SEITEL INC
Form 10-Q
August 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

Commission File Number: 333-144844

SEITEL, INC.

(Exact name of registrant as specified in its charter)

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

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	o	Accelerated filer	o
Non-accelerated filer	T(Do not check if a smaller reporting company)	Smaller reporting company	o

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

Yes o No T

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 T No o

As of August 11, 2008, there were 100 shares of the Company's common stock, par value $.001 per share outstanding.

INDEX

			Page
PART I.	FINANCIAL INFORMATION		
	Item 1.	Financial Statements	3
	Condensed Consolidated Balance Sheets (Unaudited)		3
	Condensed Consolidated Statements of Operations (Unaudited)		4
	Condensed Consolidated Statements of Comprehensive Loss (Unaudited)		6
	Condensed Consolidated Statement of Stockholder's Equity (Unaudited)		7
	Condensed Consolidated Statements of Cash Flows (Unaudited)		8
	Notes to Condensed Consolidated Interim Financial Statements (Unaudited)		10
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	29
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk	40
	Item 4T.	Controls and Procedures	40
PART II.	OTHER INFORMATION		
	Item 1.	Legal Proceedings	40
	Item 1A.	Risk Factors	40
	Item 6.	Exhibits	41
	Signatures		42

(*Index*)

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) June 30, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	$ 41,320	$ 43,333
Restricted cash	111	110
Receivables		
Trade, net of allowance for doubtful accounts of $709 and $688, respectively	41,957	51,915
Notes and other, net of allowance for doubtful accounts of $225 and $238, respectively	861	2,190
Net seismic data library, net of accumulated amortization of $224,471 and $140,742, respectively	319,770	349,039
Net property and equipment, net of accumulated depreciation and amortization of $3,626 and $2,335, respectively	9,967	10,996
Investment in marketable securities	4,609	4,224
Prepaid expenses, deferred charges and other	21,720	22,263
Intangible assets, net of accumulated amortization of $8,496 and $5,515, respectively	48,110	51,785
Goodwill	204,245	207,246
TOTAL ASSETS	$ 692,670	$ 743,101
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES		
Accounts payable and accrued liabilities	$ 47,052	$ 49,325
Income taxes payable	1,721	948
Debt		
Senior Notes	402,291	402,333
Notes payable	279	300
Obligations under capital leases	3,669	3,848
Deferred revenue	45,625	48,151
Deferred income taxes	11,997	17,238
TOTAL LIABILITIES	512,634	522,143
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY		
Common stock, par value $.001 per share; 100 shares authorized, issued and outstanding at June 30, 2008 and December 31, 2007	-	-
Additional paid-in capital	268,184	264,805
Retained deficit	(115,948)	(77,113)

Accumulated other comprehensive income		27,800		33,266
TOTAL STOCKHOLDER'S EQUITY		180,036		220,958
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$	692,670	$	743,101

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

(Index)

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
REVENUE	$ 44,719	$ 30,371
EXPENSES:		
Depreciation and amortization	44,259	37,770
Cost of sales	165	32
Selling, general and administrative	9,813	9,489
Merger	-	835
	54,237	48,126
LOSS FROM OPERATIONS	(9,518)	(17,755)
Interest expense, net	(10,179)	(9,938)
Foreign currency exchange gains	133	1,478
Other income	39	-
Loss before income taxes	(19,525)	(26,215)
Provision (benefit) for income taxes	884	(1,970)
NET LOSS	$ (20,409)	$ (24,245)

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

(Index)

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

	SUCCESSOR PERIOD		PREDECESSOR PERIOD
	Six Months Ended June 30, 2008	February 14, 2007 - June 30, 2007	January 1, 2007 - February 13, 2007
REVENUE	$ 92,101	$ 47,669	$ 19,010
EXPENSES:			
Depreciation and amortization	89,114	60,003	11,485
Cost of sales	279	41	8
Selling, general and administrative	20,248	13,923	3,577
Merger	357	1,280	17,457
	109,998	75,247	32,527
LOSS FROM OPERATIONS	(17,897)	(27,578)	(13,517)
Interest expense, net	(20,074)	(19,123)	(2,284)
Foreign currency exchange gains (losses)	(713)	1,657	(102)
Other income	39	-	12
Loss before income taxes	(38,645)	(45,044)	(15,891)
Provision (benefit) for income taxes	190	(5,967)	452
NET LOSS	$ (38,835)	$ (39,077)	$ (16,343)

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

(Index)

