained as part of licensing our seismic data, less cost of goods sold and cash selling, general and administrative expenses (excluding non-recurring corporate expenses such as severance and debt restructure costs).

The following is a quantitative reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, operating income (loss) (in thousands):

	\$0000.00	\$0000.00	\$0000.00	\$0000.00
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Cash EBITDA	\$ 32,055	\$ 37,123	\$ 77,060	\$ 79,149
Add (subtract) other revenue components not included in cash EBITDA:				
Acquisition revenue	14,672	9,697	49,701	22,674
Non-monetary exchanges	856		6,871	4,050
Revenue recognition adjustments	(2,531)	(8,707)	(4,769)	(14,767)
Solutions non-cash revenue	69		69	
Less:				
Gain on sale of marketable securities			(2,467)	(52)
Depreciation and amortization	(34,052)	(45,021)	(99,712)	(121,788)
Non-recurring corporate expenses	(437)		(1,792)	(128)
Non-cash operating expenses	(126)	(499)	(619)	(2,935)
<b>Operating income (loss)</b>	<b>\$ 10,506</b>	<b>\$ (7,407)</b>	<b>\$ 24,342</b>	<b>\$ (33,797)</b>

**Growth of Our Seismic Data Library:** We regularly add to our seismic data library through four different methods: (1) recording new data; (2) buying ownership of existing data for cash; (3) obtaining ownership of existing data sets through non-monetary exchanges; and (4) creating new value-added products from existing data within our library. For the period from January 1, 2011 to November 7, 2011, we completed the addition of approximately 2,100 square miles of seismic data to our library. As of November 7, 2011, we had approximately 1,900 square miles of seismic data in progress.

**Critical Accounting Policies**

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We operate in one business segment, which is made up of seismic data acquisition, seismic data licensing, seismic data processing and seismic reproduction services. There have not been any changes in our critical accounting policies since December 31, 2010.

**Table of Contents****Results of Operations****Revenue**

The following table summarizes the components of our revenue for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Acquisition revenue:</b>				
Cash underwriting	\$ 13,741	\$ 9,387	\$ 47,387	\$ 21,553
Underwriting from non-monetary exchanges	931	310	2,314	1,121
<b>Total acquisition revenue</b>	<b>14,672</b>	<b>9,697</b>	<b>49,701</b>	<b>22,674</b>
<b>Resale licensing revenue:</b>				
Cash resales	37,999	44,429	92,147	96,842
Non-monetary exchanges	856		6,871	4,050
Revenue recognition adjustments	(2,531)	(8,707)	(4,769)	(14,767)
<b>Total resale licensing revenue</b>	<b>36,324</b>	<b>35,722</b>	<b>94,249</b>	<b>86,125</b>
<b>Total seismic revenue</b>	<b>50,996</b>	<b>45,419</b>	<b>143,950</b>	<b>108,799</b>
<b>Solutions and other</b>	<b>1,212</b>	<b>721</b>	<b>3,299</b>	<b>2,679</b>
<b>Total revenue</b>	<b>\$ 52,208</b>	<b>\$ 46,140</b>	<b>\$ 147,249</b>	<b>\$ 111,478</b>

