

SEITEL INC
Form 10-K
March 31, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 333-144844

SEITEL, INC.

(Exact name of registrant as specified in charter)

Delaware
(State or other jurisdiction of incorporation or organization)

76-0025431
(IRS Employer Identification Number)

10811 S. Westview Circle Drive, Building C, Suite 100
Houston, Texas
(Address of principal executive offices)

77043
(Zip Code)

Registrant's telephone number, including area code:

(713) 881-8900

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).

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Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Sections 13 or Section 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

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 definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant at March 28, 2008 was zero. On March 28, 2008 there were a total of 100 shares of common stock outstanding.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K (this "Annual 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 Seitel, Inc.'s 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," "anticipated," "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 Annual Report may not occur. Such risks and uncertainties include, without limitation, our ability to comply with the terms of our final judgment of permanent injunction by the Securities and Exchange Commission ("SEC"), the impact on our results of operations of our significant amount of debt, our significant amount of debt service and interest expense, 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, changes in the exploration budgets of our customers, 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 and our ability to obtain financing on satisfactory terms if internally generated funds are insufficient to fund our capital needs. Also note that we provide a cautionary discussion of risks and uncertainties under the captions "Business - Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report.

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 this Annual Report and in our future periodic reports filed with the SEC.

PART I

Item 1. *Business*

General

Seitel, Inc. and its wholly owned subsidiaries are collectively referred to in this report as "Seitel," "the Company," "we" and "us" except as otherwise noted. Seitel is a leading provider of seismic data to the oil and gas industry in North America. Our products and services are critical for the exploration for, and development and management of, oil and gas reserves by oil and gas companies. We have ownership in an extensive library of proprietary onshore and offshore seismic data that we have accumulated since our inception in 1982 and that we license to a wide range of oil and gas companies. Our customers use seismic data to identify geographical areas where subsurface conditions are favorable for oil and gas exploration, to determine the size, depth and geophysical structure of previously identified oil and gas fields and to optimize the development and production of oil and gas reserves. The importance of seismic data usage in the exploration, development and management process drives demand for data in our library.

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We have built a library of onshore seismic data that we believe is one of the largest libraries available for licensing in the United States and Canada. Our seismic data library includes both onshore and offshore three-dimensional ("3D") and two-dimensional ("2D") data. We have ownership in over 40,000 square miles of 3D and approximately 1.1 million linear miles of 2D seismic data concentrated primarily in the major active North American oil and gas producing regions. The majority of our onshore seismic data covers sections of the U.S. Gulf Coast, including Eastern Texas, Southern Louisiana and Mississippi, as well as Western Canada, the Rocky Mountains and Northern Louisiana. We have one of the largest seismic data libraries in each of these regions. We also have ownership in a library of offshore data covering parts of the shelf and certain deep water areas in the Western and Central U.S. Gulf of Mexico and the waters off the coast of Eastern Canada. We serve a market which includes over 1,600 companies in the oil and gas industry. Our customers range from small and mid-cap exploration and production companies and private prospecting individuals to large independent oil and gas companies and also include global oil and gas companies.

Several factors lead to multiple licensing of our seismic data. For example, new oil and gas field discoveries can cause renewed exploration activity in a previously assessed surrounding area and pipeline and oil and gas infrastructure expansion may make new oil and gas fields economically viable. New drilling technologies can cause oil and gas companies to reevaluate existing oil and gas fields and new data processing technologies can create additional value in previously processed seismic data. In addition, merger and acquisition activity can change the ownership of fields often requiring re-licensing of data. Each of these factors drives repeat demand for our existing seismic library.

We also regularly add to our seismic data library by creating new seismic data. These data creation programs are substantially underwritten by our customers in exchange for a license granting them access to the newly acquired data with a limited exclusivity period. We do not employ seismic crews or own any seismic survey equipment but instead contract our data shoots to third-party seismic acquisition companies. We believe this practice allows us to respond quickly to changes in demand and minimizes ongoing capital requirements. We also purchase seismic surveys or entire seismic libraries from oil and gas companies which have discontinued their exploration and production in a particular geographical area and no longer require ownership of, or which have otherwise determined to sell, their data or library. These purchases are funded with cash or structured as non-monetary exchanges, whereby we acquire ownership of existing data from customers in exchange for a grant of a non-exclusive license to use other data from our library. We also create new value-added products by applying advanced seismic data processing or other quantitative analytical techniques to selected portions of our library. Historically, some of our seismic data has remained useful for decades after its creation. For example, we continue to license 14 year old 3D data and 2D data created over 20 years ago. We expect this to continue and our data to remain useful for extended periods after its creation.

To support our seismic data licensing business and our clients, we maintain warehouse and electronic storage facilities at our Houston, Texas headquarters and our Calgary, Alberta location. Through our Seitel Solutions business unit ("Solutions"), we offer the ability to access and interact with the seismic data we own and market via a standard web browser and the Internet.

In each of fiscal 2007, 2006 and 2005, approximately 96% of our revenues were attributable to acquisition and licensing of seismic data. Other revenues during these years were primarily derived from Solutions for reproduction and delivery of seismic data licensed by our clients. See Note N to Notes to Consolidated Financial Statements for information about our revenue by geographical area.

Seitel is incorporated under the laws of the State of Delaware. Our principal executive offices are in Houston, Texas.

2007 Business Combination

On February 14, 2007, Seitel Acquisition Corp. ("Acquisition Corp.") was merged with and into Seitel, pursuant to a merger agreement between Seitel, Acquisition Corp. and Seitel Holdings, Inc. ("Holdings") dated October 31, 2006 (the "Merger"). Pursuant to the merger agreement, Seitel continued as the surviving corporation and became a privately owned corporation and wholly-owned subsidiary of Holdings. Holdings is an investment entity controlled by ValueAct Capital Master Fund, L.P. ("ValueAct Capital").

Under the terms of the merger agreement, our existing stockholders (other than ValueAct Capital and management investors contributing certain of their shares of Seitel stock for ownership in Holdings) and option holders were paid a total consideration of \$386.8 million. In connection with the Merger, the warrants held by ValueAct Capital totaling 15,037,568 were cancelled.

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In connection with the Merger, Acquisition Corp. conducted a cash tender offer and consent solicitation for all of the \$189.0 million of our 11.75% senior notes due 2011 (the "11.75% Senior Notes"). On February 14, 2007, we paid \$187.0 million aggregate principal amount for all of the notes tendered. In connection with the tender offer and consent solicitation, we entered into a supplemental indenture, supplementing the indenture dated as of July 2, 2004 with respect to the 11.75% Senior Notes. The supplemental indenture effected certain amendments to the original indenture, primarily to eliminate substantially all of the restrictive covenants and certain events of default triggered or implicated by the Merger. \$2.0 million aggregate principal amount of the 11.75% Senior Notes remain outstanding.

