

SEITEL INC
Form 10-Q
May 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 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)

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

Registrant's telephone number, including area code: (713) 881-8900
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

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(Check one):

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

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

Yes No

As of May 6, 2011, there were 100 shares of the Company's common stock outstanding, par value \$.001 per share.

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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**
SEITEL, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS***(In thousands, except share and per share amounts)*

| | (Unaudited) March 31, 2011 | December 31, 2010 |
|---|----------------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 67,690 | \$ 89,971 |
| Receivables | | |
| Trade, net of allowance for doubtful accounts of \$2,529 and \$2,556, respectively | 31,744 | 34,404 |
| Notes and other | 1,367 | 84 |
| Due from Seitel Holdings, Inc. | 157 | 156 |
| Net seismic data library, net of accumulated amortization of \$666,860 and \$622,030, respectively | 108,669 | 106,104 |
| Net property and equipment, net of accumulated depreciation and amortization of \$10,354 and \$9,704, respectively | 5,188 | 5,446 |
| Investment in marketable securities | 2,438 | 3,102 |
| Prepaid expenses, deferred charges and other | 13,494 | 10,249 |
| Intangible assets, net of accumulated amortization of \$25,578 and \$23,777, respectively | 31,872 | 33,117 |
| Goodwill | 210,407 | 208,050 |
| Deferred income taxes | 326 | 326 |
| TOTAL ASSETS | \$ 473,352 | \$ 491,009 |
| LIABILITIES AND STOCKHOLDER'S DEFICIT | | |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 38,934 | \$ 53,170 |
| Income taxes payable | 350 | 8 |
| Debt | | |
| Senior Notes | 402,030 | 402,056 |
| Notes payable | 140 | 154 |
| Obligations under capital leases | 3,434 | 3,394 |
| Deferred revenue | 29,737 | 37,121 |
| Deferred income taxes | 2,347 | 2,128 |
| TOTAL LIABILITIES | 476,972 | 498,031 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDER'S DEFICIT | | |
| Common stock, par value \$.001 per share; 100 shares authorized, issued and outstanding at March 31, 2011 and December 31, 2010 | - | - |
| Additional paid-in capital | 277,752 | 277,488 |

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| | | |
|---|----------------|----------------|
| Retained deficit | (310,890) | (311,401) |
| Accumulated other comprehensive income | 29,518 | 26,891 |
| TOTAL STOCKHOLDER S DEFICIT | (3,620) | (7,022) |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDER S DEFICIT | \$ 473,352 | \$ 491,009 |

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

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

| | Three Months Ended March 31, | |
|---------------------------------------|---------------------------------|--------------------|
| | 2011 | 2010 |
| REVENUE | \$ 59,496 | \$ 32,376 |
| EXPENSES: | | |
| Depreciation and amortization | 42,414 | 38,656 |
| Cost of sales | 16 | 37 |
| Selling, general and administrative | 7,565 | 6,516 |
| | 49,995 | 45,209 |
| INCOME (LOSS) FROM OPERATIONS | 9,501 | (12,833) |
| Interest expense, net | (10,159) | (10,149) |
| Foreign currency exchange gains | 232 | 208 |
| Gain on sale of marketable securities | 1,487 | 52 |
| Other income | 49 | 55 |
| Income (loss) before income taxes | 1,110 | (22,667) |
| Provision (benefit) for income taxes | 599 | (425) |
| NET INCOME (LOSS) | \$ 511 | \$ (22,242) |

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

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2011 | 2010 |
| Net income (loss) | \$ 511 | \$ (22,242) |
| Unrealized gain on securities held as available for sale, net of tax: | | |
| Unrealized net holding gain arising during the period | 823 | 1,027 |
| Less: Reclassification adjustment for realized gains included in earnings | (1,487) | (52) |
| Foreign currency translation adjustments | 3,291 | 4,254 |
| Comprehensive income (loss) | \$ 3,138 | \$ (17,013) |

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

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

(In thousands, except share amounts)

| | Common Stock | | Additional | Retained | Accumulated |
|--|--------------|--------|------------|--------------|---------------|
| | Shares | Amount | Paid-In | Deficit | Other |
| | | | Capital | | Comprehensive |
| | | | | | Income |
| Balance, December 31, 2010 | 100 | \$ - | \$ 277,488 | \$ (311,401) | \$ 26,891 |
| Amortization of stock-based compensation costs | - | - | 264 | - | - |
| Net income | - | - | - | 511 | - |
| Foreign currency translation adjustments | - | - | - | - | 3,291 |
| Unrealized gain on marketable securities, net of tax | - | - | - | - | 823 |
| Reclassification adjustment for realized gains on marketable securities included in earnings, net of tax | - | - | - | - | (1,487) |
| Balance, March 31, 2011 | 100 | \$ - | \$ 277,752 | \$ (310,890) | \$ 29,518 |