Total revenue increased \$6.1 million, or 13%, to \$52.2 million in the third quarter of 2011 from \$46.1 million in the third quarter of 2010 primarily due to an increase in acquisition revenue. Acquisition revenue increased \$5.0 million in the third quarter of 2011 compared to the third quarter 2010 due to increased activity in new data acquisition projects. The majority of our acquisition revenue in the third quarter of 2011 occurred in the key active resource plays in North America including Eagle Ford in south Texas, Marcellus in Pennsylvania, Niobrara in Colorado and Montney in British Columbia. Total resale licensing revenue was \$36.3 million in the third quarter of 2011 compared to \$35.7 million in the third quarter of 2010. Cash resales in the third quarter of 2011 were \$38.0 million compared to \$44.4 million in the third quarter of 2010. Cash resales from 3D data located in unconventional plays totaled \$32.5 million, or 86%, of our cash resales in the third quarter of 2011 compared to \$41.0 million, or 92%, in the third quarter of 2010. Cash resales from conventional 3D, 2D and offshore data totaled \$5.5 million and \$3.4 million in the third quarters of 2011 and 2010, respectively. Non-monetary exchanges totaled \$0.9 million in the third quarter of 2011. These transactions fluctuate quarter to quarter depending upon the data available for trade. Revenue recognition adjustments are non-cash adjustments to revenue and reflect the net amount of (i) revenue deferred as a result of all of the revenue recognition criteria not being met and (ii) the subsequent revenue recognition once the criteria are met. In the third quarter of 2011, the deferral of new licensing contracts exceeded the amount of revenue recognized from previously deferred contracts primarily as a result of new library card contracts entered into in the third quarter. In the third quarter of 2010, the deferral of new licensing contracts exceeded the amount of revenue recognized from previously deferred contracts, primarily as a result of cash resales on data that were still in the acquisition phase requiring deferral since the data products were not yet available for delivery.

Total revenue for the first nine months of 2011 was \$147.2 million, an increase of \$35.8 million, or 32%, from the first nine months of 2010 total revenue of \$111.5 million. Acquisition revenue was \$49.7 million for the first nine months of 2011, more than double the first nine months of 2010. The increase was primarily attributable to new data acquisition activity both in the U.S. and Canada following reduced activity in 2010 caused by the 2009 economic downturn. Total resale licensing revenue was \$94.2 million in the first nine months of 2011 compared to \$86.1 million in the first nine months of 2010, reflecting continuing client demand for our data located in resource plays as well as data in conventional areas. Cash resales in the first nine months of 2011 were \$92.1 million, compared to \$96.8 million in the first nine months of 2010. Cash resales from 3D data located in unconventional plays totaled \$68.0 million, or 74%, of our cash resales in the first nine months of 2011 compared to

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\$75.3 million, or 78%, in the first nine months of 2010. Cash resales from conventional 3D, 2D and offshore data totaled \$24.1 million and \$21.6 million in the first nine months of 2011 and 2010, respectively. Non-monetary exchanges increased \$2.8 million from the first nine months of 2010 to 2011; these transactions fluctuate quarter to quarter depending upon the data available for trade. The decrease of \$10.0 million in revenue recognition adjustments from the first nine months of 2010 to the first nine months of 2011 was primarily due to recognition of revenue previously deferred as a result of new data acquisition projects being completed and delivered partially offset by an increase in the deferral of new licensing contracts.

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At September 30, 2011, we had a deferred revenue balance of \$48.6 million, compared to the December 31, 2010 balance of \$37.1 million. The deferred revenue balance was related to (i) data licensing contracts on which selection of specific data had not yet occurred, (ii) deferred revenue on data acquisition projects and (iii) contracts in which the data products are not yet available or the revenue recognition criteria has not yet been met. The deferred revenue will be recognized when selection of specific data is made by the customer, upon expiration of the data selection period specified in the data licensing contracts, as work progresses on the data acquisition contracts, as the data products become available or as all of the revenue recognition criteria are met.

**Depreciation and Amortization**

Depreciation and amortization was composed of the following for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	\$121,788	\$121,788	\$121,788	\$121,788
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Amortization of seismic data:				
Income forecast	\$ 25,880	\$ 22,008	\$ 67,455	\$ 57,008
Straight-line	6,183	21,084	26,267	58,948
Total amortization of seismic data	32,063	43,092	93,722	115,956
Depreciation of property and equipment	534	507	1,603	1,567
Amortization of acquired intangibles	1,455	1,422	4,387	4,265
<b>Total</b>	<b>\$ 34,052</b>	<b>\$ 45,021</b>	<b>\$ 99,712</b>	<b>\$ 121,788</b>

Total seismic data library amortization amounted to \$32.1 million in the third quarter of 2011 compared to \$43.1 million in the third quarter of 2010 and \$93.7 million for the first nine months of 2011 compared to \$116.0 million for the first nine months of 2010. The amount of seismic data library amortization fluctuates based on the level and location of specific seismic surveys licensed (including licensing resulting from new data acquisition) and selected by our customers during any period as well as the amount of straight-line amortization required under our accounting policy. Additionally, the step-up in our data library value resulting from the merger transaction in February 2007 became fully amortized in the first quarter of 2011 which has resulted in a decrease in the level of straight-line amortization in the 2011 periods.

