SEITEL INC
Form PREM14A
November 22, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14A-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Seitel, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, If other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, par value $0.01 per share

(2) Aggregate number of securities to which transaction applies:

104,070,904 shares of common stock; option to purchase 100,000 shares of common stock as of October 31, 2006.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Calculated solely for the purpose of determining the filing fee. The transaction valuation is determined based upon the sum of (a) the product of (i) 104,070,904 shares of common stock outstanding on October 31, 2006 (which excludes shares owned by ValueAct Capital Master Fund, L.P. and its affiliates that will be cancelled in connection with the merger), and (ii) the merger consideration of $3.70 per share (equal to $385,062,345) and (b) an aggregate of $240,000 to be paid upon the cancellation of an option to acquire 100,000 shares of common stock, representing the product of $2.40 (the difference between the merger consideration of $3.70 per share and the option exercise price of $1.30 per share) multiplied by 100,000 shares of common stock issuable on exercise of the option ((a) and (b) together, the Total Consideration). In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder, the filing fee was determined by multiplying 0.000107 by the Total Consideration.

(4) Proposed maximum aggregate value of transaction:

$385,302,345.

(5) Total fee paid:

$41,227.35.

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(a) Amount Previously Paid:

(b) Form, Schedule or Registration Statement No.:

(c) Filing Party:

(d) Date Filed:

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To our stockholders:

You are cordially invited to attend a special meeting of stockholders of Seitel, Inc. to be held on , , 2007 at Central time, at . At the special meeting, you will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, which we refer to as the merger agreement, dated as of October 31, 2006, by and among Seitel, Inc., Seitel Holdings, LLC and Seitel Acquisition Corp. Seitel Holdings, LLC and Seitel Acquisition Corp. are directly or indirectly owned by ValueAct Capital Master Fund, L.P. If the merger is completed, you will be entitled to receive $3.70 in cash without interest for each share of Seitel common stock you own.

Your board of directors, after considering a number of factors, including the unanimous recommendation by a special committee of the board consisting of three independent and disinterested directors, who are not officers or employees of Seitel and who will not have an economic interest in Seitel or the surviving corporation following the completion of the merger, determined that the merger agreement is fair to, advisable and in the best interests of the stockholders of Seitel (other than ValueAct Capital Master Fund, L.P. and its affiliates) and approved the merger agreement, the merger and the other transactions contemplated by the merger agreement. Accordingly, your board of directors recommends that you vote **FOR** the proposal to adopt the merger agreement.

Regardless of the number of shares you own, your vote at the special meeting is very important. Completion of the merger requires the adoption of the merger agreement by the holders of a majority of the outstanding shares of Seitel common stock entitled to vote at the special meeting. For this purpose, failure to vote will have the same effect as a vote against adoption of the merger agreement. Additionally, under the terms of the merger agreement, completion of the merger is conditioned upon the adoption of the merger agreement by the affirmative vote of the holders of a majority of the outstanding shares of Seitel common stock that are voted on such proposal at the special meeting, other than shares owned by ValueAct Capital and its affiliates. For this purpose, if you fail to vote on the proposal to adopt the merger agreement, your inaction will have no effect.

The attached proxy statement provides you with detailed information about the merger agreement and the merger. You are urged to read the entire document carefully. You also may obtain more information about Seitel from documents Seitel has filed with the Securities and Exchange Commission. Once you have read the accompanying materials, please take the time to complete, date and sign a proxy to vote on the proposals at the special meeting, whether or not you plan to attend the meeting, and mail the enclosed proxy card in the enclosed envelope, or follow the instructions for telephonic or Internet voting on your proxy card. If you receive more than one proxy card because you own shares that are registered differently, please submit a proxy with respect to all of your shares shown on all of your proxy cards.

Submitting a proxy will not prevent you from voting your shares in person in the manner described in the attached proxy statement if you subsequently choose to attend the special meeting.

If you have any questions or need assistance submitting a proxy to vote your shares, please call , which is assisting us in the proxy solicitation, toll-free at .

Sincerely,

Fred S. Zeidman,

Chairman of the Board

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger, or passed upon the fairness or merits of the merger or the transactions contemplated thereby or the adequacy or accuracy of the information contained in the enclosed proxy statement. Any contrary representation is a criminal offense.

THE ATTACHED PROXY STATEMENT IS DATED , 2007, AND IT AND THE PROXY CARD ARE FIRST BEING MAILED TO STOCKHOLDERS ON OR ABOUT , 2007.

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SEITEL, INC.

10811 S. Westview Circle Drive

Building C, Suite 100

Houston, Texas 77043

NOTICE OF SPECIAL MEETING

, 2007

Dear Stockholder:

The special meeting of stockholders of Seitel, Inc., a Delaware corporation (Seitel), will be held on , 2007, at , at for the following purposes:

consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of October 31, 2006, by and among Seitel, Seitel Holdings, LLC and Seitel Acquisition Corp., as it may be amended from time to time;

approve any motion to adjourn the special meeting to a later date to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the foregoing proposal; and

transact such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

Only holders of shares of Seitel common stock, par value $0.01 per share, of record at the close of business on , 2007 may vote at this meeting or any adjournments or postponements that may take place. Your board of directors (with the three directors who are either affiliated with ValueAct Capital Master Fund, L.P. or may own an interest in Seitel Holdings, LLC at or following the merger taking no part in the deliberations or vote due to their possible conflicting interests) has unanimously approved and recommends that you vote FOR the proposal to adopt the merger agreement and FOR the adjournment proposal, which are discussed in more detail in the attached proxy statement.

Stockholders who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares of Seitel common stock if the merger is completed, but only if they deliver a written demand for appraisal to Seitel before the vote is taken on the merger agreement and they comply with all applicable requirements of Delaware law, which are summarized in the accompanying proxy statement.

Regardless of the number of shares you own, your vote is very important.

Under Delaware law, the merger cannot be completed unless the merger agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of Seitel common stock entitled to vote on the proposal to adopt the merger agreement. **For this purpose, if you fail to vote on the proposal to adopt the merger agreement, the effect will be the same as a vote against such proposal.** Additionally, under the terms of the merger agreement, completion of the merger is conditioned upon the adoption of the merger agreement by the affirmative vote of the holders of a majority of the outstanding shares of Seitel common stock that are voted on such proposal (either for or against), other than shares owned by ValueAct Capital Master Fund, L.P. and its affiliates. **For this purpose, if you fail to vote on the proposal to adopt the merger agreement, your inaction will have no effect and will neither be counted as a vote for nor against such proposal.** The proposal to adjourn the meeting if necessary to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement requires the affirmative vote of a majority of the shares present and entitled to vote on the adjournment proposal, whether or not a quorum is present. Failure to submit a proxy or attend the special meeting will not affect the outcome of the vote on the adjournment proposal.

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Whether or not you plan to attend the special meeting, please submit a proxy to vote your shares by:

- completing, dating, signing and returning the enclosed proxy card as soon as possible,
- following the procedures for telephonic voting by calling the toll-free number listed on the proxy card, or
- following the procedures for Internet voting as instructed on the proxy card.

Submitting a proxy by any of these methods will not prevent you from voting your shares in person in the manner described in the attached proxy statement if you subsequently choose to attend the special meeting. You should not send in your certificates representing shares of Seitel common stock until you receive instructions to do so.

Registration will begin at Central time and seating will begin at Central time. Each stockholder may be asked to present valid picture identification, such as a driver s license or passport. Stockholders holding stock in brokerage accounts will need a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic devices will not be permitted at the meeting, and cell phones must be turned off.

By Order of the Board of Directors

Fred S. Zeidman

Chairman of the Board

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SUMMARY TERM SHEET

The following Summary Term Sheet, together with Questions and Answers About the Special Meeting and the Merger, highlight selected information contained in this proxy statement. It may not contain all of the information that may be important in your consideration of the proposed merger. We encourage you to read carefully this proxy statement and the documents we have incorporated by reference into this proxy statement before submitting a proxy to vote or voting. See Where You Can Find More Information beginning on page . Where appropriate, we have set forth a section and page reference directing you to a more complete description of the topics described in this summary.

Whenever we refer to the merger agreement in this proxy statement, we are referring to the Agreement and Plan of Merger, dated as of October 31, 2006, by and among Seitel, Seitel Holdings, LLC and Seitel Acquisition Corp., attached as Annex A to this proxy statement, as it may be amended from time to time. You should read the merger agreement because it, and not this proxy statement, is the legal document that governs the merger and the transactions contemplated thereby.

The Parties to the Merger. Seitel, Inc., which we refer to in this proxy statement as Seitel, we, our or us, provides seismic data and related geophysical services to the oil and natural gas industry in North America. Our products and services are used by oil and natural gas companies to assist in the exploration for and development and management of oil and natural gas reserves. We have ownership in an extensive library of proprietary onshore and offshore seismic data that we have accumulated since 1982 and that we offer for license to a wide range of oil and natural gas companies. Our customers utilize this data, in part, to assist in the identification of new geographical areas where subsurface conditions are favorable for oil and natural gas exploration, to determine the size, depth and geophysical structure of previously identified oil and natural gas fields and to optimize the development and production of oil and natural gas reserves.

Seitel Holdings, LLC, which we refer to in this proxy statement as Parent, and Seitel Acquisition Corp., which we refer to in this proxy statement as Acquisition Co., are a Delaware limited liability company and a Delaware corporation, respectively, each formed on October 27, 2006 solely for the purpose of completing the proposed merger. Neither entity has engaged in any business except as contemplated in the merger agreement, including in connection with arranging the financing for the proposed merger. Parent is currently owned by ValueAct Capital Master Fund, L.P., which we refer to in this proxy statement as ValueAct Capital, and Acquisition Co. is a wholly-owned subsidiary of Parent.

ValueAct Capital is a British Virgin Islands limited partnership whose general partner is VA Partners, LLC, a Delaware limited liability company. The managing members, principal owners and controlling persons of VA Partners, LLC, such individuals, sometimes collectively referred to in this proxy statement as the Managing Members or individually as a Managing Member, are Peter H. Kamin, Jeffrey W. Ubben and George F. Hamel, Jr. ValueAct Capital and its affiliates manage approximately $4.6 billion in investments and seek to make active strategic-block value investments in a limited number of companies. ValueAct Capital concentrates primarily on acquiring significant ownership stakes in publicly traded companies, along with a select number of control investments through open-market purchases and negotiated transactions.

See The Parties to the Merger and Information Regarding the Transaction Participants, beginning on page and , respectively.

The Merger. Pursuant to the merger agreement, Acquisition Co. will be merged with and into Seitel, with Seitel continuing as the surviving company, which we refer to in this proxy statement as the Surviving Corporation. Immediately following the merger the Surviving Corporation will be wholly owned by Parent, and Parent will be owned by ValueAct Capital and the Rollover Investors (as described immediately below), entities and individuals we refer to collectively in this proxy statement as the Investors.
Seitel officers Robert D. Monson, William J. Restrepo and Kevin P. Callaghan have been invited to invest in Parent by contributing shares of Seitel common stock to Parent in exchange for equity of Parent immediately before the completion of the merger; they, together with certain other members of Seitel senior management personnel who may in the future be invited to so invest, if any, are referred to in this proxy statement as the Rollover Investors. As of the date of this proxy statement Parent and the Rollover Investors have not entered into definitive agreements regarding the Rollover Investors equity participation in Parent.

See Special Factors Certain Effects of the Merger and Special Factors Interests of Certain Persons in the Merger beginning on page and , respectively.

Merger Consideration. At the effective time of the merger, you will be entitled to receive $3.70 per share in cash, without interest, for each share of Seitel common stock you own at that time, unless you are a dissenting stockholder and you properly demand (and do not subsequently withdraw or otherwise lose or forfeit) your right to an appraisal of your shares under Delaware law. See The Merger Agreement Payment for Seitel Common Stock in the Merger beginning on page .

Effect of the Merger on Seitel. As a result of the merger, Seitel will become a privately held company and Seitel s stockholders prior to the merger, other than ValueAct Capital and the Rollover Investors, will no longer have a direct or indirect equity interest in Seitel, Seitel s common stock will no longer be listed on the OTC Bulletin Board, and the registration of Seitel s common stock under Section 12 of the Securities Exchange Act of 1934, as amended, which we refer to in this proxy statement as the Exchange Act, will be terminated. See Special Factors Certain Effects of the Merger beginning on page .

Treatment of Existing Stock Options and Restricted Stock. At the effective time of the merger, all unvested shares of restricted stock will vest and be converted into the right to receive a cash payment equal to the number of shares of restricted stock multiplied by $3.70, without interest and less any applicable withholding taxes. In addition, at the effective time of the merger, the outstanding option to purchase 100,000 shares of Seitel common stock held by Seitel s chairman will, to the extent not already exercised at that time, be cancelled and cease to exist in exchange for the right to receive a cash payment from the Surviving Corporation equal to $3.70 minus its exercise price of $1.30 per share, multiplied by 100,000, or, assuming the option is not exercised, $240,000, without interest and less any applicable withholding taxes. See Special Factors Certain Effects of the Merger beginning on page .

Interests of Certain Persons in the Merger. In considering the proposed transactions, you should be aware that some Seitel stockholders, directors, officers and employees have interests in the merger that may be different from, or in addition to, your interests as a Seitel stockholder generally. These interests may present some of Seitel s directors, executive officers and stockholders with actual or possible conflicts of interests, and these interests, to the extent material, are described below.

- accelerated vesting of restricted stock held by directors, officers and employees of Seitel as a result of the merger;

- the outstanding option to purchase 100,000 shares of Seitel s common stock owned by Seitel Chairman will, to the extent not already exercised at that time, be cancelled and cease to exist solely in exchange for the right to receive a cash payment equal $3.70 minus its strike price of $1.30 per share, multiplied by 100,000, or, assuming the option is not exercised, $240,000, without interest and less any applicable withholding taxes;

certain directors and officers may receive equity in Parent pursuant to arrangements whereby they contribute shares of Seitel common stock to Parent in exchange for equity of Parent immediately before the completion of the merger;

it is anticipated that Messrs. Monson, Restrepo and Callaghan will enter into new employment agreements with the Surviving Corporation effective as of the completion of the merger;

it is anticipated that Seitel s current executive officers will hold substantially similar positions with the Surviving Corporation and/or Parent after the completion of the merger and that Mr. Monson will be appointed to the board of directors of Parent;

it is anticipated that Parent will adopt a management equity incentive plan in connection with the merger pursuant to which members of Seitel s current and future management will be eligible to receive, in the aggregate, options to purchase up to an additional percent of the outstanding Parent voting securities as of the closing of the merger;

eight key employees of Seitel are eligible to receive cash payment upon consummation of the merger and another cash payment if they are still employed by the Surviving Corporation on the first anniversary of the consummation of the merger, see Special Factors Interests of Certain Persons in the Merger Seitel Key Employee Retention Plan beginning on page for the names of such officers; and

continued indemnification and directors and officers liability insurance to be provided by Parent and the Surviving Corporation to current and former directors and officers of Seitel and its subsidiaries in respect of past service.

These arrangements are more fully described under Special Factors Certain Effects of the Merger and Special Factors Interests of Certain Persons in the Merger beginning on page and , respectively.

Interests of the Special Committee. The members of board of directors, including the special committee, have received restricted stock in connection with their service as directors. Upon consummation of the merger, this restricted stock will vest and be converted into the right to receive a cash payment equal to the number of shares of restricted stock multiplied by $3.70, without interest and less any applicable withholding taxes. For the restricted stock ownership of the special committee members, see Special Factors Interests of Certain Persons in the Merger Treatment of Existing Stock Options and Restricted Stock beginning on page . Additionally, the members of the special committee receive a fee for their service on the special committee of $1,500 per meeting. Compensation of the special committee members was not and is not contingent on the special committee approving or recommending the merger or any other strategic financial alternative or the consummation of the merger or any other strategic financial alternative. See Special Factors Special Committee Compensation beginning on page .

The special committee and Seitel s board of directors were aware of these interests and considered them, among other matters, prior to providing their respective recommendations with respect to the merger agreement.

Required Votes. In order to adopt the merger agreement and consummate the merger, the proposal to adopt the merger agreement must be approved at the special meeting of stockholders by (1) the affirmative vote of the holders of a majority of the outstanding shares of Seitel common stock entitled to vote on such proposal, as required by Delaware law, and (2) the affirmative vote of the holders of a majority of the outstanding shares of Seitel common stock that are voted on such proposal (either for or

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against), other than shares owned by ValueAct Capital and its affiliates, as required to satisfy a condition provided in the merger agreement, which approvals we collectively refer to in this proxy statement as the Required Vote. Approval of the adjournment proposal, if there are insufficient votes at the time of the special meeting to adopt the merger agreement by the Required Vote, requires the affirmative vote by the holders of a majority of shares of common stock that are present in person or represented by proxy at the special meeting and entitled to vote thereon. If there is less than a quorum present at the special meeting, the special meeting may be adjourned by the affirmative vote of a majority of the holders of the shares of common stock present in person or represented by proxy at the special meeting.

ValueAct Capital and Parent owned approximately 33.0 percent of Seitel s outstanding common stock as of the record date for the special meeting (not including warrants for which shares may be issued upon exercise), and they have agreed to vote all such shares of Seitel common stock FOR the proposal to adopt the merger agreement.

Share Ownership of Directors and Executive Officers. As of , 2007, the record date, the directors and executive officers of Seitel held and were entitled to vote, in the aggregate, shares of Seitel common stock representing approximately percent of the outstanding shares. We believe Seitel s directors and executive officers intend to vote all of their shares of Seitel common stock FOR the proposal to adopt the merger agreement and FOR the adjournment proposal. See The Special Meeting Quorum; Vote Required beginning on page .

Recommendations. Seitel s board of directors, without the participation of Messrs. Kamin, Spivy and Monson, has unanimously:

- determined that the merger agreement, the merger and the other transactions contemplated thereby are fair to, advisable and in the best interests of Seitel s unaffiliated stockholders (a term that we use in this proxy statement to refer to all Seitel stockholders other than ValueAct Capital and its affiliates and other than the Rollover Investors);
- approved and adopted the merger agreement and the transactions contemplated thereby, including the merger; and
- recommended that Seitel s stockholders adopt the merger agreement.

Accordingly, Seitel s board of directors, without the participation of Messrs. Kamin, Spivy and Monson who recused themselves from the deliberations and did not vote due to possible conflicting interests, unanimously recommends that you vote FOR the proposal to adopt the merger agreement. The board of directors decision to approve the merger agreement and recommend that the stockholders adopt the merger agreement was based in part upon the unanimous recommendation of the special committee of the board of directors that the board approve the merger agreement. Members of the board of directors that are Rollover Investors or are affiliated with ValueAct Capital are not members of the special committee of the board of directors that negotiated, reviewed and unanimously recommended the merger to the board of directors and took no part in the deliberations or vote by the board of directors on the merger agreement. See Special Factors Recommendation of the Special Committee and Board of Directors; Reasons for Recommending Adoption of the Merger beginning on page .

Position of the Rollover Investors as to the Fairness of the Merger. Messrs. Monson, Restrepo and Callaghan believe that the proposed merger is substantively and procedurally fair to Seitel s unaffiliated stockholders. Their position is based upon the factors described under Special Factors Position of Rollover Investors as to Fairness beginning on page .

Position of Parent, Acquisition Co. and ValueAct Capital as to Fairness of the Merger. Parent, Acquisition Co. and ValueAct Capital believe that the merger is fair to Seitel s unaffiliated stockholders. Their position is based upon the factors described under Special Factors Position of ValueAct Capital Filers Regarding Fairness of the Merger beginning on page .

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Opinion of Financial Advisor. The special committee received an opinion from William Blair & Company, L.L.C., which we refer to in this proxy statement as William Blair, to the effect that, as of the date of its opinion and based upon and subject to the assumptions made, matters considered and limitations and qualifications to the review undertaken in connection with such opinion, the cash merger consideration of $3.70 per share to be received by the holders of Seitel s common stock (other than ValueAct Capital and its affiliates) in the merger was fair, from a financial point of view, to such holders. The full text of William Blair s opinion is attached as Annex B to this proxy statement. We encourage you to read carefully this opinion in its entirety and the section entitled Special Factors Opinion of Financial Advisor beginning on page for a description of the procedures followed, assumptions made, matters considered and limitations and qualifications on the review undertaken. The opinion of William Blair was provided to Seitel s special committee of the board of directors in connection with its evaluation of the merger, does not address any other aspect of the merger and does not constitute a recommendation to any stockholder as to how you should vote on any matter at the special meeting.

What We Need to Do to Complete the Merger. We will complete the merger only if the conditions to closing set forth in the merger agreement are satisfied or waived (if waiver is permitted by law). These conditions include, among others:

adoption of the merger agreement by the Required Vote;

the expiration or early termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which we refer to in this proxy statement as the H-S-R Act, as described below under Special Factors Regulatory Approvals beginning on page ;

the absence of any legal restraint or prohibition preventing the consummation of the merger and the other transactions contemplated by the merger agreement;

either the amendment of the Indenture under which Seitel s 11.75% senior notes due 2011 are outstanding, which we refer to in this proxy statement as the Indenture, to allow the consummation of the merger and the other transactions contemplated by the merger agreement or the termination of such Indenture as described below under Special Factors Tender Offer and Consent Solicitation beginning on page ;

the representations and warranties of Seitel and those of Parent and Acquisition Co. being true and correct, subject in many cases to materiality or material adverse effect qualifications;

performance by Seitel, Parent and Acquisition Co. of all of their respective obligations in the merger agreement in all material respects;

the absence of any fact, circumstance, event, change, effect or occurrence that constitutes a material adverse effect on Seitel, as described under The Merger Agreement Representations and Warranties beginning on page ;

the receipt of funds by Parent and/or Acquisition Co. resulting from the contemplated financing as described under Special Factors Financing of the Merger beginning on page ;

the absence of any suit, action or proceeding seeking to restrain or prohibit the consummation of the merger or any other transactions contemplated by the merger agreement as described under The Merger Agreement Conditions to Completion of the Merger beginning on page ;

the resignations of Seitel s directors; and

less than 12.5 percent of the outstanding shares of Seitel common stock properly demanding appraisal in accordance with Delaware law.

As of the date of this proxy statement, neither Seitel, Parent nor Acquisition Co. expects that any condition will be waived. See The Merger Agreement Conditions to Completion of the Merger beginning on page .

Regulatory Approvals That Must be Obtained. We will need to obtain clearances from the Justice Department and the Federal Trade Commission under the H-S-R Act in order to complete the merger. See Special Factors Regulatory Approvals beginning on page .

Termination of the Merger Agreement. The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger:

- by mutual written consent of Parent and Seitel;
- by either Parent or Seitel, if the merger has not been consummated by April 30, 2007, which we refer to in this proxy statement as the Termination Date; however, the right to terminate the merger agreement pursuant to this provision is not available to the party seeking to terminate if any (1) action of such party or (2) failure of such party to perform or fulfill any of its obligations under the merger agreement, has been the cause of, or resulted in, the failure of the effective time of the merger to occur on or before the Termination Date and such action or failure to perform constitutes a breach of the merger agreement;
- by either Parent or Seitel, if a legal restraint or order permanently restraining or otherwise prohibiting the consummation of the merger has become final and non-appealable;
- by either Parent or Seitel, if the stockholders of Seitel fail to adopt the merger agreement by the Required Vote at the special meeting or any adjournment or postponement of that meeting;
- by either Parent or Seitel, if the other party has breached or failed to comply with any of its obligations such that a condition set forth in the merger agreement would not be satisfied and the breach or failure to comply cannot be cured prior to the Termination Date;
- by either Parent or Seitel, if the representations and warranties of the other party contained in the merger agreement fail to be true and correct such that the conditions set forth in the merger agreement would not be satisfied;
- by Seitel, if Seitel has complied with the provisions of the merger agreement regarding the solicitation of and responses to competing proposals and Seitel accepts a Superior Proposal as described under The Merger Agreement Other Covenants and Agreements No Solicitation of Competing Proposals, The Merger Agreement Termination, and The Merger Agreement Termination Fee and Expenses beginning on page , and , respectively;
- by Seitel, if the representations and warranties of Parent or ValueAct Capital in the support agreement by and among Seitel, Parent and ValueAct Capital, which we refer to in this proxy statement as the Support Agreement, fail to be true and correct or Parent or ValueAct Capital has breached or failed to comply with any of their obligations under the Support Agreement, and in either case the breach or failure to comply cannot be cured prior to the Termination Date;

by Parent, if Seitel has breached its obligations regarding the solicitation of and responses to competing proposals;

by Parent, if the board of directors of Seitel has failed to recommend to Seitel s stockholders that they adopt the merger agreement at the special meeting or takes action that contradicts such recommendation; or

by Parent, if Seitel has failed to call the special meeting or has failed to deliver the proxy statement in accordance with the provisions of the merger agreement.

See The Merger Agreement Termination beginning on page .

Expenses and Termination Fee. If the merger agreement is terminated under certain specified circumstances:

- Seitel will be obligated to pay a termination fee of $17 million to Parent, which we refer to in this proxy statement as the Termination Fee; and
- Seitel will be obligated to pay the reasonable out-of-pocket documented expenses of Parent and Acquisition Co., up to $1 million, which we refer to in this proxy statement as the Expense Fee, which will not be credited against the Termination Fee if it becomes payable.