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

	SUCCESSOR PERIOD Three Months Ended June 30, 2008	SUCCESSOR PERIOD Three Months Ended June 30, 2007	SUCCESSOR PERIOD Six Months Ended June 30, 2008	SUCCESSOR PERIOD February 14, 2007 - June 30, 2007	PREDECESSOR PERIOD January 1, 2007 - February 13, 2007
Net loss	$ (20,409)	$ (24,245)	$ (38,835)	$ (39,077)	$ (16,343)
Unrealized gains (losses) on securities held as available for sale, net of tax	(311)	-	385	-	-
Foreign currency translation adjustments	1,598	13,820	(5,851)	15,683	7
Comprehensive loss	$ (19,122)	$ (10,425)	$ (44,301)	$ (23,394)	$ (16,336)

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

(Index)

SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (Unaudited)

(In thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income
Balance, December 31, 2007	100	$ -	$ 264,805	$ (77,113)	$ 33,266
Issuance of restricted stock units	-	-	604	-	-
Amortization of stock-based compensation costs	-	-	2,775	-	-
Net loss	-	-	-	(38,835)	-
Foreign currency translation adjustments	-	-	-	-	(5,851)
Unrealized gain on marketable securities, net of tax	-	-	-	-	385
Balance, June 30, 2008	100	$ -	$ 268,184	$ (115,948)	$ 27,800

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

(Index)

SEITEL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	SUCCESSOR PERIOD		PREDECESSOR PERIOD
	Six Months Ended June 30, 2008	February 14, 2007 - June 30, 2007	January 1, 2007 - February 13, 2007
Cash flows from operating activities:			
Reconciliation of net loss to net cash provided by operating activities:			
Net loss	$ (38,835)	$ (39,077)	$ (16,343)
Depreciation and amortization	89,114	60,003	11,485
Deferred income tax provision (benefit)	(1,553)	(7,451)	302
Amortization of deferred financing costs	795	4,532	148
Amortization of debt discount (premium)	(42)	(30)	70
Amortization of stock-based compensation	2,775	3,547	6,673
Amortization of favorable facility lease	142	97	-
Allowance for collection of trade receivables	46	391	-
Reversal of allowance for notes receivables	(54)	-	(274)
Non-cash compensation expense	604	-	32
Non-cash other income	(24)	-	-
Non-cash revenue	(8,359)	(1,109)	(88)
Decrease (increase) in receivables	9,000	(3,798)	9,074
Decrease (increase) in other assets	(231)	495	(521)
Increase (decrease) in deferred revenue	(6,318)	14,154	(7,767)
Increase in accounts payable and other liabilities	231	49	2,819
Net cash provided by operating activities	47,291	31,803	5,610
Cash flows from investing activities:			
Cash invested in seismic data	(49,087)	(25,780)	(8,369)
Cash paid to acquire property and equipment	(503)	(134)	(60)
Advances to Seitel Holdings, Inc.	(14)	-	-
Increase in restricted cash	(1)	(2)	-
Net cash used in investing activities	(49,605)	(25,916)	(8,429)
Cash flows from financing activities:			
Issuance of 9.75% Senior Notes	-	400,000	-
Repayment of 11.75% Senior Notes	-	(233,352)	-
Contributed capital	-	153,473	-
Purchase of Seitel stock	-	(386,556)	-
Principal payments on notes payable	(21)	(17)	(3)
Principal payments on capital lease obligations	(66)	(32)	(6)
Borrowings on line of credit	286	88	119
Payments on line of credit	(286)	(88)	(119)
Cost of debt and equity transactions	-	(16,982)	-
Purchase of common stock subsequently retired	-	-	(400)
Payments on notes receivable from officers			

and employees		-		274		-
Net cash used in financing activities	$	(87)	$	(83,192)	$	(409)

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

(Index)

SEITEL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) **- continued**

(In thousands)

	SUCCESSOR PERIOD		PREDECESSOR PERIOD
	Six Months Ended June 30, 2008	February 14, 2007 - June 30, 2007	January 1, 2007 - February 13, 2007
Effect of exchange rate changes	$ 388	$ (1,642)	$ 46
Net decrease in cash and equivalents	(2,013)	(78,947)	(3,182)
Cash and cash equivalents at beginning of period	43,333	104,208	107,390
Cash and cash equivalents at end of period	$ 41,320	$ 25,261	$ 104,208
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 19,754	$ 1,913	$ 11,207
Income taxes	$ 44	$ 547	$ 1
Supplemental schedule of non-cash investing activities:			
Additions to seismic data library	$ 13,741	$ 2,162	$ (7)

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

(Index)

SEITEL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)
June 30, 2008

NOTE A-ORGANIZATION

On February 14, 2007, Seitel Acquisition Corp. ("Acquisition Corp.") was merged with and into Seitel, Inc. (the "Company"), pursuant to a merger agreement between the Company, Acquisition Corp. and Seitel Holdings, Inc. ("Holdings") dated October 31, 2006 (the "Merger"). Pursuant to the merger agreement, the Company 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").