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

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

| | Three Months Ended March 31, | |
|--|---------------------------------|----------------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Reconciliation of net loss to net cash provided by operating activities: | | |
| Net income (loss) | \$ 511 | \$ (22,242) |
| Depreciation and amortization | 42,414 | 38,656 |
| Deferred income tax provision (benefit) | 205 | (457) |
| Amortization of deferred financing costs | 516 | 421 |
| Amortization of debt premium | (26) | (24) |
| Amortization of stock-based compensation | 264 | 531 |
| Amortization of favorable facility lease | 73 | 69 |
| Non-cash other income | (48) | - |
| Non-cash revenue | (1,240) | (1,728) |
| Gain on sale of marketable securities | (1,487) | (52) |
| Decrease in receivables | 1,482 | 7,607 |
| Decrease in other assets | 188 | 42 |
| Decrease in deferred revenue | (6,358) | (2,163) |
| Decrease in accounts payable and other liabilities | (13,903) | (11,269) |
| Net cash provided by operating activities | 22,591 | 9,391 |
| Cash flows from investing activities: | | |
| Cash invested in seismic data | (46,096) | (8,981) |
| Cash paid to acquire property, equipment and other | (239) | (38) |
| Net proceeds from sale of marketable securities | 1,487 | 52 |
| Cash from sale of property, equipment and other | 35 | - |
| Advances to Seitel Holdings, Inc. | (1) | (2) |
| Net cash used in investing activities | (44,814) | (8,969) |
| Cash flows from financing activities: | | |
| Principal payments on notes payable | (14) | (13) |
| Principal payments on capital lease obligations | (40) | (35) |
| Borrowings on line of credit | 737 | - |
| Payment on line of credit | (737) | - |
| Payment of debt issue costs | - | (65) |
| Net cash used in financing activities | (54) | (113) |
| Effect of exchange rate changes | (4) | (10) |
| Net increase (decrease) in cash and equivalents | (22,281) | 299 |
| Cash and cash equivalents at beginning of period | 89,971 | 26,270 |

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| | | |
|---|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 67,690 | \$ 26,569 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 19,679 | \$ 19,644 |
| Supplemental schedule of non-cash investing activities: | | |
| Additions to seismic data library | \$ 190 | \$ 1,952 |

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

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

March 31, 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 months ended March 31, 2011 are not necessarily indicative of the results that may be expected for any other quarter of 2011 or 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

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data, which is added to its library, and is free to license the data to other customers when any customers' exclusivity period ends.

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

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

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

In non-monetary exchange transactions, the Company records a data library asset for the seismic data received or processed at the time the contract is entered into or the data is completed, as applicable, and recognizes revenue on the transaction in equal value in accordance with its policy on revenue from data licenses, which is, when the data is selected by the customer, or revenue from data acquisition, as applicable. 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 | |
|--|--------------------|----------|
| | March 31, | |
| | 2011 | 2010 |
| Seismic data library additions | \$ 190 | \$ 1,952 |
| Revenue recognized based on specific data licenses or selections of data | 201 | 1,674 |
| Revenue recognized related to acquisition contracts | 1,039 | 54 |
| Revenue from Seitel Solutions | | |

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

NOTE C-SEISMIC DATA LIBRARY

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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

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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.

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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 \$455,000 and \$405,000 for the three months ended March 31, 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 April 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) other United States and (g) Canada; (II) United States 2D; (III) Canada 2D; (IV) Gulf of Mexico

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offshore; and (V) international data outside North America. The Company believes that these library components constitute the lowest levels of independently identifiable cash flows.

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

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

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

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

The Company did not have any impairment charges during the three months ended March 31, 2011 or 2010.

NOTE D-DEBT

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

| | March 31, | |
|----------------------------------|------------|----------------------|
| | 2011 | December 31, 2010 |
| 9.75% Senior Notes | \$ 400,000 | \$ 400,000 |
| 11.75% Senior Notes | 2,000 | 2,000 |
| Canadian Credit Facility | - | - |
| Note payable to former executive | 140 | 154 |
| | 402,140 | 402,154 |
| Plus: Premium on debt | 30 | 56 |
| | \$ 402,170 | \$ 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. These 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.

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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 has been 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 are outstanding.

Canadian Credit Facility: The Company's wholly owned subsidiary, Olympic Seismic Ltd. ("Olympic") has a revolving credit facility (the "Canadian Credit Facility") which allows it to borrow up to \$5.0 million (Canadian) subject to an availability formula by way of prime-based loans or letters of credit. The interest rate applicable to borrowings is the bank's prime rate plus 0.75% per annum. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The Canadian Credit Facility is secured by the assets of Olympic, but is not guaranteed by the Company or any of its other U.S. subsidiaries. Available borrowings under the Canadian Credit Facility are equivalent to a maximum of \$5.0 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of Olympic, less prior-ranking claims, if any, relating to inventory or accounts. The Canadian Credit Facility is subject to repayment upon demand and is available from time to time at the bank's sole discretion.