See The Merger Agreement Termination Fee and Expenses beginning on page .

Financing of the Merger. The obligation of Parent and Acquisition Co. to complete the merger is subject to a debt financing condition. See The Merger Agreement Conditions to Completion of the Merger beginning on page . The total amount of funds required to complete the merger and the related transactions, including repayment of Seitel s existing debt and payment of fees and expenses in connection with the merger, is anticipated to be approximately $ million. This amount is expected to be provided through a combination of:

- either:
  - an offering of new unsecured senior notes yielding gross proceeds of $400.0 million, which we describe in this proxy statement under Special Factors Financing of the Merger Debt Commitment Letter and Special Factors Financing of the Merger Unsecured Senior Notes Offering beginning on page and , respectively; or
  - a new $400.0 million senior bridge loan facility, which we describe in this proxy statement under Special Factors Financing of the Merger Debt Commitment Letter and Special Factors Financing of the Merger Bridge Loan Facility beginning on page and , respectively;
- an aggregate equity investment by ValueAct Capital and its affiliates in Parent of up to $141.0 million, which is described under Special Factors Financing of the Merger Equity Commitment Letter beginning on page ;
- cash and cash equivalents held by Seitel and its subsidiaries; and
- a new $20.0 million senior secured revolving credit facility, which is expected to be undrawn at the effective time of the merger, which we describe elsewhere in this proxy statement under Special Factors Financing of the Merger Debt Commitment Letter and Senior Secured Credit Facility beginning on page .

To the extent the Rollover Investors exchange any shares of Seitel common stock for equity in Parent, ValueAct Capital s aggregate equity investment will be correspondingly reduced by the aggregate value of such exchanged shares. See Special Factors Interests of Certain Persons in the Merger Rollover Investors beginning on page . In addition, ValueAct Capital may syndicate its equity commitment to its affiliated funds, entities and investment vehicles and to co-investors where ValueAct Capital retains direct or indirect control over voting and disposition. See Special Factors Financing of the Merger beginning on page .

No Solicitation of Competing Proposals. The merger agreement restricts the ability of Seitel to, among other things, solicit or engage in discussions or negotiations with a third party regarding specified transactions involving Seitel or its subsidiaries and the board of directors ability to change or withdraw its recommendation that the stockholders adopt the merger agreement. Notwithstanding these restrictions, under circumstances specified in the merger agreement, Seitel may engage in discussions or negotiations with a third party regarding a Takeover Proposal and terminate the merger agreement and enter into an agreement with respect to a Superior Proposal, as such terms are defined and more fully described in the section entitled The Merger Agreement Other Covenants and Agreements No Solicitation of Competing Proposals beginning on page . Additionally, the board of directors may withdraw its recommendation that the stockholders adopt the merger agreement if it concludes that doing otherwise would be inconsistent with the exercise of its fiduciary duties, provided that it still provides Seitel s stockholders the opportunity to vote on the proposal to adopt the merger agreement at the special meeting. See The Merger Agreement Other Covenants and Agreements No Solicitation of Competing Proposals beginning on page .

Appraisal Rights. Under Delaware law, any holder of Seitel common stock who does not vote to adopt the merger agreement will have the right to seek appraisal of the fair value of such holder s shares as determined by the Delaware Court of Chancery if the merger is completed, but only if such holder complies with all requirements of Delaware law, which are summarized in this proxy statement. This appraisal amount could be more than, the same as or less than the amount a stockholder would be entitled to receive under the terms of the merger agreement. Any holder of Seitel common stock intending to exercise such holder s appraisal rights, among other things, must submit a written demand for an appraisal to us prior to the vote on the proposal to adopt the merger agreement and must not vote or otherwise submit a proxy in favor of the proposal to adopt the merger agreement. Failure to vote against the proposal to adopt the merger agreement will not constitute a waiver of appraisal rights. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. See The Special Meeting Rights of Stockholders Who Object to the Merger and Appraisal Rights beginning on page and , respectively, and the text of the Delaware appraisal rights statute reproduced in its entirety as Annex C.

Material United States Federal Income Tax Consequences. The receipt of cash in exchange for shares of Seitel common stock as a result of the merger will be a taxable transaction for United States federal income tax purposes. In general, you will recognize gain or loss as a result of the merger in an amount equal to the difference, if any, between the cash you receive and your tax basis in Seitel common stock surrendered. Tax matters are very complicated. The tax consequences of the merger to you will depend upon your particular circumstances. You should consult your tax advisors for a full understanding of the U.S. federal, state, local, non-U.S. and other tax consequences of the merger to you. See Special Factors Material United States Federal Income Tax Consequences beginning on page .

The Special Meeting.

Date, Time and Place. The special meeting of Seitel stockholders will be held at , on , , 2007, at Central time at .

Board Recommendation. The Seitel board of directors (with Messrs. Kamin, Spivy and Monson not participating) unanimously recommends that all Seitel stockholders vote FOR the proposal to adopt the merger agreement and FOR the adjournment proposal.

Record Date, Outstanding Shares and Voting Rights. The record date for the special meeting is the close of business on , 2007. Only holders of record of shares of Seitel common stock on the record date are entitled to notice of and to vote at the special meeting or any adjournment or postponement of the special meeting. At the special meeting, each share of Seitel common stock will be entitled to one vote on all matters.

Quorum; Vote Required. The holders of a majority of the outstanding shares of Seitel common stock entitled to be voted at the special meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business at the special meeting. Under Delaware law, the affirmative vote of the holders of a majority of the outstanding shares of Seitel common stock entitled to vote on the proposal to adopt the merger agreement is required to adopt the merger agreement.

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Additionally, under the terms of the merger agreement, consummation of the merger is conditioned upon the adoption of the merger agreement by the affirmative vote of the holders of a majority of the outstanding shares of Seitel common stock that are voted on such proposal (either for or against), other than shares owned by ValueAct Capital and its affiliates. Approval of the adjournment proposal, if there is a stockholders meeting where there is less than a quorum at the special meeting or if there are insufficient votes at the special meeting to adopt the merger agreement by the Required Vote, requires the affirmative vote by the holders of a majority of the shares of common stock that are present in person or represented by proxy at the meeting and entitled to vote thereon.

See The Special Meeting beginning on page .

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers address briefly some questions you may have regarding the special meeting and the proposed merger. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement.

Q: Where and when is the special meeting?

A: We will hold a special meeting of stockholders of Seitel on , , 2007, at Central time at .

Q: What matters will be voted on at the special meeting?

A: You will be asked to consider and vote on the following proposals:

- to adopt the merger agreement;
- to approve any motion to adjourn the special meeting to a later date to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal on the merger agreement by the Required Vote; and
- to transact such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

Q: How does Seitel s board of directors recommend that I vote on the proposals?

A: The board of directors recommends that you vote:

- FOR the proposal to adopt the merger agreement, and
- FOR the proposal to adjourn the meeting, if necessary.

Q: Who is entitled to vote at the special meeting?

A: Only holders of Seitel common stock at the close of business on , 2007, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting or any adjournment or postponement thereof.

Q: What constitutes a quorum for the special meeting?

A: The holders of a majority of the voting power of the shares of Seitel common stock entitled to be voted at the special meeting, present in person or represented by proxy, will constitute a quorum for the transaction of business at such meeting.

Q: What vote is required to adopt the merger agreement and consummate the merger?

A: Under Delaware law, consummation of the merger requires adoption of the merger agreement by the affirmative vote of the holders of a majority of the outstanding shares of Seitel common stock entitled to vote on such proposal. Additionally, under the terms of the merger agreement, consummation of the merger is conditioned upon the adoption of the merger agreement by the affirmative vote of the holders of a majority of the outstanding shares of Seitel common stock that are voted on such proposal (either for or against), other than shares owned by ValueAct Capital and its affiliates.

ValueAct Capital, Parent and their affiliates owned percent of Seitel s outstanding common stock as of the record date for the special meeting, and they have agreed, pursuant to the Support Agreement, to vote all such shares of common stock FOR the proposal to adopt the merger agreement.

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Q: What vote is required to approve the adjournment proposal?

A: Approval of the adjournment proposal, if there are insufficient votes at the special meeting to adopt the merger agreement by the Required Vote, requires the affirmative vote by the holders of a majority of the shares of common stock that are present in person or represented by proxy to vote and entitled to vote thereon.

Q: How do Seitel s directors and executive officers intend to vote?

A: We believe Seitel s directors and executive officers intend to vote all of their shares of Seitel common stock FOR the proposal to adopt the merger agreement and FOR the adjournment proposal. As of , 2007, the record date, the directors and executive officers of Seitel held and are entitled to vote, in the aggregate, shares of Seitel common stock representing approximately percent of the outstanding shares.

Q: What will I receive if the merger occurs?

A: For every share of Seitel common stock that you own at the effective time of the merger, you will be entitled to receive $3.70 in cash, without interest. This does not apply to treasury shares, shares owned by ValueAct Capital and its affiliates, or shares held by stockholders who are entitled to and who properly exercise appraisal rights under Delaware law.

Q: When do you expect the merger to be completed?

A: We are working toward completing the merger as quickly as possible and currently expect the merger to close in the first quarter of 2007. In order to complete the merger, we must obtain stockholder approval by the Required Vote. In addition, Parent and Acquisition Co. must have completed an acquisition financing transaction. Finally, the other closing conditions under the merger agreement must be satisfied or waived, to the extent permitted by law.

Q: What do I need to do now?

A: Please submit the enclosed proxy to vote your shares as soon as possible. We urge you to read this proxy statement carefully, including its annexes, and to consider how the transaction affects you as a stockholder. You also may want to review the documents referenced under Where You Can Find More Information beginning on page .

Q: How do I vote?

A: You should simply indicate on your proxy card how you want your shares to be voted, and date, sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares will be represented at the special meeting. If you sign and send in your proxy card and do not indicate how you want your shares to be voted, the shares represented by your proxy card will be voted for the proposal to adopt the merger agreement and for the adjournment proposal. **If you fail to submit a proxy or vote your shares, or if you do not instruct your broker how to vote any shares held for you in a brokerage account, the effect will be a vote against the proposal to adopt the merger agreement for purposes of determining whether the holders of a majority of the outstanding shares of Seitel common stock approved the proposal to adopt the merger agreement under Delaware law, but such inaction will not have any effect on whether the merger agreement was adopted by the holders of a majority of the outstanding shares of Seitel common stock that are voted on the proposal (either for or against) to adopt the merger agreement, other than shares owned by ValueAct**

Capital and its affiliates. Failure to submit a proxy or to attend the special meeting will not affect the outcome of the vote on the proposal to adjourn the special meeting.

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If your shares are held by your broker, bank or other nominee, see below.

Q: Can I submit a proxy by telephone or electronically?

A: If you hold your shares as a stockholder of record, you may submit a proxy by telephone or by the Internet by following the instructions set forth on the enclosed proxy card.

If your shares are held by your broker, bank, or other nominee, often referred to as held in street name, please contact your broker, bank or other nominee to determine whether you will be able to submit a proxy by telephone or electronically and how to vote at the special meeting if you choose to attend.

Q: If my shares are held in a brokerage account, will my broker vote my shares for me?

A: Your broker, bank or other nominee will only be permitted to vote your shares for you if you instruct them how to vote. Therefore, it is important that you promptly follow the directions provided by your broker regarding how to instruct them to vote your shares. If you do not instruct your broker, bank or other nominee how to vote your shares that they hold, those shares will not be voted.

Q: What does it mean if I receive more than one proxy card?

A: It means that you have multiple accounts at the transfer agent and/or with brokers, banks or other nominees. Please sign and return all proxy cards to ensure that all your shares are voted.

Q: May I change my vote?

A: Yes. You may change your vote at any time before your proxy is voted at the special meeting, subject to the limitations described below. You may do this in a number of ways. First, you may send us a written notice stating that you would like to revoke your proxy. Second, you may complete and submit a new proxy card. If you choose either of these two methods, you must submit your notice of revocation or your new proxy card to the Corporate Secretary of Seitel, at the address under The Parties to the Merger Seitel, Inc. beginning on page . You may also submit a later-dated proxy using the telephone or Internet voting procedures on the proxy card so long as you do so before the deadline of 11:59 p.m. on , 2007. Third, if you are a stockholder of record, you may attend the special meeting and vote in person. Simply attending the special meeting, without voting in person, will not revoke your proxy. If your shares are held in street name and you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote or to vote at the special meeting.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging your Seitel common stock certificates for the merger consideration. If your shares are held in street name by your broker, bank or other nominee you will receive instructions from your broker, bank or other nominee as to how to effect the surrender of your street name shares in exchange for the merger consideration. Please do not send your certificates in now.

Q: What are the material United States federal income tax consequences of the transaction to stockholders?

A: In general, your receipt of cash in exchange for shares of Seitel common stock as a result of to the merger will be a taxable transaction for United States federal income tax purposes. Since the tax consequences of the merger to you will depend on your particular circumstances, you should consult your own tax advisor for a full understanding of the U.S. federal, state, local, non-U.S. and other tax consequences of the merger to you.

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Q: Do I have appraisal rights?

A: Yes. You have the right to dissent from the merger and to seek appraisal of, and if the merger is completed receive payment in cash for, the fair value of your Seitel common stock under the General Corporation Law of the State of Delaware, which we refer to in this proxy statement as the DGCL, together with a fair rate of interest, if any, as determined by the Delaware Court of Chancery, in lieu of the consideration you would otherwise be entitled to receive pursuant to the merger agreement. These rights are known as appraisal rights. Seitel s stockholders electing to exercise appraisal rights must comply with the provisions of Section 262 of the DGCL in order to perfect their appraisal rights. Seitel will require strict compliance with the statutory procedures.

Q: Who is paying for this proxy solicitation?

A: We will pay the cost of the solicitation of proxies. We have retained , a proxy solicitation firm, to assist us in the solicitation of proxies for a fee of approximately $, a nominal fee per stockholder contact and reimbursement of reasonable out-of-pocket expenses. In addition to solicitation by mail, proxies may be solicited from Seitel stockholders by directors, officers and employees of Seitel in person or by telephone, facsimile or other means of communication. These directors, officers and employees will not be additionally compensated, but may be reimbursed for reasonable out-of-pocket expenses in connection with the solicitation. We may also reimburse brokerage houses, custodians, nominees and fiduciaries for their reasonable expenses incurred in forwarding proxy solicitation materials to beneficial owners of Seitel common stock.

Q: Who is conducting this proxy solicitation?

A: Proxies are being solicited by, and on behalf of, the Seitel board of directors with the assistance of .

Q: Who can help answer further questions?

A: If you have any questions about the merger or if you need additional copies of this proxy statement or the enclosed proxy card, you should contact , which is acting as the proxy solicitation agent and information agent in connection with the merger.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This proxy statement and the documents incorporated by reference in this proxy statement contain forward-looking statements with respect to our financial condition, results of operations, plans, objectives, future performance and business, as well as forward-looking statements relating to the merger. These forward-looking statements include, without limitation, statements preceded by, followed by or that include the words believes, expects, anticipates, estimates, intends, should, may, management believes, continue, strategy or similar expressions important to communicate management s expectations to Seitel s stockholders. However, there may be events in the future that we are not able to accurately predict or over which we have no control. The risk factors listed in our Annual Report on Form 10-K for the year ended December 31, 2005 and subsequently filed Quarterly Reports on Form 10-Q, as well as any other cautionary language in this proxy statement, provide examples of risks, uncertainties and events that may cause our actual results or matters related to the merger to differ materially from the expectations we describe in forward-looking statements. You should be aware that the occurrence of the events described in those risk factors and the risk factors described below could have a material adverse effect on our business, operating results and financial condition or the merger.

In addition to the risks and other factors and matters contained or incorporated in this proxy statement (see Where You Can Find More Information beginning on page), we believe the following factors could cause actual results or matters related to the merger to differ materially from those discussed in the forward-looking statements:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement;
- the outcome of any legal proceedings that have been or may be instituted against Seitel and others relating to the merger agreement;
- the inability to complete the merger due to the failure to obtain stockholder approval or the failure to satisfy other conditions to consummation of the merger, including the expiration of the waiting period under the H-S-R Act and other regulatory approvals;
- the failure to obtain the necessary debt or equity financing set forth in commitment letters received by Parent and Acquisition Co. in connection with the merger;
- the failure of the merger to close for any other reason;
- the effect of the announcement of the merger on our customer relationships, operating results and business generally;
- the risks that the proposed transaction disrupts current plans and operations and the potential difficulties in employee attraction and retention as a result of the merger; and
- the amount of the costs, fees, expenses and charges related to the merger and the actual terms of certain financings that will be obtained for the merger.

The foregoing list and the risks reflected in our documents incorporated by reference in this proxy statement should not be construed to be exhaustive. We believe the forward-looking statements in this proxy statement are reasonable; however, the actions, events or results of the forward-looking statements may not occur and, if any of them do, their impact on our results of operations or financial condition or on the merger is unknown. In addition, actual results or matters related to the merger could differ materially from the forward-looking statements contained in this proxy statement as a result of the timing of the completion of the merger or the impact of the merger on our operating results, capital resources, profitability, cash requirements, management resources and liquidity. In view of these uncertainties, you should not place undue reliance on any forward-looking statements, which are based on our current expectations. Further, forward-looking statements speak only as of the date they are made, and, other than as required by applicable law, we undertake no obligation to update publicly any of them in light of new information or future events.

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THE PARTIES TO THE MERGER

Seitel, Inc.

Seitel is a Delaware corporation that provides seismic data and related geophysical services to the oil and natural gas industry in North America. Our products and services are used by oil and natural gas companies to assist in the exploration for and development and management of oil and natural gas reserves. We have ownership in an extensive library of proprietary onshore and offshore seismic data that we have accumulated since 1982 and that we offer for license to a wide range of oil and natural gas companies. Our customers utilize this data, in part, to assist in the identification of new geographical areas where subsurface conditions are favorable for oil and natural gas exploration, to determine the size, depth and geophysical structure of previously identified oil and natural gas fields and to optimize the development and production of oil and natural gas reserves. A detailed description of Seitel s business is contained in Seitel s Annual Report on Form 10-K for the year ended December 31, 2005, which is incorporated by reference into this proxy statement. See Where You Can Find More Information beginning on page . Seitel s principal executive offices are located at 10811 S. Westview Circle Drive, Building C, Suite 100, Houston, Texas 77043 and its telephone number is (713) 881-8900.

See Other Important Information Regarding Seitel beginning on page .

Seitel Holdings, LLC

Seitel Holdings, LLC, a Delaware limited liability company which is expected to be converted to a Delaware corporation concurrently with the completion of the merger, was organized on October 27, 2006 at the direction of ValueAct Capital solely for the purpose of acquiring ownership of Seitel and consummating the transactions contemplated by the merger agreement, including the related financings. Parent has not engaged in any business except as contemplated by the merger agreement, including in connection with arranging the financing for the proposed merger. Parent is wholly owned by ValueAct Capital. Parent holds 9,459,470 shares of Seitel common stock transferred to it by ValueAct Capital pursuant to the Support Agreement. The principal executive office address of Parent is c/o ValueAct Capital Master Fund, L.P., 435 Pacific Avenue, Fourth Floor, San Francisco, CA 94133 and its telephone number is (415) 362-3700.

See Information Regarding the Transaction Participants beginning on page .

Seitel Acquisition Corp.

Seitel Acquisition Corp., a Delaware corporation, is a wholly owned subsidiary of Parent and was incorporated on October 27, 2006 at the direction of ValueAct Capital solely for the purpose of completing the proposed merger and consummating the transactions contemplated by the merger agreement, including the related financings. Acquisition Co. has not engaged in any business except as contemplated by the merger agreement, including in connection with arranging the financing for the proposed merger. The principal executive office address of Acquisition Co. is c/o ValueAct Capital Master Fund, L.P., 435 Pacific Avenue, Fourth Floor, San Francisco, CA 94133 and its telephone number is (415) 362-3700.

See Information Regarding the Transaction Participants beginning on page .

ValueAct Capital Master Fund, L.P.

ValueAct Capital Master Fund, L.P. is a British Virgin Islands limited partnership whose general partner is VA Partners, LLC, a Delaware limited liability company. While ValueAct Capital is not a party to the merger agreement, it is a party to the Support Agreement whereby ValueAct Capital has agreed to take no action to withdraw the shares of Seitel common stock it contributed to Parent, to vote for the proposal to adopt the merger agreement and, if a Superior Agreement is entered into by Seitel, to vote for the proposal to adopt such Superior Agreement. ValueAct Capital and its affiliates manage approximately $4.6 billion in investments and seek to make active strategic-block value investments in a limited number of companies. ValueAct Capital concentrates primarily on acquiring significant ownership stakes in publicly traded companies, along with a select number of control investments through open-market purchases and negotiated transactions. The principal executive office address of ValueAct Capital is 435 Pacific Avenue, Fourth Floor, San Francisco, CA 94133 and its telephone number is (415) 362-3700.

See Information Regarding the Transaction Participants beginning on page .

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SPECIAL FACTORS

Background of the Merger

On April 29, 2005, the board of directors of Seitel formed the Strategic Financial Alternatives Committee, which we refer to in this proxy statement as the special committee, to evaluate Seitel s financing options. The closing price of Seitel s common stock on such date was $1.28. Messrs. C. Robert Black, Kevin S. Flannery and Jay H. Golding were designated as members of the special committee, with Mr. Black serving as Chairman.

In late May 2005, the special committee and certain members of the board of directors met with two investment banking firms to hear their views on the seismic data and geophysical service industry.

In late August 2005, representatives of Seitel s two largest stockholders, Mellon HBV Alternative Strategies LLC and ValueAct Capital, met with Fred Zeidman and Robert Monson, the Chairman and President, respectively, of Seitel, and Messrs. Golding and Flannery, and recommended that Seitel consider strategic alternatives. The closing price of Seitel s common stock on August 31, 2005 was $1.70.

On September 1, 2005, the special committee met to consider the recommendation of its two largest stockholders, and determined to seek advice of outside legal counsel. After an initial meeting on September 2, 2005 with Bracewell & Giuliani LLP, which we refer to in this proxy statement as Bracewell, in mid-September the special committee engaged Bracewell to serve as its independent legal counsel.

On October 19, 2005, the board of directors expanded the authority of the special committee, authorizing it to evaluate strategic alternatives available to Seitel including acquiring assets, businesses or other entities, raising new debt or equity capital (whether in connection with an acquisition or otherwise), restructuring or amending the terms of Seitel s existing indebtedness, selling some or all of the assets of Seitel or merging, consolidating or engaging in a similar business combination involving Seitel. The board of directors of Seitel determined that each member of the special committee was free of any interest that would interfere with such member s exercise of independent judgment as a member of the special committee.

From September 2005 through mid-November 2005, the special committee held 14 meetings and interviewed five investment banking firms, soliciting from each such firm s opinions on Seitel s valuation and available strategic alternatives. The closing price of Seitel s common stock during this period ranged from $1.52 to $1.76 per share. The investment banking firms suggested alternatives to the special committee that included pursuing an acquisition of assets, businesses or other entities, pursuing a sale or strategic combination, effecting a recapitalization or continuing Seitel s business plan. The special committee also discussed with these firms alternatives to repay or modify certain covenants with respect to Seitel s 11.75% Senior Notes due 2011, which we refer to in this proxy statement as the notes.

After attending numerous presentations and actively engaging in dialogue with representatives of the investment banking firms regarding Seitel s alternatives, the special committee decided to focus its efforts on modifying certain restrictive covenants in the Indenture. The special committee believed that the covenant in the Indenture which restricted Seitel s annual capital expenditures, including expenditures to acquire seismic data that are underwritten or reimbursed by customers, had the potential to impair Seitel s future financial and operational flexibility and growth prospects. This capital expenditure limitation effectively reduced the number of seismic data acquisition projects that Seitel could undertake each year and over time could limit Seitel s ability to grow its data library.

In mid November 2005, the special committee recommended to the board that UBS Investment Bank, which we refer to in this proxy statement as UBS, be engaged to conduct a consent solicitation in which Seitel would seek the consent of note holders to amend the Indenture to exclude customer underwritten expenditures from the restriction on capital expenditures provided in the Indenture. The special committee also recommended that William Blair be engaged to perform detailed valuation studies of Seitel to further develop William Blair s valuation model presented to the special committee during the investment banker interview process. At a meeting of the board of directors on November 17, 2005, upon the recommendation of the special committee, the board determined to engage UBS to conduct a consent solicitation to amend the Indenture and to engage William Blair to prepare detailed valuation models based on projections prepared by Seitel s senior management.