Seismic data amortization as a percentage of total seismic revenue is summarized as follows:

	\$25,880	\$25,880	\$25,880	\$25,880
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Components of Amortization				
Income forecast	50.8%	48.5%	46.9%	52.4%
Straight-line	12.1%	46.4%	18.2%	54.2%
<b>Total</b>	<b>62.9%</b>	<b>94.9%</b>	<b>65.1%</b>	<b>106.6%</b>

The percentage of income forecast amortization to total seismic revenue increased between the third quarters of 2011 and 2010 primarily due to the higher level of acquisition revenue. The percentage of income forecast amortization to total seismic revenue decreased between the first nine months of 2011 and 2010 primarily due to an increase in the level of resales from data whose costs were fully amortized. In all periods, we had resale revenue recognized which was from data whose costs were fully amortized. In the third quarter and first nine months of 2011, 37% and 50%, respectively, of resale revenue recognized was from data whose costs were fully amortized as compared to 40% and 33% in the third quarter and first nine months of 2010, respectively. Straight-line amortization represents the expense required under our accounting policy to ensure our data value is fully amortized within four years of when the data becomes available for sale. The amount of straight-line amortization decreased \$14.9 million between the third quarters of 2010 and 2011 and \$32.7 million between the first nine months of 2010 and 2011 due to the distribution of revenue among the various seismic surveys and because a significant portion of our data library became fully amortized in the



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first quarter of 2011 due to such data reaching its four-year life after the merger on February 14, 2007.

**Table of Contents*****Selling, General and Administrative Expenses***

Selling, general and administrative ( SG&A ) expenses were \$7.6 million in the third quarter of 2011 compared to \$8.5 million in the third quarter of 2010 and \$23.1 million in the first nine months of 2011 compared to \$23.4 million in the first nine months of 2010. SG&A expenses are made up of the following cash and non-cash expenses (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cash SG&A expenses	\$ 7,511	\$ 8,017	\$ 22,508	\$ 20,479
Non-cash compensation expense	54	430	400	2,729
Non-cash rent expense	72	69	219	206
Total	\$ 7,637	\$ 8,516	\$ 23,127	\$ 23,414

The decrease in cash SG&A expenses of \$0.5 million from the third quarter of 2010 to the third quarter of 2011 was primarily due to a decrease in our bad debt expense of \$1.5 million partially offset by (i) an increase of \$0.3 million in salaries and benefits primarily due to merit increases on base salary, increased health insurance costs and increased 401(k) expense; (ii) an increase of \$0.4 million in non-recurring expenses related to severance costs and (iii) an increase of \$0.3 million in various other expenses.

The increase in cash SG&A expenses of \$2.0 million from the first nine months of 2010 to the first nine months of 2011 was primarily due to (i) an increase of \$1.4 million in salaries and benefits; (ii) an increase of \$1.7 million in non-recurring expenses, mainly professional fees incurred with respect to evaluating debt restructuring alternatives and severance costs and (iii) an increase of \$0.4 million in various other expenses. These increases were partially offset by a \$1.5 million decrease in our bad debt expense.

The decrease in non-cash compensation expense between quarters and the first nine months was due to our using graded vesting to amortize the compensation expense related to our stock option issuances, thus recognizing more expense in the earlier periods and gradually reducing in later years. The decrease between the nine month periods was also attributable to the repricing of our outstanding stock options in May 2010, resulting in additional non-cash compensation expense recognition at that time.