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

NOTE E-FAIR VALUE MEASUREMENTS

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

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

| | Total | Fair Value Measurements Using | | |
|--|-----------|--|--|-------------------------------------|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| At March 31, 2011: | | | | |
| Cash equivalents | \$ 67,628 | \$ 67,628 | \$ - | \$ - |
| Investment in equity securities | 1,112 | 1,112 | - | - |
| Investment in stock options related to equity securities | 1,326 | - | 1,326 | - |
| 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 | - |

The Company had no transfers of assets between any of the above levels during the three months ended March 31, 2011 or March 31, 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 three 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 three months ended March 31, 2011 and 2010, the Company sold a portion of its investment in equity securities for proceeds totaling \$1.5 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, the 11.75% Senior Notes and the note payable to a former executive approximated \$401.1 million as of March 31, 2011, compared to the book value of \$402.1 million. The quoted market price of the 9.75% Senior Notes was \$399.0 million at March 31, 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.

Table of Contents**NOTE F-STATEMENT OF CASH FLOW INFORMATION**

Cash and cash equivalents at March 31, 2011 and December 31, 2010 includes \$186,000 of restricted cash related to collateral on seismic operations bonds.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2011 | 2010 |
| Non-monetary exchanges related to resale licensing revenue | \$ 6,016 | \$ 1,174 |
| Non-monetary exchanges from underwriting of new data acquisition | 352 | 778 |
| Other non-monetary exchanges | 48 | - |
| Less: Non-monetary exchanges for data in progress | (6,226) | - |
| Total non-cash additions to seismic data library | \$ 190 | \$ 1,952 |

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------------|
| | 2011 | 2010 |
| Acquisition revenue on underwriting from non-monetary exchange contracts | \$ 1,039 | \$ 54 |
| Licensing revenue from specific data licenses and selections on non-monetary exchange contracts | 201 | 1,674 |
| Total non-cash revenue | \$ 1,240 | \$ 1,728 |

NOTE G-COMMITMENTS AND CONTINGENCIES

The Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolutions of these matters should not be material to the Company's financial position or results of operation. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At March 31, 2011, the Company did not have any amounts accrued related to litigation and claims.

NOTE H-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. The Company's payment obligations under the 9.75% Senior Notes are jointly and severally guaranteed by certain of its 100% owned U.S. subsidiaries (Guarantor Subsidiaries). All subsidiaries of the Company that do not guaranty the 9.75% Senior Notes are referred to as Non-Guarantor Subsidiaries.

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

The following consolidating condensed financial information presents the consolidating condensed balance sheets as of March 31, 2011 and December 31, 2010, and the consolidating condensed statements of operations and statements of cash flows for the three months ended

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March 31, 2011 and March 31, 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.

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

Table of Contents**CONSOLIDATING CONDENSED BALANCE SHEET**

As of March 31, 2011

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|-------------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ - | \$ 64,235 | \$ 3,455 | \$ - | \$ 67,690 |
| Receivables | | | | | |
| Trade, net | - | 20,639 | 11,105 | - | 31,744 |
| Notes and other | - | 31 | 1,336 | - | 1,367 |
| Due from Seitel Holdings, Inc. | - | 157 | - | - | 157 |
| Intercompany receivables (payables) | 113,969 | (110,271) | (3,698) | - | - |
| Investment in subsidiaries | 252,760 | 414,981 | 1,261 | (669,002) | - |
| Net seismic data library | - | 62,505 | 46,164 | - | 108,669 |
| Net property and equipment | - | 1,288 | 3,900 | - | 5,188 |
| Investment in marketable securities | - | 2,438 | - | - | 2,438 |
| Prepaid expenses, deferred charges and other | 6,473 | 6,565 | 456 | - | 13,494 |
| Intangible assets, net | 900 | 18,871 | 12,101 | - | 31,872 |
| Goodwill | - | 107,688 | 102,719 | - | 210,407 |
| Deferred income taxes | - | 326 | - | - | 326 |
| TOTAL ASSETS | \$ 374,102 | \$ 589,453 | \$ 178,799 | \$ (669,002) | \$ 473,352 |
| LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT) | | | | | |
| Accounts payable and accrued liabilities | \$ 4,921 | \$ 10,371 | \$ 23,642 | \$ - | \$ 38,934 |
| Income taxes payable | 149 | 32 | 169 | - | 350 |
| Senior Notes | 402,030 | - | - | - | 402,030 |
| Notes payable | 140 | - | - | - | 140 |
| Obligations under capital leases | - | - | 3,434 | - | 3,434 |
| Deferred revenue | - | 24,667 | 5,070 | - | 29,737 |
| Deferred income taxes | - | - | 2,347 | - | 2,347 |
| TOTAL LIABILITIES | 407,240 | 35,070 | 34,662 | - | 476,972 |
| STOCKHOLDER'S EQUITY (DEFICIT) | | | | | |
| Common stock | - | - | - | - | - |
| Additional paid-in capital | 277,752 | - | - | - | 277,752 |
| Parent investment | - | 764,752 | 156,908 | (921,660) | - |
| Retained deficit | (310,890) | (212,808) | (39,850) | 252,658 | (310,890) |
| Accumulated other comprehensive income | - | 2,439 | 27,079 | - | 29,518 |
| TOTAL STOCKHOLDER'S EQUITY (DEFICIT) | (33,138) | 554,383 | 144,137 | (669,002) | (3,620) |
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT) | \$ 374,102 | \$ 589,453 | \$ 178,799 | \$ (669,002) | \$ 473,352 |