During the latter half of November 2005, the special committee, Seitel management, Bracewell, UBS and legal counsel to UBS prepared consent solicitation materials to amend the Indenture. During this time, the special committee also worked closely with UBS to develop a marketing strategy for the consent solicitation. After considerable deliberation, the special committee, upon the advice of UBS, developed the three key components of its consent solicitation process: scope, timing and price. The special committee decided to seek minimal amendments to the Indenture, focusing exclusively on the capital expenditure restriction and not to seek amendment of additional covenants. In the special committee s judgment, focusing its efforts on a single issue would make the note holders more amenable to granting their consent to the amendment and would require a lower consent fee than more extensive amendments. The special committee also determined that prospects for success would be enhanced if the solicitation could be launched and completed prior to December 31, 2005. Immediately prior to the scheduled launch of the consent solicitation, the special committee, upon the advice of UBS, authorized UBS to approach the largest note holder to determine whether that holder would respond favorably to the consent solicitation providing for the payment of a consent fee equal to 1.25 percent of the outstanding principal amount of the notes. The holder responded unfavorably to this proposal, and instead proposed a ten percent consent fee and other changes to the proposed amendment. On December 12, 2005, the special committee met with UBS to discuss alternatives in light of the response received from this note holder. After thoughtful discussion, the special committee, relying on the advice of UBS, determined to recommend to the board of directors that the board of directors authorize a consent solicitation providing a three percent consent fee. On the morning of December 13, 2005, Seitel s board of directors authorized the consent solicitation on that basis.

On December 13, 2005, Seitel launched a consent solicitation to obtain consents to amend the Indenture to modify the capital expenditure covenant as previously described. Seitel offered a three percent consent fee to all consenting note holders, payable only if Seitel received the consent of a majority of the note holders. As of the close of business on December 22, 2005, out of a total of $189.0 million aggregate principal amount of notes outstanding, holders of approximately $68.0 million in aggregate principal amount of notes had granted their consent, holders of approximately $19.8 million in aggregate principal amount of notes had voted against the proposal and holders of approximately $101.2 million in aggregate principal amount of notes had not voted for or against the amendment. Having only received the consent of approximately 36 percent of the total outstanding principal amount of the notes, and having determined that increasing the consent fee was not in the best interest of Seitel or its stockholders, the special committee opted not to extend the consent solicitation, and the consent solicitation expired by its terms on December 23, 2005.

Having been unsuccessful with the consent solicitation and having concluded that note holder consent to amend the Indenture could not be obtained at a cost and on terms that were in the best interest of Seitel and its stockholders, the special committee began to consider other strategic alternatives available to Seitel. During the consent solicitation process, William Blair had been working closely with Seitel s management to further develop the valuation models of Seitel that William Blair had presented during its initial interview. Based on projections prepared by Seitel s senior management and William Blair s valuation models, the special committee concluded that it was in the best interests of Seitel and its stockholders to consider if business combination opportunities were available to Seitel. On February 8, 2006, the special committee engaged William Blair to render certain investment banking services in connection with a potential business combination of Seitel with a third party. The special committee directed William Blair to begin preparations to solicit third party interest in a potential business combination with Seitel.

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On March 1, 2006, before William Blair began its solicitation process, ValueAct Capital and its affiliated entities purchased 21,499,983 shares of Seitel common stock and warrants to purchase an additional 15,037,568 shares of Seitel common stock from Mellon HBV Alternative Strategies LLC. According to ValueAct Capital s amended Schedule 13D filed March 3, 2006, ValueAct Capital, a beneficial owner of 18.3 percent of Seitel s common stock prior to such purchase, increased its beneficial ownership to 39.0 percent as a result of the acquisition. Also on March 1, 2006, two partners of ValueAct Capital, Peter Kamin and Gregory Spivy, were appointed by the Seitel board of directors to fill existing vacancies on the board. On March 6, 2006, Mr. Kamin was appointed to join Messrs. Black, Flannery and Golding on the special committee.

During the months of March and April 2006, Seitel s management team, with the assistance of William Blair, prepared a confidential descriptive memorandum and executive summary describing Seitel. During the week of April 17, 2006, William Blair commenced the marketing process and began contacting potential bidders. William Blair contacted a total of 82 potential bidders consisting of 21 strategic buyers and 61 financial buyers. Of the 82 potential bidders contacted, two strategic buyers and 29 financial buyers executed confidentiality agreements and received a confidential descriptive memorandum. Additionally, Seitel arranged with the assistance of William Blair and at no cost to Seitel, for a commercial bank not affiliated with William Blair to offer acquisition financing to potential acquirers of up to $450 million, which we refer to in this proxy statement as stapled financing. The special committee believed that the existence of stapled financing would encourage potential bidders.

From March 28, 2006 through May 1, 2006, the day before Seitel released its 2006 first quarter earnings, Seitel s closing stock price increased from $3.19 to $4.36, an increase of $1.17 or approximately 37 percent. During this period, Seitel had not released earnings or reported any material news. This stock price appreciation was likely attributable in large part to three events unrelated to Seitel s business operations or financial results: (1) an article regarding Seitel published in The Wall Street Journal on March 29, 2006; (2) Jim Cramer s March 31, 2006 recommendation of Seitel stock on his Mad Money television program and (3) the April 28, 2006 announcement of Schlumberger s acquisition of the remaining interest in WesternGeco it did not previously own.

From April 17, 2006 through May 24, 2006, representatives of William Blair provided information on Seitel to prospective buyers, and prospective buyers conducted due diligence and market research on Seitel. The closing price of Seitel common stock during this period ranged from $3.77 to $4.99 per share. Citing the market price of Seitel common stock, most of the potential buyers that executed confidentiality agreements withdrew from the solicitation process. In particular, potential strategic buyers indicated as a primary concern the estimated earnings per share dilution they would incur by purchasing Seitel at or near the then-current market valuation.

Preliminary indications of interest to acquire Seitel were required to be submitted by May 24, 2006. In response, four financial buyers submitted preliminary indications of interest. Three of the four buyers submitted preliminary indications of interest to acquire all of Seitel s stock and one buyer submitted a preliminary indication of interest to participate in a transaction as a minority investor. The special committee instructed William Blair to invite the three prospective buyers who submitted indications to acquire all of Seitel s common stock to continue with the process by commencing detailed due diligence and receiving a presentation from the Seitel management team during the month of June. Meetings with each of these three parties were held between June 13, 2006 and June 21, 2006, at which the Seitel management team delivered a presentation regarding Seitel s business and financial results. Furthermore, in order to allow potential parties to commence detailed due diligence, Seitel, in consultation with William Blair and Bracewell, prepared a due diligence data room where potential buyers were allowed to conduct a due diligence review of Seitel beginning on June 19, 2006 and ending on July 28, 2006.

From June 13, 2006 through July 28, 2006 each of the three prospective buyers performed varying levels of detailed due diligence in addition to the review of the data room materials, including an examination of Seitel s

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accounting and tax workpapers, engaging various professional service providers, including lawyers, accounting and tax consultants, industry consultants and benefits consultants, to review the data room materials and perform in depth due diligence investigations. The prospective buyers also involved commercial banks and the banks legal counsel in their due diligence investigation. In addition to the management presentations, members of the Seitel management team and William Blair participated in over 40 in person and telephonic due diligence meetings with the prospective buyers and their representatives, covering a variety of diligence topics such as finance, accounting, sales, operations, legal, environmental, industry trends and conditions, and Seitel s current capital structure.

On July 18, 2006, a draft merger agreement prepared by Bracewell in consultation with Seitel management and William Blair was distributed to the prospective buyers remaining in the process, along with a letter requesting that definitive proposals be submitted by July 28, 2006. The special committee requested that interested parties submit detailed markups of the proposed merger agreement as part of each prospective buyer s definitive proposal. The special committee also emphasized that bidders would be expected to have substantially completed all due diligence and to have financing commitments in place by July 28, 2006. Shortly before the definitive proposal due date of July 28, 2006 and after completion of their due diligence, two of the three remaining bidders indicated that they would be unable to offer a price at or above Seitel s then-current stock price and would not submit a proposal. On July 28, 2006, the special committee received one definitive bid to acquire all of Seitel s common stock for $2.80 per share, which included firm debt and equity commitment letters and a mark-up of the purchase agreement. The closing price of Seitel common stock on that day was $3.98 per share. On July 31, 2006, the special committee convened and determined that the bid should not be recommended to the board of directors, and the special committee instructed William Blair to communicate to the bidder that its bid had been rejected by the special committee. In response to that communication, the bidder did not revise its offer to acquire Seitel.

In connection with the engagement of William Blair and the above-described process of marketing Seitel, the special committee met 22 times between January 5 and July 31, 2006.

On August 21, 2006, the special committee met with William Blair to discuss strategic alternatives available to Seitel in light of the results of the solicitation process. The special committee considered and discussed with William Blair several alternatives, including:

- conducting another consent solicitation with improved economics to induce the note holders to amend the Indenture;
- pursuing strategic acquisitions of data providers and/or data libraries in the United States and/or Canada;
- conducting a leveraged recapitalization to refinance the notes and using the remaining financing to offer liquidity to existing stockholders through a share tender process;
- conducting a debt and equity recapitalization to refinance the notes and use the remaining financing to offer liquidity to existing stockholders through a share tender process;
- undertaking a secondary offering of common stock to refinance the notes, enhance trading volume and institutional stock ownership and provide stockholder liquidity; and
- continuing to pursue liquidity for stockholders and note refinancing through a strategic or financial transaction.

After discussion, the special committee determined that, although several Seitel stockholders held illiquid positions, pursuing a liquidity event for those particular stockholders was not the best alternative for Seitel and its other stockholders at the current time. The special committee believed that, given the cyclicality of the oil and gas industry, the additional leverage associated with certain of these alternatives would present a potential financial risk to continuing stockholders. The special committee requested that William Blair begin to analyze the effect on Seitel of modifying the restrictive covenant on capital expenditures in the Indenture, but no consensus was reached on what should be recommended to the board. The special committee believed that additional study of available alternatives would be required.

On August 25, 2006, a meeting of the full board of directors was convened to receive a status report from the special committee. Mr. Golding informed the board of the results of the solicitation process and that the special committee was continuing to look at strategic alternatives, including the advisability of conducting a second consent solicitation to address the capital expenditure restriction contained in the Indenture. At the conclusion of the meeting, Mr. Kamin informed the board that ValueAct Capital was prepared to lead a transaction in which ValueAct Capital would purchase all of the shares of Seitel common stock it or its affiliates did not already own for $3.65 per share. Mr. Kamin also informed the board that ValueAct Capital would be willing, if such a buyer could be found, to entertain a proposal that is superior to ValueAct Capitals proposal. Seitel s stock price on August 25, 2006 was $3.50 per share. Mr. Kamin stated that ValueAct Capital would present a formal proposal to purchase Seitel in writing to the board of directors within the next several days. Mr. Golding recommended that the meeting adjourn and that the special committee meet the following day to discuss this development. In light of the potential conflict presented by the proposal from ValueAct Capital, Mr. Kamin resigned from the special committee.

On August 26, 2006, the now three-member special committee met to discuss ValueAct Capital s proposal. The special committee determined that William Blair should immediately be instructed to discontinue all dialogue, if any, with ValueAct Capital and its representatives, including Mr. Kamin and Mr. Spivy. On the morning of August 27, 2006, the special committee met with William Blair to inform William Blair of the development and discuss the possibility of soliciting superior proposals through a second solicitation process.

On the evening of August 27, 2006, a meeting of the board (without the participation of Messrs. Kamin and Spivy) was convened. Although the original charge to the special committee was sufficiently broad to authorize the special committee to evaluate the merits of the ValueAct Capital proposal and make such recommendation on the proposal as it deemed proper, the special committee was not originally formed for the purpose of considering a specific proposal from an affiliate of Seitel. Mr. Black requested that the board of directors specifically authorize the special committee to evaluate the ValueAct Capital proposal, including the authority to reject the proposal. In addition, Bracewell noted that it was appropriate at this time for the board to reevaluate the composition of the special committee and the independence of its legal and financial advisors in light of the proposal from ValueAct Capital. Bracewell noted that the members of the special committee, and its legal and financial advisors, should be disinterested, independent and free of any interest that would interfere with such parties exercise of independent judgment. Bracewell, William Blair and the members of the special committee were asked to describe any interest in the transaction and any affiliation with ValueAct Capital or its affiliates or principals. Representatives of Bracewell confirmed that to their knowledge Bracewell had no current or prior engagements or relationships with ValueAct Capital, its affiliates or principals. William Blair noted that, although Mr. Kamin had referred William Blair to the special committee to participate in the interview process to select its financial advisor, William Blair had no current or prior engagements on behalf of ValueAct Capital. In view of the extensive and competitive interview process by which the special committee selected William Blair, which process involved interviewing four other investment banking firms, the special committee considered these prior, incidental contacts with ValueAct Capital insubstantial in nature and not inconsistent with William Blair s role as the independent financial advisor to the special committee. Each member of the special committee affirmed that they had no interest in the proposal of ValueAct Capital different from the Seitel stockholders generally. Mr. Black and Mr. Flannery each stated that they had no affiliations of any kind with ValueAct Capital and were disinterested and independent for purposes of executing the special committee s charge. Mr. Golding stated that he and Mr. Kamin had served together in the 1980 s on the board of directors of Hi-Port Industries, a company in which Mr. Golding acted as chairman of the board and chief executive officer that Mr. Golding invested in and liquidated an investment in a hedge fund managed by Mr. Kamin in the 1990 s, and that at the request of Mr. Kamin, Mr. Golding had served on the board of directors of Data Transmission Network Corp., a company in which a hedge fund managed by Mr. Kamin held a significant equity position. In addition, Mr. Golding stated that it was Mr. Kamin who first introduced him to Seitel management before Mr. Golding interviewed for and was asked to serve on Seitel s board of directors. However, Mr. Golding stated that he had no business, professional or investment interests in ValueAct Capital and was not beholden to ValueAct Capital or any of its affiliates or principals in any way. After a discussion regarding the proper composition of the special

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committee and, in particular, whether Mr. Golding s past business relationships with Mr. Kamin were of a

magnitude that would impair Mr. Golding s ability to exercise independent judgment, the board concluded that all members of the special committee, including Mr. Golding, were disinterested and independent for purposes of the special committee s engagement. Accordingly, the board confirmed the designation of Messrs. Black, Flannery and Golding as the special committee and expanded the authority of the special committee to include authority to evaluate the proposal from ValueAct Capital, including the authority to reject the proposal. The newly-charged special committee then considered whether, and in the end determined that, Bracewell and William Blair were disinterested and independent for purposes of acting as advisors to the special committee.

On Sunday, August 27, 2006, the board of directors received ValueAct Capital s written proposal to buy all of the outstanding shares of Seitel common stock not already owned by it or its affiliates for $3.65 per share. The written proposal confirmed ValueAct Capital s willingness to commence negotiations of a merger agreement immediately, with a view to the execution of an agreement within three weeks. The proposal specifically contemplated that the merger agreement would contain a go shop period during which Seitel would be free to solicit a superior proposal for 21 days and to terminate the merger agreement to accept a superior proposal upon the payment of a fee of one percent of the transaction value, plus reimbursement of expenses. Although Seitel would be required to cease active solicitation after such period, it would still be free to accept an unsolicited superior proposal and terminate the merger agreement to accept such a superior proposal upon the payment of a fee of three percent of the transaction value, plus reimbursement of expenses.

On the morning of August 28, 2006, Seitel issued a press release announcing receipt of the proposal from ValueAct Capital and filed a Current Report on Form 8-K with respect to such proposal. In addition, this Form 8-K disclosed that Seitel s board of directors had previously formed the special committee which had engaged William Blair as its independent financial advisor and Bracewell as its independent legal counsel, and that the board had referred the ValueAct Capital proposal to the special committee for consideration. On September 12, 2006, Seitel filed another Current Report on Form 8-K which disclosed, among other things, that the special committee had initiated a process through its financial advisor, William Blair, to seek alternative proposals to the ValueAct proposal from third parties and to review and evaluate other strategic alternatives.

Despite the favorable nature of the offer s terms with respect to solicitation of a superior proposal and the fact that the price proposed by ValueAct Capital represented a 32 percent premium over the only third party bid received in the initial solicitation process of Seitel and a 5.7 percent premium over the closing price of Seitel common stock of $3.50 per share on August 25, 2006, the last trading day before receipt of the written proposal from ValueAct Capital, the special committee determined to initiate an immediate solicitation process while negotiating with ValueAct Capital. Accordingly, on August 28, 2006, William Blair commenced a new solicitation process on behalf of the special committee. This process involved contacting two new financial buyers and 51 of the parties contacted during the initial solicitation process that were believed to be most likely to be interested in acquiring Seitel in the changed environment.

From August 28, 2006 to October 11, 2006, the deadline for receipt of final bids and comments on the proposed merger agreements, William Blair distributed letters to interested prospective buyers, including one strategic and 16 financial buyers, providing them with an update on Seitel s recent financial performance. Of the 17 interested parties, only five parties, including ValueAct Capital, conducted due diligence on Seitel and attended meetings at which the Seitel management team delivered a presentation regarding Seitel s business and financial results. Each of the five prospective buyers performed varying levels of detailed due diligence in addition to the review of the data room materials, including an examination of Seitel s accounting and tax workpapers, engaging various professional service providers, including lawyers, accounting and tax consultants, management consultants, industry consultants and benefits consultants, to review the data room materials and perform in depth due diligence investigations. The prospective buyers also involved commercial banks and the banks legal counsel in their due diligence investigation. In addition to the management presentations, Seitel and William Blair participated in over 20 in person and telephonic due diligence meetings with the prospective buyers and their representatives, covering a variety of diligence topics such as finance, accounting, sales, operations, legal, environmental, industry trends and conditions, and Seitel s current capital structure.

Also from August 28, 2006 to October 11, 2006, the special committee met with William Blair five times to discuss the progress of the second solicitation process. During these meetings William Blair reported that potentially interested parties were withdrawing from the process as they moved into the advanced stages of due diligence, citing industry cyclicality and valuation as primary concerns. At a special committee meeting on September 8, 2006, the special committee again reviewed alternatives other than a sale of Seitel. The special committee also considered the actions that might be taken by ValueAct in the absence of a negotiated merger and the risks to the unaffiliated stockholders of Seitel of such actions.

On September 22, 2006, Bracewell provided an initial draft of the merger agreement to William Blair for distribution to ValueAct Capital and a form of merger agreement for distribution to other prospective bidders. The key difference between these two drafts was the inclusion in the draft of the merger agreement provided to ValueAct Capital of the condition to closing that the merger agreement be adopted by not only the affirmative vote of the holders of a majority of the outstanding shares of common stock as required under Delaware law, but also the affirmative vote of the holders of a majority of the outstanding shares of common stock that are voted on such proposal (either for or against), other than shares owned by ValueAct Capital and its affiliates, which vote we refer to in this proxy statement as the unaffiliated stockholder approval requirement. The special committee considered the unaffiliated stockholder approval requirement to be an essential procedural safeguard to ensure that Seitel s unaffiliated stockholders had an opportunity to cast a meaningful vote in respect of the merger. However, before determining that the unaffiliated stockholder approval requirement would take into account only shares of common stock actually voted on the proposal, the special committee considered and rejected a proposal to condition the merger upon receipt of the affirmative vote of the holders of a majority of the outstanding shares of common stock (whether voted or not) on such proposal at the special meeting of stockholders, other than shares owned by ValueAct Capital and its affiliates. This proposal was rejected by the special committee on the grounds that unaffiliated stockholders who do not take advantage of the opportunity to vote on the proposal to adopt the merger agreement should not, by their inaction, harm the opportunity of those unaffiliated stockholders who vote on the merger to receive the merger consideration.

In late September, the draft merger agreement prepared by Bracewell was distributed to the prospective bidders remaining in the process, along with a letter requesting that definitive proposals be submitted by October 11, 2006. The special committee requested that interested parties submit detailed markups of the proposed merger agreement as part of their definitive proposal. The special committee also emphasized that bidders would be expected to have substantially completed all due diligence and have financing commitments in place by October 11, 2006.

On October 6, 2006, Bracewell received proposed revisions to the merger agreement from Dechert LLP, counsel for ValueAct Capital, which we refer to in this proxy statement as Dechert. On October 10, 2006, ValueAct Capital submitted a definitive proposal to acquire the shares of Seitel it did not already own at $3.65 per share, which proposal included firm debt commitment letters.

On the bid due date, October 11, 2006, the special committee met to discuss the results of the second solicitation process. William Blair reported that no new bids had been received and the only outstanding bid to purchase Seitel was the $3.65 bid from ValueAct Capital. As indicated above, William Blair noted that the four prospective bidders, other than ValueAct Capital, who performed detailed due diligence during the second solicitation process cited industry cyclicality and valuation as their primary concerns and rationale for withdrawing from the process. In light of the results of the second solicitation process, the special committee discussed with William Blair ValueAct Capital s $3.65 per share bid price. The special committee asked Bracewell to identify terms in the draft of the merger agreement proposed by Dechert that could be included in the negotiation to increase the per share bid price. Additionally, Bracewell noted that ValueAct Capital had not submitted an equity commitment letter with its bid materials. The special committee requested that William Blair advise ValueAct Capital that an equity commitment would be required.

On October 12, 2006, the special committee met to discuss ValueAct Capital s proposed revisions to the merger agreement and receive an update from William Blair regarding its conversations with ValueAct Capital on the evening of October 11. William Blair reported that in response to the special committee s request, ValueAct Capital would consider providing an equity commitment letter. William Blair also reported that ValueAct Capital had requested permission to begin discussions with certain Seitel management personnel. The special committee declined to allow ValueAct Capital and Seitel management to begin direct discussions at this time. Bracewell reported that ValueAct Capital s revised merger agreement retained the proposed unaffiliated stockholder approval requirement and that ValueAct Capital was not included as a party to such proposed merger agreement. Instead, ValueAct Capital s initial proposal required Seitel to contract with newly-formed companies, Parent and Acquisition Co., neither of which would have assets of any significance. The special committee believed that this structure failed to provide adequate protection to Seitel in the event that Parent failed to perform its obligations under the merger agreement. The special committee determined that either Parent or Acquisition Co., or both, would have to be capitalized to protect Seitel and its stockholders from breach of the merger agreement, or another method of providing a credit-worthy party would be required. William Blair was asked to communicate this requirement to ValueAct Capital. The special committee also instructed William Blair to inform ValueAct Capital that its bid would have to be increased.

Based on the input from the special committee at the October 12, 2006 meeting, on October 16, 2006, Bracewell distributed to Dechert a revised merger agreement reflecting, among other things, the special committee s requirement that either Parent or Acquisition Co., or both, be adequately capitalized.

On October 18, 2006, Bracewell reviewed the draft of the merger agreement proposed by Dechert with the members of the special committee, including a review of the termination and expense fees and events that result in an obligation to pay such fees. After considerable discussion concerning how best to ensure that Seitel is not denied the opportunity to pursue a proposal that is superior to the ValueAct Capital proposal, to the extent such opportunity is presented after the merger agreement is executed, or prevent the unaffiliated stockholders of Seitel from possibly being coerced to adopt the merger agreement in order to avoid the payment by Seitel of an unreasonable fee upon a failed stockholder vote to adopt the merger agreement, and after considering the results of the two previous solicitation processes coordinated by William Blair, the special committee deemed it advisable to accept the merger agreement as proposed by ValueAct Capital if ValueAct Capital increased its bid price and addressed the following: (1) the amount of the termination fee proposed by ValueAct Capital would need to be reduced, (2) the amount of expense reimbursement would need to be subject to a reasonable cap, (3) each of Seitel, on one hand, and Parent and Acquisition Co., on the other hand, would need to have their liability for breach of the merger agreement capped at equal amounts, (4) the appraisal rights condition to closing, which permitted ValueAct Capital not to consummate the merger if holders of five percent or more of the outstanding shares dissented from the merger and sought to have their shares appraised, would have to be modified to increase the triggering percentage and (5) Parent would need to be capitalized prior to the signing of a merger agreement with a sufficient number of shares of Seitel common stock to provide Seitel a meaningful remedy in the event of a breach of the merger agreement by Parent or Acquisition Co., subject to the agreed-upon liability cap described above.

On October 19, 2006, William Blair reported to the special committee that, based on its conversations with ValueAct Capital regarding its bid on the evening of October 18 and morning of October 19, ValueAct Capital had agreed to:

- increase its bid from $3.65 to $3.70;
- reduce the termination fee from three percent of the transaction value to $17 million;
- limit the expense reimbursement to a maximum amount of $1 million;

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limit damages for breach of the merger agreement by either party to $17 million;

increase the appraisal rights condition to ten percent; and

capitalize Parent through the contribution of four million shares of Seitel common stock.

William Blair also reported that ValueAct Capital had again requested to begin discussions with certain Seitel management personnel. William Blair noted that some assurance as to the retention of management would be important to ValueAct Capital. The special committee permitted ValueAct Capital to begin discussions with management, provided William Blair was present to monitor such discussions and ensure that the best interests of Seitel s unaffiliated stockholders were protected. William Blair also reported that ValueAct Capital s proposal would require the retirement of the notes through a consent solicitation and debt tender offer process with an assumed consent solicitation fee of approximately $54 million or $0.35 per outstanding share of Seitel common stock. This estimated amount was greater than the approximately $45 million or $0.29 per outstanding share of Seitel common stock that was calculated by William Blair to retire the notes. Based on this information, the special committee instructed William Blair to return to ValueAct Capital and seek an additional increase from $3.70 per share using the differential in cost estimates associated with retiring the notes as partial justification.