In connection with the Merger, Acquisition Corp. conducted a cash tender offer and consent solicitation for all of the $189.0 million aggregate principal amount of the Company's 11.75% senior notes due 2011 (the "11.75% Senior Notes"). On February 14, 2007, the Company paid $187.0 million aggregate principal amount for all of the notes tendered. In connection with the tender offer and consent solicitation, the Company entered into a supplemental indenture for 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 remains outstanding.

In addition, on February 14, 2007, the Company issued $400.0 million aggregate principal amount of 9.75% senior notes due 2014 (the "9.75% Senior Notes") pursuant to an indenture by and among the Company, certain subsidiary guarantors and LaSalle Bank National Association, as trustee.

The Company also entered into an Amended and Restated Loan and Security Agreement with Wells Fargo Foothill, Inc. with a maximum credit amount of $25.0 million, subject to certain borrowing base limitations. All obligations are unconditionally guaranteed by the Company's 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 the Company's domestic assets, including equity interests in the company's U.S. subsidiaries.

Pursuant to the Merger, all of the Company's outstanding common stock (other than shares owned by ValueAct Capital, which were contributed to Holdings, and certain shares owned by management investors, which were exchanged for ownership in Holdings) was exchanged for $3.70 per share.

NOTE B-BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. In preparing the Company's financial statements, a number of estimates and assumptions are made by management that affect the accounting for and recognition of assets, liabilities, revenues and expenses. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The condensed consolidated balance sheet of the Company as of December 31, 2007, 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 for the year ended December 31, 2007 contained in the Company's Annual Report on Form 10-K.

Although the Company continues as the same legal entity after the Merger, the consolidated financial statements for the first six months of 2007 are presented for two periods: January 1, 2007 through February 13, 2007 (the "Predecessor Period" or "Predecessor," as context requires), which relates to the period preceding the Merger and February 14, 2007 through June 30, 2007, which relates to the period succeeding the Merger. All financial statements for the periods succeeding the Merger are referred to as Successor Period or Successor, as context requires. The consolidated financial statements for the Successor Periods reflect the acquisition of the Company under the purchase method of accounting in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." The results between these periods are not comparable to the Predecessor due to the difference in the basis of presentation of purchase accounting as compared to historical cost.

(Index)

NOTE C-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 usually provide the customer with a limited exclusivity period, which will normally last for six months after final delivery of the processed data. 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.

Revenue from the creation of new seismic data 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. The duration of most data creation projects is generally less than 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 ownership of the newly acquired data, which is added to its library, and is free to license the data to other customers when the original 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 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.

(Index)

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 our 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; and
- the license term has begun.

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

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

Revenue from Non-Monetary Exchanges

In certain cases, the Company will take ownership of a customer's seismic data or revenue interest (collectively referred to as "data") in exchange for a non-exclusive license to selected seismic data from the Company's library. 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 non-exclusive license contracts discussed above. These transactions are valued at the fair value of the data received or delivered, whichever is more readily determinable.

(Index)

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 maximum limitation on the value it assigns per square mile for the data it receives based on relevant criteria. 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. The range of cash transactions by the Company for licenses of similar data during the prior six months are evaluated to assist in this determination. 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 $500,000 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 for the relevant periods was as follows (in thousands):

	SUCCESSOR PERIOD		SUCCESSOR PERIOD		PREDECESSOR PERIOD
	Three Months Ended June 30,				
	2008	2007	Six Months Ended June 30, 2008	February 14, 2007 - June 30, 2007	January 1, 2007 - February 13, 2007
Seismic data library additions	$ 3,972	$ 600	$ 13,741	$ 2,162	$ (7)
Revenue recognized on specific data licenses and selections of data	1,048	461	2,737	1,082	71
Revenue recognized related to acquisition contracts	1,900	12	5,622	27	11
Revenue recognized related to data management services	-	-	-	-	6

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 D-SEISMIC DATA LIBRARY

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

(Index)

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 C under *"Revenue from Non-Monetary Exchanges"* for a discussion of the process used to determine fair value.