In addition, on February 14, 2007, we issued \$400.0 million of our 9.75% senior notes due 2014 (the "9.75% Senior Notes") pursuant to an indenture by and among Seitel, certain subsidiary guarantors and LaSalle Bank National Association, as trustee. We also entered into an Amended and Restated Loan and Security Agreement with Wells Fargo Foothill, Inc. ("WFF") with a maximum credit amount of \$25.0 million, subject to certain borrowing base limitations. The new facility includes a letter of credit sub-limit up to \$10.0 million. All obligations are unconditionally guaranteed by our domestic subsidiaries that are not borrowers under the new facility, subject to customary exceptions, exclusions and release mechanisms. The new facility is secured by a lien on substantially all of our domestic assets, including equity interests in our U.S. subsidiaries.

Description of Operations

Industry Conditions

Seismic data is critical to the oil and gas exploration process due to its ability to increase significantly the success rate of locating commercial oil and gas deposits by producing detailed images of the earth's subsurface features. The overall demand for seismic data and related geophysical services is dependent upon spending by oil and gas companies for exploration, production, development and field management activities. This spending is in turn driven largely by present and expected future demand and pricing for oil and natural gas. Demand for these commodities is influenced by global economic growth as well as political, economic, tax, and environmental considerations.

Oil and natural gas supply constraints have caused an increase in exploration and production spending in both the United States and Canada and have led to increasing hydrocarbon prices during recent years. Since the end of 1999, annual worldwide geophysical equipment and services spending has increased at a compound annual rate of 13.2%.

A majority of our revenues comes from small and mid-cap oil and gas exploration and production companies, independent oil and gas companies and private prospecting individuals. To achieve and maintain their success, we believe our customers will need to continue to find new, and exploit existing, oil and natural gas reserves, which we believe will require significant amounts of capital spending on seismic data among other things. We believe there will continue to be an incentive for exploration and production spending in the United States and Canada because this area represented approximately 27.1% of global energy demand in 2004 and remains one of the most politically and economically stable producing regions.

Reflecting the increased spending by oil and gas companies, rig counts in North America have also increased significantly since 2003. The rig count in North America averaged 2,112 rigs for the year ended December 31, 2007, well above the five-year average rig count of 1,807 rigs. Land seismic crews in North America have also increased significantly. The land crew count averaged 59.7 crews for the year ended December 31, 2007, exceeding the five-year average of 44.6 crews.

We believe the use of 3D seismic data and advanced processing techniques, coupled with advances in drilling and completion techniques, are enhancing the ability of oil and gas companies to explore for, develop and manage oil and gas reserves. We believe that seismic industry market conditions will remain favorable during 2008 as a result of growing energy demand, continued spending to replace oil and gas reserves and continued high onshore rig counts in North America.

Seismic Data

Oil and gas companies consider seismic data an essential tool in finding hydrocarbons. Oil and gas companies use seismic data in oil and gas exploration and development efforts to increase the probability of drilling success. Further, seismic data analysis can increase recoveries of reserves from existing, mature oil fields by optimizing the drilling location of development wells and by

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revealing additional, or "step-out," locations that would not otherwise be apparent. 3D seismic data provides a graphic depiction of the earth's subsurface from two horizontal dimensions and one vertical dimension, rendering a more detailed picture than 2D data, which presents a cross-sectional view from one vertical and one horizontal dimension. The more comprehensive geophysical information provided by 3D surveys significantly enhances an interpreter's ability to evaluate the probability of the existence and location of oil and gas deposits. According to the U.S. Department of Energy, 3D seismic data has been a key factor in improving drilling success ratios and lowering finding and field extension costs. However, the cost to create 3D seismic data is significantly more than the cost to create 2D seismic data. As a result, 2D data continues to be used by clients for preliminary, broad-scale exploration evaluation, as well as in determining the location and design of 3D surveys. 3D surveys can then be used for more detailed analysis to maximize actual drilling potential and success.

Although we amortize our seismic data over a maximum period of four years, most of our seismic data has continued to generate licensing revenue past its amortization period. Assuming the data is sampled and gathered adequately in the field recording phase, it is amenable to re-evaluation and re-presentation, multiple times, using new or alternate processing techniques as well as updated knowledge of the Earth model.

Management believes the level of resales from various vintages of our investment in seismic data is useful in order to assess the resiliency and value of our seismic data library. Management considers estimated longevity of and foreseeable demand for data in determining whether to undertake new data acquisition projects. For the year ended December 31, 2007, resale revenue from U.S. onshore 3D data and Canadian 2D and 3D data was recognized from net historical investments made in the indicated periods (in thousands):

	Resale		Net	
	Revenue	Percentage	Investment(1)	Percentage
Investments prior to 2002	\$ 59,016	57%	\$ 297,558	63%
Investments 2002 through 2007	45,133	43%	176,098	37%
Total U.S. 3D onshore and Canadian 2D and 3D	\$ 104,149	100%	\$ 473,656	100%

(1) Net investment reflects total data cost less client underwriting before fair value adjustments resulting from the Merger. The following presents a reconciliation of resale revenue for U.S. 3D onshore and Canadian 2D and 3D (a non-GAAP financial measure) to total revenue for the year ended December 31, 2007 (the most directly comparable GAAP financial measure) (in thousands):

Total resale revenue - U.S. 3D onshore and Canadian 2D and 3D	\$ 104,149
Other revenue components:	
Other resale revenue (principally offshore and U.S. 2D)	14,976
Acquisition revenue	42,659
Solutions and other revenue	5,357
Selection revenue not recognized for GAAP due to purchase accounting adjustments	(18,329)
Total revenue	\$ 148,812

The following presents a reconciliation of net historical investment for U.S. 3D onshore and Canadian 2D and 3D data (a non-GAAP financial measure) to net book value at December 31, 2007 (the most directly comparable GAAP financial measure) (in thousands):

Net historical investment in seismic data - U.S. 3D onshore and Canadian 2D and 3D	\$ 473,656
Add:	
Acquisition revenue - 3D onshore	380,687
Other seismic data investment (principally offshore and U.S. 2D)	445,788
Fair value adjustment resulting from Merger	275,235
Less:	
Historical impairment charges	(112,923)
Accumulated amortization (including historical amounts pre-Merger)	(1,113,404)
Net book value	\$ 349,039

Seismic Data Library

Our seismic data library includes onshore and offshore 3D and 2D data and offshore multi-component data. We have ownership in over 40,000 square miles of 3D and approximately 1.1 million linear miles of 2D seismic data concentrated primarily in the major North American oil and natural gas producing regions. The majority of our seismic data library covers onshore regions within North America, with a geographic concentration on the onshore and transition zone of the U.S. Gulf Coast extending from Texas to Florida, Western Canada, Mississippi, Eastern Texas, the Rocky Mountain region and Northern Louisiana. Most of our remaining seismic data library covers the offshore Gulf of Mexico and Eastern Canada. The following table describes our 3D seismic data library as of March 3, 2008.