Table of Contents**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 | \$ 383,030 | \$ 598,355 | \$ 172,245 | \$ (662,621) | \$ 491,009 |

STOCKHOLDER S EQUITY (DEFICIT)

Table of Contents**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****For the Three Months Ended March 31, 2011**

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|---------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| REVENUE | \$ - | \$ 40,058 | \$ 19,756 | \$ (318) | \$ 59,496 |
| EXPENSES: | | | | | |
| Depreciation and amortization | - | 25,552 | 16,862 | - | 42,414 |
| Cost of sales | - | 14 | 2 | - | 16 |
| Selling, general and administrative | 357 | 4,934 | 2,592 | (318) | 7,565 |
| | 357 | 30,500 | 19,456 | (318) | 49,995 |
| INCOME (LOSS) FROM OPERATIONS | (357) | 9,558 | 300 | - | 9,501 |
| Interest expense, net | (5,375) | (4,714) | (70) | - | (10,159) |
| Foreign currency exchange gains | - | 3 | 229 | - | 232 |
| Gain on sale of marketable securities | - | 1,487 | - | - | 1,487 |
| Other income | 1 | - | 48 | - | 49 |
| Income (loss) before income taxes and equity in loss of subsidiaries | (5,731) | 6,334 | 507 | - | 1,110 |
| Provision for income taxes | - | 231 | 368 | - | 599 |
| Equity in income of subsidiaries | 6,242 | 139 | - | (6,381) | - |
| NET INCOME | \$ 511 | \$ 6,242 | \$ 139 | \$ (6,381) | \$ 511 |

Table of Contents**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****For the Three Months Ended March 31, 2010**

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|-------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| REVENUE | \$ - | \$ 17,878 | \$ 15,502 | \$ (1,004) | \$ 32,376 |
| EXPENSES: | | | | | |
| Depreciation and amortization | - | 25,060 | 13,596 | - | 38,656 |
| Cost of sales | - | 35 | 2 | - | 37 |
| Selling, general and administrative | 530 | 3,842 | 3,148 | (1,004) | 6,516 |
| | 530 | 28,937 | 16,746 | (1,004) | 45,209 |
| LOSS FROM OPERATIONS | (530) | (11,059) | (1,244) | - | (12,833) |
| Interest expense, net | (4,856) | (5,248) | (45) | - | (10,149) |
| Foreign currency exchange gains | - | - | 208 | - | 208 |
| Gain on sale of marketable securities | - | 52 | - | - | 52 |
| Other income | - | 55 | - | - | 55 |
| Loss before income taxes and equity in loss of subsidiaries | (5,386) | (16,200) | (1,081) | - | (22,667) |
| Provision (benefit) for income taxes | - | 72 | (497) | - | (425) |
| Equity in loss of subsidiaries | (16,856) | (584) | - | 17,440 | - |
| NET LOSS | \$ (22,242) | \$ (16,856) | \$ (584) | \$ 17,440 | \$ (22,242) |

Table of Contents**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****For the Three Months Ended March 31, 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 | \$ (19,499) | \$ 28,256 | \$ 13,834 | \$ - | \$ 22,591 |
| Cash flows from investing activities: | | | | | |
| Cash invested in seismic data | - | (20,898) | (25,198) | - | (46,096) |
| Cash paid to acquire property, equipment and other | - | (198) | (41) | - | (239) |
| Net Proceeds from sale of marketable securities | - | 1,487 | - | - | 1,487 |
| Cash from sale of property, equipment and other | - | 34 | 1 | - | 35 |
| Advances to Seitel Holdings, Inc. | - | (1) | - | - | (1) |
| Net cash used in investing activities | - | (19,576) | (25,238) | - | (44,814) |
| Cash flows from financing activities: | | | | | |
| Principal payments on notes payable | (14) | - | - | - | (14) |
| Principal payments on capital lease obligations | - | - | (40) | - | (40) |
| Borrowings on line of credit | - | - | 737 | - | 737 |
| Payment on line of credit | - | - | (737) | - | (737) |
| Intercompany transfers | 19,513 | (19,513) | - | - | - |
| Net cash provided by (used in) financing activities | 19,499 | (19,513) | (40) | - | (54) |
| Effect of exchange rate changes | - | - | (4) | - | (4) |
| Net decrease in cash and cash equivalents | - | (10,833) | (11,448) | - | (22,281) |
| Cash and cash equivalents at beginning of period | - | 75,068 | 14,903 | - | 89,971 |
| Cash and cash equivalents at end of period | \$ - | \$ 64,235 | \$ 3,455 | \$ - | \$ 67,690 |