For internally 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 $562,000 and $476,000 for the three months ended June 30, 2008 and 2007, respectively, and $1,143,000, $712,000 and $265,000 for the six months ended June 30, 2008 (Successor Period), for the period February 14, 2007 to June 30, 2007 (Successor Period), and for the period January 1, 2007 to February 13, 2007 (Predecessor Period), 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 (usually six months) 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 under SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," 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 July 1, 2008, the amortization rate utilized under the income forecast method for all components is 70%. 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. In connection with the Merger, this policy was also applied at February 13, 2007 for the Predecessor Period. 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) Gulf of Mexico offshore comprised of the following components: (a) multi-component data, (b) ocean bottom cable data, (c) shelf data, (d) deep water data, and (e) value-added products; (II) North America onshore comprised of the following components: (a) Texas Gulf Coast, (b) Northern, Eastern and Western Texas, (c) Southern Louisiana/Mississippi, (d) Northern Louisiana, (e) Rocky Mountains, (f) North Dakota, (g) other United States, (h) Canada and (i) value-added products; and (III) international data outside North America. The Company believes that these library components constitute the lowest levels of independently identifiable cash flows.

(Index)

As events or conditions require, the Company evaluates the recoverability of its seismic data library investment in accordance with SFAS No. 144. 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.

In accordance with SFAS No. 144, 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, 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 six months ended June 30, 2008 (Successor Period), for the period February 14, 2007 to June 30, 2007 (Successor Period) or for the period January 1, 2007 to February 13, 2007 (Predecessor Period).

NOTE E-DEBT

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

		June 30, 2008		December 31, 2007
9.75% Senior Notes	$	400,000	$	400,000
11.75% Senior Notes		2,000		2,000
Revolving Credit Facility		-		-
Subsidiary revolving line of credit		-		-
Note payable to former executive		279		300
		402,279		402,300
Plus: Premium on debt		291		333
	$	402,570	$	402,633

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. The proceeds from the 9.75% Senior Notes were used to partially fund the transactions in connection with the Merger. As required by their terms, the 9.75% Senior Notes were exchanged for senior notes of like amounts and terms in a 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 certain mergers, acquisitions and sales of assets.

(Index)

From time to time on or before February 15, 2010, the Company may redeem up to 35% of the aggregate principal amount of the 9.75% Senior Notes with the net proceeds of equity offerings at a redemption price equal to 109.75% of the principal amount, plus accrued and unpaid interest. Upon a change of control (as defined in the indenture), 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. As required by their terms, the 11.75% Senior Notes were exchanged for senior notes of like amounts and terms in a registered exchange offer in February 2005. In connection with the 2004 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 and consequently, a premium has been reflected in the Successor financial statements related to these notes. Interest on the remaining notes is payable semi-annually in arrears on January 15 and July 15 of each year. The remaining $2.0 million of notes mature on July 15, 2011. The 11.75% Senior Notes are unsecured and are guaranteed by substantially all of the Company's U.S. subsidiaries on a senior basis.

As a result of the tender and consent offer, effective February 14, 2007, the 11.75% Senior Notes no longer contain any restrictive covenants, other than the requirement to make excess cash flow offers. Subject to certain conditions, if at the end of each fiscal year the Company has excess cash flow (as defined in the indenture) in excess of $5.0 million, the Company is required to use 50% of the excess cash flow to fund an offer to repurchase the 11.75% Senior Notes on a pro rata basis at 100% of its principal amount, plus accrued and unpaid interest. If the Company has less than $5.0 million in excess cash flow at the end of any fiscal year, such excess cash flow will be carried forward to succeeding years, and such repurchase offer is required to be made in the first year in which the cumulative excess cash flow for all years in which there has not been an offer is at least $5.0 million. A repurchase offer is required only if there is no event of default under the Company's revolving credit facilities prior to and after giving effect to any repurchases. The Company was not required to make an excess cash flow offer for the year ended December 31, 2007. Upon a change of control (as defined in the indenture), each holder of the 11.75% 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.

Revolving Credit Facility: On February 14, 2007, the Company entered into an amended and restated U.S. revolving credit facility with Wells Fargo Foothill, Inc., as lender, which provides for up to $25.0 million, subject to borrowing base limitations. Interest is payable at an applicable margin above either LIBOR or the prime rate. The facility is secured by a first priority, perfected security interest on substantially all of the Company's U.S. assets and a pledge of all of the issued and outstanding capital stock of the Company's U.S. subsidiaries. The facility expires on February 14, 2010. The revolving credit facility contains covenants requiring the Company to achieve and maintain certain financial results and restricts, among other things, the amount of capital expenditures, the ability to incur additional indebtedness, pay dividends, and complete certain mergers, acquisitions and sales of assets. The revolving credit facility requires the payment of an unused line fee of .25% per annum payable in arrears.