Between October 19, 2006 and October 23, 2006, Bracewell and Dechert exchanged revised drafts of the merger agreement. In addition, on October 20, 2006, Bracewell distributed an initial draft of the Support Agreement to Dechert, which included at the request of the special committee a provision which required ValueAct Capital, Parent and their affiliates to vote in favor of the adoption of a Superior Agreement, if Seitel terminates the merger agreement to enter into such a Superior Agreement and pays Parent the Termination Fee. On October 24, 2006, the special committee met to discuss the progress in negotiating the legal and economic terms of the merger agreement. William Blair stated that ValueAct Capital had presented compelling evidence that the defeasance cost associated with retiring the notes would be approximately $55 million or $0.35 per outstanding share of Seitel common stock based on, among other things, the decrease in interest rates that had occurred since the date of William Blair s calculation. Since the cost to retire the notes increased the effective acquisition cost of Seitel to ValueAct to $4.05 per share, ValueAct Capital declined to raise its bid above $3.70 per share. The special committee instructed William Blair to seek additional concessions from ValueAct Capital regarding certain terms of the merger agreement and support agreement, including (1) an increase in the capitalization of Parent to ten million shares of Seitel common stock, (2) an increase in the upper limit on the parties damages from $17 million to $35 million and (3) an increase in the appraisal rights condition percentage from ten to fifteen percent.

On October 30, 2006, Bracewell received a substantially final version of the merger agreement and support agreement that reflected (1) an increase in the capitalization of Parent from four million to 9,459,460 shares of Seitel common stock, (2) an increase in the cap on the parties damages from $17 million to $35 million and (3) an increase in the appraisal rights condition percentage from ten to 12.5 percent.

On October 31, 2006, a meeting of the special committee was convened. The meeting opened with Bracewell providing an overview of the special committee member s fiduciary duties. Next, William Blair reviewed with the special committee William Blair s financial analysis of the $3.70 per share merger consideration and delivered William Blair s oral opinion (confirmed in writing) to the special committee that, as of October 31, 2006 and based upon and subject to the assumptions made, matters considered and the limitations and qualifications to the review undertaken in connection with such opinion, the merger consideration was fair, from a financial point of view, to Seitel s stockholders (other than ValueAct Capital and its affiliates). Finally, Bracewell reviewed the terms of the merger agreement and Support Agreement with the special committee. Upon completion of the presentations by the special committee s legal and financial advisors, the members of the special committee engaged in a discussion to consider the ValueAct Capital proposal, which discussion included reflections on the activities of the special committee since May of 2005. After a thorough discussion in which the members of the special committee exchanged ideas and actively sought the advice of the special committee s legal and financial advisors, the special committee unanimously determined that the merger agreement, the support agreement, the merger and the other transactions contemplated thereby are fair to, advisable and in the best interests of the unaffiliated stockholders of Seitel and determined to recommend adoption of the merger agreement and the support agreement to the board of directors.

Also on October 31, 2006, a meeting of the board of directors was convened, in which Messrs. Kamin and Spivy did not participate, with the concurrence of the other directors, due to their conflicting interests in the merger because of their positions with ValueAct Capital and their affiliates, and with Mr. Monson recusing himself in anticipation of his having a substantially similar position as an officer and director of the Surviving Corporation and/or Parent after completion of the merger and possibly acquiring an ownership interest in Parent upon completion of the merger. The special committee s legal and financial advisers gave presentations to the board of directors on, in the case of Bracewell, fiduciary duties owed and the material terms of the proposed merger agreement and Support Agreement and, in the case of William Blair, the fairness, from a financial point of view, to the stockholders of Seitel (other than ValueAct Capital and its affiliates) of the $3.70 per share merger consideration. After completion of the presentations, the special committee unanimously recommended to the board of directors that it (1) find that the merger agreement, the Support Agreement, the merger and the other transactions contemplated thereby are fair to, advisable and in the best interests of the unaffiliated stockholders of Seitel, (2) approve the merger agreement, Support Agreement and related documents, (3) issue a press release announcing the merger agreement and (4) recommend to Seitel s stockholders that they vote for the proposal to adopt the merger agreement at a meeting of the stockholders to be called to consider such proposal. After the board heard from Bracewell and William Blair and received the special committee s recommendation, the members of the board engaged in a discussion with the members of the special committee and its advisors during which discussion the members of the board and the members of the special committee exchanged ideas with respect to the proposal by ValueAct Capital and other strategic alternatives available to Seitel.

The board of directors paid particular attention to, and engaged in discussions concerning, the unaffiliated stockholder approval requirement contained in the merger agreement. It was noted that this provision had the full support of ValueAct Capital and was considered by both ValueAct Capital and the special committee to be an essential element of the transaction, which ensured that Seitel s unaffiliated stockholders have an opportunity to cast a meaningful vote in respect of the merger. The board also considered whether the unaffiliated stockholder approval requirement should be defined to require receipt of the affirmative vote of the holders of a majority of the outstanding shares of common stock (whether voted or not), other than shares owned by ValueAct Capital and its affiliates, on the proposal to adopt the merger agreement. However, like the special committee, the board rejected this suggestion on the grounds that unaffiliated stockholders who did not take advantage of the opportunity to vote on the proposal to adopt the merger agreement should not, by their inaction, harm the opportunity of those unaffiliated stockholders who vote on the merger to receive the merger consideration.

Upon conclusion of the discussion, the board, by unanimous decision (without the participation of Messrs. Kamin, Spivy and Monson), (1) determined that the merger agreement, the Support Agreement, the merger and the other transactions contemplated thereby are fair to, advisable and in the best interests of the unaffiliated stockholders of Seitel, (2) approved the merger agreement, Support Agreement and related documents; (3) authorized the issuance of a press release announcing the merger agreement, and (4) resolved to recommend to Seitel s stockholders that they vote for the proposal to adopt the merger agreement at a special meeting of the stockholders. On October 31, 2006, Seitel, Parent and Acquisition Co. executed the merger agreement and ValueAct Capital, Seitel and Parent executed the Support Agreement. On November 1, 2006, Seitel issued a press release announcing the execution and delivery of the merger agreement and Support Agreement.

Recommendation of the Special Committee and Board of Directors; Reasons for Recommending Adoption of the Merger

The Special Committee. On August 27, 2006, immediately after learning from Mr. Kamin that ValueAct Capital would submit a proposal to buy Seitel, the independent members of the board of directors considered and affirmed the independence of Messrs. Black, Flannery and Golding and reconstituted the special committee. The board then affirmed the special committee s authority to consider and reject or recommend the ValueAct Capital proposal and any alternate proposals. See Background of the Merger beginning on page for more information about the formation and authority of the special committee. The special committee continued its

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relationship with Bracewell and William Blair as its legal and financial advisors, respectively, after confirming that neither firm had any relationship with ValueAct Capital that would impair their ability to exercise independent judgment. The special committee oversaw financial and legal due diligence performed by its advisors, oversaw two processes aimed at soliciting buyers for Seitel, including a separate process following the receipt of ValueAct Capital s proposal, conducted an extensive review and evaluation of the ValueAct Capital proposal and through its advisors conducted arm s-length negotiations with ValueAct Capital and its representatives with respect to the merger agreement, the Support Agreement and various other agreements relating to the merger. On October 31, 2006, the special committee, acting with the assistance of its financial and legal advisors, unanimously determined that the merger agreement, the Support Agreement, the merger and the other transactions contemplated thereby were fair to, advisable and in the best interests of Seitel s unaffiliated stockholders. The special committee also unanimously recommended to the board of directors that it:

- determine that the merger agreement, the Support Agreement, the merger and the other transactions contemplated by the merger agreement are fair to, advisable and in the best interests of Seitel s unaffiliated stockholders;

- approve the merger agreement, the Support Agreement, the merger and the other transactions contemplated by the merger agreement;

- approve various related agreements, including the Support Agreement whereby ValueAct Capital and Parent agree, among other things, to vote or cause to be voted all shares of Seitel common stock owned by them or their respective affiliates in favor of the proposal to adopt the merger agreement or any Superior Agreement (as defined in The Merger Agreement Other Covenants and Agreements-No Solicitation of Competing Proposals);

- take all actions so that the merger agreement, the merger and the other transactions contemplated thereby would not be subject to any applicable merger, anti-takeover or similar statute or regulation; and

- recommend to Seitel s stockholders that they vote in favor of the proposal to adopt the merger agreement.

In the course of reaching the determinations and decisions, and making the recommendations, described above, the special committee considered the following substantive positive factors and potential benefits of the merger agreement, the Support Agreement, the merger and the other transactions contemplated thereby, each of which the special committee believed supported its decision:

- That the special committee viewed the merger consideration of $3.70 per share as more favorable to Seitel s unaffiliated stockholders than the potential value that might result from other alternatives reasonably available to Seitel, including pursuing other strategic alternatives, including a consent solicitation to amend the terms of the Indenture, pursuit of strategic acquisitions of data providers and/or data libraries, a leveraged recapitalization, a secondary offering to refinance the notes, or continuing with Seitel s current business plan.

- That the proposed merger consideration was all cash, so that the transaction allows Seitel s unaffiliated stockholders to immediately realize a fair value, in cash, for their investment and provides such stockholders certainty of value for their shares, especially when viewed against the risks inherent in Seitel s business plan, including the following:

  - the significant amount of leverage and interest expense resulting from the Indenture, indebtedness of Seitel s Canadian subsidiaries and other indebtedness in respect of certain capital lease obligations and the numerous restrictive covenants to which Seitel is subject related to such indebtedness;

the dependence of Seitel s business upon exploration and development spending by oil and natural gas companies, which are subject to considerable uncertainties such as the price for oil and natural gas;

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many of Seitel s customers consist of independent oil and natural gas companies and private prospect-generating companies that rely primarily on private capital market to fund their exploration, production, development and field management activities, and a significant downturn in the availability of private capital market could have a material adverse impact on the ability of such companies to obtain funding necessary to purchase Seitel s seismic data, which, in turn, could have a material adverse effect on Seitel s results of operations and cash flow;

Seitel invests significant amounts of money in acquiring and processing new seismic data to add to its data library and looks to customer underwriting and future data licensing fees to recoup some of these expenses, but the amount of underwriting and future data licensing fees are subject to uncertainty, and Seitel may not be able to recover all of its costs associated with seismic data acquisitions;

Seitel s seismic data library is geographically concentrated in onshore North America, and this concentration makes Seitel s results of operations and cash flow dependent on events in such regions even if conditions in the worldwide oil and natural gas market are favorable; and

Seitel s operations are subject to a variety of federal, provincial, state, foreign and local laws and regulations, including environmental and health and safety laws, the compliance with which is costly and is difficult to predict in the future, and the modification of which may adversely affect Seitel by reducing demand for its seismic data.

That the special committee viewed the merger consideration as fair in light of Seitel s business, operations, financial condition, strategy and prospects, as well as Seitel s historical and projected financial performance.

The fact that the merger consideration of $3.70 per share represented a premium of approximately (1) 5.7 percent to the $3.50 closing price of Seitel common stock on August 25, 2006, the last trading day before the proposal was made public, (2) 48 percent over the closing price 180 days prior to that announcement, and (3) 120 percent over the closing price 360 days prior to that announcement.

That upon the completion of two exhaustive and distinct processes to seek prospective buyers of Seitel, including both financial and strategic buyers, only one other definitive bid was received by Seitel, and it was for $2.80 per share, or approximately 24 percent less than the $3.70 per share to be received in the merger.

That special committee believed that recent market prices for Seitel common stock on the OTC Bulletin Board reflected in part the effects of speculation attributable to non-recurring events in the industry and unrelated to Seitel s operations or financial condition, which made such prices a less reliable indication of value than would otherwise be the case.

That the per share cost to ValueAct Capital of consummating the merger includes not only the merger consideration of $3.70 per share to the stockholders but also a projected $0.35 per share cost to retire the notes, which notes must be repaid or amended before any sale of Seitel could be completed.

That, because Seitel s amended and restated certificate of incorporation expressly opts out of the protection provided by Section 203 of the DGCL, should the ValueAct Capital proposal be rejected, ValueAct Capital could pursue alternative avenues for gaining control of Seitel, including buying shares on the open market or conducting a share tender offer, which may result in less value to Seitel s unaffiliated stockholders than the merger consideration at $3.70 per share, and could allow ValueAct Capital to obtain control of Seitel without paying a control premium.

The opinion received by the special committee from its financial advisor, William Blair, delivered orally to the special committee at its meeting on October 31, 2006, and subsequently confirmed in writing to the special committee, that, based upon and subject to the assumptions, considerations, limitations and qualifications set forth in such opinion, the merger consideration of $3.70 per share to be received by the

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holders of Seitel common stock (other than ValueAct Capital and its affiliates) pursuant to the merger agreement was fair, from a financial point of view, to such holders, as described in William Blair s opinion.

The presentation of William Blair to the special committee on October 31, 2006 in connection with the above-described opinion which is described under Opinion of Financial Advisor beginning on page .

The special committee s success in obtaining an increase in ValueAct Capital s bid from $3.65 to $3.70 per share.

The special committee s belief that $3.70 per share was the highest price per share reasonably obtainable.

The efforts made by the special committee and its advisors to negotiate and execute a merger agreement and Support Agreement favorable to Seitel under the circumstances, the fact that the negotiations regarding the merger agreement and Support Agreement were held on an arm s-length basis and that the special committee was able to successfully negotiate terms that were beneficial to Seitel s unaffiliated stockholders, including:

the unaffiliated stockholder approval requirements, which the special committee believes allows Seitel s unaffiliated stockholders the opportunity to cast a meaningful vote in respect of the merger;

the provision of the merger agreement allowing the board of directors to, under certain circumstances, terminate the merger agreement, if a Superior Agreement is presented, subject to a payment by Seitel of the Termination Fee and the requirement pursuant to the Support Agreement that ValueAct Capital and Parent vote, and cause their affiliates to vote, all shares of Seitel common stock held by them for the adoption of such Superior Agreement;

the capitalization of Parent by the contribution of 9,459,460 shares of Seitel common stock by ValueAct Capital, providing a creditworthy party to the merger agreement; and

the provision in the merger agreement limiting the amount of ValueAct Capital s transaction expenses that could, in certain cases, be reimbursed by Seitel to $1.0 million.

ValueAct Capital s entry into the Support Agreement whereby it and Parent agree, among other things, to vote or cause to be voted all shares of Seitel common stock owned by them or their respective affiliates in favor of the proposal to adopt the merger agreement or any Superior Agreement, which the special committee believes makes effective Seitel s right to terminate the merger agreement in favor of a Superior Agreement is important to not foreclose a third party from making a proposal.

The availability of appraisal rights under Delaware law to holders of shares of Seitel s common stock who dissent from the merger and comply with all of the required procedures under Delaware law, which provides stockholders who dispute the fairness of the merger consideration with an opportunity to have a court determine the fair value of their shares, which may be more than, less than, or the same as the amount such stockholders would have received under the merger agreement.

The special committee s belief that it was fully informed about the extent to which the interests of certain current directors and stockholders in the merger differed from those of Seitel s other stockholders.

In the course of reaching the determinations and decisions, and making the recommendations, described above, the special committee also considered the following factors relating to the procedural safeguards that the special committee believes were and are present to ensure the fairness of the merger and to permit the special committee to represent Seitel s unaffiliated stockholders, each of which the special committee believed supported its decision and provided assurance of the fairness of the merger to Seitel s unaffiliated stockholders:

That the special committee consists solely of independent directors who are not officers or controlling stockholders of Seitel, or affiliated with or in any way interested in ValueAct Capital or its affiliates.

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That the special committee was aware that it had no obligation to recommend any transaction, including the proposal put forth by ValueAct Capital.

That the members of the special committee were adequately compensated for their services and that their compensation was in no way contingent on their approving the merger agreement and recommending that the board of directors approve the merger agreement and taking the other actions described in this proxy statement.

That the members of the special committee will not personally benefit from the completion of the merger in a manner different from Seitel s unaffiliated stockholders.

That the special committee retained and was advised by Bracewell, its legal counsel, who was and is independent of ValueAct Capital.

That the special committee retained and was advised by William Blair, its financial advisor, who was and is independent of ValueAct Capital.

That, although William Blair had been introduced to the special committee by Mr. Kamin, William Blair emerged as the financial advisor for the special committee through a competitive interview process involving four other investment banking firms.

That prior and subsequent to Seitel s announcement of its receipt of the ValueAct Capital proposal on August 28, 2006, and despite William Blair having had discussions with more than 80 potentially interested parties, only one party other than ValueAct Capital submitted a definitive bid to acquire Seitel and that bid was for $2.80 per share.

That the special committee received the opinion of William Blair dated October 31, 2006 which provided, based upon and subject to the assumptions, considerations, limitations and qualifications set forth in the opinion, that the merger consideration to be received by the holders of Seitel s common stock (other than ValueAct Capital and its affiliates) pursuant to the merger agreement was fair from a financial point of view to such holders.

That the adoption of the merger agreement and consummation of the transactions contemplated thereby requires (1) the affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote on the proposal to adopt the merger agreement and (2) satisfaction of the unaffiliated stockholder approval requirements.

That while the special committee was involved in extensive deliberations over a period of approximately two months regarding the ValueAct Capital proposal, it had been engaged in the process of seeking proposals to acquire Seitel since the middle of April 2006 as well as continuing to explore other strategic alternatives.

That the special committee, with the assistance of its legal and financial advisors, negotiated on an arm s-length basis with ValueAct Capital and its representatives.

That the special committee had ultimate authority to decide whether or not to proceed with a transaction or any alternative thereto, subject to the board of director s approval of the merger agreement, as required by Delaware law.

That Seitel is permitted under certain circumstances to respond to inquiries regarding acquisition proposals and, upon payment of the Termination Fee, to terminate the merger agreement in order to enter into a Superior Agreement and, if it does so, ValueAct Capital is bound to support such superior transaction.

That under Delaware law, the stockholders of Seitel have the right to demand appraisal of their shares.

That the board of directors made its evaluation of the merger agreement and the merger based upon the factors discussed in this proxy statement, independent of ValueAct Capital and the directors who were affiliated with ValueAct Capital, and with knowledge of the interests of such stockholder and director participants in the merger.

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The foregoing discussion summarizes the material information and factors considered by the special committee in its consideration of the merger. In view of the variety of factors considered in connection with its evaluation of the merger, the special committee did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination and recommendation. In addition, individual directors may have given different weights to different factors. Based upon the totality of the information presented to and considered by it, the special committee unanimously approved the merger agreement and the merger and recommended that board of directors approve the merger agreement and submit the merger agreement to the stockholders with the recommendation that the stockholders vote for the proposal to adopt the merger agreement.

The Board of Directors. Seitel s board of directors consists of nine directors, two of whom, Peter Kamin and Gregory Spivy, are principals of ValueAct Capital and have interests in the merger different from the interests of Seitel s unaffiliated stockholders. Additionally, Robert Monson, Seitel s president and chief executive officer and director, as a Rollover Investor, has interests in the merger different from the interests of Seitel s unaffiliated stockholders. Throughout its consideration of the ValueAct Capital proposal, Messrs. Kamin, Spivy and Monson did not participate in the deliberations of the board of directors related to the ValueAct Capital proposal. In connection with the ValueAct Capital proposal, the board of directors reconstituted the special committee of independent directors after the resignation of Mr. Kamin, to ensure independence of the special committee and to empower it to study, review, evaluate, negotiate and, if appropriate, make a recommendation to the board of directors regarding the proposal from ValueAct Capital. Periodically, the special committee and its advisors apprised the board of the special committee s work. On October 31, 2006, Seitel s board of directors (without the participation of Messrs. Kamin, Spivy and Monson) met to consider the report and recommendation of the special committee. On the basis of the special committee s recommendation and the other factors described below, all of the members of Seitel s board of directors (other than Messrs. Kamin, Spivy and Monson);

- determined that the merger agreement, the Support Agreement, the merger and the other transactions contemplated by the merger agreement, are fair to, advisable and in the best interests of Seitel s unaffiliated stockholders;

- approved the merger agreement, the merger and the other transactions contemplated by the merger agreement;

- approved various related agreements, including the Support Agreement whereby ValueAct Capital and Parent agree, among other things, to vote or cause to be voted all shares of Seitel common stock owned by them or their respective affiliates in favor of the proposal to adopt the merger agreement or any Superior Agreement;

- took all actions so that the merger agreement, the merger and the other transactions contemplated thereby would not be subject to any applicable merger, anti-takeover or similar statute or regulation; and

- recommended that Seitel s stockholders vote to adopt the merger agreement.

In determining that the merger agreement is fair to, advisable and in the best interests of Seitel s unaffiliated stockholders, and approving the merger agreement, the Support Agreement, the merger and the other transactions contemplated by the merger agreement, and recommending that Seitel s stockholders vote for the adoption of the merger agreement, the board of directors considered a number of factors, including the following material factors:

- the unanimous determination and recommendation of the special committee;

- the opinion received by the special committee from William Blair, delivered orally at the special committee and board meetings on October 31, 2006 and subsequently confirmed in writing, that, based upon and subject to the assumptions, considerations, limitations and qualifications set forth in the opinion, the merger consideration of $3.70 per share to be received by the holders of shares of Seitel common stock (other than ValueAct Capital and its affiliates) pursuant to the merger agreement was fair, from a financial point of view, to such holders;

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the financial presentation of William Blair in connection with the above-described opinion that was delivered to the board of directors at the request of the special committee;

the fact that the merger consideration and the other terms of the merger agreement resulted from arm s-length negotiations between the special committee, assisted by its legal and financial advisers, and ValueAct Capital, and the board of directors belief that $3.70 per share in cash for each share of Seitel common stock represented the highest price per share that could be negotiated; and

the factors considered by the special committee, including the positive factors and potential benefits of the merger agreement, the risks and potentially negative factors relating to the merger agreement, and the factors relating to procedural safeguards.

The foregoing discussion summarizes the material information and factors considered by Seitel s board of directors in its consideration of the merger. In view of the variety of factors considered in connection with its evaluation of the merger, Seitel s board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination and recommendation. In addition, individual directors may have given different weights to different factors. The board of directors approved and recommends the merger agreement and the merger based upon the totality of the information presented to and considered by it.

Our board of directors recommends that you vote FOR the proposal to adopt the merger agreement.

Position of Rollover Investors as to Fairness

Under the rules governing going private transactions under Rule 13e-3, the Rollover Investors may be deemed to be engaged in a going private transaction and required to express their reasons for the merger to Seitel s unaffiliated stockholders. These persons are making this statement solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

The view of the Rollover Investors as to the fairness of the merger should not be construed as a recommendation to any stockholder as to how that stockholder should vote on the proposal to approve and adopt the merger agreement. The Rollover Investors have interests in the merger that are different from, and in addition to, those of the other stockholders of Seitel. These interests are described under Interests of Certain Persons in the Merger.

The unaffiliated stockholders of Seitel were represented by the special committee, which negotiated the terms and conditions of the merger agreement on their behalf, with the assistance of the special committee s independent financial and legal advisors. Accordingly, the Rollover Investors did not undertake a formal evaluation of the merger or engage a financial advisor for that purpose. The Rollover Investors believe that the merger agreement and the merger are substantively and procedurally fair to the unaffiliated stockholders based upon their knowledge of Seitel, the fact that the special committee was comprised exclusively of independent directors that are not Rollover Investors and was represented by Bracewell, as independent counsel, as well as the factors considered by, and the findings of, the special committee and the board of directors with respect to the fairness of the merger to such unaffiliated stockholders. See Recommendation of the Special Committee and Board of Directors; Reasons for Recommending Approval and Adoption of the Merger Agreement. In particular, the Rollover Investors noted that the merger consideration of $3.70 per share represented a premium of approximately (1) 5.7 percent to the $3.50 closing price of Seitel common stock on August 25, 2006, the last trading day before the proposal was made public, (2) 48 percent over the closing price 180 days prior to that announcement, and (3) 120 percent over the closing price 360 days prior to that announcement, and that no alternative transaction proposals had been submitted since the public announcement. Even though they are not entitled to rely on the opinion of William Blair, the Rollover Investors noted that the special committee received an opinion from William Blair to the effect that, as of the date of such opinion, the merger consideration of $3.70 per share to be received by the holders of shares of Seitel s common stock (other than ValueAct Capital and its affiliates) pursuant to the merger agreement was fair, from a financial point of view, to such holders. See Opinion of Financial Advisor.

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While the Rollover Investors are current directors or officers of Seitel, because of their differing interests in the merger they did not participate in the board s or special committee s evaluation or approval of the merger agreement and the merger. For these reasons, the Rollover Investors do not believe that their interests in the merger influenced the decision of the special committee or the board of directors with respect to the merger agreement or the merger.

The foregoing discussion summarizes the information and factors considered and given weight by the Rollover Investors in connection with their consideration of the fairness of the merger agreement and the merger is not intended to be exhaustive but is believed to include all material factors considered by the Rollover Investors. The Rollover Investors did not find it practicable to, and did not, quantify or otherwise attach relative weights to the foregoing factors in reaching their position as to the fairness of the merger agreement and the merger. The Rollover Investors believe that the foregoing factors provide a reasonable basis for their belief that the merger is fair to the unaffiliated stockholders.