Table of Contents**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****For the Three Months Ended March 31, 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 | \$ (19,677) | \$ 16,856 | \$ 12,212 | \$ - | \$ 9,391 |
| Cash flows from investing activities: | | | | | |
| Cash invested in seismic data | - | (4,221) | (4,760) | - | (8,981) |
| Cash paid to acquire property, equipment and other | - | (4) | (34) | - | (38) |
| Net proceeds from sale of marketable securities | - | 52 | - | - | 52 |
| Return of capital from subsidiary | - | 4,501 | (4,501) | - | - |
| Advances to Seitel Holdings, Inc. | - | (2) | - | - | (2) |
| Net cash provided by (used in) investing activities | - | 326 | (9,295) | - | (8,969) |
| Cash flows from financing activities: | | | | | |
| Principal payments on notes payable | (13) | - | - | - | (13) |
| Principal payments on capital lease obligations | - | - | (35) | - | (35) |
| Payment of debt issue costs | (65) | - | - | - | (65) |
| Intercompany transfers | 19,755 | (19,755) | - | - | - |
| Net cash provided by (used in) financing activities | 19,677 | (19,755) | (35) | - | (113) |
| Effect of exchange rate changes | - | 2 | (12) | - | (10) |
| Net increase (decrease) in cash and cash equivalents | - | (2,571) | 2,870 | - | 299 |
| Cash and cash equivalents at beginning of period | - | 24,221 | 2,049 | - | 26,270 |
| Cash and cash equivalents at end of period | \$ - | \$ 21,650 | \$ 4,919 | \$ - | \$ 26,569 |

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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.

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 resource 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 is shifting 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.

Table of Contents**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.

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

| | Three Months Ended March 31, | |
|---------------------------------|---------------------------------|------------------|
| | 2011 | 2010 |
| Cash resales | \$ 26,265 | \$ 20,811 |
| Other revenue components: | | |
| Acquisition revenue | 23,651 | 8,100 |
| Non-monetary exchanges | 6,015 | 1,852 |
| Revenue recognition adjustments | 2,438 | 488 |
| Solutions and other | 1,127 | 1,125 |
| Total revenue | \$ 59,496 | \$ 32,376 |

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 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):

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2011 | 2010 |
| Cash EBITDA | \$ 21,697 | \$ 16,111 |
| Add other revenue components not included in cash EBITDA: | | |
| Acquisition revenue | 23,651 | 8,100 |
| Non-monetary exchanges | 6,015 | 1,852 |
| Revenue recognition adjustments | 2,438 | 488 |
| Less: | | |
| Gain on sale of marketable securities | (1,487) | (52) |

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| | | |
|----------------------------------|----------|-------------|
| Depreciation and amortization | (42,414) | (38,656) |
| Non-recurring corporate expenses | (62) | (76) |
| Non-cash operating expenses | (337) | (600) |
| Operating income (loss) | \$ 9,501 | \$ (12,833) |

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Growth of Our Seismic Data Library: We regularly add to our seismic data library through four different methods: (1) recording new data; (2) buying ownership of existing data for cash; (3) obtaining ownership of existing data sets through non-monetary exchanges; and (4) creating new value-added products from existing data within our library. For the period from January 1, 2011 to May 6, 2011, we completed the addition of approximately 700 square miles of seismic data to our library. As of May 6, 2011, we had approximately 1,950 square miles of seismic data in progress.

Critical Accounting Policies

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

Results of Operations**Revenue**

The following table summarizes the components of our revenue for the three months ended March 31, 2011 and 2010 (in thousands):

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2011 | 2010 |
| Acquisition revenue: | | |
| Cash underwriting | \$ 22,612 | \$ 8,046 |
| Underwriting from non-monetary exchanges | 1,039 | 54 |
| Total acquisition revenue | 23,651 | 8,100 |
| Resale licensing revenue: | | |
| Cash resales | 26,265 | 20,811 |
| Non-monetary exchanges | 6,015 | 1,852 |
| Revenue recognition adjustments | 2,438 | 488 |
| Total resale licensing revenue | 34,718 | 23,151 |
| Total seismic revenue | 58,369 | 31,251 |
| Solutions and other | 1,127 | 1,125 |
| Total revenue | \$ 59,496 | \$ 32,376 |