Subsidiary Revolving Line of Credit: The Company's wholly-owned subsidiary, Olympic Seismic Ltd. ("Olympic") has a revolving 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 0.35% per annum. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The 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 facility are equivalent to a maximum of $5.0 million (Canadian), subject to a requirement that the 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 facility is subject to repayment upon demand and is available from time to time at the bank's sole discretion.

(Index)

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

NOTE F-INCOME TAXES

The following is the detail of income tax expense (benefit) recorded for the three and six months ended June 30, 2008 (in thousands):

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008	
Tax expense (benefit) resulting from:				
Current operations	$	(3,798)	$	(9,828)
Change in valuation allowance		4,682		10,018
	$	884	$	190

For the three and six months ended June 30, 2008, the Company continued to provide a full valuation allowance against the Federal tax benefit generated from its U.S. operations as it was more likely than not that such benefit would not be realized. For the same period, the Company has recognized the tax benefits generated from its Canadian operations. Offsetting the Canadian tax benefits in the second quarter of 2008 was an additional reserve of approximately $2.4 million on uncertain tax positions.

NOTE G-STOCK BASED COMPENSATION

In connection with the Merger and to appropriately account for the elimination of equity-based compensation under the Company's incentive plan that existed prior to the Merger, Holdings, the Company's parent, adopted a stock-based compensation plan (the "2007 Non-Qualified Stock Option Plan") in order to provide an equity component to management compensation following the Merger. The 2007 Non-Qualified Stock Option Plan became effective February 14, 2007. The board of directors of Holdings, which administers the 2007 Non-Qualified Stock Option Plan, may issue options to purchase up to 105,200 shares of Holdings' common stock to employees, directors and other service providers of Holdings and its subsidiaries, including the Company, under the 2007 Non-Qualified Stock Option Plan. In April 2008, Holdings adopted the 2008 Restricted Stock and Restricted Stock Unit Plan which is designed to provide incentives to present and future employees of the Company through the grant of restricted stock and restricted stock unit awards. The 2008 Restricted Stock and Restricted Stock Unit Plan authorizes the issuance of up to 25,000 shares of Holdings' common stock pursuant to such grants. The Company accounts for grants of its stock options, restricted stock and restricted stock units in accordance with SFAS 123(R), "Share Based Payment."

During the six months ended June 30, 2008, 2,341 restricted stock units with a fair value of $604,000 and 14,145 stock options with a fair value of $2.8 million were granted. The restricted stock units vested immediately, whereas the stock options contain continued employment requirements and vest ratably over a period of four years from date of grant and expire 10 years after the date of grant. Total share-based compensation cost that has been recognized in the Company's Statements of Operations was $1.6 million and $2.4 million for the three months ended June 30, 2008 and 2007, respectively, and $3.4 million, $3.5 million and $6.7 million for the six months ended June 30, 2008 (Successor Period), for the period from February 14, 2007 to June 30, 2007 (Successor Period), and for the period from January 1, 2007 to February 13, 2007 (Predecessor Period), respectively. Included in the $6.7 million share-based compensation cost for the Predecessor Period was $6.3 million related to the accelerated vesting of all outstanding unvested restricted stock as a result of the Merger and change in control of the Company which was included in merger expenses in the Company's Statement of Operations. The Company has not recognized any tax benefits related to stock based compensation for the three and six months ended June 30, 2008, the period from February 14, 2007 to June 30, 2007 (Successor Period), or for the period from January 1, 2007 to February 13, 2007 (Predecessor Period). As of June 30, 2008, the total future compensation cost related to non-vested options not yet recognized in the Company's Statement of Operations was $9.4 million and will be recognized using graded vesting over a weighted average period of 2.8 years.

NOTE E-DEBT

(Index)

NOTE H-FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" for recurring financial assets and liabilities carried at fair value. The adoption of SFAS No. 157 had no impact on the Company's consolidated results of operations, cash flows or financial position.

SFAS No. 157 provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In measuring the fair value of the Company's assets and liabilities, market data or assumptions are used that the Company believes market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. The Company's investment in marketable securities is the only balance that is measured at fair value on a recurring basis. As of June 30, 2008, the fair value was $4.6 million, which was determined using significant other observable inputs (Level 2 inputs).

NOTE I-STATEMENT OF CASH FLOW INFORMATION

The Company had restricted cash at June 30, 2008 and December 31, 2007 of $111,000 and $110,000, respectively, related to collateral on a seismic operations bond.