Position of the ValueAct Capital Filers Regarding Fairness of the Merger

One or more of Parent, Acquisition Co., VA Partners, LLC, ValueAct Capital Management, L.P. and ValueAct Capital Management, LLC, who are referred to in this proxy statement along with ValueAct Capital as the ValueAct Capital Filers, may be deemed to be affiliates of Seitel. The ValueAct Capital Filers are making the statements included in this section of the proxy statement solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

ValueAct Capital Filers views as to fairness of the proposed merger should not be construed as a recommendation to any stockholder as to how such stockholder should vote on the proposal to adopt the merger agreement. The ValueAct Capital Filers believe that the merger is both substantively and procedurally fair to Seitel s unaffiliated stockholders. However, the ValueAct Capital Filers have not undertaken any formal evaluation of the fairness of the merger to Seitel s unaffiliated stockholders or engaged a financial advisor for such purposes. Moreover, the ValueAct Capital Filers did not participate in the deliberations of the special committee or receive advice from the special committee s legal or financial advisors in connection with the merger.

While the ValueAct Capital Filers believe that the merger is substantively and procedurally fair to Seitel s unaffiliated stockholders, they attempted to negotiate the terms of a transaction that would be most favorable to them, and not to such stockholders and, accordingly, did not negotiate the merger agreement with the goal of obtaining terms that were fair to such stockholders. None of the ValueAct Capital Filers believes that it has or had any fiduciary duty to Seitel or its stockholders, including with respect to the merger and its terms. Seitel and its stockholders were, as described elsewhere in this proxy statement, represented by an independent special committee that negotiated on their behalf with ValueAct Capital with the assistance of its own advisors.

The belief of the ValueAct Capital Filers that the merger is substantively and procedurally fair to the unaffiliated stockholders of Seitel is based on the following factors:

- the $3.70 per share merger consideration and other terms and conditions of the merger agreement resulted from negotiations between the special committee and its advisors, on the one hand, and ValueAct Capital and its advisors, on the other hand;

- the special committee, composed at all times during the negotiation entirely of independent directors, unanimously determined that the merger agreement and the merger are fair to, advisable and in the best interests of Seitel and Seitel s unaffiliated stockholders, and accordingly, unanimously recommended that the board of directors approve the merger agreement;

- the merger agreement was unanimously approved by Seitel s board of directors without Messrs. Kamin, Spivy and Monson participating in the deliberations or the vote, with Messrs. Kamin and Spivy recusing themselves because of their possible conflicting interests in the merger due to their positions with ValueAct Capital and their affiliates, and with Mr. Monson recusing himself in anticipation of his having a substantially similar position as an officer and director of the Surviving Corporation and/or Parent after completion of the merger and possibly acquiring an ownership interest in Parent;

the fact that the adoption of the merger agreement by Seitel s stockholders and completion of the merger requires (1) under Delaware law, the affirmative vote of the holders of a majority of the outstanding shares of Seitel common stock entitled to vote on the proposal to adopt the merger agreement and (2) satisfaction of the unaffiliated stockholder approval requirement;

notwithstanding that the ValueAct Capital Filers are not entitled to rely thereon, the fact that the special committee received an opinion from its financial advisor as to the fairness, from a financial point of view, of the merger consideration to be received by Seitel s stockholders (other than ValueAct Capital and its affiliates);

the fact that the merger consideration of $3.70 per share represented a premium of approximately (1) 5.7 percent over the $3.50 closing price of Seitel s common stock on August 25, 2006, the last trading day before ValueAct Capital s proposal was made public, (2) 48 percent over the closing price 180 days prior to that announcement, and (3) 120 percent over the closing price 360 days prior to that announcement;

the fact that the ValueAct Capital Filers viewed the merger consideration as fair in light of Seitel s business, operations, financial condition, strategy and prospects, as well as Seitel s historical and projected financial performance;

the fact that from April 2006 through July 2006, William Blair contacted 82 potential acquirers of Seitel, both strategic and financial, on behalf of the special committee, William Blair contacted 53 potential acquirers from August through October of 2006 after ValueAct Capital made its proposal on August 28, 2006. In total 31 of those potential acquirers executed confidentiality agreements with Seitel and reviewed confidential information about Seitel, nine of which, including ValueAct Capital undertook detailed due diligence on Seitel, including attending meetings at which the Seitel management team delivered a presentation regarding Seitel s business and financial results, reviewing data room materials, examining Seitel s accounting and tax workpapers, engaging various professional service providers, including lawyers, accounting and tax consultants, management consultants, industry consultants and benefits consultants, to review the data room materials and perform in-depth due diligence investigations; in addition to the management presentations, Seitel and William Blair participated in over 60 in person and telephonic due diligence meetings with the prospective buyers and their representatives, covering a variety of diligence topics such as finance, accounting, sales, operations, legal, environmental, industry trends and conditions, and Seitel s current capital structure; and over the course of this seven-month process the only definitive proposal that was received by the special committee, other than ValueAct Capital s proposal, was for $2.80 per share, with no other potential acquirers, after completing their due diligence, being able or willing to deliver definitive proposals;

the merger will provide the unaffiliated stockholders of Seitel the right to receive the merger consideration entirely in cash, which provides certainty of value;

the special committee retained its own legal and financial advisors experienced in transactions similar to the proposed merger;

Mr. Kamin, a principal of ValueAct Capital and a member of the special committee until his resignation from the special committee on August 25, 2006, the day Mr. Kamin reported that ValueAct Capital would make a proposal to buy Seitel, and the ValueAct Capital Filers did not participate in or have any influence on the deliberative process of, or the conclusions reached by, the special committee or the negotiating positions of the special committee; and

the merger agreement provides Seitel with the ability to terminate the merger agreement in order to enter into a Superior Agreement, and, pursuant to the Support Agreement, ValueAct Capital and Parent

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agreed to vote all of the shares of Seitel common stock that they own in favor of such a Superior Agreement, subject to certain conditions, including the prior or concurrent payment to Parent of a termination fee of $17 million.

The ValueAct Capital Filers considered each of the foregoing factors to support their determination as to the fairness of the merger to Seitel s unaffiliated stockholders. The ValueAct Capital Filers did not find it practicable to assign, nor did they assign, relative weights to the individual factors considered in reaching their conclusion as to the fairness of the merger to such stockholders. In light of the factors described above, and the fact that the use of a special committee of independent and disinterested directors is a mechanism well recognized to ensure fairness in transactions of this type, the ValueAct Capital Filers believe that the merger is procedurally fair to Seitel s unaffiliated stockholders despite the fact that an unaffiliated representative was not retained to act solely on behalf of Seitel s unaffiliated stockholders.

The ValueAct Capital Filers did not consider Seitel s net book value, which is an accounting concept, to be a factor in determining the substantive fairness of the transaction to Seitel s unaffiliated stockholders because they believed that net book value is not a material indicator of the value of Seitel s equity but rather an indicator of historical costs. The ValueAct Capital Filers also did not consider the liquidation value of Seitel s assets as indicative of Seitel s value primarily because of their belief that the liquidation value would be significantly lower than Seitel s value as an ongoing business and that, due to the fact that Seitel is being sold as an ongoing business, the liquidation value is irrelevant to a determination as to whether the merger is fair to Seitel s unaffiliated stockholders. The ValueAct Capital Filers did not establish a pre-merger going concern value for Seitel s equity as a public company for the purposes of determining the fairness of the merger consideration to Seitel s unaffiliated stockholders because, following the merger, Seitel will have a significantly different capital structure, which will result in different opportunities and risks for the business as a highly leveraged private company.

The ValueAct Capital Filers view as to the fairness of the merger to Seitel s unaffiliated stockholders is not a recommendation as to how any such stockholder should vote on the merger. The foregoing discussion of the information and factors considered and weight given by the ValueAct Capital Filers while not exhaustive, is believed to include all material factors considered by the ValueAct Capital Filers.

Opinion of Financial Advisor

William Blair was retained to act as the financial advisor to the special committee to render certain investment banking services in connection with a potential business combination. As part of its engagement, the special committee requested William Blair to render an opinion as to whether the $3.70 per share merger consideration to be received by the holders of the outstanding shares of common stock of Seitel (other than ValueAct Capital and its affiliates) was fair to such holders from a financial point of view. On October 31, 2006, William Blair delivered its oral opinion to the special committee and the board of directors and subsequently confirmed in writing to the special committee that, as of that date and based upon and subject to the assumptions and qualifications stated in its opinion, the consideration of $3.70 in cash per share of common stock of Seitel was fair, from a financial point of view, to the holders of the outstanding shares of common stock of Seitel (other than ValueAct Capital and its affiliates).

William Blair provided the opinion described above for the information and assistance of the special committee in connection with its consideration of the merger. The terms of the merger agreement and the amount and form of the merger consideration, however, were determined through negotiations between the special committee and ValueAct Capital, and were recommended by the special committee for approval by the board of directors and approved by the board of directors. William Blair did not recommend any specific merger consideration to Seitel or the special committee or that any specific merger consideration constituted the only appropriate consideration for the merger.

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THE FULL TEXT OF WILLIAM BLAIR S WRITTEN OPINION, DATED OCTOBER 31, 2006, IS ATTACHED AS ANNEX B TO THIS PROXY STATEMENT AND INCORPORATED INTO THIS DOCUMENT BY REFERENCE. STOCKHOLDERS ARE URGED TO READ THE ENTIRE OPINION CAREFULLY TO LEARN ABOUT THE ASSUMPTIONS MADE, PROCEDURES FOLLOWED, MATTERS CONSIDERED AND LIMITS ON THE SCOPE OF THE REVIEW UNDERTAKEN BY WILLIAM BLAIR IN RENDERING ITS OPINION. WILLIAM BLAIR S OPINION WAS DIRECTED TO THE SPECIAL COMMITTEE FOR ITS BENEFIT AND USE IN EVALUATING THE FAIRNESS OF THE MERGER CONSIDERATION AND RELATES ONLY TO THE FAIRNESS, FROM A FINANCIAL POINT OF VIEW, OF THE CONSIDERATION TO BE RECEIVED BY THE HOLDERS OF THE OUTSTANDING SHARES OF COMMON STOCK OF SEITEL (OTHER THAN VALUEACT CAPITAL AND ITS AFFILIATES) IN THE MERGER PURSUANT TO THE MERGER AGREEMENT, DOES NOT ADDRESS ANY OTHER ASPECT OF THE PROPOSED MERGER OR ANY RELATED TRANSACTION, AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY STOCKHOLDER AS TO HOW THAT STOCKHOLDER SHOULD VOTE WITH RESPECT TO THE MERGER AGREEMENT OR THE MERGER. A COPY OF THIS OPINION LETTER WILL BE MADE AVAILABLE FOR INSPECTION AND COPYING AT THE PRINCIPAL EXECUTIVE OFFICES OF SEITEL DURING REGULAR BUSINESS HOURS BY ANY INTERESTED STOCKHOLDER OR OTHER PERSON DESIGNATED IN WRITING AS A REPRESENTATIVE OF SUCH STOCKHOLDER. WILLIAM BLAIR DID NOT ADDRESS THE MERITS OF THE UNDERLYING DECISION BY SEITEL TO ENGAGE IN THE MERGER. THE FOLLOWING SUMMARY OF WILLIAM BLAIR S OPINION IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE OPINION.

In connection with its opinion, William Blair examined or discussed, among other things:

- a draft dated October 28, 2006 of the merger agreement, including the exhibits thereto, including a draft dated October 28, 2006 of the Support Agreement, which we refer to collectively in this proxy statement as the Transaction Agreements;
- a draft dated October 27, 2006 of the debt financing commitment letters and a draft dated October 28, 2006 of the equity financing commitment letter referred to in the merger agreement, which we refer to in this proxy statement as the Financing Letters;
- the audited historical financial statements of Seitel for the three years ended December 31, 2005;
- the unaudited financial statements of Seitel for the six months ended June 30, 2006;
- certain internal business, operating and financial information and forecasts of Seitel, which we refer to in this proxy statement as the Forecasts, prepared by the senior management of Seitel see Special Factors Projected Financial Information beginning on page .
- information regarding publicly available financial terms of certain other business combinations William Blair deemed relevant;
- the financial position and operating results of Seitel compared with those of certain other publicly traded companies that William Blair deemed relevant;
- current and historical market prices and trading volumes of the common stock of Seitel; and
- certain other publicly available information on Seitel that William Blair deemed relevant.

William Blair also held discussions with members of the senior management of Seitel to discuss the foregoing, considered other matters which it deemed relevant to its inquiry, including Seitel s then-current capital structure, and took into account such accepted financial and investment banking procedures and considerations that it deemed relevant. In connection with its engagement, William Blair was requested to approach, and held discussions with, third parties to solicit indications of interest in a possible acquisition of Seitel.

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In rendering its opinion, William Blair assumed and relied, without independent verification, upon the accuracy and completeness of all the information examined by or otherwise reviewed or discussed with William Blair for purposes of the opinion, including without limitation the Forecasts. William Blair did not make or obtain an independent valuation or appraisal of the assets, liabilities or solvency of Seitel. William Blair was advised by the senior management of Seitel that the Forecasts examined by William Blair were reasonably prepared on a basis reflecting the best estimates then available and judgments of the senior management of Seitel. In that regard, William Blair assumed, with the consent of the special committee, that (1) the Forecasts would be achieved and (2) all material assets and liabilities (contingent or otherwise) of Seitel were as set forth in Seitel s financial statements or other information made available to William Blair. William Blair expressed no opinion with respect to the Forecasts or the estimates and judgments on which they were based.

William Blair s opinion did not address the relative merits of the merger as compared to any alternative business strategies that might exist for Seitel or the effect of any other transaction in which Seitel might engage. William Blair s opinion was based upon economic, market, financial and other conditions existing on, and other information disclosed to William Blair, as of October 31, 2006. Although subsequent developments may affect its opinion, William Blair does not have any obligation to update, revise or reaffirm its opinion. William Blair relied as to all legal matters on advice of counsel to Seitel and counsel to the special committee, and assumed that the merger would be consummated on the terms described in the draft merger agreement reviewed by it, without any waiver of any material terms or conditions by Seitel, and that the financing will be available in accordance with the terms set forth in the Financing Letters. William Blair also assumed that the executed forms of the Transaction Agreements would conform in all material respects to the last drafts thereof reviewed by William Blair. William Blair did not express any opinion as to the impact of the merger on the solvency or viability of the Surviving Corporation or the ability of the Surviving Corporation to pay its obligations when they become due.

As described below, in connection with certain of its financial analyses, William Blair also considered the impact of retiring the notes and thereby removing the restrictions imposed by the Indenture governing the notes, including the restriction on Seitel s annual capital expenditures that effectively limited the amount of Seitel s seismic data investments. William Blair noted that, in December 2005, Seitel sought but did not receive the necessary consents from the holders of the Notes to amend the covenant in the Indenture limiting the amount of Seitel s capital expenditures.

The following is a summary of the material financial analyses performed and material factors considered by William Blair to arrive at its opinion. William Blair performed certain procedures, including each of the financial analyses described below, and reviewed with the special committee the assumptions upon which such analyses were based, as well as other factors. Although the summary does not purport to describe all of the analyses performed or factors considered by William Blair in this regard, it does set forth those considered by William Blair to be material in arriving at its opinion.

Selected Public Company Analysis. William Blair reviewed and compared certain financial information relating to Seitel to corresponding financial information, ratios and public market multiples for certain publicly traded companies that William Blair deemed relevant. The companies selected by William Blair were:

- Compagnie Générale de Géophysique;
- Petroleum Geo-Services ASA;
- Pulse Data Inc.;
- TGS-NOPEC Geophysical Company ASA; and
- Veritas DGC Inc.

Among the information William Blair considered was revenue, earnings before interest, taxes, depreciation and amortization, which we refer to in this proxy statement as EBITDA, EBITDA less acquisition revenue and

non-cash licensing revenue, plus non-cash operating expenses, which we refer to in this proxy statement as Cash EBITDA, EBITDA less total capital expenditures, which we refer to in this proxy statement as Free Cash Flow, and earnings before interest and taxes, which we refer to in this proxy statement to as EBIT. William Blair considered the enterprise value as a multiple of revenue, EBITDA, Free Cash Flow and EBIT for each company for the last twelve months for which results were publicly available, which we refer to in this proxy statement as LTM.

William Blair viewed EBITDA as a less accurate proxy of cash generation for Seitel than for the selected public companies. Seitel s EBITDA includes non-cash licensing revenue and acquisition revenue which immediately flows out of Seitel as a committed capital expenditure. William Blair noted that Seitel s EBITDA and the selected public companies EBITDA differed due to Seitel s higher proportion of acquisition revenue and non-cash licensing revenue included as a component of total revenue. Seitel generates acquisition revenue when it agrees to create a new seismic survey for a customer and the customer commits to fund or underwrite approximately 70 percent of the total costs of the new survey by paying for an exclusive license to use the seismic data that will be generated by the survey for a limited time. These underwritten amounts are recorded by Seitel as acquisition revenue; however, the cash is committed to fund the capital expenditures for the new seismic survey. William Blair also noted that pre-committing of new seismic surveys is more prevalent for onshore data surveys than offshore data surveys because of the high costs to subsequently replicate the seismic data generated by an onshore survey. Thus, due to Seitel s predominant focus on onshore seismic data creation and its conservative customer underwriting practices, Seitel had a higher amount of acquisition revenue, or customer prefunding, as a percentage of total revenue than the selected public companies. In addition, Seitel generates non-cash licensing revenue when it takes ownership of a customer s seismic data in exchange for a seismic data license. As such, William Blair viewed Seitel s Cash EBITDA, which removes the impact of acquisition revenue, non-cash licensing revenue and non-cash operating expenses from EBITDA, as the comparable measure for EBITDA of the selected public companies as William Blair believed the proportion of acquisition revenue and non-cash licensing revenue included in the selected public companies EBITDA was lower than Seitel s. William Blair also noted that Cash EBITDA, as defined above, is not available in the selected public companies publicly disclosed financial information.

The operating results and the corresponding derived multiples for each of the selected public companies were based on each company s most recent available publicly disclosed financial information and closing share prices as of October 27, 2006. In the case of Seitel, the operating results and the corresponding multiples were based on the last twelve months as of June 30, 2006 and an assumed stock price of $3.70 per share. The implied enterprise value of the transaction is based on the equity value implied by the purchase price plus the total debt and expected costs to retire Seitel s notes, less any excess cash and cash equivalents assumed to be included in the merger.

William Blair then compared the implied transaction multiples for Seitel to the range of trading multiples for the selected public companies. Information regarding the multiples from William Blair s analysis of selected publicly traded companies is set forth in the following table.

		Selected Public Company Valuation Multiples			
Multiple	**Seitel at $3.70 per share**	**Min**	**Median**	**Mean**	**Max**
Enterprise Value/LTM Revenue	4.89x	2.44x	3.11x	3.29x	4.82x
Enterprise Value/LTM EBITDA	6.3x	4.3x	6.6x	6.3x	7.6x
Enterprise Value/LTM Cash EBITDA[1]	8.9x	4.3x	6.6x	6.3x	7.6x
Enterprise Value/LTM Free Cash Flow	16.4x	7.5x	11.8x	13.1x	22.2x
Enterprise Value/LTM EBIT	22.4x	9.4x	14.3x	14.7x	20.4x

(1) The valuation multiples for the selected public companies in this row are EBITDA multiples. Cash EBITDA, as defined above, is not available in the selected public companies publicly disclosed financial information. As described above, William Blair viewed Seitel s Cash EBITDA as the comparable measure for EBITDA of the selected public companies.

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William Blair noted that the implied transaction multiples based on the terms of the merger were within, and in several instances above, the range of multiples of the selected public companies.

Although William Blair compared the trading multiples of the selected public companies at the date of its opinion to Seitel, none of the selected public companies is identical to Seitel. Accordingly, any analysis of the selected publicly traded companies necessarily involved complex considerations and judgments concerning the differences in financial and operating characteristics and other factors that would necessarily affect the analysis of trading multiples of the selected publicly traded companies.

Selected M&A Transactions Analysis. William Blair performed an analysis of selected recent business combinations consisting of transactions announced subsequent to January 1, 1998 and focused primarily on companies in the seismic data industry that it deemed relevant. William Blair s analysis was based solely on publicly available information regarding such transactions. The selected transactions were not intended to be representative of the entire range of possible relevant transactions in the seismic data industry. The six transactions examined were (target/*acquirer*):

- Veritas DGC Inc. / *Compagnie Générale de Géophysique (pending)*;
- WesternGeco LLC (remaining 30%) / *Schlumberger Limited*;
- GX Technology Corporation / *Input Output Inc.*;
- ReQuest Income Trust / *Pulse Data Inc.*;
- Enertec Resource Services Inc. / *Veritas DGC Inc.*; and
- Western Atlas Inc. / *Baker Hughes Incorporated*.

William Blair reviewed the consideration paid in the selected transactions in terms of the enterprise value of such transactions as a multiple of revenue, EBITDA, Free Cash Flow and EBIT of the target for the latest twelve months prior to the announcement of these transactions. William Blair compared the resulting range of transaction multiples of revenue, EBITDA, Free Cash Flow and EBIT for the selected transactions to the implied transaction multiples for Seitel.

William Blair viewed EBITDA as a less accurate proxy of cash generation for Seitel than for the target companies in the selected transactions. See the caption Selected Public Company Analysis above for a description of the reasons William Blair viewed Seitel s Cash EBITDA as the comparable measure for EBITDA of the target companies in the selected transactions and definition of Seitel s Cash EBITDA. William Blair noted that Cash EBITDA, as defined above, is not available in the publicly disclosed information of the target companies in the selected transactions. Information regarding the multiples from William Blair s analysis of selected transactions is set forth in the following table:

Multiple	Seitel at $3.70 per share	Selected Transaction Valuation Multiples			
		Min	**Median**	**Mean**	**Max**
Enterprise Value/LTM Revenue	4.89x	0.57x	3.04x	2.65x	4.41x
Enterprise Value/LTM EBITDA	6.3x	2.8x	7.5x	6.8x	10.7x
Enterprise Value/LTM Cash EBITDA[1]	8.9x	2.8x	7.5x	6.8x	10.7x
Enterprise Value/LTM Free Cash Flow	16.4x	7.4x	21.0x	16.8x	22.0x
Enterprise Value/LTM EBIT	22.4x	9.1x	20.3x	19.4x	24.7x

(1) The valuation multiples for the selected transactions in this row are EBITDA multiples. Cash EBITDA, as defined above under the caption Selected Public Company Analysis, is not available in the publicly disclosed financial information for the target companies in the selected transactions. As described above under the caption Selected Public Company Analysis, William Blair viewed Seitel s Cash EBITDA as the comparable measure for EBITDA of the target companies in the selected transactions.

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William Blair noted that the implied transaction multiples based on the terms of the merger were within, and in one instance above, the range of multiples of the selected transactions.

Although William Blair analyzed the multiples implied by the selected transactions and compared them to the implied transaction multiples of Seitel, none of these transactions or associated companies is identical to the merger or Seitel. Accordingly, any analysis of the selected transactions necessarily involved complex considerations and judgments concerning the differences in financial and operating characteristics, parties involved and terms of their transactions and other factors that would necessarily affect the implied value of Seitel versus the values of the companies in the selected transactions.

Discounted Cash Flow Analysis. William Blair performed a discounted cash flow analysis to estimate the present value of the free cash flows of Seitel through the fiscal year ending December 31, 2011, using two sets of senior management s financial projections, a Business Cyclicality Case that assumes there are cyclical down periods in Seitel s projections and a Steady Growth Case that does not contemplate any cyclical down periods in the projections. The Business Cyclicality Case assumes a down cycle resulting in lower cash resales, operating expenses and seismic data investments during the assumed cyclical down periods. William Blair also analyzed the impact of removing the current annual capital expenditure restrictions imposed by the Indenture in conjunction with the Business Cyclicality Case and the Steady Growth Case, which resulted in a higher level of seismic data investment and thus higher levels of revenue and earnings. William Blair calculated the assumed terminal value of the enterprise at December 31, 2011 by multiplying projected Cash EBITDA in the fiscal year ending December 31, 2011 by multiples ranging from 6.0x to 7.0x. To discount the projected free cash flows and the assumed terminal value to present value, William Blair used discount rates ranging from 14% to 16%. To determine the implied total equity value for Seitel, William Blair subtracted debt and added cash and the estimated present value of Seitel s net operating losses and deferred tax assets to the implied enterprise value for Seitel. The discounted cash flow analysis did not include the projected costs to remove the capital expenditure restrictions imposed by the Indenture or retire the Notes early, which were estimated to be up to $53.6 million, or $0.35 per outstanding share. This analysis indicated a range of implied per share values of Seitel s common stock as follows:

Projection Case	**Per Share Values**	
Business Cyclicality Case	$2.88	$3.59
Business Cyclicality Case Plus Capital Expenditure Constraint Removal	$3.04	$3.82
Steady Growth Case	$3.16	$3.94
Steady Growth Case Plus Capital Expenditure Constraint Removal	$3.32	$4.17

William Blair noted that the consideration per share to be received in the merger by holders of common stock of Seitel (other than ValueAct Capital and its affiliates) was $3.70.

