SEITEL INC
Form 10-Q
November 10, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

Commission File Number: 001-10165

SEITEL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0025431**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10811 S. Westview Circle Drive	
Building C, Suite 100	
Houston, Texas	**77043**
(Address of principal executive offices)	**(Zip Code)**

(713) 881-8900

Registrant s telephone number, including area code:

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

Yes x No ¨

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

Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

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

Yes ¨ No x

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

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS
SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

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

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

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

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SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands)

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

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

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SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands)

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

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

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SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)

(In thousands)

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

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

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SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER S EQUITY (DEFICIT) (Unaudited)

(In thousands, except share amounts)

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

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

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SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

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

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

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

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

September 30, 2011

NOTE A-BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Seitel, Inc. and its subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. In preparing the Company s financial statements, a number of estimates and assumptions are made by management that affect the accounting for and recognition of assets, liabilities, revenues and expenses. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The condensed consolidated balance sheet of the Company as of December 31, 2010 has been derived from the audited balance sheet of the Company as of that date. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

NOTE B-REVENUE RECOGNITION

Revenue from Data Acquisition

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

Underwriting revenue is recognized throughout the creation period using the proportional performance method based upon costs incurred and work performed to date as a percentage of total estimated costs and work required. Management believes that this method is the most reliable and representative measure of progress for its data creation projects. On average, the duration of the data creation process is approximately one year. Under these contracts, the Company creates new seismic data designed in conjunction with its customers and specifically suited to the geology of the area using the most appropriate technology available.

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

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

processing the data.

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

The customers access to and use of the results of the work performed and of the newly acquired, processed data is governed by a license agreement, which is a separate agreement from the acquisition contract. The Company s acquisition contracts require the customer either to have a license agreement in place or to execute one at the time the acquisition contract is signed. The Company maintains sole ownership of the newly acquired data, which is added to its library, and is free to license the data to other customers when any customers exclusivity period ends.

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Revenue from Non-Exclusive Data Licenses

The Company recognizes a substantial portion of its revenue from data licenses sold after any exclusive license period. These are sometimes referred to as resale licensing revenue, post-acquisition license sales or shelf sales.

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

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

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

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

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

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

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

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

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

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

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

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

- the sales price is fixed and determinable;

collection is reasonably assured;

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

the data is currently available for delivery; and

the license term has begun.

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

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

Revenue from Non-Monetary Exchanges

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

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advanced data processing services on selected existing data in exchange for a non-exclusive license to selected data from the Company s library. These exchanges are referred to as non-monetary exchanges. A non-monetary exchange for data always complies with the following criteria:

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

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

Fair value of the data exchanged is determined using a multi-step process as follows:

- First, the Company considers the value of the data or services received from the customer. In determining the value of the data received, the Company considers the age, quality, current demand and future marketability of the data and, in the case of 3D seismic data, the cost that would be required to create the data. In addition, the Company applies a limitation on the value it assigns per square mile on the data received. In determining the value of the services received, the Company considers the cost of such similar services that it could obtain from a third party provider.
- Second, the Company determines the value of the license granted to the customer. Typically, the range of cash transactions by the Company for licenses of similar data during the prior six months are evaluated. In evaluating the range of cash transactions, the Company does not consider transactions that are disproportionately high or low.
- Third, the Company obtains concurrence from an independent third party on the portfolio of all non-monetary exchanges for data of $750,000 or more in order to support the Company s valuation of the data received. The Company obtains this concurrence on an annual basis, usually in connection with the preparation of its annual financial statements.

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

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

Revenue from Seitel Solutions

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

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NOTE C-SEISMIC DATA LIBRARY

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

Costs of Seismic Data Library

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

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

For newly created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data. Such costs include salaries and benefits of the Company s processing personnel and certain other costs incurred for the benefit of the processing activity. The Company believes that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for internal data processing were $518,000 and $418,000 for the three months ended September 30, 2011 and 2010, respectively, and $1,420,000 and $1,228,000 for the nine months ended September 30, 2011 and 2010, respectively.