3D Data Library at March 3, 2008	Square Miles	Percentage of Subtotal
Gulf Coast Texas	8,110	43%
Southern Louisiana/Mississippi	7,061	38%
Rocky Mountains	1,639	9%
Northern Louisiana	399	2%
Other	1,434	8%
Total U.S. Onshore	18,643	100%
Canada	11,587	100%
U.S. Offshore	10,509	100%
Worldwide Total	40,739	100%

U.S. Onshore: The U.S. onshore 3D sector of our seismic data library is comprised principally of our Gulf Coast Texas and Southern Louisiana/Mississippi components. We began accumulating this data in 1993 and 1994. Until recent years, the Southern Louisiana/Mississippi component of our U.S. onshore seismic data library grew significantly faster than our Gulf Coast Texas component. More recently, our Gulf Coast Texas component has experienced significant growth and is now slightly larger than our Southern Louisiana/Mississippi component. These areas form the core of our U.S. onshore database and currently represent the areas of most demand from our U.S. clients.

The Rocky Mountain region and Northern Louisiana sectors, although currently small contributors, are believed to be areas of potential growth in the future. We own relatively small amounts of seismic data in other areas, such as Alabama, California, Michigan and North Dakota.

We also have a 2D data library in the United States that continues to contribute to our data licensing sales at a steady pace.

Canada: The Canadian market is less mature than the U.S. Gulf Coast and includes areas still considered frontier, or underexplored. Accordingly, there is still a significant demand for 2D data, with 3D data representing an increasing part of the market in recent years. The accumulation of 3D data in our seismic library began in 1998 and has grown at an average rate in excess of 1,000 square miles per year. During the period from 2004 through 2007, 3D licensing revenue has exceeded revenue from our 2D data. We anticipate that 3D data licensing revenue will continue to grow as a proportion of total licensing revenue in the future.

Offshore U.S. Gulf of Mexico: Our library of offshore data covers parts of the U.S. Gulf of Mexico shelf and certain deep water areas in the Western and Central U.S. Gulf of Mexico. We have accumulated 10,509 square miles of U.S. Gulf of Mexico offshore 3D data since 1993. The offshore Gulf of Mexico was a high growth area for us in the 1990's. Although we have not shot new offshore surveys in recent years, on occasion, we add offshore Gulf of Mexico data through non-monetary exchanges.

Data Library Growth

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We regularly add to our library of seismic data by: (1) recording new data, (2) buying ownership of existing data for cash, (3) acquiring ownership of existing data through non-monetary exchanges or (4) creating new value-added products from data existing within our library.

Underwritten Data Acquisitions: We create new seismic data designed in conjunction with our customers and specifically suited to the geology and environmental conditions of the area using the most appropriate technology available. Typically one or more customers will underwrite or fund a significant portion of the direct cost in exchange for a license or licenses to use the resulting data. Under the terms of these licenses, the customers usually have exclusive access to use the newly acquired data for a limited term, which is usually six months, after which the data is added to our library for licensing to the industry on a non-exclusive basis. Data acquisition activity during 2007 occurred in the Texas Gulf Coast, Southern Louisiana, Wyoming and Western Canada. All field work on these projects is outsourced to subcontractors, as is the data processing for those projects in Canada and the Rocky Mountain region. A significant percentage of the data processing for Gulf Coast projects is processed by our wholly owned subsidiary Matrix Geophysical, Inc. We employ experienced geoscientists who design seismic programs and oversee field acquisition and data processing to ensure the quality and longevity of the data created.

Cash Purchases: We purchase seismic data for cash from oil and gas companies, other seismic companies or financial investors in seismic data when opportunities arise and within the limits of our capital expenditure budget.

Non-Monetary Exchanges: We grant our customers a non-exclusive license to selected data from our library in exchange for ownership of seismic data from the customer, a "non-monetary exchange." The data that we receive is distinct from the data that is licensed to the customer. These transactions, which have been an essential tool in the growth of our seismic data library, will tend to be for individual surveys or groups of surveys. We also use non-monetary exchanges in conjunction with data acquisitions and cash purchases. We expect the level of non-monetary exchanges used in connection with data acquisitions to increase in the future. In addition, we may receive advanced data processing services on selected existing data in exchange for a non-exclusive license to selected data from our library.

Value-Added Products: We create new products from existing seismic surveys in our library by extracting a variety of additional information from surveys that were not readily apparent in the initial products. Opportunities to extract such additional information and create such additional products may result from information from secondary sources, alternative conclusions regarding the initial products and applying alternate or more complex processes to the initial products, or some combination of these factors. Additional products may include Pre-Stack Time Migration volumes, Amplitude Versus Offset volumes, Complex Attribute volumes, Rock Property volumes and Pre-Stack Depth Migration volumes. Typically, one or more customers will underwrite a portion of the direct cost involved in these products in exchange for a license or licenses to use the resulting data. Under these licenses, the customers usually have exclusive access to the newly acquired data for a limited term, which is usually three months or less. After this limited term of exclusivity, the data is added to our library for licensing to the industry on a non-exclusive basis. Work on these projects may be performed by our wholly owned subsidiary Matrix Geophysical, Inc., outsourced to specific specialists in the arena or conducted under an alliance with a particular specialist. We employ experienced geoscientists who design these value-added products and oversee the processing to ensure the quality and longevity of the data created.

Licenses and Marketing

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We actively market data from our library to customers under non-exclusive license agreements using a well-developed marketing strategy combined with strong geophysical expertise. Our licenses are generally non-assignable. Our licenses typically provide that in the event of a change of control of a customer-licensee, the surviving entity generally must pay a fee to maintain a license for any data it seeks to continue to use and for which such entity previously did not have a license. We employ an experienced sales force and it is our operating philosophy to actively market our seismic library. Our team of dedicated marketing specialists seeks to maximize license sale opportunities by monitoring petroleum industry exploration and development activities through close interaction with oil and gas companies on a daily basis. Our marketing team develops innovative contracting methods that have expanded the market for seismic data to our customers.

Licenses generally are granted for cash payable within 30 days of invoice, although we sometimes permit a customer to make an initial payment upon inception of the license followed by periodic payments over time, usually not more than 12 months. Some licenses provide for additional payments to us if the licensee acquires additional mineral leases, drills wells or achieves oil or gas production in the areas covered by the licensed data.

Fundamental to our business model is the concept that once seismic data is created it is owned by us and added to our library for licensing to customers in the oil and gas industry on a non-exclusive basis. Since the data is a long lived asset, such data can be licensed repeatedly and over an extended period of time to different customers.

Backlog

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At March 3, 2008, our backlog of underwriting commitments related to new data creation projects was \$38.0 million compared with \$40.3 million at March 15, 2007. We anticipate that all of this backlog will be recognized over the next 12 months.