Total revenue increased \$27.1 million to \$59.5 million in the first quarter of 2011 from \$32.4 million in the first quarter of 2010 due to increases in both acquisition revenue and total resale licensing revenue. Acquisition revenue increased \$15.6 million in the first quarter of 2011 compared to the first quarter of 2010 due to an increase in new data acquisition activity both in the U.S. and Canada following reduced activity in early 2010 caused by the 2009 economic downturn. Acquisition revenue in the first quarter of 2011 occurred in some of the more prolific resource plays, including the Eagle Ford area in south Texas, the Haynesville area in east Texas, the Niobrara area in Colorado, the Marcellus area in Pennsylvania, and the Horn River and Montney areas in British Columbia. Total resale licensing revenue was \$34.7 million in the first quarter of 2011 compared to \$23.2 million in the first quarter of 2010, an increase of \$11.6 million. This 50% increase was due to continuing client demand for our data located in the resource plays as well as an increase in resale revenue recognized from conventional areas. Cash resales for the first quarter of 2011 were \$26.3 million, up 26% from the first quarter of 2010 of \$20.8 million. Cash resales from 3D unconventional resource plays increased 47% from the first quarter of 2010 to the first quarter of 2011 while cash resales related to conventional 3D data decreased 11% in the same period. In the first quarter of 2011, 72% of our cash resales were from 3D unconventional resource plays with the remaining 28% from conventional 3D, 2D and offshore data. This compares to 62% and 38%, respectively, in the first quarter of 2010. Non-monetary exchanges increased \$4.2 million from the first quarter of 2010 to 2011 as the result of one large transaction which closed in the

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first quarter of 2011. These transactions fluctuate quarter to quarter depending upon the data available for trade. Revenue recognition adjustments are non-cash adjustments to revenue and reflect the net amount of (i) revenue deferred as a result of all of the revenue recognition criteria not being met and (ii) the subsequent revenue recognition once the criteria are met. In the first quarter of 2011, revenue recognized was higher than deferrals primarily as a result of higher selections on open library card contracts and recognition of revenue previously deferred related to data that was completed and delivered in the first quarter of 2011. In the first quarter of 2010, the revenue recognized from previously deferred contracts was higher than the deferrals related to new contracts primarily because selections exceeded deferrals on library card contracts. Solutions and other revenue remained flat between quarters.

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At March 31, 2011, we had a deferred revenue balance of \$29.7 million, compared to the December 31, 2010 balance of \$37.1 million. The deferred revenue balance was related to (i) data licensing contracts on which selection of specific data had not yet occurred, (ii) deferred revenue on data acquisition projects and (iii) contracts in which the data products are not yet available or the revenue recognition criteria has not yet been met. The deferred revenue will be recognized when selection of specific data is made by the customer, upon expiration of the data selection period specified in the data licensing contracts, as work progresses on the data acquisition contracts, as the data products become available or as all of the revenue recognition criteria are met.

Depreciation and Amortization

Depreciation and amortization was composed of the following (in thousands):

| | Three Months Ended March 31, | |
|--|---------------------------------|------------------|
| | 2011 | 2010 |
| Amortization of seismic data: | | |
| Income forecast | \$ 26,300 | \$ 17,220 |
| Straight-line | 14,126 | 19,472 |
| | | |
| Total amortization of seismic data | 40,426 | 36,692 |
| Depreciation of property and equipment | 529 | 544 |
| Amortization of acquired intangibles | 1,459 | 1,420 |
| | | |
| Total | \$ 42,414 | \$ 38,656 |

Total seismic data library amortization amounted to \$40.4 million in the first quarter of 2011 compared to \$36.7 million in the first quarter of 2010. The amount of seismic data library amortization fluctuates based on the level and location of specific seismic surveys licensed (including licensing resulting from new data acquisition) and selected by our customers during any period as well as the amount of straight-line amortization required under our accounting policy.

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

| Components of Amortization | Three Months Ended March 31, | |
|----------------------------|---------------------------------|---------------|
| | 2011 | 2010 |
| Income forecast | 45.1% | 55.1% |
| Straight-line | 24.2% | 62.3% |
| | | |
| Total | 69.3% | 117.4% |

The percentage of income forecast amortization to total seismic revenue decreased between the first quarters of 2011 and 2010. In both periods, we had resale revenue recognized which was from data whose costs were fully amortized. In the first quarter of 2011, 60% of resale revenue recognized was from data whose costs were fully amortized as compared to 29% in the first quarter of 2010. Additionally, amortization expense related to new data acquisition increased between the periods due to the higher level of acquisition revenue. Straight-line amortization represents the expense required under our accounting policy to ensure our data value is fully amortized within four years of when the data becomes available for sale. The amount of straight-line amortization decreased \$5.3 million between the first quarters of 2010 and 2011 due to the distribution of revenue among the various seismic surveys and also because a significant portion of our data library became fully amortized in the first quarter of 2011 due to such data reaching its four-year life after the merger on February 14, 2007.