Leveraged Acquisition Analysis. William Blair analyzed the internal rate of return, which we refer to in this proxy statement as IRR, to equity investors for Seitel utilizing a leveraged acquisition analysis. In performing this analysis, William Blair analyzed Seitel s free cash flows for fiscal years 2007 2011 under the Business Cyclicality Case and Steady Growth Case projections. This analysis assumed a five year holding period and a range of exit multiples of projected fiscal year 2011 Cash EBITDA of 6.0x to 7.0x. The leveraged acquisition analysis resulted in an IRR of approximately 12% 16% under the Business Cyclicality Case and an IRR of approximately 15% 19% under the Steady Growth Case.

Premiums Paid Analysis. William Blair reviewed data from 231 acquisitions of publicly traded domestic companies, in which 100 percent of the target was acquired, occurring since January 1, 2003 and with transaction equity values between $250 million and $1 billion. Specifically, William Blair analyzed the acquisition price per share as a premium to the closing share price one day, one month, 180 days and 360 days prior to the announcement of the transaction, for all 231 transactions. William Blair compared the range of resulting per share stock price premiums for the reviewed transactions to the premiums implied by the merger based on

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Seitel s stock prices one day, one month, 180 days and 360 days prior to August 28, 2006, the date on which Seitel announced that the board of directors of Seitel had received a proposal from ValueAct to acquire all of the outstanding shares of Seitel that ValueAct did not already own at a price of $3.65 per share in cash. Information regarding the premiums from William Blair s analysis of selected transactions is set forth in the following table:

Premium Period	Seitel at $3.70	Premium Paid Data Percentile		
Before Announcement	per share	25th	50th	75th
1 Day	5.7%	10.4%	20.7%	31.6%
1 Month	(7.0%)	13.8%	26.6%	40.5%
180 Days	48.0%	15.4%	34.3%	55.4%
360 Days	120.2%	14.7%	38.6%	72.5%

William Blair noted that the premiums implied by the transaction were below the median of the premiums paid for the referenced transaction group for the one day and one month time periods and above the median of the premiums paid for the referenced transaction group for the 180 day and 360 day time periods.

Take Private Premiums Paid Analysis. William Blair reviewed data from 44 acquisitions of publicly traded domestic companies, in which 100 percent of the target was acquired in a take private transaction involving a financial sponsor acquirer, occurring since January 1, 2003 and with transaction equity values between $250 million and $1 billion. Specifically, William Blair analyzed the acquisition price per share as a premium to the closing share price one day, one month, 180 days and 360 days prior to the announcement of the transaction, for all 44 transactions. William Blair compared the range of resulting per share stock price premiums for the reviewed transactions to the premiums implied by the merger based on Seitel s stock prices one day, one month, 180 days and 360 days prior to the date the ValueAct Capital proposal was publicly announced. Information regarding the premiums from William Blair s analysis of selected transactions is set forth in the following table:

Premium Period	Seitel at $3.70	Premium Paid Data Percentile		
Before Announcement	per share	25th	50th	75th
1 Day	5.7%	5.9%	14.0%	27.3%
1 Month	(7.0%)	11.1%	22.0%	34.1%
180 Days	48.0%	3.4%	19.8%	33.9%
360 Days	120.2%	4.8%	24.7%	51.6%

William Blair noted that the premiums implied by the transaction were below the median of the premiums paid for the referenced transaction group for the one day and one month time periods and above the 75th percentile of the premiums paid for the referenced transaction group for the 180 day and 360 day time periods.

Accretion / Dilution Analysis. William Blair analyzed the price at which an all cash acquisition would be break-even to an acquirer s earnings. William Blair utilized Seitel s 2006 projected results as set forth in the Steady Growth Case and analyzed an all cash acquisition with the following assumptions: (1) acquisition financed by an acquirer with debt at a range of interest rates from 9% 11%; (2) a range of 20% 30% of the excess purchase price paid over tangible book value allocated to identifiable tangible assets; (3) identifiable intangible assets amortized over seven years; (4) Seitel s notes retired at a premium; and (5) a marginal tax rate of 35%. The accretion / dilution analysis resulted in an implied equity price per share range for Seitel s common stock of $1.96 to $2.70.

General. This summary is not a complete description of the analysis performed by William Blair but contains the material elements of the analysis. The preparation of an opinion regarding fairness is a complex

process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. The preparation of an opinion regarding fairness does not involve a mathematical evaluation or weighing of the results of the individual analyses performed, but requires William Blair to exercise its professional judgment, based on its experience and expertise, in considering a wide variety of analyses taken as a whole. Each of the analyses conducted by William Blair was carried out in order to provide a different perspective on the financial terms of the proposed merger and add to the total mix of information available. The analyses were prepared solely for the purpose of William Blair providing its opinion and do not purport to be appraisals or necessarily reflect the prices at which securities actually may be sold. William Blair did not form a conclusion as to whether any individual analysis, considered in isolation, supported or failed to support an opinion about the fairness of the consideration to be received by the holders of the common stock of Seitel (other than ValueAct Capital and its affiliates). Rather, in reaching its conclusion, William Blair considered the results of the analyses in light of each other and ultimately reached its opinion based on the results of all analyses taken as a whole and in consideration of the process undertaken by the special committee, including the solicitation of potential strategic and financial bidders. William Blair did not place particular reliance or weight on any particular analysis, but instead concluded that its analyses, taken as a whole, supported its determination. Accordingly, notwithstanding the separate factors summarized above, William Blair believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, may create an incomplete view of the evaluation process underlying its opinion. No company or transaction used in the above analyses as a comparison is directly comparable to Seitel or the merger. In performing its analyses, William Blair made numerous assumptions with respect to industry performance, business and economic conditions and other matters. The analyses performed by William Blair are not necessarily indicative of future actual values and future results, which may be significantly more or less favorable than suggested by such analyses.

William Blair is a nationally recognized firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with merger transactions and other types of strategic combinations and acquisitions. Furthermore, in the ordinary course of its business, William Blair and its affiliates may beneficially own or actively trade common shares and other securities of Seitel for its own account and for the accounts of customers, and, accordingly, may at any time hold a long or short position in these securities.

The special committee hired William Blair based on its qualifications and expertise in providing financial advice to companies and its reputation as a nationally recognized investment banking firm. Pursuant to a letter agreement dated February 8, 2006, William Blair was paid a retainer fee of $100,000 for its role as financial advisor and an additional $500,000 upon the delivery of its opinion, dated October 31, 2006, as to the fairness, from a financial point of view, of the merger consideration to be paid to the shareholders of Seitel (other than ValueAct Capital and its affiliates). In addition, under the terms of the February 8, 2006 letter agreement, William Blair will be entitled to receive an additional fee of approximately $7.7 million upon consummation of the merger. In addition, Seitel has agreed to reimburse William Blair for certain of its out-of-pocket expenses (including reasonable fees and expenses of its counsel) reasonably incurred by it in connection with its services and will indemnify William Blair against potential liabilities arising out of its engagement, including certain liabilities under the U.S. federal securities laws.

Purpose and Reasons of ValueAct Capital, the Rollover Investors, Parent and Acquisition Co. for the Merger

Under the rules governing going private transactions under Rule 13e-3, the Rollover Investors, ValueAct Capital, Parent and Acquisition Co. may be deemed to be engaged in a going private transaction and required to express their reasons for the merger to Seitel s unaffiliated stockholders. The aforementioned persons are making this statement solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

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For the ValueAct Capital Filers, the purpose of the merger is to allow ValueAct Capital and its affiliates to own Seitel and benefit from any future earnings and growth of Seitel after Seitel s common stock ceases to be publicly traded. The transaction has been structured by the ValueAct Capital Filers as a cash merger in order to provide Seitel s current stockholders with certainty of value for their shares of Seitel common stock and to provide a prompt and orderly transfer of ownership of Seitel in a single step, without the necessity of financing separate purchases of Seitel s common stock in a tender offer or implementing a second-step merger to acquire any shares of common stock not tendered into any such tender offer, and without incurring any additional transaction costs associated with such activities.

For the Rollover Investors the primary purpose of the merger for Seitel is to enable its unaffiliated stockholders to immediately realize the value of their investment in Seitel through their receipt of the per share merger price of $3.70 in cash, without interest. In addition, the merger will also allow the Rollover Investors to immediately realize in cash the value of a portion of their respective holdings in Seitel and, through their potential equity investment in Parent, to benefit from any future earnings and growth of Seitel after its stock ceases to be publicly traded.

Plans for Seitel after the Merger

After the effective time of the merger, the ValueAct Capital Filers anticipate that Seitel will continue its current operations, except that it will cease to be a public company and will instead be a wholly owned subsidiary of Parent. Parent, ValueAct Capital, VA Partners, LLC, ValueAct Capital Management, L.P. and ValueAct Capital Management, LLC have each advised Seitel that it does not have any current plans or proposals that relate to or would result in an extraordinary corporate transaction following completion of the merger involving Seitel s corporate structure, business or management, such as a merger, reorganization, liquidation, relocation of any operations or sale or transfer of a material amount of assets. Parent, ValueAct Capital, VA Partners, LLC, ValueAct Capital Management, L.P., ValueAct Capital Management, LLC and Seitel s management expect to continuously evaluate and review Seitel s business and operations following the merger and may develop new plans and proposals that they consider appropriate to maximize the value of Seitel. Parent, ValueAct Capital, VA Partners, LLC, ValueAct Capital Management, L.P. and ValueAct Capital Management, LLC expressly reserve the right to make any changes they deem appropriate in light of such evaluation and review or in light of future developments.

Tender Offer and Consent Solicitation

The merger is conditioned upon, among other things, either the amendment to the Indenture to the extent necessary to allow consummation of the transactions contemplated by the merger agreement and the related financing transactions or the termination of the Indenture. Each of Parent, Acquisition Co. and Seitel has agreed to use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable, under applicable law or otherwise to fulfill this condition.

In connection with its obligations under the merger agreement, Acquisition Co. intends to commence an offer to purchase any and all of the notes and solicit consents to certain amendments to the Indenture and the notes to remove restrictive covenants.

Pursuant to the tender offer and consent solicitation, Acquisition Co. is expected to offer to purchase the notes at a price, intended to result in a yield to the July 15, 2011 maturity date for the notes, equal to the sum of (i) the yield to maturity of a specified rate for U.S. Treasury Notes due July 15, 2011 and (ii) a spread to be determined prior to launching the tender offer and consent solicitation. The purchase price would be determined, and announced publicly, at least ten business days prior to the expiration of the tender offer. The total consideration offered in the tender offer and consent solicitation is also expected to include a consent payment of a specific cash amount per $1,000 principal amount of notes payable in respect of notes tendered on or prior to the consent payment deadline and purchased in the tender offer. The purchase price for notes tendered after the consent payment deadline, on or before the tender offer expiration date, and purchased in the tender offer would equal the total consideration offered in the tender offer and consent solicitation minus this consent payment. Holders whose notes are purchased pursuant to the tender offer and consent solicitation would also be paid accrued and unpaid interest from the most recent interest payment date to, but not including, the applicable payment date for notes purchased pursuant to the tender offer and consent solicitation.

In connection with the tender offer, Acquisition Co. plans to solicit the consent of the note holders to certain amendments to the Indenture, including amendments to eliminate substantially all of the restrictive covenants and certain events of default, to amend certain of covenants which are triggered or implicated by the merger and the merger agreement, and to make changes to certain terms of the defeasance provisions (and make related changes in the notes).

The closing of the tender offer and consent solicitation would be subject to certain terms and conditions, including the receipt of the requisite consents to approve the amendments to the Indenture, the execution and delivery of the related supplemental indenture, the satisfaction of all of the conditions precedent to the merger as set forth in the merger agreement, the merger having occurred or having occurred substantially concurrent with the purchase of notes pursuant to the tender offer and consent solicitation and the consummation of the financing of the merger described below under Financing of the Merger.

The terms of the tender offer and consent solicitation have not been finalized. As a result, this discussion regarding the terms and structure of the tender offer and consent solicitation may change in all respects. In addition, there is no assurance that the tender offer and consent solicitation will be successful.

Certain Effects of the Merger

At the effective time of the merger, each share of Seitel common stock issued and outstanding immediately prior to the effective time of the merger (other than treasury shares, shares held by ValueAct Capital and its affiliates and shares held by stockholders who are entitled to and who properly exercise appraisal rights under Delaware law) will be converted into the right to receive $3.70 in cash, without interest.

At the effective time of the merger, all unvested shares of restricted stock will vest and be converted into the right to receive a cash payment equal to the number of shares of restricted stock multiplied by $3.70, without interest and less any applicable withholding taxes. In addition, at the effective time of the merger, the outstanding option to purchase 100,000 shares of Seitel common stock will, to the extent not already exercised at that time, be cancelled and cease to exist solely in exchange for the right to receive a cash payment equal to $3.70 minus its strike price of $1.30 per share, multiplied by 100,000, or, assuming no options are exercised, $240,000, without interest and less any applicable withholding taxes.

If the merger is consummated, Seitel will be a wholly owned subsidiary of Parent. Parent will be a privately held corporation owned by ValueAct Capital and the Rollover Investors to the extent of any equity rollover, as described below. The Rollover Investors may participate in the ownership of Parent by contributing shares of Seitel common stock to Parent in exchange for equity of Parent in connection with the completion of the merger, which we refer to in this proxy statement as the equity rollover. The equity interests of each of the Rollover Investors is more fully described under Special Factors Interests of Certain Persons in the Merger Rollover Investors beginning on page . A table detailing the expected capitalization of Parent following the merger, including the effects of this equity rollover by the Rollover Investors, is set forth under Special Factors Arrangements with Respect to Parent Following the Merger beginning on page .

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If the merger is completed, Seitel s unaffiliated stockholders will have no interest in Seitel s net book value or net earnings after the merger. The table below sets forth the direct and indirect interests in Seitel s book value and net earnings of ValueAct Capital and each of the Rollover Investors prior to and immediately following the merger, based on Seitel s net book value as of September 30, 2006, and net income of Seitel for the nine months ended September 30, 2006.

	Ownership Prior to the Merger(1)				Ownership After the Merger(2)			
	Net Book Value		Earnings		Net Book Value		Earnings	
Name	$ in thousands	%	$ in thousands	%	$ in thousands	%	$ in thousands	%
ValueAct Capital Master Fund, L.P.(3)	6,600	26.9	8,949	26.9				
Robert D. Monson	220	0.9	298	0.9				
Kevin P. Callaghan	93	0.4	126	0.4				
William J. Restrepo	75	0.3	101	0.3				

(1) Based upon the beneficial ownership as of , 2006 (excluding warrants to purchase 15,037,568 shares of Seitel common stock at $.72 per share) and Seitel s net book value at September 30, 2006 and net income for the nine months ended September 30, 2006.

(2) Based upon (a) the agreed upon equity investments and the expected ownership of common stock of Parent after the merger and (b) Seitel s net book value at September 30, 2006 and net income for the nine months ended September 30, 2006, and without giving effect to any additional indebtedness to be incurred in connection with the merger.

(3) Represents ownership in net book value and earnings attributable to beneficial ownership of 41,741,886 shares of Seitel common stock (excluding warrants to purchase 15,037,568 shares of common stock at $0.72 per share) owned directly by ValueAct Capital.

A primary benefit of the merger to Seitel s unaffiliated stockholders will be their right to receive a cash payment of $3.70, without interest, for each share of Seitel common stock held by such stockholders as described above, representing a premium of approximately (1) 5.7 percent to the $3.50 closing price of Seitel common stock on August 25, 2006, the last trading day before the proposal was made public, (2) 48 percent over the closing price 180 days prior to that announcement, and (3) 120 percent over the closing price 360 days prior to that announcement. Additionally, such stockholders will avoid the risk of any possible decrease in the future earnings, growth or value of Seitel following the merger.

The primary detriments of the merger to such stockholders include the lack of an interest of such stockholders in the potential future earnings or growth of Seitel. Additionally, the receipt of cash in exchange for shares of Seitel common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes.

In connection with the merger, ValueAct Capital and the Rollover Investors will receive benefits and be subject to obligations in connection with the merger that are different from, or in addition to, the benefits of Seitel s stockholders generally. These incremental benefits and detriments include, with respect to ValueAct Capital and its affiliates, the right to contribute, in a transaction that is intended to be tax-free for U.S. federal income tax purposes, shares of their Seitel common stock to Parent in exchange for shares of Parent, with respect to Rollover Investors, anticipated employment with the Surviving Corporation substantially similar to their current employment with Seitel and, with respect to both ValueAct Capital and the Rollover Investors, certain additional economic and governance rights with respect to ownership of equity interests in Parent following the merger. These incremental benefits and detriments are described in more detail under Special Factors Interests of Certain Persons in the Merger beginning on page .

The primary benefits of the merger to ValueAct Capital and the Rollover Investors collectively include their right to all of the potential future earnings and growth of Seitel which, if Seitel successfully executes its business strategies, could exceed the value of their original investment in Seitel. Additionally, following the merger, Seitel will be a private company indirectly owned by ValueAct Capital and the Rollover Investors and any additional

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investors permitted by them, and as such will be relieved of the burdens imposed on public companies, including the pressure to meet analyst forecasts and the requirements and restrictions on trading that Seitel s directors, officers and beneficial owners of more than ten percent of the shares of Seitel common stock face as a result of the provisions of Section 16 of the Exchange Act. Additionally, following the merger, it is expected that each of the Rollover Investors who are currently officers of Seitel will retain their officer positions with the Surviving Corporation.

The primary detriments of the merger to ValueAct Capital and the Rollover Investors include the fact that all of the risk of any possible decrease in the earnings, growth or value of Seitel following the merger will be borne by the Investors and any additional investors permitted by them. Additionally, the indirect investment of ValueAct Capital and the Rollover Investors and any additional investors permitted by them in Seitel through Parent initially will be illiquid, with no public trading market for such securities, and the equity securities of Parent will be subject to restrictions on transfer pursuant to the terms of a stockholders agreement among ValueAct Capital and the Rollover Investors.

Seitel s common stock is currently registered under the Exchange Act and is quoted on the OTC Bulletin Board under the symbol SELA.ob. As a result of the merger, Seitel will become a privately held corporation, and there will be no public market for its common stock. After the merger, Seitel common stock will cease to be quoted on the OTC Bulletin Board, and price quotations with respect to sales of shares of Seitel common stock in the public market will no longer be available. In addition, registration of Seitel common stock under the Exchange Act will be terminated, although we will still be required to comply with the reporting requirements of the Exchange Act (except for those of Section 16 thereof) to the extent required by any indenture governing our outstanding indebtedness at or after the closing of the merger.

In connection with the closing of the merger, the current members of Seitel s board of directors will resign from office. As a result of the merger, the directors of Acquisition Co. will become the directors of the Surviving Corporation and we expect that the current officers of Seitel will become the officers of the Surviving Corporation. The certificate of incorporation and bylaws of Seitel will each be amended and restated in its entirety as a result of the merger and, as so amended and restated, will be the certificate of incorporation and bylaws of the Surviving Corporation.

Projected Financial Information

Seitel s senior management does not as a matter of course make public projections as to future performance or earnings beyond the current fiscal year and is especially wary of making projections for extended earnings periods due to the unpredictability of the underlying assumptions and estimates. However, financial forecasts prepared by senior management were made available to ValueAct Capital as well as to the board of directors, the special committee and the special committee s financial advisors in connection with their consideration of the merger. We have included below the information regarding the projections to give our stockholders access to certain nonpublic information considered by ValueAct Capital, the special committee and

the board of directors in connection with evaluating the merger. The inclusion of this information in this proxy statement should not be regarded as an indication that ValueAct Capital, the Rollover Investors, the special committee or the board of directors, William Blair, or any other recipient of this information considered, or now considers, it to be a reliable prediction of future results.

The projections also reflect estimates and assumptions related to the business of Seitel that are inherently subject to significant economic, political, and competitive uncertainties, all of which are difficult to predict and many of which are beyond Seitel s control. The financial projections were prepared by Seitel s senior management for internal use and to assist ValueAct Capital and the financial advisor to the special committee with their respective due diligence investigations of Seitel and not with a view toward public disclosure or toward complying with GAAP, the published guidelines of the Securities and Exchange Commission regarding projections or the guidelines established by the American Institute of Certified Public Accountants for

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preparation and presentation of prospective financial information. The projected financial information included herein has been prepared by, and is the responsibility of, Seitel management. BKD, LLP, Seitel s independent registered public accounting firm, has not examined or compiled any of the accompanying projected financial information, and accordingly, BKD, LLP does not express an opinion or any other form of assurance with respect thereto. The BKD, LLP report incorporated by reference in this proxy statement relates to Seitel s historical financial information. It does not extend to the projected financial information and should not be read to do so.

Projections of this type are based on estimates and assumptions that are inherently subject to factors such as industry performance, general business, economic, regulatory, market and financial conditions, as well as changes to the business, financial condition or results of operations of Seitel, including the factors described under Cautionary Statement Regarding Forward-Looking Information, which factors may cause the financial projections or the underlying assumptions to be inaccurate. The projections also reflect estimates and assumptions related to the business of Seitel that are inherently subject to significant economic, political, and competitive uncertainties, all of which are difficult to predict and many of which are beyond Seitel s control. Since the projections cover multiple years, such information by its nature becomes less reliable with each successive year. The financial projections do not take into account any circumstances or events occurring after the date they were prepared. Except as required by applicable securities laws, Seitel does not intend to update, or otherwise revise the material projections to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even in the event that any or all of the assumptions are shown to be in error.

Since the date of the projections, Seitel has made publicly available its actual results of operations for the quarter and nine months ended September 30, 2006. You are encouraged to review Seitel s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 to obtain this information. See Where You Can Find More Information. Readers of this proxy statement are cautioned not to place undue reliance on the material projections set forth below. No one has made or makes any representation to any stockholder regarding the information included in these projections.

The projection information below includes the material elements of each of four sets of projections prepared by Seitel s management: (i) a Business Cyclicality Case that assumes there are cyclical down periods in Seitel s projections; (ii) the Business Cyclicality Case, assuming the removal of the current capital expenditure restrictions imposed by the Indenture; (iii) a Steady Growth Case that does not contemplate any cyclical down periods in the projections; and (iv) the Steady Growth Case, assuming the removal of the current capital expenditure restriction imposed by the Indenture. The Business Cyclicality Case assumes a down cycle resulting in lower cash resales, operating expenses and seismic data investments during the assumed cyclical down periods. The Business Cyclicality Case and the Steady Growth Case, in each case assuming the removal of the capital expenditure requirement, resulted in a higher level of seismic data investment and thus higher levels of revenue and earnings. Only the Steady Growth Case with the capital expenditure restriction removal assumption (as described in the foregoing clause (iv)) was provided to ValueAct Capital as part of its consideration of the merger. All four sets of projections were made available to the special committee and William Blair.

Business Cyclicality Case

($ in millions)	For the Projected Years Ended December 31,					
	2006E	2007E	2008E	2009E	2010E	2011E
Total Revenue	$ 193.3	$ 147.7	$ 163.4	$ 217.8	$ 233.4	$ 248.6
EBITDA	160.1	121.5	136.3	183.5	197.8	211.7
Cash EBITDA	100.0	82.8	87.5	111.4	127.7	141.6
EBIT	69.6	58.8	70.5	90.8	104.2	120.6
Total Capital Expenditures	97.2	58.7	73.7	117.4	112.8	112.9

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Business Cyclicality Case Plus Capital Expenditure Constraint Removal

($ in millions)	For the Projected Years Ended December 31,					
	2006E	2007E	2008E	2009E	2010E	2011E
Total Revenue	$ 193.3	$ 172.3	$ 193.4	$ 254.6	$ 250.3	$ 263.1
EBITDA	160.1	145.3	165.2	218.9	213.8	225.5
Cash EBITDA	100.0	83.2	93.1	123.4	143.7	155.4
EBIT	69.6	65.8	81.4	107.2	109.1	115.7
Total Capital Expenditures	97.2	95.0	110.0	153.8	112.8	112.9

Steady Growth Case

($ in millions)	For the Projected Years Ended December 31,					
	2006E	2007E	2008E	2009E	2010E	2011E
Total Revenue	$ 193.3	$ 202.9	$ 228.5	$ 233.8	$ 247.3	$ 261.5
EBITDA	160.1	170.0	194.2	198.8	211.1	224.0
Cash EBITDA	100.0	107.9	122.1	126.7	141.0	153.9
EBIT	69.6	89.7	107.5	100.6	103.7	112.4
Total Capital Expenditures	97.2	102.0	117.0	117.4	112.8	112.9

Steady Growth Case Plus Capital Expenditure Constraint Removal

($ in millions)	For the Projected Years Ended December 31,					
	2006E	2007E	2008E	2009E	2010E	2011E
Total Revenue	$ 193.3	$ 227.6	$ 259.9	$ 270.6	$ 264.2	$ 276.0
EBITDA	160.1	193.8	224.4	234.1	227.1	237.8
Cash EBITDA	100.0	108.4	129.0	138.7	157.0	167.7
EBIT	69.6	96.8	119.7	117.0	108.8	107.3
Total Capital Expenditures	97.2	138.3	153.3	153.8	112.8	112.9

Interests of Certain Persons in the Merger

In considering the recommendation of the special committee and the board of directors with respect to the merger, you should be aware that certain officers and directors of Seitel have interests in the transaction that are different from, or in addition to, the interests of Seitel s stockholders generally. Seitel s board of directors and the special committee were aware of these interests and considered them, among other matters, in reaching their decisions to approve the merger agreement and recommend that Seitel s stockholders vote in favor of the proposal to adopt the merger agreement.