Seitel Solutions

To support our seismic data licensing business and our clients, we maintain warehouse and electronic storage facilities at our Houston, Texas headquarters and our Calgary, Alberta location. Through our Seitel Solutions business unit, we offer the ability to access and interact with the seismic data we own and market via a standard web browser and the Internet. Using proprietary technology, we store, manage, access and deliver data, tapes and graphic cross-sections to our licensees. In addition, Solutions offers use of its proprietary display and inventory software to certain customers, and the use of its proprietary quality control software to the seismic brokerage community principally in Calgary, Alberta, Canada. We also offer data management services to select clients.

Business Strategy

We believe our strategy will continue to distinguish us from our competitors. Specifically, we intend to:

- Continue growing our seismic data library using a combination of new seismic data creation, cash purchases of seismic data, non-monetary exchanges and new value-added products created from our existing data;
- Maintain a disciplined return on investment approach to operating and capital expenditures. We only intend to pursue new acquisition projects if we believe that conditions exist for repeated licensing of the same data over an extended period of time. We typically seek significant underwriting commitments before undertaking new acquisition projects as underwriting levels are generally a predictor of long-term demand for seismic data. We target an average of 70% underwriting level for new seismic acquisition projects on an aggregate basis. For the years 2007, 2006 and 2005, we achieved 69.4%, 73.5% and 72.2% average underwriting levels for new seismic acquisition projects. Additionally, when acquiring 3D surveys, we consider the proximity to 3D surveys already in our library. We believe that there is greater value in contiguous data, or reasonably close concentrations of surveys in a single area;
- Continue outsourcing the more capital intensive services in the seismic value chain, including seismic data gathering and the employment of field equipment and crews. This strategy enables us to select vendors with the best price, equipment and skill sets for a particular environment, geographical location or geophysical objective and provides us with access to state-of-the-art equipment and emerging technologies. It also gives us the flexibility to respond appropriately to changing market conditions, making our financial performance more stable;
- Leverage our strong geophysical, technical and field operating management with third-party outsourcing to help align our interests with those of our underwriting customers. We believe this strategy has enabled us to become a leading provider in certain key U.S. basins where local expertise is important. We believe we have developed expertise in certain areas of Southern Louisiana, the Texas Gulf Coast, Alberta and Northeast British Columbia, and that there are opportunities to continue library expansion in these areas and to repeat this approach in the U.S. Rocky Mountain region, Northern Louisiana and certain selected markets outside North America; and
- Increase our focus on creating value-added products from the data in our library, primarily by applying complex imaging technology, such as complex depth imaging. These value-added products enhance the useful information that can be extracted from a given data set.

Competitive Strengths

We believe we have the following competitive strengths:

Industry Leading Data Library: The size and coverage of our seismic data library enables us to capitalize on the favorable trends in the North American oil and gas exploration market. Our competitive advantage is driven by our ability to:

- Successfully bid for seismic data that is for sale in our areas of focus as a result of our knowledge of data return characteristics for similar data in our existing library;
- Pursue flexible data acquisition strategies such as structuring non-monetary data-for-license exchanges which preserves capital for other data acquisitions;
- Creatively market our data library with an innovative strategy, which includes tailoring licenses to meet a client's need using non-monetary exchanges and "library cards," which are data license agreements where the client is entitled to select and license specific data over a period of time from our data library;
- Combine client data with our data to create a more relevant profile of a potential production site;
- Generate client trust by participating in joint data creation projects with significant alignment of objectives; and
- Retain and grow valuable client relationships.

Defensible Market Position: With one of the largest onshore seismic data libraries in the active North American oil and natural gas basins, we have an established competitive position within this growing market. Since 1993, we have invested over \$1 billion to build our data library. Over 80% of this investment has been in 3D data. We believe that the current replacement cost of our seismic library significantly exceeds our original investment, and that our broad geographic coverage and strong presence in the active North American onshore oil and gas basins coupled with our domain expertise creates significant barriers to replication and a defensible market position. We believe competitors will generally not shoot over areas already in our onshore library because it is not economically viable to do so.

Consistent, Long Term Cash Returns: We derive revenue from the non-exclusive licensing of our data. Importantly, data within our library can be licensed on a non-exclusive basis multiple times over a span of many years. We have proven our ability to license onshore data surveys decades after their creation. Typically, our surveys continue to generate revenue long after our investment is fully recovered. For the year ended December 31, 2007, approximately 57% of our total resale revenue came from data acquired before 2002. With respect to our onshore library, we believe our cash resales are highly predictable on an annual basis and have a lower sensitivity to rig count and natural gas prices than other sectors of the oil and gas industry.

Low Cost Operating Structure: We operate with a low cost structure by maintaining an efficient base of assets and employees. We do not own seismic acquisition equipment or employ seismic acquisition crews, but engage, as required, third-party contractors with qualified equipment to shoot new data. In addition, the majority of our capital expenditures for data acquisitions are discretionary. We believe this minimizes ongoing capital requirements and results in substantially less volatility in cash flows by enabling us to respond quickly to changes in demand. In addition, the creation of new surveys provides cost-effective growth opportunities since we impose strict capital investment thresholds with targeted underwriting levels averaging 70% and typically do not start work on new acquisition programs without an underwriting commitment. When our underwriting customer owns other attractive seismic data that we want to obtain, we may decide to take ownership in this data to cover part of the customer's underwriting obligation. For the years 2007, 2006 and 2005, we achieved 69.4%, 73.5% and 72.2% average underwriting levels for new seismic acquisition projects.

Diversified Customer Base: We serve a market which includes over 1,600 companies in the oil and gas industry and our customers range from small exploration and production companies and private prospecting individuals to large independent oil and gas companies and also include global oil and gas companies. We believe that the quality of our data, the breadth of its coverage

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in the major active onshore basins in North America and our longstanding commitment to client service enables us to attract top-tier clients and maintain and grow existing client relationships. These relationships also create access to additional data surveys and sales opportunities.

Favorable Industry Fundamentals: We are positioned to benefit from favorable long-term oil and gas industry trends, including:

- *Sustained demand for oil and natural gas.* The worldwide demand for oil and natural gas continues to increase significantly, led by the increases in demand from China, India and other developing countries;
- *High commodity prices.* While demand has increased, the supply of oil and natural gas has remained relatively flat, creating a significant increase in the prices of oil and natural gas during recent years;
- *Increased exploration expenditures.* We believe that we are at the beginning of a significant period of elevated exploration spending in the North American oil and gas market. Many exploration and production companies are moving from development to exploration spending to increase reserves that have been depleted from an extended period of development;
- *Advanced drilling technology.* Exploration technology and drilling methods have improved significantly since the 1990s. These methods have made the development of existing oil and gas fields formerly impeded by geologic barriers or other reasons, commercially and economically viable. With the advent and success of these new technologies, development companies continue to re-examine oil and gas fields in proven regions, creating demand for seismic data;
- *Seismic data advancements.* New advances in processing and interpreting seismic data have increased the usefulness of data and as a result improved the viability of exploring domestic oil and gas fields. The improvement in data quality often leads to new analysis of existing oil and natural gas fields; and
- *United States' desire to reduce dependence on foreign oil and gas.* While long recognized as a potential danger, recent geopolitical events and continued instability in the Middle East have created a renewed, more powerful desire by the United States to reduce its dependence on foreign supply of oil and natural gas.