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

Selling, general and administrative (SG&A) expenses were \$7.6 million in the first quarter of 2011 compared to \$6.5 million in the first quarter of 2010. SG&A expenses are made up of the following cash and non-cash expenses (in thousands):

| | Three Months Ended March 31, | |
|-------------------------------|---------------------------------|----------|
| | 2011 | 2010 |
| Cash SG&A expenses | \$ 7,228 | \$ 5,916 |
| Non-cash compensation expense | 264 | 531 |
| Non-cash rent expense | 73 | 69 |
| Total | \$ 7,565 | \$ 6,516 |

The increase in cash SG&A expenses of \$1.3 million from the first quarter of 2010 to the first quarter of 2011 was primarily due to (1) an increase of \$0.7 million in salaries and benefits primarily due to merit increases on base salary, increased payroll taxes due to 2010 bonus payments made in 2011 and increased 401(k) expense; (2) an increase of \$0.3 million in sales commissions as a result of higher revenues; and (3) an increase of \$0.3 million in performance incentive accruals.

The decrease in non-cash compensation expense between quarters was due to our using graded vesting to amortize the compensation expense related to our stock option issuances, thus recognizing more expense in the earlier periods and gradually reducing in later years.

Other Income

During the three months ended March 31, 2011 and 2010, we sold \$1.5 million and \$52,000, respectively, of marketable securities through multiple transactions on an active international exchange. Total gains were equal to the proceeds received.

Income Taxes

Tax expense (benefit) was \$0.6 million in the first quarter of 2011 compared to \$(0.4) million in the first quarter of 2010. The expense in the first quarter of 2011 was comprised of (i) an expense of \$0.3 million related to our Canadian operations, (ii) an expense of \$0.1 million related to interest on uncertain tax positions and (iii) \$0.2 million in U.S. state tax expense. In the first quarter of 2011, we generated U.S. taxable income which will be offset by U.S. net operating loss carryforwards. The benefit in the first quarter of 2010 was comprised of (i) a benefit of \$0.6 million related to our Canadian operations, (ii) an expense of \$0.1 million related to principal and interest on uncertain tax positions and (iii) \$0.1 million expense related to U.S. state tax expense. The Federal tax benefit in the first quarter of 2010 resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

Liquidity and Capital Resources

As of March 31, 2011, we had \$67.7 million in consolidated cash, cash equivalents and short-term investments, including \$186,000 of restricted cash. Other sources of liquidity include our Canadian Credit Facility described below.

Canadian Credit Facility: Our wholly owned subsidiary, Olympic Seismic Ltd. (Olympic), has a revolving credit facility (the Canadian Credit Facility) which allows it to borrow up to \$5.0 million (Canadian), subject to an availability formula, by way of prime-based loans or letters of credit. Available borrowings under the facility are equivalent to a maximum of \$5.0 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of Olympic, less prior-ranking claims, if any, relating to inventory or accounts. As of March 31, 2011, no amounts were outstanding on the Canadian Credit Facility and \$5.0 million (Canadian) was available.

9.75% Senior Unsecured Notes: On February 14, 2007, we issued in a private placement \$400.0 million aggregate principal amount of our 9.75% Senior Notes. Interest on these senior notes is payable in cash, semi-annually in arrears on February 15 and August 15.

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11.75% Senior Unsecured Notes: On July 2, 2004, we issued in a private placement \$193.0 million aggregate principal amount of our 11.75% Senior Notes. As of March 31, 2011, \$2.0 million of the 11.75% Senior Notes remain outstanding. On March 30, 2011, we made an excess cash flow offer to purchase any and all of the outstanding \$2.0 million aggregate principal amount of such notes. On May 3, 2011, we completed the repurchase of all \$2.0 million principal amount.

Cash Flows from Operating Activities: Cash flows provided by operating activities were \$22.6 million and \$9.4 million for the three months ended March 31, 2011 and 2010, respectively. Operating cash flows for the first quarter of 2011 increased from the first quarter of 2010 primarily due to increased collections from our cash license resales and our acquisition underwriting receipts on programs in progress. The 2010 period reflected slower activity as a rollover effect from 2009.

Cash Flows from Investing Activities: Cash flows used in investing activities were \$44.8 million and \$9.0 million for the three months ended March 31, 2011 and 2010, respectively. Cash expenditures for seismic data were \$46.1 million and \$9.0 million for the three months ended March 31, 2011 and 2010, respectively. The increase in cash invested in seismic data for the first quarter of 2011 compared to the first quarter of 2010 was due to increased data acquisition activity in both the U.S. and Canada.

Cash Flows from Financing Activities: Cash flows used in financing activities were \$54,000 and \$113,000 for the three months ended March 31, 2011 and 2010, respectively.

Anticipated Liquidity: Our ability to cover our operating and capital expenses, make required debt service payments on our 9.75% Senior Notes, incur additional indebtedness, and comply with our various debt covenants, will depend primarily on our ability to generate substantial operating cash flows. Our U.S. credit facility expired on December 31, 2010; however, over the next 12 months, we expect to obtain the funds necessary to pay our operating, capital and other expenses and principal and interest on our senior notes and our other indebtedness, from our operating cash flows, cash and cash equivalents on hand and, if required, from additional borrowings (to the extent available under our Canadian Credit Facility subject to the borrowing base). Our ability to satisfy our payment obligations depends substantially on our future operating and financial performance, which necessarily will be affected by, and subject to, industry, market, economic and other factors. If necessary, we could choose to reduce our spending on capital projects and operating expenses to ensure we operate within the cash flow generated from our operations. We will not be able to predict or control many of these factors, such as economic conditions in the markets where we operate and competitive pressures.