***Interest Expense, Net***

Interest expense, net, was \$7.2 million in the third quarter of 2011 compared to \$10.2 million in the third quarter of 2010 and \$27.6 million in the first nine months of 2011 compared to \$30.5 million in the first nine months of 2010. The decrease in interest expense between the periods was due to the repayment of \$125.0 million of our 9.75% Senior Notes on July 1, 2011.

***Other Income (Expense)***

The call premium paid to repay \$125.0 million of our 9.75% Senior Notes along with the write-off of the related unamortized issuance costs resulted in a \$7.9 million loss on early extinguishment of debt in the third quarter and first nine months of 2011.

During the nine months ended September 30, 2011 and 2010, we sold \$2.5 million and \$52,000, respectively, of marketable securities through multiple transactions on an active international exchange. Total gains were equal to the proceeds received.

***Income Taxes***

Income tax benefit was \$1.1 million in the third quarter of 2011 compared to \$1.4 million in the third quarter of 2010. The benefit in the third quarter of 2011 was comprised of (i) a benefit of \$0.4 million related to our Canadian operations and (ii) a benefit \$0.7 million related to U.S. state taxes. The benefit in the third quarter of 2010 was comprised of (i) a benefit of \$1.6 million related to our Canadian operations, (ii) an expense of \$0.1 million related



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to principal and interest on uncertain tax positions and (iii) \$0.1 million expense related to U.S. state taxes. The Federal tax benefit in both the third quarter of 2011 and 2010 resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

Income tax benefit was \$0.1 million and \$3.2 million for the nine months ended September 30, 2011 and 2010, respectively. The benefit for the first nine months of 2011 was comprised of (i) an expense of \$0.2 million related to interest on uncertain tax positions and (ii) a benefit of \$0.3 million related to U.S. state taxes. The benefit for the first nine months of 2010 was comprised of (i) a benefit of \$3.8 million related to our Canadian operations, (ii) an expense of \$0.3 million related to principal and interest on uncertain tax positions and (iii) \$0.3 million in U.S. state tax expense. The Federal tax benefit in both the first nine months of 2011 and 2010 resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

**Liquidity and Capital Resources**

As of September 30, 2011, we had \$38.6 million in consolidated cash, cash equivalents and short-term investments, including \$242,000 of restricted cash. In addition to the cash on our balance sheet, other sources of liquidity include our Credit Facility described below.

**Credit Facility:** On May 25, 2011 we entered into a credit agreement which provides us with the ability to borrow up to \$30.0 million. 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 our existing 9.75% Senior Notes. The Credit Facility requires that we 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. As of September 30, 2011, no amounts were outstanding under the Credit Facility and there was \$30.0 million of availability.

**9.75% Senior Unsecured Notes:** On February 14, 2007, we issued in a private placement \$400.0 million aggregate principal amount of our 9.75% Senior Notes. On July 1, 2011, we redeemed \$125.0 million aggregate principal amount of the 9.75% Senior Notes outstanding. The redemption price was equal to 104.875% of the principal amount of the notes, plus accrued and unpaid interest. Interest on these senior notes is payable in cash, semi-annually in arrears on February 15 and August 15. As of September 30, 2011, \$275.0 million of the 9.75% Senior Notes remain outstanding.

We may from time to time, as part of various financing and investment strategies, purchase our outstanding indebtedness. These purchases, if any, could have a material positive or negative impact on our liquidity available to repay outstanding debt obligations or on our consolidated results of operations.

**Cash Flows from Operating Activities:** Cash flows provided by operating activities were \$64.4 million and \$49.6 million for the nine months ended September 30, 2011 and 2010, respectively. Operating cash flows for 2011 increased from 2010 primarily due to increased collections on acquisition underwriting partially offset by lower collections on cash resales and tax payments made to appeal the results of the CRA audit of Olympic.

**Cash Flows from Investing Activities:** Cash flows used in investing activities were \$102.1 million and \$30.2 million for the nine months ended September 30, 2011 and 2010, respectively. Cash expenditures for seismic data were \$102.7 million and \$30.0 million for the nine months ended September 30, 2011 and 2010, respectively. The increase in cash invested in seismic data for 2011 compared to 2010 was due to increased data acquisition activity in both the U.S. and Canada.