Customers

We market our seismic data to a varied customer base. Our customers range from small and mid-cap exploration and production companies and private prospect generating individuals to several of the largest companies in the oil and gas industry. During each of the three years ended December 31, 2007, no one customer accounted for more than 10% of our revenue. We do not believe that the loss of any single customer would have a material adverse impact on our seismic business, cash flows or results of operations.

Competition

The creation and licensing of seismic data is competitive. There are a number of geophysical companies that create, market and license seismic data and maintain their own seismic data libraries. Rather than outsourcing their seismic data activities, some oil and gas companies create their own seismic data libraries, which they license to others. Our largest competitors, many of whom are engaged in acquiring seismic data, as well as maintaining a data library, are Petroleum Geo-Services, Pulse Data Inc., Seismic Exchange, Inc. (a private company based in New Orleans, Louisiana), TGS Nopec, CGGVeritas and WesternGeco. Many of our competitors have substantially larger revenues and resources than we do.

Regulation

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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. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. In addition, failure to timely obtain required permits may result in delays in acquiring new data for our data library or cause operating losses. Because these laws and our business may change from time to time, we cannot predict the future cost of complying with these laws, and expenditures to ensure our compliance could be material in the future. Modification of existing laws or regulations or adoption of new laws or regulations limiting exploration or production activities by oil and gas companies could adversely affect us by reducing the demand for our seismic data.

Seasonality and Timing Factors

Our results of operations fluctuate from quarter to quarter due to a number of factors. Our results are influenced by oil and gas industry capital expenditure budgets and spending patterns. These budgets are not necessarily spent in equal or progressive increments during the year, with spending patterns affected by individual oil and gas company requirements as well as industry-wide conditions. In addition, under our revenue recognition policy, revenue recognition from data licensing contracts is dependent upon, among other things, when the customer selects the data. As a result, our seismic data revenue does not necessarily flow evenly or progressively during a year or from year to year. Although the majority of our data licensing transactions provide for fees to us of under \$500,000 per transaction, occasionally a single data license transaction from our library, including those resulting from the merger and acquisition of our customers, may be substantially larger. Such large license transactions or an unusually large number of, or reduction in, data selections by customers can materially impact our results during a quarter, creating an impression of a revenue trend that may not be repeated in subsequent periods. In our data creation activities, weather-related or other events outside our control may impact or delay surveys during any given quarter.

Employees

As of December 31, 2007, we and our subsidiaries had 154 full-time employees, including eight executive officers, 21 marketing staff and 36 geotechnical staff. None of our employees are covered by collective bargaining agreements, and we consider our relationship with our employees to be good.

Raw Material and Proprietary Information

We are not dependent on any particular raw materials, patents, trademarks or copyrights for our business operations. Our seismic data library is proprietary confidential information, which is not generally available to the public. The seismic data within our library is protected through confidentiality agreements with our employees and licensees. We believe that our seismic data library is also protected by common law copyright.

Available Information

We make available free of charge, or through the "Investor Relations" section of our website at www.seitel-inc.com, access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is filed, or furnished to the SEC. Our Code of Business Conduct and Ethics is also available through the "Investor Relations-Corporate Governance" section of our website or in print to any stockholder who requests them.

Item 1A. Risk Factors

Our industry is cyclical and our business could be adversely affected by the level of capital expenditures by oil and gas companies and by the level and volatility of oil and natural gas prices.

Our industry and the oil and gas industry are subject to cyclical fluctuations. Demand for our services depends upon spending levels by oil and gas companies for exploration, production, development and field management of oil and natural gas reserves

Competition

and, in the case of new seismic data creation, the willingness of these companies to forgo ownership in the seismic data. Capital expenditures by oil and gas companies for these activities depend upon several factors, including actual and forecasted prices of oil and natural gas and those companies' short-term and strategic plans. Oil and natural gas prices in turn depend on local, regional and global events or conditions that affect supply and demand for the relevant commodity. These events or conditions are generally not predictable and include, among other things:

- levels of demand for, and production of, oil and natural gas;
- worldwide political, military and economic conditions;
- weather, including seasonal patterns that affect regional energy demand as well as severe weather events that can disrupt supply;
- the level of oil and natural gas reserves; and
- government policies regarding adherence to OPEC quotas.

Oil and natural gas prices are subject to significant volatility and there can be no assurance that oil and natural gas prices and demand will not decline in the future. Low oil and natural gas prices and demand could result in decreased exploration and development spending by oil and gas companies, which could, in turn, affect our seismic data business. Our customers may adjust their exploration and development spending levels very quickly in response to any material change in oil and natural gas prices. Any future decline in oil and natural gas prices, sustained downturn in the oil and gas or seismic data industries, or sustained periods of reduced capital expenditures by oil and gas companies could have a material adverse effect on our results of operations and cash flow.

A downturn in the availability of capital to our customers could have a negative impact on their ability to license our seismic data, which would in turn have an adverse effect on our results of operation.

Many of our customers are independent oil and gas companies and private prospect-generating companies that rely primarily on bank or commercial debt financing or private investments to fund their exploration, production, development and field management activities. As a result of the existing economic conditions in the capital markets, there may be a significant downturn in the availability or increase in the cost of these types of capital that could have a material adverse impact on the ability of these companies to obtain funding necessary to purchase our seismic data which, in turn, could have a material adverse effect on our results of operations and cash flow.

We are dependent on the availability of internally generated cash flow and financing alternatives to cover the costs of acquiring and processing seismic data for our data library that are not underwritten by our customers.

We continue to invest additional capital in acquiring and processing new seismic data to add to our data library and as our business grows, we expect these investments to increase. A significant portion of these costs are underwritten by our customers, while the remainder is financed through the use of internally generated cash flow and other financing sources. We may use bank or commercial debt, the issuance of equity or debt securities or any combination thereof to finance these costs. There can be no assurance that we will have available internally generated funds or will be successful in obtaining sufficient capital through additional financing or other transactions, if and when required on terms acceptable to us, to continue to invest in acquiring new seismic data. Any substantial alteration of or increase in our capitalization through the issuance of debt securities may significantly increase our leverage and decrease our financial flexibility. If we are unable to obtain financing if and when needed, we may be forced to curtail our business objectives and to finance business activities with only internally generated funds as may then be available.

Our business could be adversely affected by future decreases in availability, increases in cost of third-party contractors and the failure of our customers to fulfill their obligations to reimburse us for the underwritten portion of third-party contractor costs.