ValueAct Capital and its Managing Partners and Other Affiliates, Parent, Acquisition Co. and Directors and Executive Officers of Acquisition Co.

ValueAct Capital currently is the record and beneficial owner of 56,779,454 shares of Seitel common stock (including warrants to purchase 15,037,568 shares of Seitel common stock at $.72 per share), which amounts to approximately 33.3 percent of the outstanding shares of Seitel common stock. Parent is currently the record and beneficial owner of 9,459,460 shares of Seitel common stock, which amounts to approximately 5.6 percent of the shares of Seitel outstanding common stock. The shares beneficially owned by ValueAct Capital and Parent together represent approximately 38.9 percent of the shares of Seitel outstanding common stock. Shares reported as beneficially owned by ValueAct Capital or Parent also may be deemed to be beneficially owned by (1) VA Partners, LLC, as general partner of ValueAct Capital and sole manager of Parent, (2) ValueAct Capital Management, L.P. as the manager of ValueAct Capital, (3) ValueAct Capital Management, LLC as general partner of ValueAct Capital Management, L.P. and (4) Jeffrey W. Ubben, Peter H. Kamin and George F. Hamel, Jr. as managing members of VA Partners, LLC and ValueAct Capital Management, LLC. As such, VA Partners,

LLC, ValueAct Capital Management, L.P., ValueAct Capital Management, LLC, Jeffrey W. Ubben, George F. Hamel, Jr. and Peter H. Kamin may be deemed the beneficial owners of an aggregate of 66,238,914 shares of Seitel common stock (including warrants to purchase 15,037,568 shares of common stock at $0.72 per share), representing 38.9 percent of the outstanding Seitel common stock. Each of these persons disclaim beneficial ownership of the reported stock except to the extent of their pecuniary interest therein.

At the effective time of the merger, ValueAct Capital will indirectly own all of the shares of Seitel common stock outstanding through its ownership of Parent, except for such shares of Parent owned by Rollover Investors. See Certain Effects of the Merger.

Rollover Investors

Equity Rollover. In connection with the merger agreement, the Rollover Investors may enter into agreements with Parent pursuant to which such members of management would contribute shares of Seitel common stock to Parent in exchange for equity of Parent immediately before the completion of the merger. As of the date of this proxy statement the Rollover Investors have not agreed to exchange any of their shares of Seitel common stock for equity of Parent. After the date of this proxy statement, ValueAct Capital may, but is not obligated to, permit additional members of Seitel s management to exchange their shares of Seitel common stock for equity in Parent. In this event, the aggregate equity commitments and investments of ValueAct Capital will be reduced proportionally. A table setting forth the current expected contributions of Seitel management and the equity of Parent to be issued in respect of such contributions, as well as the expected equity ownership of each of ValueAct Capital and the Rollover Investors immediately following the merger, is set forth under Special Factors Arrangements with Respect to Parent Following the Merger beginning on page .

Stockholder Agreement of Parent; Interests in Parent following the Merger. In connection with the equity contributions at closing set forth above, ValueAct Capital and each of the members of management of Seitel who is permitted to become a Rollover Investor will enter into a stockholder agreement which will set forth the terms and conditions governing the relationship between ValueAct Capital (and certain of its affiliates) and the Rollover Investors.

Among other things, the stockholder agreement will set forth the terms and conditions governing ValueAct Capital s and the Rollover Investors equity investments in Parent, including governance provisions, restrictions on transfers and registration rights and any economic rights related to their ownership of equity in Parent.

The stockholder agreement and the rights and obligations pursuant to such agreement of ValueAct Capital and the Rollover Investors, are more fully described under Special Factors Arrangements with Respect to Parent Following the Merger beginning on page .

New Employment Arrangements

As of the date of this proxy statement, none of Seitel s executive officers has entered into any amendments or modifications to existing employment agreements with Seitel in anticipation of the merger, nor has any executive officer who has plans or is expected to remain with the Surviving Corporation entered into any agreement, arrangement or understanding with the Surviving Corporation or their affiliates regarding employment with the Surviving Corporation. Although no such agreement, arrangement or understanding currently exists, it is generally expected that a number of our executive officers will remain after the merger is completed, which means that such executive officers may, prior to the closing of the merger, enter into new arrangements with the Surviving Corporation or its affiliates regarding employment with the Surviving Corporation.

Seitel Key Employee Retention Plan

In connection with the performance of its function, the special committee required the support of certain key employees. In anticipation of the distraction and additional effort that would be required of such employees as

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the special committee performed its function, the special committee determined that it was in the best interests of Seitel and its stockholders to take action intended to ensure that Seitel and its subsidiaries would continue to receive the full, undistracted attention and dedication of these key employees, notwithstanding the possibility of the occurrence of a change in control. Therefore, in order to retain certain key employees and to diminish the extent to which the possibility of a change in control would otherwise distract these employees of Seitel from the efficient discharge of their responsibilities to Seitel, the special committee adopted a retention plan for key employees on September 8, 2006.

The retention plan generally provides for cash bonuses to key employees of Seitel payable in two installments, the first installment becoming due upon the occurrence of a change in control and the second installment becoming due on the first anniversary of such change in control if the employee is still employed by Seitel or its subsidiaries or was terminated by Seitel after the change in control but before the first anniversary of such change in control. The retention plan will terminate by its terms if no change in control occurs by September 8, 2007.

The merger will constitute a change in control under the terms of the retention plan and will entitle certain key employees of Seitel to a cash payment upon the consummation of the merger and a second cash payment if the key employee is still employed by Seitel or its subsidiaries or was terminated by Seitel after the consummation of the merger but before the first anniversary of the merger s consummation.

The following table represents the key executives eligible to participate in the retention plan and the cash payments they may become entitled to receive:

Key Employee Name	First Retention Bonus	Second Retention Bonus	Total Retention Bonus
Robert Monson	$ 758,000	$ 758,000	$ 1,516,000
Kevin Callaghan	$ 444,000	$ 444,000	$ 888,000
Robert Simon	$ 349,500	$ 349,500	$ 699,000
William Restrepo	$ 283,500	$ 283,500	$ 567,000
Garis Smith[(1)]	$ 211,000	$ 211,000	$ 422,000
Marcia Kendrick	$ 178,500	$ 178,500	$ 357,000
Randall Sides	$ 137,000	$ 137,000	$ 274,000
Richard Kelvin	$ 137,000	$ 137,000	$ 274,000

(1) In Canadian dollars.

Treatment of Existing Stock Options and Restricted Stock

Upon consummation of the merger:

- all unvested shares of restricted stock will vest and be converted into the right to receive a cash payment equal to the number of shares of restricted stock multiplied by $3.70, without interest and less any applicable withholding taxes; and

- the outstanding option to purchase 100,000 shares of Seitel common stock owned by Seitel s Chairman will, to the extent not already exercised at that time, be cancelled and cease to exist solely in exchange for the right to receive a cash payment equal $3.70 minus its strike price of $1.30 per share, multiplied by 100,000, or, assuming the option is not exercised, $240,000, without interest and less any applicable withholding taxes.

See The Merger Agreement Effect of the Merger on the Capital Stock and Stock Options of Seitel and Acquisition Co. beginning on page for a more complete description of the treatment of the agreement under which such stock options were issued.

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The table below sets forth, as of November 15, 2006, for each of Seitel s directors, executive officers, and for such persons as a group:

the number of shares of restricted stock held by such persons;

the aggregate cash payment that will be made in respect of shares of restricted stock upon consummation of the merger;

the number of stock options (both vested and unvested) held by such persons; and

the cash payment that may be made in respect of such stock options upon consummation of the merger.

	Options					Restricted Stock		
	Vested Options	Weighted Average Exercise Price of Vested Options	Unvested Options	Weighted Average Exercise Price of Unvested Options	Resulting Consideration	Unvested Shares	Resulting Consideration	Total Consideration
Directors								
C. Robert Black						48,821	$ 180,637.70	$ 180,637.70
Kevin S. Flannery						41,129	$ 152,177.30	$ 152,177.30
Jay H. Golding						41,129	$ 152,177.30	$ 152,177.30
Ned S. Holmes						48,821	$ 180,637.70	$ 180,637.70
Peter H. Kamin						20,833	$ 77,082.10	$ 77,082.10
Robert D. Monson[1]						1,147,002	$ 4,243,907.40	$ 4,243,907.40
Charles H. Mouquin						48,821	$ 180,637.70	$ 180,637.70
Gregory P. Spivy						20,833	$ 77,082.10	$ 77,082.10
Fred S. Zeidman	100,000	$ 1.30			$ 240,000	41,129	$ 152,177.30	$ 392,177.30
Executive Officers								
Kevin P. Callaghan						461,953	$ 1,709,226.10	$ 1,709,226.10
William J. Restrepo						421,587	$ 1,559,871.90	$ 1,559,871.90
Marcia H. Kendrick						139,484	$ 516,090.80	$ 516,090.80
Robert J. Simon						346,851	$ 1,283,348.70	$ 1,283,348.70
Garis C. Smith						131,255	$ 485,643.50	$ 485,643.50
Directors and Executive Officers as a Group	100,000	$ 1.30			$ 240,000	2,959,648	$ 10,950,697.60	$ 10,950,697.60

(1) Mr. Monson also serves as President and Chief Executive Officer.

Arrangements with Respect to Parent Following the Merger

It is expected that Parent will be converted to a Delaware corporation concurrently with the consummation of the merger.

The table below sets forth the expected capitalization of Parent following the merger, detailing the contributions made by ValueAct Capital and each of the Rollover Investors and the equity owned by ValueAct Capital and each of the Rollover Investors:

	Capital Contributions			Capitalization of Parent	
	Seitel Common Stock				
	Contributed Shares	Imputed Value	Cash	Shares of Common Stock	% of Common Stock
Rollover Investors					
Robert D. Monson					

Kevin P. Callaghan
William J. Restrepo
ValueAct Capital Master Fund, L.P.

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Indemnification and Insurance

For a period of six years from the effective time of the merger, the organizational documents of the Surviving Corporation and each Seitel subsidiary shall contain provisions no less favorable with respect to indemnification and advancement of expenses for directors and officers and exculpation of directors than existed in Seitel s or such subsidiary s organizational documents as of immediately prior to the effective time of the merger. Further, for a period of six years from the effective time of the merger, Parent will either cause to be maintained in effect the current policies of directors and officers liability insurance and fiduciary liability insurance maintained by Seitel and its subsidiaries or cause the Surviving Corporation to purchase an insurance policy with terms no less advantageous than is provided in Seitel s existing insurance policy.

The indemnification and insurance provisions of the merger agreement are more fully described under The Merger Agreement Other Covenants and Agreements Indemnification of Directors and Officers; Insurance beginning on page .

Special Committee Compensation

The board of directors approved a per meeting fee of $1,500 for each in person and telephonic meeting. Compensation of the special committee members was not and is not contingent on the special committee approving or recommending the merger or any other strategic financial alternative or the consummation of the merger or any other strategic financial alternative.

The Seitel board of directors considered, among other things, the complexities inherent in the strategic financial alternatives to be considered and the time expected to be required by the special committee members and chairman, the need for the special committee to evaluate a variety of matters and the publicly-reported compensation of the special committees of the boards of other companies.

Material United States Federal Income Tax Consequences

The following summarizes the material United States federal income tax consequences of the merger to U.S. Holders (as defined below) of shares of Seitel common stock who exchange such shares for the cash consideration pursuant to the merger. This summary is based upon the Internal Revenue Code of 1986, as amended, which we refer to in this proxy statement as the Code, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as in effect and existing on the date of this proxy statement and all of which are subject to change at any time, which change may be retroactive or prospective. No rulings have been sought or are expected to be sought from the Internal Revenue Service with respect to any of the tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Unless otherwise specifically noted, this summary applies only to U.S. Holders that hold their shares of Seitel common stock as a capital asset within the meaning of Section 1221 of the Code.

This summary addresses only the material U.S. federal income tax consequences, and not all tax consequences, of the merger that may be relevant to U.S. Holders of shares of Seitel common stock. It also does not address any of the tax consequences of the merger to holders of shares of Seitel common stock that are Non-U.S. Holders (as defined below), to holders who validly exercise appraisal rights with respect to their shares of Seitel common stock or to holders that may be subject to special treatment under United States federal income tax law, such as, for example, financial institutions, real estate investment trusts, personal holding companies, tax-exempt organizations, regulated investment companies, partnerships (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) and persons holding Seitel common stock through a partnership, persons who hold shares of Seitel common stock as part of straddle, hedge, conversion, constructive sale or other integrated transaction or whose functional currency is not the U.S. dollar, traders in securities who elect to use the mark-to-market method of accounting, persons who acquired their Seitel common stock through the exercise of employee stock options or other compensation arrangements (including persons holding shares of unvested restricted stock), insurance companies, S corporations, brokers and dealers in securities or currencies and certain U.S. expatriates. Further, this summary does not address the U.S. federal estate, gift or alternative minimum tax consequences of the merger, or any state, local or non-U.S. tax consequences of the merger, or the U.S. federal income tax consequences to any person that will own actually or constructively shares of Seitel capital stock following the merger. For example, this summary does not address the United States federal income tax consequences of the merger to the Investors or persons related to the Investors under applicable constructive ownership rules.

Each holder of shares of Seitel common stock should consult its own tax advisor regarding the tax consequences of the merger in light of such holder s particular situation, including any tax consequences that may arise under the laws of any state, local or non-U.S. taxing jurisdiction and the possible effects of changes in United States federal or other tax laws.

For purposes of this discussion, a U.S. Holder is a beneficial owner of shares of Seitel common stock that, for United States federal income tax purposes, is:

- a citizen or individual resident of the United States;
- a corporation, including any entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof;
- an estate, the income of which is subject to U.S. federal income tax without regard to its source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or certain electing trusts that were in existence on August 20, 1996, and were treated as domestic trusts on the previous day.

If a partnership holds shares of Seitel common stock, the tax treatment of each of its partners generally will depend upon the status of such partner and the activities of the partnership. A partner of a partnership holding shares of Seitel common stock should consult its own tax advisors regarding the United States federal income tax consequences of the merger.

For purposes of this discussion, a Non-U.S. Holder is a beneficial owner of shares of Seitel common stock that is not a U.S. Holder. We urge holders of shares of Seitel common stock that are Non-U.S. Holders to consult their own tax advisors regarding the tax consequences of the merger.

Exchange of Shares of Seitel Common Stock. The exchange of shares of Seitel common stock for the cash consideration pursuant to the merger will be a taxable transaction for United States federal income tax purposes. In general, a U.S. Holder who receives the cash consideration in exchange for shares of Seitel common stock pursuant to the merger will recognize gain or loss for United States federal income tax purposes in an amount equal to the difference, if any, between the amount of cash received and the U.S. Holder s adjusted tax basis in the shares of Seitel common stock exchanged. Gain or loss will be determined separately for each block of shares (that is, shares acquired at the same cost in a single transaction). The gain or loss will be capital gain or loss, and will be long-term capital gain or loss if, on the date of the completion of the merger, the shares of Seitel common stock exchanged pursuant to the merger were held for more than one year. In the case of stockholders who are individuals, long-term capital gain is currently eligible for reduced rates of federal income tax. There are limitations on the deductibility of capital losses. U.S. Holders should consult their tax advisors regarding the treatment of capital gains and losses.

Backup Withholding Tax and Information Reporting. Payment of the cash consideration with respect to the exchange of shares of Seitel common stock pursuant to the merger may be subject to information reporting and

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United States federal backup withholding tax at the applicable rate (currently 28 percent), unless a holder of Seitel common stock properly certifies its taxpayer identification number, which we refer to in this proxy statement as TIN, or otherwise establishes an exemption from backup withholding and complies with all other applicable requirements of the backup withholding rules.

A U.S. Holder that does not provide its correct TIN also may be subject to penalties imposed by the IRS. Any amounts withheld under the backup withholding rules from a payment to a U.S. Holder will be allowed as a credit against such U.S. Holder s U.S. federal income tax, and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the IRS. A U.S. Holder should consult its own tax advisor as to its qualifications for exemption from backup withholding and the procedure for obtaining such an exemption.

Financing of the Merger

Parent and Acquisition Co. s obligations to complete the merger are subject to a debt financing condition. See The Merger Agreement Conditions to Completion of the Merger beginning on page . The total amount of funds required to complete the merger and the related transactions, including repaying Seitel s existing debt and payment of fees and expenses in connection with the merger, is anticipated to be approximately $ million. This amount is expected to be provided through a combination of:

- either:
  - an offering of new unsecured senior notes yielding gross proceeds of $400.0 million, which is described in this section under the subheadings Debt Commitment Letter and Unsecured Senior Notes Offering; or
  - a new $400.0 million senior bridge loan facility, which is described in this section under the subheadings Debt Commitment Letter and Bridge Loan Facility;
- an aggregate equity investment by ValueAct Capital and its affiliates in Parent of up to $141.0 million, which is described in this section under the subheading Equity Commitment Letter;
- cash and cash equivalents held by Seitel and its subsidiaries of not less than $78.5 million; and
- a new $20.0 million senior secured revolving credit facility, which is expected to be undrawn at the closing of the merger, which is described in this section under the subheadings Debt Commitment Letter and Senior Secured Credit Facility.

The total funded indebtedness of Seitel following the merger is expected to be approximately $403.4 million. To the extent the Rollover Investors exchange any shares of Seitel common stock for equity of Parent, ValueAct Capital s aggregate equity investment will be correspondingly reduced by the aggregate value of such exchange, see Special Factors Interests of Certain Persons in the Merger Rollover Investors beginning on page . In addition, ValueAct Capital may syndicate its equity commitment to its affiliated funds, entities and investment vehicles and to co-investors where ValueAct Capital retains direct or indirect control over voting and disposition. If ValueAct Capital syndicates its equity commitment, ValueAct Capital s aggregate equity investment will be correspondingly reduced.

Pursuant to the merger agreement, Parent and Acquisition Co. are obligated to use their reasonable best efforts to obtain the financing described below. If any portion of the financing described below becomes unavailable on the terms described in the commitment letters, then Parent and Acquisition Co. are obligated to use their reasonable best efforts to arrange alternative financing, but Parent and Acquisition Co. are not obligated to obtain such alternative financing unless it is on terms and conditions which are in the aggregate not materially less favorable to Parent and Acquisition Co. than the financing terms contained in the commitment letters and from financing sources at least as reputable as the financing sources providing the commitments contained in the commitment letters. Seitel is obligated to provide, and cause its subsidiaries to provide, all cooperation reasonably

requested by Parent and Acquisition Co. in connection with the arrangement of, and negotiation of agreements with respect to, the financing or any alternative financing, including making available to Parent, Acquisition Co. and their financing sources and each of their respective personnel and agents (including for participation at organizational meetings, drafting sessions and road shows) and providing such documents and information as may be reasonably requested by Parent, Acquisition Co. and such financing sources, cooperating with financing sources in achieving a timely offering and/or syndication of the financing or any alternative financing and using their reasonable best efforts to cause Seitel s independent accountants to provide any reports, consents and comfort letters as may be reasonably requested in connection with the financing or any alternative financing.

The following arrangements are in place to provide the necessary financing for the merger, including the payment of related transaction costs, charges, fees and expenses:

Debt Commitment Letter

Parent has entered into a commitment letter, dated as of October 31, 2006, which we refer to in this proxy statement as the debt commitment letter, with Morgan Stanley Senior Funding, Inc., Deutsche Bank Trust Company Americas, Deutsche Bank AG Cayman Islands Branch and Deutsche Bank Securities Inc., UBS Loan Finance LLC and UBS Securities LLC. Subject to the terms and conditions of the debt commitment letter, Morgan Stanley Senior Funding, Inc., Deutsche Bank AG Cayman Islands Branch, Deutsche Bank Trust Company Americas and UBS Loan Finance LLC, as initial lenders, have committed to provide to Acquisition Co., and, after the closing of the merger, the Surviving Corporation, as the borrower:

- a senior secured revolving credit facility of up to $20.0 million; and

- in the event that the contemplated sale by the borrower of $400.0 million of unsecured senior notes has not been consummated at the time the merger is completed, a one-year $400.0 million senior bridge loan facility, the outstanding principal of which, if any, will be satisfied at maturity, subject to certain conditions, through the delivery of the proceeds of six-year senior rollover loans of the borrower equal to such principal amount, which rollover loans, in turn, may be converted, at the option of the bridge lender, into senior exchange notes with the same maturity date as the rollover loans.

The financing described in the debt commitment letter, which we refer to in this proxy statement as the debt financing.

The commitment to provide the debt financing are subject to customary conditions for financings of these types, including but not limited to, the following:

- the preparation, execution and delivery of mutually acceptable loan documentation, which final terms and conditions will be substantially as described in the debt commitment letter;

- since December 31, 2005, there shall not have been any event, condition, change or development having, or that reasonably would be expected to have with or without the passage of time, an effect that, individually or in the aggregate with other events, conditions, changes or developments:

  - is, or reasonably would be expected to be, materially adverse to the business, operations, assets, financial condition, liabilities or results of operations of Seitel and its subsidiaries, taken as a whole; or

  - does, or reasonably would be expected to, materially impair Seitel s ability to perform its obligations under the merger agreement; provided, however, that for purposes of analyzing whether any event, change, condition, circumstance or state of facts constitutes such a material adverse effect, neither Parent nor Acquisition Co. will be deemed to have knowledge of any event, condition, change, circumstance or state of facts that is not readily apparent from the Company Disclosure Letter (as defined in the merger agreement) delivered by Seitel, and provided, further, that none of the following will be deemed either alone or in combination to constitute, and none of

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the following will be taken into account in determining whether there has been or would be such a material adverse effect: (1) any adverse effect arising from any action required to be taken by Seitel under the merger agreement; or (2) any adverse effect generally affecting the United States economy or financial markets or the world economy or international financial markets that does not disproportionately affect Seitel and its subsidiaries taken as a whole or any industry in which Seitel or its subsidiaries operate;

the initial lenders satisfaction with the terms of the equity and debt of Parent and its subsidiaries;

the accuracy and completeness in all material respects of all representations made by Parent, and all written information provided by Parent, to the lenders in connection with the financing;

the lenders shall be satisfied with all agreements, relating to the equity and debt financings, and the merger agreement and such other related agreements shall not have been altered, amended or otherwise changed or supplemented or any condition thereto waived in any manner materially adverse to the lenders without their prior written consent;

the acquisition shall have been consummated in accordance with the terms of the merger agreement and in compliance with applicable law;

the refinancing of certain existing debt of Seitel shall have been consummated or shall be consummated concurrently with the initial extension of credit under the debt facilities;

all of the capital stock of borrower shall be owned by Parent and all capital stock of the borrower s subsidiaries shall be owned by the borrower or one or more of the borrower s subsidiaries, in each case free and clear of any lien, charge or encumbrance not permitted under the loan documentation;

in the case of the senior secured credit facility, the lenders under such facility shall have a valid and perfected first priority (subject to certain exceptions to be set forth in the loan documentation) lien and security interest in such capital stock and in the other required collateral;

in the case of the bridge facility, if the corporate ratings of the borrower are not rated at least B3 by Moody s and B- by S&P (in each case with at least a stable outlook), the bridge lenders shall have a valid and perfected second priority (subject to certain exceptions to be set forth in the loan documentation) lien and security interest in the same collateral securing the senior secured credit facility;

all filings, recordations and searches necessary or desirable in connection with such liens and security interests shall have been duly made;

all filing and recording fees and taxes shall have been duly paid;

there shall exist no action, suit, investigation, litigation or proceeding pending or threatened in any court or before any arbitrator or governmental or regulatory agency or authority that:

could reasonably be expected to (1) adversely affect the ability of the borrower or any guarantor to perform its obligations under the loan documentation for each facility or (2) adversely affect the rights and remedies of the administrative agent and the lenders under the loan documentation; or

purports to adversely affect the merger or either of the debt facilities;

all governmental and third party consents and approvals necessary in connection with the merger, equity or debt commitments or the debt facilities shall have been obtained (other than any such consent or approval the absence of which could not reasonably be expected to have, either individually or in the aggregate, a material adverse effect) and shall remain in effect;

all applicable waiting periods shall have expired without any adverse action being taken by any competent authority;

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no law or regulation shall be applicable that restrains, prevents or imposes materially adverse conditions upon the merger or the equity or debt commitments or the debt facilities;

all information delivered by Parent, Acquisition Co., Seitel or its subsidiaries shall be true and correct in all material respects; and no additional information shall have come to the attention of the agents or the lenders that is inconsistent in any material respect with such information or that could reasonably be expected to have a material adverse effect;

the borrower and each guarantor shall have delivered certificates, in form and substance reasonably satisfactory to the lenders, attesting to the solvency of the borrower and each such guarantor, in each case, individually and together with its subsidiaries, taken as a whole, immediately before and immediately after giving effect to the merger;

the lenders shall have received endorsements naming the administrative agent, on behalf of the lenders, as an additional insured under all insurance policies to be maintained with respect to the properties of the borrower and its subsidiaries forming part of the lenders collateral described above;

the lenders under each debt facility shall have received:

reasonable satisfactory opinions of counsel for the borrower and the guarantors and of local counsel for the lenders as to the transactions contemplated hereby; and

such corporate resolutions, certificates and other documents as the lenders under each debt facility shall reasonably request;

all accrued fees and expenses of the agents, arrangers and the lenders shall have been paid;

in the case of the senior secured credit facility, the senior lenders shall be satisfied with the terms and conditions of the bridge loans or the senior notes, as the case may be, and the senior administrative agent shall have received satisfactory evidence of receipt by the borrower of not less than $400 million cash proceeds from the advance of the bridge loans or the issuance by the borrower of the senior notes;

in the case of the bridge facility, the bridge lenders shall be satisfied with the terms and conditions of the senior secured credit facility and the bridge lead arrangers shall have received evidence satisfactory to the bridge lead arrangers that all other conditions to commitments of the senior lenders under the senior secured credit facility have been satisfied;

the lenders shall be satisfied that:

Cash EBITDA (to be defined in the definitive loan documentation) for the 12-month period ending as of the most recently ended fiscal quarter, on a pro forma basis, is not less than $93 million; and

the ratio of total leverage to Cash EBITDA for the 12-month period ending as of the most recently ended fiscal quarter, on a pro forma basis after giving effect to the merger and related financing transactions, is no greater than 4.5:1;

in the case of the bridge facility, the borrower shall have provided to the investment banks engaged in respect of the debt financing as soon as practicable and no later than 30 calendar days prior to the loan closing date, a complete printed preliminary offering memorandum or prospectus relating to the issuance of the senior notes or other contemplated permanent financing including financial statements prepared in accordance with generally accepted accounting principles in the United States and substantially all other data that the Securities and Exchange Commission would require in a registered offering of such securities; and

in the case of the bridge facility, the borrower shall have cooperated reasonably and in good faith with the marketing of the senior notes or other contemplated permanent financing with the view towards effecting the issuance of such securities in lieu of the borrowing of the bridge loans, and the investment banks marketing such securities shall have had a period of not less than 10 business days to market such securities prior to the closing date.