**Cash Flows from Financing Activities:** Cash flows used in financing activities were \$14.6 million and \$0.2 million for the nine months ended September 30, 2011 and 2010, respectively. In the first nine months of 2011, our financing activities primarily consisted of the following: (i) a \$125.0 million cash capital contribution by Holdings in connection with the minority interest investment in Holdings by Centerbridge in May 2011, (ii) \$131.1 million in principal and premium payments on our 9.75% Senior Notes, (iii) \$6.3 million in costs paid in conjunction with our Credit Facility and the Centerbridge transaction and (iv) \$2.0 million in principal payments on our 11.75% Senior Notes.

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**Anticipated Liquidity:** Our ability to cover our operating and capital expenses, make required debt service payments on our 9.75% Senior Notes, incur additional indebtedness, and comply with our various debt covenants will depend primarily on our ability to generate substantial operating cash flows. Over the next 12 months, we expect to obtain the funds necessary to pay our operating, capital and other expenses and principal and interest on our senior notes, borrowings under our Credit Facility and our other indebtedness, from our operating cash flows, cash and cash equivalents on hand and, if required, from additional borrowings (to the extent available under our Credit Facility and otherwise subject to the borrowing base). Our ability to satisfy our payment obligations depends substantially on our future operating and financial performance, which necessarily will be affected by, and subject to, industry, market, economic and other factors. If necessary, we could choose to reduce our spending on capital projects and operating expenses to ensure we operate within the cash flow generated from our operations. We will not be able to predict or control many of these factors, such as economic conditions in the markets where we operate and competitive pressures.

**Deferred Taxes**

As of September 30, 2011, we had a net deferred tax liability of \$1.6 million attributable to our Canadian operations. In the U.S., we had a Federal deferred tax asset of \$111.9 million, all of which was fully offset by a valuation allowance. The recognition of the U.S. Federal deferred tax asset will not occur until such time that it is more likely than not that some portion or all of the U.S. Federal deferred tax asset will be realized. As of September 30, 2011, it was more likely than not that all of the U.S. Federal deferred tax asset will not be realized. Additionally, in the U.S., we had a state deferred tax asset of \$0.3 million which was recognized as it is more likely than not that the state deferred tax asset will be realized.

**Off-Balance Sheet Transactions**

Other than operating leases, we do not maintain any off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenue or expense, results of operations, liquidity, capital expenditures or capital resources.

**Capital Expenditures**

During the nine months ended September 30, 2011, capital expenditures for seismic data and other property and equipment amounted to \$105.8 million. Our capital expenditures for the remainder of 2011 are presently estimated to be \$54.5 million. The first nine months of 2011 actual and 2011 estimated remaining capital expenditures are comprised of the following (in thousands):

	Nine Months Ended September 30, 2011	Estimate for Remainder of 2011	Total Estimate for 2011
New data acquisition	\$ 91,814	\$ 53,186	\$ 145,000
Cash purchases and data processing	2,629	371	3,000
Non-monetary exchanges	10,119	181	10,300
Property and equipment and other	1,221	779	2,000
<b>Total capital expenditures</b>	<b>105,783</b>	<b>54,517</b>	<b>160,300</b>
Less: Non-monetary exchanges	(10,119)	(181)	(10,300)
Changes in working capital	8,269		8,269
Cash investment per statement of cash flows	\$ 103,933	\$ 54,336	\$ 158,269

Capital expenditures funded from operating cash flow are as follows (in thousands):

	Nine Months Ended September 30, 2011	Estimate for Remainder of 2011	Total Estimate for 2011
Total capital expenditures	\$ 105,783	\$ 54,517	\$ 160,300
Less: Non-cash additions	(10,119)	(181)	(10,300)

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Cash underwriting	(47,387)	(31,613)	(79,000)
Capital expenditures funded from operating cash flow	\$ 48,277	\$ 22,723	\$ 71,000

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As of November 7, 2011, we had capital expenditure commitments related to data acquisition projects of approximately \$121.0 million, of which we have obtained approximately \$72.3 million of cash underwriting and \$2.1 million of underwriting from non-monetary exchanges. We anticipate incurring approximately \$50 million of the capital expenditure commitment and \$30 million of the total underwriting in the fourth quarter of 2011.