We do not own seismic acquisition equipment or employ seismic acquisition crews and we therefore outsource the substantial majority of the work required to complete our data acquisition projects to third-party contractors. Our payments to these third-party contractors comprise the substantial majority of the total estimated costs of these projects and are typically paid throughout the data creation period. Any future increase in the demand for these contractors or any future decrease in the availability of these contractors could increase the costs and adversely affect our business. In the past, we have been largely successful in mitigating against such risks by obtaining commitments from our third-party contractors for our data acquisition projects well in advance of their commencement to ensure the availability of such third-party contractors. In addition, we generally lock in the total costs before our projects begin to mitigate against cost increases. We cannot guarantee that we will continue to be able to successfully mitigate against such risks in the future. Any substantial and sustained increase in such costs that we are unable to mitigate against could have a material adverse effect on our results of operations and cash flow. A substantial portion of our seismic acquisition project costs, including third-party project costs, are underwritten by our customers. We target an average of 70% underwriting levels for new seismic acquisition projects. On occasion, when our underwriting customer owns other attractive seismic data that we want to obtain, we may decide to take ownership in this data to cover part of the customer's underwriting obligation. In the event that underwriters for such projects fail to fulfill their obligations with respect to such underwriting commitments, we would continue to be obligated to satisfy our payment obligations to such third-party contractors.

Because our business is concentrated in the U.S. Gulf Coast and Canada, it could be adversely affected by developments in the oil and gas industry that affect these areas.

While we have seismic surveys in other areas, most of the seismic data in our library covers areas along the U.S. Gulf Coast, offshore in the U.S. Gulf of Mexico and in Canada. Because of this geographic concentration, our results of operations and our cash flow could be materially and adversely affected by economic events relating primarily to any one of these regions even if conditions in the oil and gas industry worldwide were favorable.

Competition for the acquisition of new seismic data is intense.

There are a number of geophysical companies that create, market and license seismic data and maintain their own seismic libraries. Competition for acquisition of new seismic data among geophysical service providers historically has been, and will continue to be, intense. Certain competitors have significantly greater financial and other resources than we do. These larger and better-financed operators could enjoy an advantage over us in a competitive environment for new data.

Our operating results and cash flows are subject to fluctuations due to circumstances that are beyond our control.

Our operating results and cash flows from operations have in the past, and may in the future, vary in material respects from period to period. Factors that have and could cause variations include (1) timing of the receipt and commencement of contracts for data acquisition, (2) our customers' budgetary cycles and their effect on the demand for geophysical activities, (3) seasonal factors, (4) the timing of sales of licenses and selections of significant geophysical data from our data library, which are not typically made in a linear or consistent pattern and (5) technological or regulatory changes. These revenue fluctuations could produce unexpected adverse operating results in any period.

Weak demand could impair the value of our data library.

Reduced actual or estimated future sales or cash flows may result in a requirement to increase amortization rates or record impairment charges to reduce the carrying value of our data library. Such increases or charges, if required, could be material to operating results in the periods in which they are recorded. For purposes of evaluating potential impairment losses, we estimate the future cash flows attributable to a library component by evaluating historical and recent revenue trends, oil and gas prospectivity in particular regions, general economic conditions affecting our customer base, expected changes in technology and other factors that we deem relevant. The estimation of future cash flows is highly subjective, inherently imprecise and could change materially from period to period based on the factors described in the immediately preceding sentence, among others. Accordingly, if conditions change in the future, we may record impairment losses relative to our seismic data library, which could be material to our results of operations in any particular reporting period.

Our Canadian operations subject us to currency translation risk, which could cause our results to fluctuate significantly from period to period.

A portion of our revenues are derived from our Canadian activities and operations. As a result, we translate the results of our operations and financial condition of our Canadian operations into U.S. dollars. Therefore, our reported results of operations and financial condition are subject to changes in the exchange rate between the two currencies. As the relationship of the Canadian dollar has strengthened recently against the U.S. dollar, our revenue denominated in Canadian dollars has been favorably affected and conversely our expenses denominated in Canadian dollars have been unfavorably affected, trends which we expect to continue. Assets and liabilities of Canadian operations have been translated from Canadian dollars into U.S. dollars at the exchange rates in effect at the relevant balance sheet date, and revenue and expenses of Canadian operations have been translated from Canadian dollars into U.S. dollars at exchange rates as of the dates on which they are recognized. Translation adjustments related to assets and liabilities are included in other accumulated other comprehensive income (loss) in stockholder's equity. Realized gains and losses on translation of the Canadian operations into U.S. dollars are included in net income (loss). Currently, we do not hedge our exposure to changes in foreign exchange rates.

We may be unable to attract and retain key employees.

Our success depends upon attracting and retaining highly skilled geophysical professionals and other technical personnel. A failure to continue to attract and retain these individuals could adversely affect our ability to compete in the geophysical services industry. We may confront significant and potentially adverse competition for key personnel, particularly during periods of increased demand for geophysical services.

Our success also depends to a significant extent upon the abilities and efforts of members of our senior management, the loss of whom could adversely affect our business. Only our President and Chief Executive Officer, our Chief Operating Officer and our Chief Financial Officer have employment agreements with us. We cannot be certain that our senior executives will continue to be employed by us for an indefinite period of time and, if they do, how long they will remain so employed. Our inability to attract and retain key personnel could have a material adverse effect on our ability to manage our business properly.

Current and future government regulation may negatively impact demand for our products and services and increase our cost of conducting business.

The conduct of our business, and the use of our products and services are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States and Canada. These laws and regulations may change, sometimes dramatically, as a result of political, economic or social events. Changes in laws, regulations or governmental policy may alter the environment in which we do business and the demand for our products and services and, therefore, may impact our results of operations or increase our liabilities. Changes in these and other laws and regulations or additional regulation could cause the demand for our products to decrease. Moreover, complying with increased or changed regulations could cause our operating expenses to increase, which could adversely affect our business.

Technological changes not available to us could adversely affect our business.

New data acquisition or processing technologies may be developed. We cannot assure you that new and enhanced products and services introduced by one of our competitors will not gain market acceptance, will be available to us or will not adversely affect us.

Terrorist attacks or sustained military campaigns may adversely impact our business.

The terrorist attacks that took place in the United States on September 11, 2001, and subsequent events have created many economic and political uncertainties, some of which may materially adversely affect our business. The continued threat of terrorism and the impact of military and other actions will likely lead to continued volatility in prices for oil and natural gas and could affect demand for our services by oil and gas companies, on which we are dependent. Instability in the financial markets as a result of terrorism or war could also materially and adversely affect our ability to raise capital. The continuation of these developments may subject our operations to increased risks, and, depending on their ultimate magnitude, could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our substantial level of indebtedness could adversely affect our financial condition and our ability to fulfill our obligations and operate our business.