Deferred Taxes

As of March 31, 2011, we had a net deferred tax liability of \$2.3 million attributable to our Canadian operations. In the U.S., we had a Federal deferred tax asset of \$107.5 million, all of which was fully offset by a valuation allowance. The recognition of the U.S. Federal deferred tax asset will not occur until such time that it is more likely than not that some portion or all of the U.S. Federal deferred tax asset will be realized. As of March 31, 2011, it was more likely than not that all of the U.S. Federal deferred tax asset will not be realized. Additionally, in the U.S., we had a state deferred tax asset of \$0.3 million which was recognized as it is more likely than not that the state deferred tax asset will be realized.

Off-Balance Sheet Transactions

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

Table of Contents**Capital Expenditures**

During the three months ended March 31, 2011, capital expenditures for seismic data and other property and equipment amounted to \$42.4 million. Our capital expenditures for the remainder of 2011 are presently estimated to be \$129.6 million. The first quarter 2011 actual and 2011 estimated remaining capital expenditures are comprised of the following (in thousands):

| | Three Months Ended March 31, 2011 | Estimate for Remainder of 2011 | Total Estimate for 2011 |
|---|---|--------------------------------------|-------------------------------|
| New data acquisition | \$ 41,430 | \$ 115,570 | \$ 157,000 |
| Cash purchases and data processing | 535 | 6,465 | 7,000 |
| Non-monetary exchanges | 190 | 6,810 | 7,000 |
| Property and equipment and other | 239 | 761 | 1,000 |
| Total capital expenditures | 42,394 | 129,606 | 172,000 |
| Less: Non-monetary exchanges | (190) | (6,810) | (7,000) |
| Changes in working capital | 4,131 | - | 4,131 |
| Cash investment per statement of cash flows | \$ 46,335 | \$ 122,796 | \$ 169,131 |

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

| | Three Months Ended March 31, 2011 | Estimate for Remainder of 2011 | Total Estimate for 2011 |
|--|---|--------------------------------------|-------------------------------|
| Total capital expenditures | \$ 42,394 | \$ 129,606 | \$ 172,000 |
| Less: Non-cash additions | (190) | (6,810) | (7,000) |
| Cash underwriting | (22,612) | (72,388) | (95,000) |
| Capital expenditures funded from operating cash flow | \$ 19,592 | \$ 50,408 | \$ 70,000 |

As of May 6, 2011, we had capital expenditure commitments related to data acquisition projects of approximately \$63.7 million, of which we have obtained approximately \$41.3 million of cash underwriting and \$1.2 million of underwriting for non-monetary exchanges.

Reconciliation of Non-GAAP to GAAP Financial Measures

The following table summarizes the percentage increases (decreases) between the three months ended March 31, 2011 and March 31, 2010 for cash resales and total revenue:

| | 1Q10 to 1Q11 |
|--------------------------------------|--------------|
| Cash resales | 26 % |
| Total revenue | 84 % |
| Unconventional 3D data cash resales | 47 % |
| Unconventional 3D data total revenue | 91 % |
| Conventional 3D data cash resales | (11) % |
| Conventional 3D data total revenue | 149 % |

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The following table shows the percentage of cash resales and total revenue generated from data in unconventional 3D resource plays and from conventional 3D, 2D and offshore data for the three months ended March 31, 2011 and March 31, 2010:

| | 1Q11 | 1Q10 |
|---|------|------|
| Unconventional 3D data cash resales | 72% | 62% |
| Unconventional 3D data total revenue | 81% | 78% |
| Conventional 3D, 2D and offshore data cash resales | 28% | 38% |
| Conventional 3D, 2D and offshore data total revenue | 17% | 18% |

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

We may enter into various financial instruments, such as interest rate swaps or interest rate lock agreements, to manage the impact of changes in interest rates. As of March 31, 2011, we did not have any open interest rate swap or interest rate lock agreements. Therefore, our exposure to changes in interest rates primarily results from our short-term and long-term debt with both fixed and floating interest rates.

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Foreign Currency Exchange Rate Risk

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

We have not had any significant changes in our market risk exposures during the quarter ended March 31, 2011.

Item 4T. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our President and Chief Executive Officer along with our Chief Financial Officer concluded that the Company's disclosure controls and procedures as of March 31, 2011 are effective in ensuring that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

b) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

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

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. (REMOVED AND RESERVED)

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

- 3.1 Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
- 3.2 Bylaws of Seitel, Inc. (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
- 31.1* Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.
- 31.2* Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.
- 32.1** Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2** Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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SIGNATURES

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

SEITEL, INC.

Dated: May 9, 2011

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

Dated: May 9, 2011

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

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EXHIBIT

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| Exhibit | Title |
|---------|---|
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