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

	SUCCESSOR PERIOD		PREDECESSOR PERIOD
	Six Months Ended June 30, 2008	February 14, 2007- June 30, 2007	January 1, 2007- February 13, 2007
Non-monetary exchanges related to resale licensing revenue	$ 6,269	$ 2,738	$ (7)
Non-monetary exchanges from underwriting of new data acquisition	9,681	-	-
Other non-monetary exchanges	24	-	-

Completion of data in progress from prior			
non-monetary exchanges	367	600	-
Less: Non-monetary exchanges			
for data in progress	(2,600)	(1,176)	-
Total non-cash additions to seismic data library	$ 13,741	$ 2,162	$ (7)

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

	SUCCESSOR PERIOD		PREDECESSOR PERIOD
	Six Months Ended June 30, 2008	February 14, 2007- June 30,2007	January 1, 2007- February 13, 2007
Acquisition revenue on underwriting from non-monetary exchange contracts	$ 5,622	$ 27	$ 11
Licensing revenue from specific data licenses and selections on non-monetary exchange contracts	2,737	1,082	71
Data management revenue	-	-	6
Total non-cash revenue	$ 8,359	$ 1,109	$ 88

(Index)

NOTE J-COMMITMENTS AND CONTINGENCIES

Litigation

On July 18, 2002, Paul Frame, the Company's former chief executive officer, sued the Company in the 113th Judicial District Court of Harris County, No. 2002-35891 (the "District Court"). Mr. Frame alleged a breach of his employment contract and defamation. He also sought a declaratory judgment that certain funds he received from the Company were proper and did not have to be repaid. Mr. Frame filed claims totaling $20.2 million in the Company's chapter 11 cases from its reorganization in 2004, which were disallowed by order of the U.S. Bankruptcy Court for the District of Delaware. On April 1, 2005, the Company 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. In 2002, the Company filed a counter suit to recover approximately $4.2 million in corporate funds that the Company believed Mr. Frame inappropriately caused the Company to pay him or for his benefit plus over $800,000 due on two notes that were accelerated pursuant to their respective terms. The Company also held 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 the Company. Effective March 27, 2008, the Company and Mr. Frame entered into a settlement and release agreement providing for a mutual release of all claims and causes of action. As a part of this settlement and release agreement, the parties agreed to dismiss this lawsuit. The parties' motion to dismiss was approved by the court on May 20, 2008. The lawsuit has now been dismissed and the matter settled.

The Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, 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 June 30, 2008, the Company did not have any amounts accrued related to litigation and claims, as the Company believes it is not probable that any amounts will be paid relative to such litigation and claims.

NOTE K-RECENT ACCOUNTING PRONOUNCEMENTS

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This Statement is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the adoption of SFAS No. 162 to have a material effect on its results of operations or financial condition.

In February 2008, the Financial Accounting Standards Board ("FASB") issued Staff Position ("FSP") FAS 157-2, "Effective Date of FASB Statement No. 157," which delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are measured at fair value on a recurring basis. FSP FAS 157-2 establishes January 1, 2009 as the effective date of SFAS No. 157 with respect to these fair value measurements for the Company. The Company does not currently expect the application of the fair value framework established by SFAS No. 157 to non-financial assets and liabilities measured on a non-recurring basis to have a material impact on its consolidated financial statements. However, we will continue to assess the potential effects of SFAS No. 157 as additional guidance becomes available.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. In addition, SFAS No. 141(R) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase. SFAS No. 141(R) also establishes disclosure requirements to enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, with early adoption prohibited. The Company will apply the standard prospectively to future business combinations with an acquisition date on or after January 1, 2009.

(Index)

NOTE L-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

On February 14, 2007, the Company completed a private placement of 9.75% Senior Notes in the aggregate principal amount of $400.0 million. Seitel, Inc.'s (the "Parent") payment obligations under the 9.75% Senior Notes are jointly and severally guaranteed by certain of its domestic subsidiaries ("Guarantor Subsidiaries"). All subsidiaries of Seitel, Inc. 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 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 June 30, 2008 (Successor Period) and December 31, 2007 (Successor Period), and the consolidating condensed statements of operations and statements of cash flows for the six months ended June 30, 2008 (Successor Period), the period February 14, 2007 to June 30, 2007 (Successor Period) and the period January 1, 2007 to February 13, 2007 (Predecessor Period) of (a) the Parent; (b) the Guarantor Subsidiaries; (c) the Non-Guarantor Subsidiaries; (d) elimination entries; and (e) the Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis.