We have a significant amount of leverage and interest expense. As of December 31, 2007, we had approximately \$406.1 million of total indebtedness, including \$3.8 million of capital leases. Our 2008 consolidated annual debt service requirements are expected to aggregate approximately \$39.7 million. We may also incur additional indebtedness in the future.

Our high level of indebtedness could have negative consequences to us, including:

- we may have difficulty satisfying our obligations with respect to our debt;
- we may have difficulty obtaining financing in the future for working capital, capital expenditures, acquisitions or other purposes;

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- we may need to use all, or a substantial portion, of our available cash flow to pay interest and principal on our debt, which will reduce the amount of money available to finance our operations and other business activities;
- our vulnerability to general economic downturns and adverse industry conditions could increase;
- our flexibility in planning for, or reacting to, changes in our business and in our industry in general could be limited;
- our substantial amount of debt and the amount we must pay to service our debt obligations could place us at a competitive disadvantage compared to our competitors that have less debt;
- our customers may react adversely to our significant debt level and seek or develop alternative licensors or suppliers;
- we may have insufficient funds, and our debt level may also restrict us from raising the funds necessary to repurchase all of the notes tendered to us upon the occurrence of a change of control, which would constitute an event of default under the notes; and
- our failure to comply with the financial and other restrictive covenants in our debt instruments which, among other things, require us to maintain specified financial ratios and limit our ability to incur debt and sell assets, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business or prospects.

Our high level of indebtedness requires that we use a substantial portion of our cash flow from operations to pay principal of, and interest on, our indebtedness, which will reduce the availability of cash to fund working capital requirements, capital expenditures, research and development and other general corporate or business activities, including future acquisitions.

In addition, our revolving credit facilities bear interest at variable rates. If market interest rates increase, debt service on our credit facilities will rise, which would adversely affect our cash flow. Although we may employ hedging strategies such that a portion of the aggregate principal amount of these credit facilities carries a fixed rate of interest, any hedging arrangement put in place may not offer complete protection from this risk. Additionally, the remaining portion of these credit facilities may not be hedged and, accordingly, the portion that is not hedged will be subject to changes in interest rates.

Our U.S. revolving credit facility and the indenture governing our 9.75% Senior Notes contain a number of restrictive covenants which limit our ability to finance future operations or capital needs or engage in other business activities that may be in our interest.

Our U.S. revolving credit facility and the indenture governing our 9.75% Senior Notes impose, and the terms of any future indebtedness may impose, operating and other restrictions on us and our subsidiaries. Such restrictions affect or will affect, and in many respects limit or prohibit, among other things, our ability and the ability of certain of our subsidiaries to:

- incur additional indebtedness;
- create liens;
- pay dividends and make other distributions in respect of our capital stock;
- redeem our capital stock;
- make investments or certain other restricted payments;
- sell certain kinds of assets;
- enter into transactions with affiliates; and
- effect mergers or consolidations.

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Our U.S. revolving credit facility includes additional covenants, including a restriction on capital expenditures, and requires us to achieve certain financial and operating results and maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control.

The restrictions contained in our U.S. revolving credit facility and the indenture governing our 9.75% Senior Notes could:

- limit our ability to plan for or react to market or economic conditions or meet capital needs or otherwise restrict our activities or business plans; and
- adversely affect our ability to finance our operations, acquisitions, investments or strategic alliances or other capital needs or to engage in other business activities that would be in our interest.

A breach of any of these covenants or our inability to comply with the required financial ratios could result in a default under our U.S. revolving credit facility and/or the indenture governing our 9.75% Senior Notes. If an event of default occurs under our U.S. revolving credit facility, which includes an event of default under the indenture governing the 9.75% Senior Notes, the lenders could elect to:

- declare all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable;
- require us to apply all of our available cash to repay the borrowings; or
- prevent us from borrowing under our U.S. revolving credit facility;

any of which could also result in an event of default under the 9.75% Senior Notes. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further financing.

If we were unable to repay or otherwise refinance these borrowings when due, our lenders could sell the collateral securing our U.S. revolving credit facility, which constitutes substantially all of our and our domestic subsidiaries' assets. Although holders of the 9.75% Senior Notes could accelerate the 9.75% Senior Notes upon the acceleration of the obligations under our U.S. revolving credit facility, we cannot assure you that sufficient assets will remain to repay the 9.75% Senior Notes after we have paid all the borrowings under our U.S. revolving credit facility and any other debt.

Failure to comply with the SEC's final judgment of permanent injunction entered on consent against us could adversely affect our business, and could subject us to further SEC investigations, enforcement action, criminal prosecution and significant penalties.

We were the subject of a formal investigation by the SEC's Division of Enforcement. We cooperated fully with the SEC during the course of its investigation, and reached a consensual resolution of the SEC's civil complaint resulting in its consent to a final judgment of permanent injunction, referred to as the SEC Injunction, being entered on June 16, 2003 in the United States District Court for the Southern District of Texas, Houston Division. The agreement for the entry of the SEC Injunction was without admitting or denying the allegations in the SEC's complaint, which had alleged violations of the reporting, books and records, internal controls and proxy statement provisions of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and rules and regulations adopted under the Exchange Act. Our chief executive officer and chief financial officer at the time of the events giving rise to the SEC's complaint have been replaced.

The SEC Injunction, by its terms, permanently restrains and enjoins us from, among other things, (1) filing with the SEC any report under the Exchange Act that contains any untrue statement of a material fact, which omits to state any material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or that omits to disclose any information required to be disclosed, (2) failing to make and keep accurate books, records and accounts, (3) failing to devise and maintain an adequate system of internal accounting controls and procedures, and (4) soliciting any proxy or consent or authorization in respect of any security registered under Section 12 of the Exchange Act in contravention of the SEC's proxy rules, or making any solicitation by means of any proxy statement, form of proxy, notice of meeting or other communication subject to the SEC's proxy rules which, at the time and in light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

Our failure to comply with any of the provisions of the SEC Injunction could adversely affect us.

Limitations on our ability to utilize net operating losses and other tax benefits may result in future net operating income being taxable income.

Companies which have had a change in ownership, as defined by the Internal Revenue Code, are subject to limitations on certain tax attributes. We underwent a change in ownership for these purposes as a result of the Merger and therefore the use of our net operating losses and certain other tax attributes are subject to certain limitations following the Merger. However, we do not expect a significant impact to our financial position or results of operation as a consequence of the Merger because we expect the limitations to exceed our carryforward attributes.

Our internal controls for financial reporting and our disclosure controls and procedures may not prevent all possible errors that could occur.