Data Library Amortization

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

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

The actual aggregate rate of amortization depends on the specific seismic surveys licensed and selected by the Company s customers during the period and the amount of straight-line amortization recorded. The income forecast amortization rates can vary by component and, as of October 1, 2011, is 70% for all components. For those seismic surveys which have been fully amortized, no amortization expense is required on revenue recorded.

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

Seismic Data Library Impairment

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

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

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

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

The estimation of future cash flows and fair value is highly subjective and inherently imprecise. Estimates can change materially from period to period based on many factors, including those described in the preceding paragraph. Accordingly, if conditions change in the future, the Company may record impairment losses relative to its seismic data library investment, which could be material to any particular reporting period.

The Company did not have any impairment charges during the nine months ended September 30, 2011 or 2010.

NOTE D-INCOME TAXES

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

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NOTE E-DEBT

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

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

9.75% Senior Unsecured Notes: On February 14, 2007, the Company issued, in a private placement, $400.0 million aggregate principal amount of 9.75% senior notes due 2014 (the 9.75% Senior Notes). The proceeds from the 9.75% Senior Notes were used to partially fund the transactions in connection with the February 14, 2007 merger of Seitel Acquisition Corp. with and into the Company pursuant to a merger agreement between the Company and Seitel Acquisition Corp. and Seitel Holdings, Inc. dated October 31, 2006 (the Merger). As required by their terms, the 9.75% Senior Notes were exchanged for senior notes of like amounts and terms in a publicly registered exchange offer in August 2007. On July 1, 2011, the Company redeemed $125.0 million aggregate principal amount of the 9.75% Senior Notes outstanding in accordance with the terms and conditions of the indenture governing the 9.75% Senior Notes. The redemption price was equal to 104.875% of the principal amount of the notes, plus accrued and unpaid interest. Accordingly, the Company recorded a loss on early extinguishment of debt of $7.9 million, which included the write-off of unamortized issue expenses, for the three and nine months ended September 30, 2011. The remaining notes mature on February 15, 2014. Interest is payable in cash, semi-annually in arrears on February 15 and August 15 of each year. The 9.75% Senior Notes are unsecured and are guaranteed by substantially all of the Company s domestic subsidiaries on a senior basis. The 9.75% Senior Notes contain restrictive covenants which limit the Company s ability to, among other things, incur additional indebtedness, pay dividends and complete mergers, acquisitions and sales of assets.

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

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

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

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

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

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

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

NOTE F-SHAREHOLDER S EQUITY

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

NOTE G-FAIR VALUE MEASUREMENTS

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

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

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
At September 30, 2011:				
Cash equivalents	$ 37,515	$ 37,515	$	$
Investment in stock options related to equity securities	174		174	
At December 31, 2010:				
Cash equivalents	$ 89,581	89,581	$	$
Investment in equity securities	2,232	2,232		
Investment in stock options related to equity securities	870		870	

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

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

Investment in equity securities are measured at fair value using closing stock prices from an active international market and are classified within Level 1 of the valuation hierarchy. Investment in stock options related to equity securities are measured at fair value using the Black-Scholes option pricing model based on observable market inputs such as stock prices, interest rates and expected volatility assumptions. Based on these inputs, these assets are classified within Level 2 of the valuation hierarchy.

During the nine months ended September 30, 2011 and 2010, the Company sold a portion of its investment in equity securities for proceeds totaling $2.5 million and $52,000, respectively. Total realized gains were equal to proceeds received.

Other Financial Instruments:

Debt Based upon the rates available to the Company, the fair value of the 9.75% Senior Notes and the note payable to a former executive approximated $253.5 million as of September 30, 2011, compared to the book value of $275.1 million. The quoted market price of the 9.75% Senior Notes was $253.4 million at September 30, 2011. The fair value of the 9.75% Senior Notes, the 11.75% Senior Notes and the note payable to a former executive approximated $386.1 million as of December 31, 2010, compared to the book value of $402.2 million. The quoted market price of the 9.75% Senior Notes was $384.0 million at December 31, 2010.