**Reconciliation of Non-GAAP to GAAP Financial Measures**

We believe the allocation of cash resales between unconventional and conventional plays provides useful additional information about current trends in our operations. The tables below compare such non-GAAP information to information related to the most comparable GAAP measure, total revenue.

The following table reconciles cash resales to revenue recognized and summarizes the percentage of cash resales and total revenue generated from 3D data located in unconventional plays for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	076,062 Three Months Ended September 30		076,062 Nine Months Ended September 30	
	2011	2010	2011	2010
Unconventional 3D data cash resales	\$ 32,532	\$ 41,049	\$ 68,042	\$ 75,279
Other revenue components:				
Acquisition revenue	14,672	9,678	49,701	22,035
Non-monetary exchanges	733		6,446	
Revenue recognition adjustments	(2,000)	(12,089)	(3,669)	(21,252)
Unconventional 3D data total revenue	\$ 45,937	\$ 38,638	\$ 120,520	\$ 76,062
Percentage of total cash resales	86%	92%	74%	78%
Percentage of total revenue	88%	84%	82%	68%

The following table reconciles cash resales to revenue recognized for conventional 3D, 2D and offshore data for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	\$76,000,062 Three Months Ended September 30,		\$76,000,062 Nine Months Ended September 30,	
	2011	2010	2011	2010
Conventional 3D, 2D and offshore data cash resales	\$ 5,467	\$ 3,380	\$ 24,105	\$ 21,563
Other revenue components:				
Acquisition revenue		19		639
Non-monetary exchanges	123		425	4,050
Revenue recognition adjustments	(531)	3,382	(1,100)	6,485
Conventional 3D, 2D and offshore data total revenue	\$ 5,059	\$ 6,781	\$ 23,430	\$ 32,737

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk, including adverse changes in interest rates and foreign currency exchange rates.

**Interest Rate Risk**

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We may enter into various financial instruments, such as interest rate swaps or interest rate lock agreements, to manage the impact of changes in interest rates. As of September 30, 2011, we did not have any open interest rate swap or interest rate lock agreements. Therefore, our exposure to changes in interest rates primarily results from our short-term and long-term debt with both fixed and floating interest rates.

### **Foreign Currency Exchange Rate Risk**

Our Canadian subsidiaries conduct business in the Canadian dollar and are therefore subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing and investing transactions in currencies other than the U.S. dollar. Currently, we do not have any open forward exchange contracts.



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We have not had any significant changes in our market risk exposures during the quarter ended September 30, 2011.

**Item 4. CONTROLS AND PROCEDURES**

**a) Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our President and Chief Executive Officer along with our Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2011 are effective in ensuring that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

**b) Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal controls over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

See Part I, Item 1, Note J to Consolidated Financial Statements, which is incorporated herein by reference.

**Item 1A. RISK FACTORS**

In addition to the cautionary information included in this report, you should carefully consider the factors discussed in Item 1A. Risk Factors in our 2010 Annual Report on Form 10-K, filed with the SEC on March 16, 2011, which could materially adversely affect our business, financial condition and/or results of operations.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. (REMOVED AND RESERVED)**

**Item 5. OTHER INFORMATION**

None.

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**Item 6. EXHIBITS**

3.1	Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
3.2	Bylaws of Seitel, Inc. (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
31.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002.
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101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

\*\* Furnished, not filed, pursuant to 601(b)(32) of Regulation S-K.

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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.

**SEITEL, INC.**

Dated: November 10, 2011

/s/ Robert D. Monson  
Robert D. Monson  
Chief Executive Officer and President

Dated: November 10, 2011

/s/ Marcia H. Kendrick  
Marcia H. Kendrick  
Chief Financial Officer

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EXHIBIT

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