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

(Index)

CONSOLIDATING CONDENSED BALANCE SHEET

SUCCESSOR PERIOD

As of June 30, 2008

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
ASSETS					
Cash and cash equivalents	$ -	$ 36,559	$ 4,761	$ -	$ 41,320
Restricted cash	-	111	-	-	111
Receivables					
Trade, net	-	33,563	8,394	-	41,957
Notes and other, net	-	801	60	-	861
Intercompany receivables (payables)	168,688	(156,662)	(12,026)	-	-
Investment in subsidiaries	388,074	451,761	1,054	(840,889)	-
Net seismic data library	-	226,794	92,976	-	319,770
Net property and equipment	-	3,601	6,366	-	9,967
Investment in marketable securities	-	4,609	-	-	4,609
Prepaid expenses, deferred charges and other	12,937	8,158	625	-	21,720
Intangible assets, net	900	27,705	19,505	-	48,110
Goodwill	-	107,108	97,137	-	204,245
TOTAL ASSETS	$ 570,599	$ 744,108	$ 218,852	$ (840,889)	$ 692,670
LIABILITIES AND STOCKHOLDER'S EQUITY					
Accounts payable and accrued liabilities	$ 15,209	$ 16,488	$ 15,355	$ -	$ 47,052
Income taxes payable	580	5	1,136	-	1,721
Senior Notes	402,291	-	-	-	402,291
Notes payable	279	-	-	-	279
Obligations under capital leases	-	-	3,669	-	3,669
Deferred revenue	-	36,962	8,663	-	45,625
Deferred income taxes	4	-	11,993	-	11,997
TOTAL LIABILITIES	418,363	53,455	40,816	-	512,634
STOCKHOLDER'S EQUITY					
Common stock	-	-	-	-	-
Additional paid-in capital	268,184	-	-	-	268,184
Parent investment	-	764,753	172,172	(936,925)	-
Retained deficit	(115,948)	(78,709)	(17,327)	96,036	(115,948)
Accumulated other comprehensive income	-	4,609	23,191	-	27,800

TOTAL STOCKHOLDER'S EQUITY	152,236	690,653	178,036	(840,889)	180,036
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 570,599	$ 744,108	$ 218,852	$ (840,889)	$ 692,670

(Index)

CONSOLIDATING CONDENSED BALANCE SHEET

SUCCESSOR PERIOD

As of December 31, 2007

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
ASSETS					
Cash and equivalents	$ -	$ 36,847	$ 6,486	$ -	$ 43,333
Restricted cash	-	110	-	-	110
Receivables					
Trade, net	-	36,183	15,732	-	51,915
Notes and other, net	-	1,335	855	-	2,190
Intercompany receivables (payables)	174,299	(159,894)	(14,405)	-	-
Investment in subsidiaries	418,152	457,966	775	(876,893)	-
Net seismic data library	-	243,957	105,082	-	349,039
Net property and equipment	-	4,291	6,705	-	10,996
Investment in marketable securities	-	4,224	-	-	4,224
Prepaid expenses, deferred charges and other	13,050	8,645	568	-	22,263
Intangible assets, net	923	29,310	21,552	-	51,785
Goodwill	-	107,108	100,138	-	207,246
TOTAL ASSETS	$ 606,424	$ 770,082	$ 243,488	$ (876,893)	$ 743,101
LIABILITIES AND STOCKHOLDER'S EQUITY					
Accounts payable and accrued liabilities	$ 15,374	$ 18,792	$ 15,159	$ -	$ 49,325
Income taxes payable	721	209	18	-	948
Senior Notes	402,333	-	-	-	402,333
Notes payable	300	-	-	-	300
Obligations under capital leases	-	-	3,848	-	3,848
Deferred revenue	-	34,823	13,328	-	48,151
Deferred income taxes	4	-	17,234	-	17,238
TOTAL LIABILITIES	418,732	53,824	49,587	-	522,143
STOCKHOLDER'S EQUITY					
Common stock	-	-	-	-	-
Additional paid-in capital	264,805	-	-	-	264,805
Parent investment	-	764,762	172,172	(936,934)	-
Retained deficit	(77,113)	(52,728)	(7,313)	60,041	(77,113)
Accumulated other comprehensive income	-	4,224	29,042	-	33,266
TOTAL STOCKHOLDER'S EQUITY	187,692	716,258	193,901	(876,893)	220,958
TOTAL LIABILITIES AND					