Our Chief Executive Officer and Chief Financial Officer evaluate quarterly our internal controls for financial reporting and our disclosure controls and procedures, which includes a review of the objectives, design, implementation and effect of the controls in respect of the information generated for use in our periodic reports. In the course of our controls evaluation, we seek to identify data errors, control problems and to confirm that appropriate corrective action, including process improvements, were being undertaken. The overall goals of these various evaluation activities are to monitor our internal controls for financial reporting and our disclosure controls and procedures and to make modifications as necessary. Our intent in this regard is that our internal controls for financial reporting and our disclosure controls and procedures will be maintained as dynamic systems that change (including with improvements and corrections) as conditions warrant.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be satisfied. Our management has concluded that our internal controls for financial reporting and our disclosure controls and procedures are designed to give a reasonable assurance that they are effective to achieve their objectives. We cannot provide absolute assurance that we have detected all possible control issues. These inherent limitations include the possibility that judgments in our decision-making could be faulty, and that isolated breakdowns could occur because of simple human error or mistake. The design of our system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed absolutely in achieving our stated goals under all potential future or unforeseeable conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud could occur and not be detected. Breakdowns in our internal controls and procedures could occur in the future, and any such breakdowns could have an adverse effect on us.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our corporate headquarters are located at 10811 South Westview Circle Drive, Suite 100, Building C, Houston, Texas 77043, which also serves as administrative and financial offices and warehouse space and storage. We maintain domestic marketing offices in Denver, Colorado and New Orleans, Louisiana. We also lease office and warehouse space in Calgary, Alberta, Canada in

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three separate locations, where our Canadian operations are headquartered. We consider our business facilities adequate and suitable for our present and anticipated future needs, but may seek to expand our facilities from time to time.

The following table sets forth the locations of our offices and warehouses, the approximate square footage of space we maintain at such locations, our use of such space and whether it is owned or leased by us.

Location	Approximate Square Footage	Use	Owned/Leased
Houston, Texas	80,125	Administrative; Financial; Marketing; Operations; Warehouse	Leased
Denver, Colorado	1,513	Marketing	Leased
New Orleans, Louisiana	364	Marketing	Leased
Calgary, Alberta, Canada	23,270	Administrative; Financial; Marketing; Operations	Leased
Calgary, Alberta, Canada	42,985	Warehouse	Leased
Calgary, Alberta, Canada	1,513	Operations	Leased

Item 3. Legal Proceedings

On July 18, 2002, Paul Frame, Seitel's former chief executive officer, sued Seitel in the 113th Judicial District Court of Harris County, No. 2002-35891. Mr. Frame alleged a breach of his employment contract and defamation. He also sought a declaratory judgment that certain funds he received from Seitel were proper and do not have to be repaid. Mr. Frame filed claims totaling \$20.2 million in Seitel's Chapter 11 cases, which have been disallowed by order of the Bankruptcy Court. On April 1, 2005, Seitel filed a motion for summary judgment seeking dismissal of Mr. Frame's complaint in the District Court. In late April 2005, Mr. Frame filed a motion for leave to file an amended complaint in the District Court. Hearing dates have not been set for these April 2005 motions. In 2002, Seitel filed a counter suit to recover approximately \$4.2 million in corporate funds that Seitel believes Mr. Frame inappropriately caused Seitel to pay him or for his benefit plus over \$800,000 due on two notes that were accelerated pursuant to their respective terms. Seitel also holds a judgment against Mr. Frame in the amount of at least \$590,000 relating to a loan made to Mr. Frame by Bank One N.A. and guaranteed by Seitel. Seitel has requested and is investigating information with respect to Mr. Frame and the nature and extent of his assets for purposes of analyzing whether to continue pursuit of the civil litigation described above and potential debt collection. The parties filed a joint motion to abate the above proceedings. The case continues to remain in abatement.

In addition to the lawsuit described above, Seitel 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 Seitel'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 December 31, 2007, Seitel did not have any amounts accrued related to the claims set forth above, as Seitel believes it is not probable that any amounts will be paid relative to such litigation and claims. If the party was to prevail against Seitel in the case described above that has not been settled, the amounts of any judgments against Seitel or settlements that Seitel may enter into could be material to the Seitel's financial statements for any particular reporting period.

Item 4. *Submission of Matters to a Vote of Security Holders.*

None.

PART II

Item 5. *Market for Registrant's Common Equity, Securities Related Stockholder Matters and Issuer Purchases of Equity*

Market Information

Our common stock is privately held and there is no established public trading market for our common stock. As of December 31, 2007, there was one holder of record of our 100 shares of common stock, \$0.001 par value.

Dividend Policy

We have not declared or paid any cash dividends on our common stock during our two most recent fiscal years. We do not intend to declare or pay any cash dividends on our common stock in the foreseeable future. Covenants within our revolving credit facility and our 9.75% Senior Notes restrict our ability to pay cash dividends on our capital stock. Future declaration and payment of cash dividends, if any, on our common stock will be determined in light of factors deemed relevant by our board of directors, including our earnings, operations, capital requirements and financial condition and restrictions in our financing agreements.

Item 6. Selected Consolidated Financial Data (In Thousands)

As a result of the Merger, which was completed on February 14, 2007, our capital structure and our basis of accounting differ from those prior to the Merger. Our financial data in respect of all reporting periods after February 13, 2007 reflect the Merger under the purchase method of accounting. The financial information for the period before the Merger is referred to as "Predecessor Period" and financial information for the period after the Merger is referred to as the "Successor Period."

The following table summarizes certain historical consolidated financial data of Seitel and is qualified in its entirety by the more detailed consolidated financial statements and notes thereto included herein.

	SUCCESSOR PERIOD		PREDECESSOR PERIOD			
	February 14, 2007 - December 31, 2007	January 1, 2007 - February 13, 2007	Year Ended December 31,			
			2006	2005	2004	2003
Statement of Operations Data:						
Revenue	\$ 129,802	\$ 19,010	\$ 191,919	\$ 149,178	\$ 137,675	\$ 131,465
Expenses and costs:						
Depreciation and amortization	146,072	11,485	88,662	98,373	168,201	82,638
Impairment of seismic data library	-	-	-	-	-	29,959
Gain on sale of seismic data	-	-	(231)	-	-	-
Cost of sales	218	8	234	185	332	815
Selling, general and administrative	33,393	3,577	35,930	34,910	30,160	33,814
Merger	2,657	17,457	1,449	-	-	-
	182,340	32,527	126,044	133,468	198,693	147,226
Income (loss) from operations	(52,538)	(13,517)	65,875	15,710	(61,018)	(15,761)
Interest expense, net	(38,844)	(2,284)	(19,520)	(23,224)	(24,437)	(19,952)
Foreign currency exchange gains (losses)	3,173	(102)	259	963	2,372	4,136
Gain on extinguishment of liabilities	-	-	-	-	-	681
Reorganization items	-	-	-	-	(12,498)	(5,984)
Gain (loss) on sale of marketable securities	-	-	27	(11)	-	-
Other income	39	12	-	-	1	2
Income (loss) from continuing operations before income taxes	(88,170)	(15,891)	46,641	(6,562)	(95,580)	(36,878)
Provision (benefit) for income taxes	(11,057)	452	(715)	(4,776)	(3,338)	2,199

Income (loss) from