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The commitments of the initial lenders under the debt commitment letter will terminate on the earliest to occur of:

- the consummation of the merger or another transaction or series of transactions in which Parent or any of its affiliates acquires, directly or indirectly, any material portion of the stock or assets of Seitel;
- termination of the merger agreement; and
- 5:00 p.m., New York City time, on April 30, 2007, unless the merger closes on or before that date.

Since the final terms of the senior secured credit facility and senior bridge loan facility have not been agreed upon, the final terms and amounts may differ from those set forth above and below and, in certain cases, such differences may be significant. Except to the extent required by applicable law, Seitel does not intend to update or otherwise revise any of the terms of the financing included in this proxy statement to reflect circumstances existing after the date when such statements were made or to reflect the occurrence of future events even in the event that any of the statements regarding the financing arrangements are shown to be in error or otherwise no longer appropriate.

There are no current plans to repay the loans under the senior secured credit facility or the unsecured senior notes which are described in this section of the proxy statement. However, if the senior bridge loan facility is obtained, it is contemplated that it will be paid off through the issuance of the unsecured senior notes.

Senior Secured Credit Facility

General. The senior secured credit facility consists of a revolving credit facility. The borrower under the senior secured credit facility will be Acquisition Co., initially, and following completion of the merger will be Seitel.

The senior secured credit facility is expected to:

- provide for loans in an aggregate amount of up to $20.0 million;
- permit reborrowing of repaid amounts, up to the maximum aggregate principal amount available for borrowing;
- be secured by a first priority lien and security interest, as described in this section under the subheading Security;
- include a letter of credit sublimit up to $10 million, a swingline sublimit up to $5 million and a Canadian subfacility of up to $5 million (or equivalent thereof in Canadian dollars);
- be used solely to fund Seitel s and its subsidiaries working capital requirements and other general corporate purposes; and
- have a term of three years from the loan closing date.

No loans under the senior secured credit facility may be used to fund the merger consideration or the other financing transactions contemplated by the merger.

Interest Rates. The loans under the senior secured credit facility will, at the option of the borrower, bear interest at the following rates:

a LIBOR-based rate, which is equal to:

- the London Interbank Offered Rate, or LIBOR, for the applicable interest period selected by the borrower, plus
- an applicable margin of 2.75 percent for the first six months following the loan closing date and thereafter, as determined by a pricing grid to be contained in the final loan documentation; or

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- an alternate base rate, which will be:
  - the sum of the higher of
    - the base rate of interest announced by the administrative agent from time to time as its prime or base commercial lending rate; and
    - the federal funds rate plus 0.50 percent; and
  - an applicable margin of 1.75 percent for the first six months following the closing and thereafter, as determined by a pricing grid to be contained in the final loan documentation.

Other Fees. The senior secured credit facility is expected to bear an annual commitment fee of 0.50 percent on the undrawn portion of that facility for the first six months following the closing and thereafter, as determined by a pricing grid to be contained in the final loan documentation. Interest is payable quarterly in arrears and on the date of termination or expiration of the senior secured credit facility.

Prepayments. The borrower may, upon prior notice, prepay borrowings under the senior secured credit facility in full or in part without premium or penalty. Each prepayment must be in an amount of $2.0 million or in greater amounts in integral multiples of $500,000. Any prepayment with respect to a LIBOR-based loan must include reimbursement for any funding losses of the lenders resulting from the prepayment. The borrower may also from time to time voluntarily reduce the unutilized portion of the commitments under the revolving credit facility without premium or penalty.

Guarantors. All obligations under the senior secured credit facility are expected to be unconditionally guaranteed by Parent and each of Parent s and the borrower s direct and indirect wholly owned domestic subsidiaries.

Security. All obligations of the borrower and each guarantor under the senior secured credit facility are expected to be secured by, subject to certain exceptions to be set forth in the loan documentation, a perfected first priority lien and security interest in:

- all shares of capital stock of or other ownership interest (including intercompany debt) in the borrower and each present and future U.S. subsidiary of the borrower or a guarantor;
- all non-voting stock and 66 percent of the shares of voting stock of or other ownership interest (including intercompany debt) in each present and future foreign subsidiary of the borrower or a guarantor;
- all non-voting stock (or other ownership interests) and intercompany debt in each present and future foreign subsidiary of the borrower or a guarantor and 66% of the voting stock of all present and future first-tier foreign subsidiaries;
- all existing and future property and assets, real and personal, of the borrower or a guarantor (subject to certain exceptions); and
- all proceeds and products of the foregoing property and assets.

Covenants, Representations and Warranties. The senior secured credit facility is expected to contain customary representations and warranties and customary affirmative and negative covenants, including, among other things, absence of any material adverse change, restrictions on indebtedness, investments, sales of assets, mergers and acquisitions, liens and dividends and other distributions. The senior secured credit facility will require the borrower to comply with consolidated leverage and interest coverage ratios.

Events of Default. Events of default under the senior secured credit facility are expected to include, among other things:

the failure to pay principal when due or to pay interest or other amounts within three business days after they become due under the loan documentation;

any representation or warranty proving to have been materially incorrect when made or confirmed;

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- the failure to perform or observe covenants in the loan documentation within a specified period of time;
- the incurrence of a default upon other indebtedness in an amount to be agreed upon in the loan documentation;
- involvement in bankruptcy or insolvency proceedings, with grace periods for involuntary proceedings;
- the receipt of a monetary judgment in an amount to be agreed upon in the loan documentation;
- impairment of loan documentation or security;
- change of ownership or operating control; and
- standard defaults with respect to provisions of the Employee Retirement Income Security Act of 1974, as amended.

Expenses and Indemnity. The borrower will pay all of the senior administrative agent s and the senior lead arrangers reasonable out-of-pocket expenses upon consummation of the merger and all reasonable out-of-pocket expenses of the administrative agent in connection with the administration and enforcement of the loan documentation. The borrower will indemnify and hold harmless the senior administrative agent, each senior lead arranger, each senior lender and each of their affiliates and their officers, directors, employees, agents and advisors from claims and losses relating to the debt financing and related transactions, except to the extent resulting from gross negligence or willful misconduct of the indemnified party.

Unsecured Senior Notes Offering

Seitel is expected to issue new unsecured senior notes yielding gross proceeds of $400.0 million that will be used, together with the other sources of funds described in this section of the proxy statement, to finance the merger, to repay indebtedness of Seitel and to pay fees, commissions and expenses incurred in connection with the merger. The senior notes are expected to be offered to qualified institutional buyers, as that term is defined in Rule 144A under the Securities Act and to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act. As a result, the senior notes are not expected to be registered under the Securities Act and may not be offered or sold in the United States absent registration thereunder or an applicable exemption from the registration requirements. The debt commitment letter, which is described in this section under the subheading Debt Commitment Letter, provides for a $400.0 million senior bridge loan facility that will be available in the event that the contemplated offering of unsecured senior notes does not take place at the time the merger is completed.

Although the interest rate, interest payment dates, maturity and other material terms of the unsecured senior notes have not been finalized, we expect that the unsecured senior notes will have terms customary for unsecured senior note offerings of issuers similar to the borrower, including customary covenants and closing conditions.

Bridge Loan Facility

General. If the expected offering of $400.0 million of unsecured senior notes by the borrower as described above under Unsecured Senior Notes Offering is not consummated at the time the merger is completed, up to $400.0 million of the senior bridge loan facility will be drawn by the borrower concurrently with the completion of the merger. The bridge loan facility will initially be comprised of senior increasing rate loans, or bridge loans. This indebtedness will be senior to all indebtedness of the borrower, except that it shall be pari passu to the indebtedness under the senior secured credit facility. The proceeds of the bridge loan facility will be used, together with the other sources of funds described in this section of the proxy statement, to finance, in part, the merger, to repay indebtedness of Seitel and to pay costs and expenses incurred in connection with the merger.

The bridge loan facility is expected to mature one year from the date of the borrowing. However, if on the maturity date of the bridge loan facility the bridge loans have not been repaid in full in cash and certain specified defaults do not exist, the then outstanding principal under the bridge loans will be satisfied through the issuance

and delivery of an equal principal amount of senior rollover loans. These rollover loans will have a maturity date of six years from the date they are issued.

At the option of a lender under the bridge loan facility, the rollover loans may be exchanged for an equal principal amount of senior exchange notes of the borrower with a maturity date six years from the issuance of the rollover loans. Within 90 days from the issuance date of the rollover loans, the borrower must file with the SEC a shelf registration statement under the Securities Act to cover resales of the senior exchange notes for which the rollover loans may be exchanged. The borrower must use reasonable best efforts to cause the shelf registration statement to be declared effective under the Securities Act within 150 days from the issuance date of the rollover loans.

Interest Rate. The bridge loans are expected to bear interest initially:

- if the corporate ratings of the borrower are rated at least B3 by Moody s and B- by S&P (in each case with at least a stable outlook), an annual rate equal to the greater of (1) three-month LIBOR plus 4.75 percent or (2) 10.0 percent; and

- if the corporate ratings of the borrower are not rated at least B3 by Moody s and B- by S&P (in each case with at least a stable outlook), an annual rate equal to the greater of (1) three-month LIBOR plus 5.75 percent or (2) 11.0 percent.

However, if the bridge loans are not repaid in full by the end of the first three months following the issuance date, the applicable interest rate otherwise in effect will increase by 0.50 percent and shall thereafter increase by an additional 0.50 percent at the end of each subsequent three-month period for so long as the bridge loans are outstanding, up to a maximum interest rate of (1) 13.0 percent per year (subject to a 12.5 percent cash interest cap, with the remainder to be amortized) if the expected ratings are achieved and (2) otherwise, 14.0 percent per year (subject to a 13.5 percent per year cash interest cap, with the remainder to be amortized). Interest is payable quarterly in arrears.

Rollover loans will initially bear interest at the applicable interest rate in respect of the bridge loan facility as of the date of the issuance of the rollover loans. This rate will increase by 0.50 percent at the end of each three-month period for so long as the rollover loans are outstanding, up to a maximum interest rate of (1) 13.0 percent per year (subject to a 12.5 percent cash interest cap, with the remainder to be amortized) if the expected ratings are achieved and (2) otherwise, 14.0 percent per year (subject to a 13.5 percent per year cash interest cap, with the remainder to be amortized). The senior exchange notes will initially bear interest at the same rate as the rollover loan for which it is exchanged. Thereafter, the interest rate will continue to increase as provided for rollover loans. Each holder of a senior exchange note will have the option to fix the interest rate on the senior exchange note to a rate that is equal to the then applicable rate of interest borne by the senior exchange notes.

Prepayments and Redemptions. Amounts due under the bridge loan facility may be prepaid, in whole or in part, at the option of the borrower, at any time upon not less than 10 days prior written notice at a price of 100 percent of par plus accrued interest to the prepayment date. Each fixed-rate senior note (as described above) will generally not be prepayable for four years from the loan closing date. Thereafter, such senior notes may be prepaid by the borrower at par plus accrued interest, plus a premium equal to 50 percent of the coupon in effect on the date of issuance of the senior notes, which premium will decline ratably on each yearly anniversary to zero two years prior to the maturity of the senior notes.

Subject to exceptions to be contained in the loan documentation and to any prior claims of the lenders under the senior secured credit facility, the borrower must prepay amounts due under the bridge loan facility at 100 percent of the principal amount plus accrued interest to the prepayment date from the net proceeds of:

- an offering of debt securities under the terms and conditions described in this section under the subheading Unsecured Senior Notes Offering;

- the issuance of any other debt or equity securities, subject to exceptions to be determined;

assets sales, subject to exceptions to be determined; and

a percentage to be agreed of excess cash flow of the borrower and its subsidiaries.

The borrower must also prepay amounts due under the bridge loan facility upon any change in control of the borrower at a price of 101 percent of par plus accrued interest.

Guarantors. Each of the guarantors under the senior secured credit facility will guarantee all obligations under the senior bridge loan facility on a senior basis.

Security. If the borrower s corporate ratings are rated at least B3 by Moody s and B- by S&P (in each case with at least a stable outlook), the borrower s obligations under the bridge loan facility will not be secured by any assets of the borrower or its subsidiaries. If the corporate ratings of the borrower are not rated at least B3 by Moody s and B- by S&P (in each case with at least a stable outlook), the bridge lenders shall have a valid and perfected second priority lien and security interest (subject to an intercredit agreement to be agreed to by the senior lenders, the bridge lenders and the borrowers) in the same collateral securing the senior secured credit facility.

Equity Commitment Letter

On October 31, 2006, ValueAct Capital and Parent entered into a commitment letter, which we refer to in this proxy statement as the equity commitment letter, pursuant to which ValueAct Capital committed to provide up to $145.1 million of equity to Parent. The proceeds of this equity investment shall be used solely for the equity contribution required to consummate the merger. The equity commitment is subject to the satisfaction of the conditions to the obligations of Parent to complete the merger as set forth in the merger agreement. ValueAct Capital may assign its interests and obligations under the equity commitment letter to any one or more of its affiliates under common equity ownership without obtaining the consent of Parent. No person or entity other than ValueAct Capital, Parent or Seitel has any rights under the equity commitment letter.

ValueAct Capital s equity commitment will terminate upon the earlier of:

termination of the merger agreement pursuant to its terms; and

the consummation of the transactions contemplated by the merger agreement.

At the closing of the equity financing, Parent will cause the surviving corporation to reimburse ValueAct Capital and its affiliates on demand for all reasonable expenses incurred by or on behalf of ValueAct Capital in connection with the equity financing and any related documentation, including the equity commitment letter and the merger agreement, or the administration, amendment, modification or waiver of any of them.

Estimated Fees and Expenses

In general, all fees and expenses incurred in connection with the merger will be paid by the party incurring those fees and expenses.

If the merger is completed, Seitel, as the Surviving Corporation, will pay or reimburse ValueAct Capital and the Rollover Investors, unless certain circumstances exist which cause ValueAct Capital or the Rollover Investors not to be entitled to reimbursement, for any and all out-of-pocket fees and expenses incurred in connection with the merger. If the merger agreement is terminated under certain circumstances described under The Merger Agreement Termination Fee and Expenses, Seitel has agreed to pay Parent all reasonable out-of-pocket documented fees and expenses (including all fees and expenses of counsel, accountants, consultants, financial advisors and investment bankers of Parent and its affiliates), up to $1 million in the aggregate incurred by Parent or Acquisition Co. or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of the merger agreement and the financing and all other

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matters related to the merger, credited in certain circumstances against the Termination Fee, if such fee becomes payable.

Except as set forth below, Seitel will not pay any fees or commissions to any broker, dealer or other person in connection with the merger.

The following is an estimate of fees and expenses to be incurred by Seitel in connection with the merger:

Description	Amount
Financing fees and expenses and other professional fees	$ 15,500,000
Financial advisory, legal and accounting fees	$ 12,300,000
HSR Act filing fees	$ 280,000
SEC filing fees	$ 41,227
Printing, proxy solicitation and mailing costs	$
Miscellaneous	$ 800,000
Total	$ 28,641,227

In addition, it is expected that Parent and/or Acquisition Co. will incur approximately $ million of financing costs, as well as legal and other advisory fees.

These expenses will not reduce the merger consideration to be received by Seitel s unaffiliated stockholders.

Regulatory Approvals

The following discussion summarizes the material regulatory requirements that we believe relate to the merger, although we may determine that additional consents from or notifications to governmental agencies are necessary or appropriate.

Under the H-S-R Act, we cannot complete the merger until we have submitted certain information to the Antitrust Division of the Department of Justice and the Federal Trade Commission and satisfied the statutory waiting period requirements. Both Seitel and Parent have made the necessary initial filings under the H-S-R Act on November 17, 2006. The applicable waiting period under the H-S-R Act will expire at 11:59 pm on December 18, 2006, unless earlier terminated or extended by a request for additional information and documentary material, which we refer to in this proxy statement as a Second Request. If the parties receive a Second Request, the waiting period is tolled until Seitel and Parent substantially comply with such Second Request and observe a second thirty calendar-day waiting period, unless earlier terminated. The parties expect to receive clearance under the H-S-R Act prior to the Termination Date in the merger agreement, but there can be no assurance that this will occur. Also, after clearance under the H-S-R Act, nothing prevents the Department of Justice or the Federal Trade Commission from later challenging the merger on antitrust grounds.

In the merger agreement, the parties have agreed to cooperate with each other to make all filings with governmental authorities and to obtain all governmental approvals and consents necessary to consummate the merger, subject to certain exceptions and limitations. It is a condition to the consummation of the merger that required governmental consents and approvals shall have been obtained before the effective date of the merger.

Litigation Related to the Merger

On November 6, 2006, a purported class action petition was filed in the District Court of Harris County, Texas, 189th Judicial District (No. 2006-71302) by Todd Augenbaum, an alleged stockholder of Seitel. The petition names as defendants Seitel and each member of its board of directors as well as ValueAct Capital, Parent and Acquisition Co. The petition alleges, among other things, that (1) the individual defendants breached fiduciary duties owed to Seitel s stockholders in connection with Seitel entering into the merger agreement with

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Parent and Acquisition Co., (2) Seitel, Parent, Acquisition Co. and ValueAct Capital aided and abetted the alleged breaches of fiduciary duties, and (3) the merger consideration is unfair and inadequate. The plaintiffs seek, among other things, an injunction against the consummation of the merger and attorney s fees. Seitel believes that the lawsuit is without merit and intends to defend it vigorously. There can be no assurance, however, that Seitel will be successful in its defense of this lawsuit. The allegations in this lawsuit may be amended and additional lawsuits could be filed.

Provisions for Unaffiliated Security Holders

No provision has been made to grant Seitel s stockholders, other than ValueAct Capital, access to the corporate files of Seitel, any other party to the merger agreement or any Rollover Investor or to obtain counsel or appraisal services at the expense of Seitel or any other such party.

APPRAISAL RIGHTS

Under the DGCL, you have the right to dissent from the merger and to receive payment in cash for the fair value of your Seitel common stock as determined by the Delaware Court of Chancery, together with a fair rate of interest, if any, as determined by the court, in lieu of the consideration you would otherwise be entitled to receive pursuant to the merger agreement. These rights are known as appraisal rights. Seitel s stockholders electing to exercise appraisal rights must comply with the provisions of Section 262 of the DGCL, which we refer to in this proxy statement as Section 262, in order to perfect their rights. Seitel will require strict compliance with the statutory procedures.

The following is intended as a summary of the material provisions of the Delaware statutory procedures required to be followed by a stockholder in order to perfect such holder s appraisal rights.

This summary, however, is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Section 262, the full text of which appears in Annex C to this proxy statement. Failure to precisely follow any of the statutory procedures set forth in Section 262 may result in a termination or waiver of your appraisal rights.

Section 262 requires that stockholders be notified that appraisal rights will be available not less than 20 days before the stockholders meeting to vote on the merger. A copy of Section 262 must be included with such notice. This proxy statement constitutes Seitel s notice to its stockholders of the availability of appraisal rights in connection with the merger in compliance with the requirements of Section 262. If you wish to consider exercising your appraisal rights, you should carefully review the text of Section 262 contained in Annex C since failure to timely and properly comply with the requirements of Section 262 will result in the loss of your appraisal rights under the DGCL.

If you elect to demand appraisal of your shares, you must satisfy each of the following conditions:

You must deliver to Seitel a written demand for appraisal of your shares before the vote on the adoption of the merger agreement is taken. This written demand for appraisal must be in addition to and separate from any proxy or vote abstaining from or voting against the adoption of the merger agreement. Voting against, abstaining from voting or failing to vote for the adoption of the merger agreement by itself does not constitute a proper demand for appraisal under Section 262.

You must not vote in favor of the proposal to adopt the merger agreement. A vote in favor of the proposal to adopt the merger agreement, by proxy, over the Internet, by telephone or in person, will, but failure to vote against such proposal will not, constitute a waiver of your appraisal rights in respect of the shares so voted and will nullify any previously filed written demands for appraisal. If you fail to comply with either of these conditions and the merger is completed, you will be entitled to receive the cash payment for your shares of Seitel common stock as provided for in the merger agreement, but you will not be entitled to seek appraisal of your shares of Seitel common stock under Section 262.

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All demands for appraisal should be addressed to Seitel, Inc., 10811 S. Westview Circle Drive, Building C, Suite 100, Houston, Texas 77043, Attention: Corporate Secretary, and must be delivered before the vote on the merger agreement is taken at the special meeting, and should be executed by, or on behalf of, the record holder of the shares of Seitel common stock. The demand must reasonably inform Seitel of the identity of the stockholder and the intention of the stockholder to demand appraisal of his, her or its shares.

To be effective, a demand for appraisal by a holder of Seitel common stock must be made by, or in the name of, such registered stockholder, fully and correctly, as the stockholder s name appears on his or her stock certificate(s). Beneficial owners who do not also hold the shares of record may not directly make appraisal demands to Seitel. The beneficial holder must, in such cases, have the registered owner, such as a broker or other nominee, submit the required demand in respect of those shares. If shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of a demand for appraisal should be made by or for the fiduciary; and if the shares are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or for all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, he or she is acting as agent for the record owner. A record owner, such as a broker, who holds shares as a nominee for others, may exercise his or her right of appraisal with respect to the shares held for one or more beneficial owners, while not exercising this right for other beneficial owners. In that case, the written demand should state the number of shares as to which appraisal is sought. Where no number of shares is expressly mentioned, the demand will be presumed to cover all shares held in the name of the record owner.

If you hold your shares of Seitel common stock in a brokerage account or in other nominee form and you wish to exercise appraisal rights, you should consult with your broker or the other nominee to determine the appropriate procedures for the making of a demand for appraisal by the nominee.

Within ten days after the effective time of the merger, the Surviving Corporation must give written notice that the merger has become effective to each Seitel stockholder who has properly filed a written demand for appraisal and who did not vote in favor of the merger agreement. At any time within sixty days after the effective time, any stockholder who has demanded an appraisal has the right to withdraw the demand and to accept the cash payment specified by the merger agreement for his, her or its shares of Seitel common stock. Within 120 days after the effective time of the merger, any stockholder who has complied with Section 262 will, upon written request to the Surviving Corporation, be entitled to receive a written statement setting forth the aggregate number of shares not voted in favor of the merger agreement and with respect to which demands for appraisal rights have been received and the aggregate number of holders of such shares. Such written statement will be mailed to the requesting stockholder within ten days after such written request is received by the Surviving

Corporation or within ten days after expiration of the period for delivery of demands for appraisal, whichever is later. Within 120 days after the effective time, either the Surviving Corporation or any stockholder who has complied with the requirements of Section 262 may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares held by all stockholders entitled to appraisal. Upon the filing of the petition by a stockholder, service of a copy of such petition will be made upon the S