STOCKHOLDER'S EQUITY	$ 606,424	$ 770,082	$ 243,488	$ (876,893)	$ 743,101

NOTE L-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

(Index)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

SUCCESSOR PERIOD

For the Six Months Ended June 30, 2008

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	$ -	$ 62,582	$ 31,956	$ (2,437)	$ 92,101
EXPENSES:					
Depreciation and amortization	22	57,529	31,563	-	89,114
Cost of sales	-	243	36	-	279
Selling, general and administrative	3,390	10,406	8,889	(2,437)	20,248
Merger	-	357	-	-	357
	3,412	68,535	40,488	(2,437)	109,998
LOSS FROM OPERATIONS	(3,412)	(5,953)	(8,532)	-	(17,897)
Interest expense, net	(9,442)	(10,126)	(506)	-	(20,074)
Foreign currency exchange losses	-	(123)	(590)	-	(713)
Other income	-	15	24	-	39
Loss before income taxes and equity in loss of subsidiaries	(12,854)	(16,187)	(9,604)	-	(38,645)
Provision (benefit) for income taxes	-	(220)	410	-	190
Equity in loss of subsidiaries	(25,981)	(10,014)	-	35,995	-
NET LOSS	$ (38,835)	$ (25,981)	$ (10,014)	$ 35,995	$ (38,835)

(Index)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

SUCCESSOR PERIOD

February 14, 2007 - June 30, 2007

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	$ -	$ 35,778	$ 12,734	$ (843)	$ 47,669
EXPENSES:					
Depreciation and amortization	67	44,131	15,805	-	60,003
Cost of sales	-	38	3	-	41
Selling, general and administrative	3,328	6,423	5,015	(843)	13,923
Merger	-	1,254	26	-	1,280
	3,395	51,846	20,849	(843)	75,247
LOSS FROM OPERATIONS	(3,395)	(16,068)	(8,115)	-	(27,578)
Interest expense, net	(8,389)	(10,318)	(416)	-	(19,123)
Foreign currency exchange gains	-	-	1,657	-	1,657
Loss before income taxes and equity in loss of subsidiaries	(11,784)	(26,386)	(6,874)	-	(45,044)
Benefit for income taxes	-	(3,962)	(2,005)	-	(5,967)
Equity in loss of subsidiaries	(27,293)	(1,162)	-	28,455	-
NET LOSS	$ (39,077)	$ (23,586)	$ (4,869)	$ 28,455	$ (39,077)

(Index)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

PREDECESSOR PERIOD

January 1, 2007 - February 13, 2007

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	$ -	$ 13,346	$ 6,055	$ (391)	$ 19,010
EXPENSES:					
Depreciation and amortization	-	6,989	4,669	(173)	11,485
Cost of sales	-	7	1	-	8
Selling, general and administrative	240	1,871	1,857	(391)	3,577
Merger	1,054	15,823	580	-	17,457
	1,294	24,690	7,107	(564)	32,527
LOSS FROM OPERATIONS	(1,294)	(11,344)	(1,052)	173	(13,517)
Interest expense, net	(236)	(1,878)	(170)	-	(2,284)
Foreign currency exchange losses	-	-	(102)	-	(102)
Other income	12	-	-	-	12
Loss before income taxes and equity in loss of subsidiaries	(1,518)	(13,222)	(1,324)	173	(15,891)
Provision for income taxes	-	99	353	-	452
Equity in loss of subsidiaries	(14,825)	(1,677)	-	16,502	-
NET LOSS	$ (16,343)	$ (14,998)	$ (1,677)	$ 16,675	$ (16,343)

(*Index*)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

SUCCESSOR PERIOD

For the Six Months Ended June 30, 2008

(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	$ (21,015)	$ 43,477	$ 24,829	$ -	$ 47,291
Cash flows from investing activities:					
Cash invested in seismic data	-	(27,616)	(21,471)	-	(49,087)
Cash paid to acquire property and equipment	-	(63)	(440)	-	(503)
Advances to Seitel Holdings, Inc.	-	(14)	-	-	(14)
Increase in restricted cash	-	(1)	-	-	(1)
Net cash used in investing activities	-	(27,694)	(21,911)	-	(49,605)
Cash flows from financing activities:					
Principal payments on notes payable	(21)	-	-	-	(21)
Principal payments on capital lease obligations	-	-	(66)	-	(66)
Borrowings on line of credit	-	-	286	-	286
Payments on line of credit	-	-	(286)	-	(286)
Intercompany transfers	21,036	(16,071)	(4,965)	-	-
Net cash provided by (used in) financing activities	21,015	(16,071)	(5,031)	-	(87)
Effect of exchange rate changes	-	-	388	-	388
Net decrease in cash and cash equivalents	-	(288)	(1,725)	-	(2,013)
Cash and cash equivalents at beginning of period	-	36,847	6,486	-	43,333
Cash and cash equivalents at end of period	$ -	$ 36,559	$ 4,761	$ -	$ 41,320

(*Index*)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

SUCCESSOR PERIOD

February 14, 2007 - June 30, 2007

(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	$ (1,209)	$ 16,979	$ 16,033	$	