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

NOTE H-RELATED PARTY TRANSACTIONS

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

NOTE I-STATEMENT OF CASH FLOW INFORMATION

Cash and cash equivalents at September 30, 2011 and December 31, 2010 includes $122,000 and $186,000, respectively of restricted cash related to collateral on seismic operations bonds. The balance at September 30, 2011 also includes $125,000 (Canadian) of restricted cash posted as security against Company issued credit cards for Olympic.

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

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

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

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

NOTE J-COMMITMENTS AND CONTINGENCIES

The Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolutions of these matters should not be material to the Company s financial position, results of operations or cash flows. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At September 30, 2011, the Company has recorded the estimated amount of potential exposure it may have with respect to litigation and claims. Such amounts are not material to the financial statements.

NOTE K-RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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NOTE L-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

On February 14, 2007, the Company completed a private placement of 9.75% Senior Notes in the aggregate principal amount of $400.0 million. As of September 30, 2011, $275.0 million aggregate principal amount remains outstanding. The Company s payment obligations under the 9.75% Senior Notes are jointly and severally guaranteed by certain of its 100% owned U.S. subsidiaries (Guarantor Subsidiaries). All subsidiaries of the Company that do not guaranty the 9.75% Senior Notes are referred to as Non-Guarantor Subsidiaries.

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

The following consolidating condensed financial information presents the consolidating condensed balance sheets as of September 30, 2011 and December 31, 2010, and the consolidating condensed statements of operations and statements of cash flows for the nine months ended September 30, 2011 and September 30, 2010 of (a) the Company; (b) the Guarantor Subsidiaries; (c) the Non-Guarantor Subsidiaries; (d) elimination entries; and (e) the Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis.

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

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CONSOLIDATING CONDENSED BALANCE SHEET

As of September 30, 2011

(In thousands)

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

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CONSOLIDATING CONDENSED BALANCE SHEET

As of December 31, 2010

(In thousands)

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

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CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Nine Months Ended September 30, 2011

(In thousands)

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

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CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Nine Months Ended September 30, 2010

(In thousands)

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

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CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Nine Months Ended September 30, 2011

(In thousands)

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

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CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Nine Months Ended September 30, 2010

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	$ (39,224)	$ 69,025	$ 19,841	$	$ 49,642
Cash flows from investing activities:					
Cash invested in seismic data		(19,070)	(10,972)		(30,042)
Cash paid to acquire property, equipment and other		(153)	(45)		(198)
Net proceeds from sale of marketable securities		52			52
Return of capital from subsidiary		4,501	(4,501)		
Advances to Seitel Holdings, Inc.		(9)			(9)
Net cash used in investing activities		(14,679)	(15,518)		(30,197)
Cash flows from financing activities:					
Principal payments on notes payable	(40)				(40)
Principal payments on capital lease obligations			(108)		(108)
Borrowings on line of credit			10		10
Payments on line of credit			(10)		(10)
Costs of debt and equity transactions	(65)				(65)
Intercompany transfers	39,329	(39,329)			
Net cash provided by (used in) financing activities	39,224	(39,329)	(108)		(213)
Effect of exchange rate changes			121		121
Net increase in cash and cash equivalents		15,017	4,336		19,353
Cash and cash equivalents at beginning of period		24,221	2,049		26,270
Cash and cash equivalents at end of period	$	$ 39,238	$ 6,385	$	$ 45,623

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING INFORMATION

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

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

Overview

General

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

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

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Principal Factors Affecting Our Business

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

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

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

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

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

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

Non-GAAP Key Performance Measures

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

The following are the key performance measures considered by management.

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

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

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

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

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